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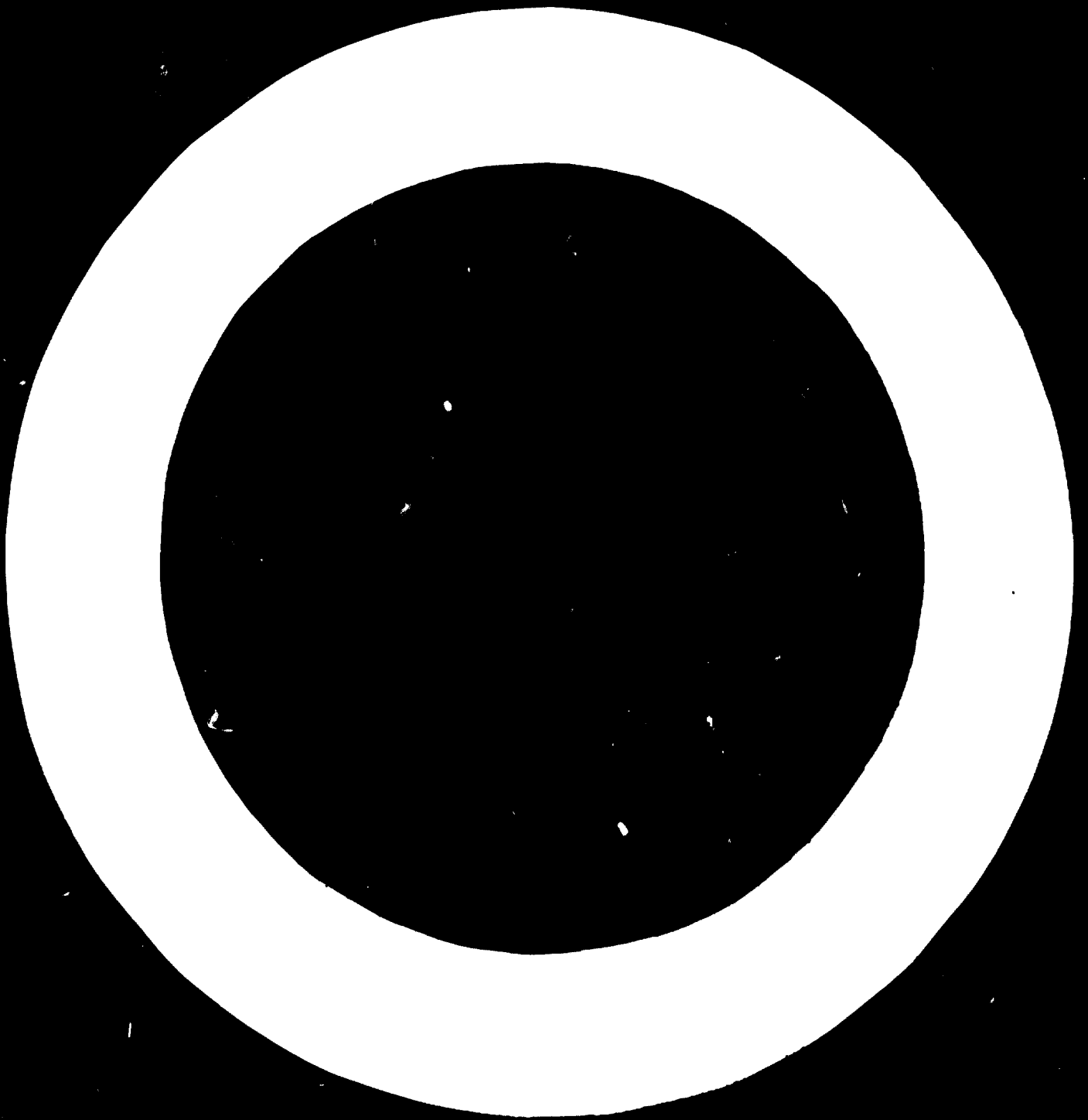
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THE "CASSA PER IL MEZZOGIORNO" AND THE INDUSTRIAL
DEVELOPMENT OF SOUTHERN ITALY

Submitted by the Government of Italy

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Background to the problem of Southern Italy

1. Southern Italy, with a population numbering about 20 million and an area totalling about 130,000 square kilometres (51,000 square miles), consists essentially of the Italian mainland south of Rome and the islands of Sicily and Sardinia: in all, the area comprises about 40 per cent of the total Italian territory and population. The contrast between the economic and social development of the North and that of the South is a typical example of a dualistic structure, with origins dating back over many centuries and which are explained not only by the geographical differences between the two areas (greater distance from the developed countries of Europe, different orographic, hydrographic and climatic features) but also by historical factors.

