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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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THE DEVELOPMENT OF SOUTHERN ITALY  
THE CASSA PER IL MEZZOGIORNO AND THE THREE SPECIAL  
CREDIT INSTITUTES, ISVEIMER, IRFIS AND CIS  
ITALY

June 10, 1965

Projects Department

### CURRENCY EQUIVALENTS

US \$1	=	625 Lit.
Lit. 1	=	0.0016 US \$
Lit. 1 billion	=	1.6 million US \$

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/ SUMMARY AND CONCLUSIONS /

- i. Since 1950, the Italian Government has been carrying on an intensive development program in Southern Italy, aimed at narrowing the wide gap that has long existed between income levels in that region and in the North and increasing local employment opportunities for its fast growing population. For most of the first decade, the program was concentrated on public works which were expected to improve conditions for productive activity, especially in agriculture, and, by raising consumer incomes, to expand the local market (paras. 5 - 8).
- ii. Although employment in the region increased and per capita income at constant prices rose by nearly 25% between 1951 and 1957, the development of industry, which had been counted on to provide a basis for self-sustaining growth, was slow. Beginning in 1957, therefore, the government increased the incentives offered to investors in industry in the South to offset the disadvantages of the region as compared with the industrially advanced North. The tax concessions granted since the late 1940's were increased, and interest subsidies on medium and long-term loans and capital grants to cover part of investment costs were added (page 5, paras. 57 - 58).
- iii. The policy of incentives began to show results in the late 1950's. Since 1959, there has been a sharp upturn in industrial investment and the rate of regional economic growth. In the three years 1960-63, the South for the first time showed a greater increase in per capita income at constant prices than the North (paras. 56 - 57). Continued promotion of industry in the South through the various forms of assistance now offered seems justifiable. The incentives serve mainly to reduce initial capital costs and do not provide shelter indefinitely for uneconomic enterprises. Part of their cost is offset by the savings resulting from increased local employment and a resulting lessening of the pressure to migrate with its accompanying losses of the most energetic elements of the population and increased strains in the North. Greater local purchasing power, improved access to outside markets and sources of industrial raw materials, education and training, and the industrial base that has already been created should facilitate a fairly rapid development of industry, if assistance to investors can be continued until industry is more solidly established (paras. 60 - 65).
- iv. Major responsibility for the program for Southern Italy rests with the Cassa per il Mezzogiorno which was established in 1950, and is now being extended to December 31, 1980. In its 15 years of operation, the Cassa has received close to Lit. 2,400 billion (US\$3.9 billion). The Bank made seven loans to the Cassa between 1951 and 1959, totalling US\$298 million (paras. 7, 27). In its first ten years of operation, the bulk of the Cassa's funds were used for agriculture; the balance went almost entirely for transportation and water and sewage disposal projects. In the last few years, steadily increasing amounts have been made available for industry, and the Cassa has also branched into tourism, education, etc., (paras. 33 - 35).

v. Cassa expenditures supplement and do not replace the regular expenditures of the Ministries and the local governments, and except in agriculture, have accounted for only a small part of total government expenditures in the several sectors. However, as the center of the government's developmental efforts in the South, the Cassa's importance for the region cannot be measured by its financial contribution alone (para. 10). Judged by the improvement in economic conditions since the early 1950's these efforts must be regarded as successful (para. 54).

vi. The new Cassa law extending the life of the organization to the end of 1980 appropriates Lit. 1,640 billion (US\$2.6 billion) for its program for the five years 1965-69. Deducting amounts reserved for the two following years, average annual availabilities would be increased 35% as compared with the preceding half dozen years. But all sectors would not fare alike. The amounts available for agriculture, transportation and "other purposes" would be reduced, in the case of transportation substantially. On the other hand annual availabilities for water supply projects would be increased by one-third, and availabilities for industry would be increased three and one-quarter times. The increase in the amounts available for industry would be the most important change, and that sector would replace agriculture as the major object of Cassa expenditures (paras. 46 - 47).