Evolution of economic policy for Southern Italy - the "Cassa per il Mezzogiorno"

2. At the beginning of this century a series of special measures were taken in an attempt to solve the problem of Southern Italy, but they lacked both the scope and co-ordination necessary to produce the desired results. Only in the years immediately following the Second World War was an organic policy initiated for the benefit of the South, a policy which took practical shape in the creation of a special and additional fund provided by the State for the development of the South, and in the constitution of a special, autonomous agency, the "Cassa per il Mezzogiorno" (Southern Italy Development Fund), assigned with the task of implementing the development programme (Law No. 646 of 10 August 1950). The term of the programme was established at ten years, with an over-all appropriation of lire 1,000 billion (US\$1,600 million). At the same time a special Committee of Ministers for Southern Italy was set up in order to ensure that the directives for public action in Southern Italy should be both unified and organic, and to co-ordinate the special programme with the measures taken by the ordinary government departments.

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Progressive increase in the scope of activity of the "Cassa per il Mezzogiorno"

3. The first phase of "Cassa" activity was characterized by interventions for the provision of public utility infrastructures in the area (principally public works for road, rail and water-supply facilities) and for agricultural development (public works for land reclamation, reforestation, irrigation, land reform and farm transformation and improvement). After this initial period, which may be described as the pre-industrialization phase, under the provisions of Law No. 634 of 29 July 1957 the term for the programme of interventions was extended from ten to fifteen years and the financial appropriation was more than doubled. In addition, the sphere of activity of the "Cassa" was gradually widened to include other sectors of the economy of the South, such as, first of all industry, and then tourism, vocational training and management personnel training.

The new tasks assigned to the "Cassa per il Mezzogiorno" for the period 1965-1980. The co-ordination of public intervention in Southern Italy

4. The experience gained in carrying out the programme demonstrated that in order successfully to continue development activity in Southern Italy it was necessary, firstly, to provide for greater concentration in certain areas of the South and, secondly, to ensure a closer and more organic co-ordination of public intervention in Southern Italy, to be achieved a priori through successive five-year co-ordination programmes.

5. According to the provisions of Law No. 717 of 26 June 1965, the term of special intervention in the South and of "Cassa" activity was extended to 1980, together with further appropriations (lire 1,640 billion, equivalent to about US\$2,600 million, for the period 1965-1969). This law deals with the requirements mentioned before, concentrating above all on special intervention in those areas which offer the greater development potential from the viewpoint of agriculture, industry and tourism respectively.

6. Additionally, in relation to the simultaneous development of economic planning on a national level, provision is made for the integration in the National Economic Development Plan of the programme for co-ordination of public intervention in Southern Italy.

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The industrial structure of Southern Italy in 1951

7. The economic backwardness of Southern Italy was nowhere more evident than in the industrial sector, which in the early 1950's displayed the highest index of depression compared with the North. Many of the causes were deep-rooted, including the complete absence of external economies, and the scarce attitude of local entrepreneurs towards non-traditional types of investment. In addition, there were more recent causes, such as more extensive war damage, the slower rate of reconstruction, shortage of energy sources, smaller financial resources, and other reasons attributable to the immediate post-war conditions.
8. In substance, about one half of the number of industrial employees in the South in 1951 were engaged in craft industries or in small family businesses using rather antiquated equipment and operating methods, which certainly could not ensure competitiveness. Furthermore, the range of products was more or less limited to the output of traditional Southern Italian industries (foodstuffs, clothing, wood-working). The few large-scale industries were instead concentrated around two or three cities or towns.