vii. The Italian Government has asked for Bank assistance in its efforts to promote the industrialization of the South. The assistance is sought not for the Cassa's direct expenditures, which are covered by government appropriations, but to provide funds for medium and long-term lending to industry in Southern Italy. In response to that request, it is proposed that a loan of US\$100 million be made to the Cassa. The Cassa would relend the local currency counterpart of the proposed loan to three Special Credit Institutes, ISVEIMER, IRFIS and CIS which were set up in 1953 to make loans to industry in the South (para. 66).

viii. The Institutes have an impressive investment record. To the end of 1963 they had made over 4,500 loans, mainly medium and long-term, for about US\$1.2 billion equivalent. About 80% were made in the four years 1960-63 (para. 68). In 1963, they accounted for 47% of all lending for industry in Southern Italy by credit institutions operating in the region (para. 83).

ix. Judged by their small losses and defaults to date, the Institutes may be considered to have made a satisfactory financial record. Their loss experience relates to only a small part of their loan portfolios, however, since repayment has not yet begun on the large number of loans made in the last few years (para. 120). Their appraisal procedures, lending criteria and administrative methods are sound; their organizational structures are satisfactory and their managements and staffs are competent. An increase in staff will, however, be needed in the near future to enable them to handle their increased work load (paras. 81 - 82, 86 - 97, 111 - 115).

x. The Institutes were channels for four of the earlier Bank loans made to Italy (para. 67). In the case of these earlier loans, the Bank was mainly responsible for project appraisal, and the Institutes, the Cassa and the Bank shared responsibility for project supervision. Under the proposed

loan, the Institutes would be fully responsible for the selection, appraisal and follow-up of the projects for which the loan proceeds would be used. However, the Bank has agreed with the Cassa on certain criteria to be applied in the selection of these projects, the most important of which is their size. Normally, loans would be made only for projects with an investment cost between US\$100,000 and \$8 million equivalent, but projects with a slightly higher cost would not be excluded if they seemed justified. The Institutes and the Cassa have presented to the Bank a list of projects to which the Bank has agreed. The list contains 185 projects with total loan requirements of US\$132 million. Other projects could be added as required for the full utilization of the loan. The Bank's role in supervising the proposed loan would be limited to ensuring that the standard provisions of the subsidiary loan agreements between the Institutes and their borrowers are satisfactory and that the Institutes continue to follow sound investment practices. The repayment record on their entire portfolios would be given particular attention (paras. 136 - 145).

xi. The Institutes obtain only a small part of their loan funds from the government. Nearly half of their loan capital consists of funds raised through the sale of bonds on the domestic market, 34% comes from Cassa borrowings abroad which are reloaned to them and only 17% from the Treasury and other sources (para. 116). As a result of the congestion of domestic and foreign markets they are at present unable to maintain anything approaching their recent rate of lending (para. 134).

xii. This shortage cannot be made up from existing sources. As at the end of November 1964, the Institutes had approved loans for a total of over US\$220 million for which they could not sign contracts for lack of funds. In addition, they had loan applications totalling about US\$750 million under active consideration. Based on these known requirements, it was estimated at the end of November that in the period to September 30, 1966, their loan requirements, assuming a rate of lending somewhat lower than that of the last few years, would fall short of the funds they could reasonably count on (apart from the proposed Bank loan) by US\$180 million equivalent. The position has not changed materially since that time. The proposed Bank loan would partially fill this gap. Unless the Institutes can maintain a fairly high rate of lending, the development of industry in the South is bound to be slowed up (paras. 122 - 135).

xiii. The loan to the Cassa would be for 15 years, including a grace period of four years. As provided by law, the Treasury would bear the exchange risk. The Cassa would relend the lire equivalent to the Institutes in the following proportions: ISVEIMER, 55; IRFIS, 25; CIS, 20. The duration and grace periods of the Cassa's loans to the Institutes would be the same as those for the Bank loan to the Cassa. The interest rate on the Cassa loans to the Institutes would not exceed 3.55%. The Treasury would reimburse the Cassa for the difference between this rate and the rate the Cassa would pay. The Institutes would relend the loan proceeds at 4% and would be free to reinvest repayments by sub-borrowers. The 0.45% spread, which is the spread the Institutes have been receiving on loans made from foreign borrowings in recent years, together with their earnings from other sources, would be adequate to enable them to



administer the loan proceeds satisfactorily (para. 143). It is expected that the loan can be utilized rapidly and that not more than 10-15% would be spent outside Italy (para. 144).

xiv. The proposed Bank loan of US\$100 million would make a substantial contribution to the lending resources of the Institutes, fill an urgent need for additional funds for industrial lending in the South, and thus support the government's program for the development of that region which has so far been effective in improving economic conditions in the region (paras. 147 - 149).

## I. INTRODUCTION

1. In March 1964, the Italian Government approached the Bank about the possibility of its resuming lending to Italy to support the investment program of the Cassa per il Mezzogiorno. In mid-1964, a Bank mission went to Italy to review the economy of the country and study the development of Southern Italy and the activities of the Cassa.
2. The mission concluded that the Cassa would be an appropriate vehicle for a Bank loan of US\$100 million equivalent and that Southern industry in particular would be a desirable recipient of the proceeds of the loan. The mission also suggested that the three Special Credit Institutes, ISVEIMER, IRFIS and CIS, which were set up in 1953 to make medium and long-term loans to industry in Southern Italy, would be a suitable channel for the Bank's loans.
3. Another mission went to Italy from mid-November to mid-December 1964 to review the operations and activities of the Institutes, their ability to appraise and supervise the projects against which Bank disbursements would be made and their place in the industrial credit system in the Mezzogiorno.
4. Both missions were under the general direction of Mr. L. Rist. Their findings are contained in the following report and in "The Situation and Prospects of the Italian Economy" (EA-150a), dated December 23, 1964 which has already been circulated to the Bank's Executive Directors.

## II. ECONOMIC DEVELOPMENT OF SOUTHERN ITALY AND THE CASSA PER IL MEZZOGIORNO

### The Southern Question

5. Southern Italy and the major islands (see Map No. 1) differ markedly from the rest of the country in economic structure and income level. Central and Northern Italy, and particularly the Milan-Genoa-Turin triangle, have a large-scale mechanized industrial sector and an income level comparable to those of the countries to the north. The South still depends heavily on a relatively unproductive agriculture, its large-scale industry is in an early stage and its per capita income is less than half as great as that of the Center-North.

6. A wide disparity between the two sections existed when Italy was unified politically in 1861, and its magnitude and the importance of the South (the southern mainland and the islands include about 40% of the area and population of the country) have combined to make the "Southern Question" a major social and political issue during most of Italy's existence as a political unit. Since the turn of the century, the government has been making efforts to improve Southern economic conditions. Both before and after World War II, its programs have had three main objectives: to improve the physical and institutional conditions of agriculture, strengthen the infrastructure and promote industrialization. Until World War II, however, the programs were generally short-term and limited geographically. Their failure to narrow the economic gap between the South and the North has been attributed as much to this piecemeal approach as to the difficulty of the problem.

7. Postwar political changes created a favorable climate for greater efforts. As early as 1947-48, legislation was passed providing incentives for industrial investment in the South. The measures included tax concessions, still in effect today, and provisions for medium and long-term credit at reduced interest rates. In 1950, government efforts were intensified, and a broad program was initiated to accelerate the economic development of the South. A special organization, the Cassa per il Mezzogiorno,<sup>1/</sup> was set up<sup>2/</sup> to undertake a ten-year program of public works over and above those included in the programs of the regular government departments and was granted an appropriation of Lit. 1,000 billion (US\$1.6 billion) for that purpose. The life of the Cassa was later extended to 1962 and then to June 30, 1965. Its funds were increased first to Lit. 1,280 billion and eventually to close to Lit. 2,400 billion. A bill extending the Cassa's life to December 31, 1980 and appropriating an additional Lit. 1,640 billion for the period ending December 31, 1969 is expected to become law before June 30 of this year.

8. Initially, the Cassa concentrated mainly on agriculture (irrigation, land improvement and the execution of the postwar land reform program) and infrastructure (water supply, sewerage and transportation). However, the expectation was that Cassa expenditures would not only increase

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<sup>1/</sup> Cassa per opere straordinarie di pubblico interesse nell'Italia Meridionale.