The evolution of economic policy for the industrial development of Southern Italy and the role assigned to the "Cassa"

9. During the pre-industrialization phase, which was directed towards the creation of a basic network of general infrastructures and the modernization of agriculture, a number of important economic policy decisions were taken for the initiation of a process of strictly industrial development.
10. It should be understood that industrial enterprise in Italy is predominantly private in character, and that also the state holdings projects are carried out through companies having the same attitudes, approaches and methods as those of private enterprise: the operations of both these types of enterprise are based on competitiveness factors.
11. One of the first methods of intervention in Southern Italy therefore consisted of the reorganization of creation of appropriate credit institutions for providing medium and long-term finance on favourable terms (1953). At the same time arrangements were made to obtain considerable amounts of foreign capital (principally through IBRD) for financing the construction of electric power plants and the establishment of large-scale basic industries.

12. In 1957 acceleration was given to this process with the provision of new and greater incentives. Firstly, rates of interest were further reduced (to a minimum of 3 per cent in certain cases), together with the concession of outright grants (varying from 10 per cent to 25 per cent of the cost of the work) for the construction, expansion or modernization of industrial plants. Secondly, it was decided to establish industrial concentration areas and nuclei, in which a start was made on the construction of all the infrastructures specifically necessary for the setting up of new plants.

13. And finally, in 1965, with the integration of the "Cassa" programme and other public intervention in Southern Italy within the wider framework of national economic planning, an appropriate graduation of incentives was formulated for the selection and channelling of industrial investment into those sectors and localities which conformed most closely with the objectives of economic planning.

The instruments for industrialization

14. The following is a brief account of the instruments currently available for the acceleration and guidance of the process of industrialization.

15. Financing at cheap rates of interest, which is the most important incentive provided. This form of financing covers on the average 50 per cent of plant costs, including part of inventory costs; in certain cases the figure may rise to 70 per cent. The rate of interest varies from 3 per cent to 6 per cent according to the scale, the sector and the location of the project; the rate of interest is in any case considerably lower than the market rate. Duration of the loans vary from ten to fifteen years.

16. The funds required for these operations are procured largely by means of bond issues on the Italian market, with an appropriate contribution by the "Cassa" to enable the application of the above-mentioned rates of interest. In addition, a considerable volume of financial resources is procured from foreign loans, arranged by the "Cassa" with IBRD and the European Investment Bank, and by means of bond issues; these funds are normally employed at cheap rates of interest, for which Treasury reimbursement is obtained.

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17. Capital investment grants, which are at present provided in varying percentages of up to 20 per cent of plant and machinery costs (excluding site), according to the scale, sector and location of the project. The grant is even higher (30 per cent) for the purchase of machinery produced in Southern Italy.

Fiscal and rates concessions and preferential purchases

18. The former consist of exemption from, or reduction of, profits, corporation and turnover taxes, registration and stamp duties, etc. As regards procurement preference, government agencies are obliged by law to purchase at least 40 per cent of their supply requirements from producers located in the South.

19. Industrialization areas and nuclei, the purpose of which is to create centres for attracting the establishment of industrial projects. Special Consortia have been constituted by municipal and provincial Governments, chambers of commerce, industrial associations and other bodies, for the establishment of twelve industrial areas and twenty-eight industrial nuclei in Southern Italy (the latter being much smaller geographically than the areas). In accordance with town-planning directives approved by the central Government, the Consortia provide for the creation and management of the necessary infrastructures, purchase land for allocation to industrial firms, and promote any other initiative for the industrial development of their districts.

20. Assistance by the "Cassa" to the Consortia takes a number of forms: grants not exceeding 85 per cent of the cost of infrastructures, and advances for the balance; finance for the purchase of land for allocation to industrial firms; loans for the maintenance and management of facilities provided by the Consortia; grants of up to 50 per cent for the construction costs of shell buildings for subsequent utilization by industrial firms; and contributions towards the organization and running costs of the Consortia.

21. The areas and nuclei are intended to provide new ventures established in their districts with a wide range of external economies, which derive not only from the existence of the necessary infrastructures, but also from the advantages of the close vicinity of other industries, complementary to their own production lines. This constitutes a further factor for the acceleration of the establishment of industrial projects in those localities of Southern Italy which, under the directives of the plan, are considered to be the most suitable.