<sup>2/</sup> By Law 646 of August 10, 1950.

agricultural output and bring the standards of the public services in the South to levels considered necessary in a modern society but also, by raising incomes, would expand the local market and stimulate investment in industry, thus providing a base for self-sustaining economic growth.

9. Southern Italian per capita income did rise substantially in the early 1950's. But despite the rise, the tax concessions offered to industrial investors and the expansion, with government help, of industrial credit facilities, the growth of industry was slow. In 1957, therefore, the Act which extended the Cassa's life to 1965 and virtually doubled its funds for the activities which it was already carrying on also increased the incentives for industrial investment in the South. The Act provided for additional tax concessions and empowered the Cassa to make available interest subsidies and capital grants to industrial investors and financial assistance to local entities constructing infrastructure in industrial development concentrations. Further increases in the incentives were authorized in a 1959 Act (the Colombo Law).<sup>1/</sup>

#### Organizations Engaged in Development in the South

10. The Cassa is the government's major instrument in the effort to improve economic conditions in Southern Italy. But, as is shown by its full name, "Fund for Extraordinary Undertakings of Public Interest in Southern Italy", its activities are intended to supplement rather than replace those of the regular government departments. The latter spend considerably larger amounts than the Cassa on public works and improvements in the South. They have been required to place in the South a percentage of their capital investments equal to the percentage of the country's population located in that region; under the new law the figure is fixed at 40%. These expenditures are apart from Cassa expenditures. Nevertheless, the importance of the Cassa cannot be overestimated, not least because it constitutes the center of the developmental effort in the Mezzogiorno.

11. Coordination of the activities of all government departments in the region and formulation of policy for its development are, however, the responsibility of the Committee of Ministers for the South. That committee includes as members the Ministers of the Treasury, Public Works, Agriculture and Forestry, Industry and Commerce, Transportation and Civil Aviation, Public Education, Labor and Social Insurance, State Participations and Tourism and is headed by a full-time Chairman. The new Cassa law would add to the Committee the Ministers of the Budget and Health, and would give the Minister for Extraordinary Intervention in the South, who is the Chairman of the Committee, and the Committee as a whole powers they do not now possess.

12. The policies for the development of Southern Italy formulated by the Committee for the South have been fairly general in character. And

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<sup>1/</sup> Investors in small and medium-scale industry in the Center-North are also eligible for reduced interest rates on medium and long-term credits under the 1959 Act. However, the size of the loans that may be obtained at reduced rates is much smaller in the North than in the South and the interest rates are higher.

in spite of the broad range of its membership, the Committee has had only limited success in coordinating the activities of government agencies in the region because, of all the member agencies, only the Cassa has given the Committee full information in advance about its annual investment plans. To achieve better coordination of public investment in the South as well as between Southern investment programs and the national economic plans, the new Cassa law provides for the Committee for the South to prepare plans for the coordination of public intervention in the South covering periods of several years which are to be in conformity with the national economic plans to be formulated in the future by the Interministerial Committee for Reconstruction. The Committee for the South is itself to operate within the Interministerial Committee for Reconstruction.

13. Legislation for the organization of national planning activities in Italy was about to be presented to Parliament when this report was written, and the form that the national plans will take is not yet known. However, the expectation was that the plans would be directive for the public sector only and indicative for the private sector. In the South, the government program for the promotion of private industry was expected to continue to consist of subsidized credit, capital grants and tax reductions for industrial investors plus financial and administrative assistance in the establishment of industrial development centers.

14. Local bodies as well as agencies of the national government share in the responsibility for public investment in the South. The local governmental authorities have the customary responsibilities for control, administration and maintenance of public works, including works executed by the Cassa which are turned over to these authorities. In some cases, the authorities themselves execute such works, with financial assistance from the Cassa. More commonly, planning and execution of public works or investment programs are the responsibility of special entities ("Enti" or "Consorzi").

15. In industry, the Cassa shares responsibility with a number of organizations for promoting development. A summary of the incentives offered with that aim is given on the following page, and the role of the organizations involved is discussed below.