22. The "Cassa" also provides for the creation of a series of important infrastructures (fully-equipped ports, airports, water-supply systems, links with motorways) for servicing the areas and nuclei.
23. Finance companies, which have the object of taking up equity holdings in private ventures, furnishing not only part of the capital but also technical assistance. The "Cassa" participates in the capital of two such companies: IN.SUD (Initiatives for Southern Italy), FINAM (Southern Finance for Agriculture).
24. State holdings enterprises. The development programme for Southern Italy involves the participation of state holdings enterprises (belonging to the IRI - Industrial Reconstruction Institute, ENI - National Hydrocarbons Agency, EFIM - Engineering Industry Holding Agency groups). These enterprises are required to locate not less than 60 per cent of their investment in new projects, and not less than 40 per cent of their over-all investment, in the South. As a result, state-controlled initiative is particularly prominent in the important basic industries (steel, petrochemicals, engineering).
25. Technical assistance is provided by an ad hoc body, IASM (Institute for Assistance to the Development of Southern Italy). This Institute performs, especially for the industrial sector, a role of promotion, publicity and information, both in Italy and abroad; it also provides technical, legal, fiscal and administrative advice and assistance to enterprises and the Consortia.
26. Personnel education and training. The "Cassa" provides to improve facilities of technical schools, to organize special short courses, to promote inter-company centres for vocational training, crash qualification courses within companies, updating and training courses for in-service instructors, intermediate cadres and managerial staff.
27. Craft industries: because of the continuing importance of handicraft in Southern Italy, the law provides for outright grants by the "Cassa" of up to 30 per cent for the establishment and modernization of craft industrial enterprises. This intervention is also intended to stimulate a more advanced and modern approach on the part of master craftsmen towards an industrial mentality.

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Results achieved up to 1966

28. The series of incentives provided by the "Cassa" have produced a great stimulus to **investment**, with particularly outstanding results from 1960 onwards, concurrently with the economic expansion occurring in the rest of the country. Between 1951 and 1966 more than 10,000 projects have been assisted by industrial credit, for an aggregate investment of about lire 4,000 billion (US\$6.4 billion), creating new permanent employment for 450,000 people. The branches of industry principally concerned are chemicals (30 per cent of total investment), metallurgy (17 per cent); foodstuffs, engineering and construction materials (each 10 per cent) and textiles (5 per cent).

29. Marked progress has been made towards a more balanced territorial distribution of industry, even if the situation in some areas is not yet satisfactory. From a qualitative viewpoint, diversification has improved with the arrival of industries at one time practically non-existent, but above all to be noted is the firm trend towards the establishment of larger-scale, more modern and competitive plants in which technological progress is being increasingly applied.

30. In the context of the productive structure of the South as a whole, industry's contribution to gross product has risen from about lire 550 billion in 1951 to more than lire 2,200 billion in 1966 (from US\$880 million to 3,500 million). In relative terms, industry's share of Southern Italy's gross product has increased during the same period from just over one-quarter to more than one-third, whilst the proportion for agriculture, although increasing in absolute terms, has fallen from 43 per cent to 27 per cent.

31. For arriving at an over-all assessment of the progress made by the economy of Southern Italy during the period, significant indicators are provided both by the average annual increase of about 4 per cent, at constant prices, in per capita income, and by the qualitative improvement in consumption, which has shown an increase in the incidence of spending on goods which do not constitute basic necessities.

Conclusions

32. The experience acquired by Italy in developing the industry of the South will certainly be of great interest to other countries having similar problems, especially as an example of economic policy contemplating the accelerated growth of a specific region always within the context of the development of the country as a whole.
33. In this light, the development process in Southern Italy has been partly facilitated by the existence, in the national context, of a highly developed economic structure in almost one half of the country, which has provided capital, investment goods, finished products, an extensive consumer market and, moreover, the abilities of its entrepreneurs: the incentives offered have also largely succeeded in attracting plant expansion and modernization projects to the South by large and medium-scale industrial firms based in the North.
34. Then there is the common culture, identity of legal, administrative and banking systems, and of other services, all factors which have in general operated favourably, even if they have made customs protection for the South unfeasible.
35. A further important factor in the industrialization policy has been the role played by state holdings industries which, having the same objectives of productivity and competitiveness have closely harmonized their plants with those of private enterprises.
36. The new projects established in Southern Italy have involved the recruitment of local labour forces which, although not always being specially skilled, have proved to be extremely adaptable and have responded favourably to the new productive structure.





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