16. Medium and long-term credit is offered to industrial investors in the South at subsidized rates by a number of credit institutions. They include, in the order in which they began to lend for industry in Southern Italy: industrial credit sections of three large commercial banks, the Banks of Naples and Sicily and the Banco Nazionale di Lavoro, which were established in the late 1940's; IMI (Istituto Mobiliare Italiano) the largest source of medium and long-term industrial credit in Italy, which has been operating in the South since 1950; the three Special Credit Institutes, ISVEIMER, IRFIS and CIS, which were set up in 1953 <sup>1/</sup> each with a 40% Cassa participation and which operate, respectively on the Southern mainland of Italy and on Sicily and Sardinia; and four non-regional institutions, established between 1953 and 1955, Mediobanca, Efibanca, Mediocredito del Lazio and Centrobanca.

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<sup>1/</sup> ISVEIMER and IRFIS were in existence before 1953 but were reorganized and given their present functions at that time.

SUMMARY OF MAJOR MEASURES TO ENCOURAGE INDUSTRIALIZATION IN SOUTHERN ITALY  
(Benefits Available to Industrial Firms (Excluding Cottage-Type Firms))

Interest Subsidies

See Page 26

Capital Grants

Cassa Grants (available throughout Southern Italy)

- A) For new plant or expansion/rationalization of existing plant. Limited to projects in which investment per production unit does not exceed Lit. 6 billion (for expansions, investment represents sum of depreciated value of existing fixed assets plus new investment).
- Present Law
- 1) Up to 25% of expenditures on industrial buildings and road, railway and utility connections.
  - 2) Up to 10% of expenditures for domestic machinery and equipment (imported machinery and equipment is exempt from customs duties, see below), but
  - 3) Up to 20% of expenditures for machinery and equipment produced in Southern Italy.
- Proposed New Law
- Up to 20% of all expenditures, except that the grant may be increased to 30% of expenditures on machinery and equipment produced in Southern Italy.
- B) For new plant or expansion/rationalization of existing plant, in which investment exceeds Lit. 6 billion per production unit, if project is located in industrial development areas or nuclei (see C) in amounts determined by the Committee of Ministers for the South and related to the first Lit. 6 billion of investment.
- C) For expenditures by Consortia in industrial development concentrations on investments in industrial infrastructure.

Present Law

- 1) Up to 85% of expenditures for establishment of industrial estates and compensation for land expropriated for use for infrastructure in these industrial development concentrations. Grant may be made in lump sum or as subsidy to support credit operations of Consortia.
- 2) Up to 50% of cost of constructing buildings to be leased to industrial enterprises. (Cassa may also make loans for this purpose and to cover the cost of compensation for land expropriated for sites for industrial buildings).

Proposed New Law

The Minister for the South, in consultation with the Minister of Industry and Trade may, if the Consortia involved demonstrate that they cannot carry out the projects, authorize the Cassa:

- 1) To assume full financial responsibility for projects under (1) and (2) above;
  - 2) To delegate responsibility for executing such projects to another public entity or cooperative and assume, directly or indirectly, responsibility for their maintenance and management.
- For new plant or expansion/rationalization of existing plant; no size limitation but mainly for projects in designated areas.
- 1) Up to 66% of expenditures for: (a) factory site; (b) road, rail and utility connections; (c) electric power and water consumed (by new enterprises) for a maximum period of 10 years; (d) transportation of raw materials and finished products (for new enterprises only) for a maximum period of three years; (e) cost of social security and insurance during initial operating period, if warranted.
  - 2) Up to 40% of total project cost. If project is eligible for other grants, they may be supplemented by regional grants under this provision, provided that the total amount of all grants does not exceed 40% of total project costs.

Regional Grants (supplementary to Cassa grants) for Sardinia only

Equity Participations

Various percentages of equity participation are taken by several financial institutes. ISAP, SOFIS and FINSARDA may take only minority participations and INSUD only a majority participation.

Tax Exemptions and/or Reductions

Present Law

- 1) Building materials and machinery for new plant or expansion/rationalization of existing plant are exempt from customs duties and "conguaglia" tax (ad valorem tax on imports).
- 2) Turnover tax (IGE) reduced by 50% on building materials, whether purchased in Italy or imported.
- 3) Ten-year exemption from income tax (IRM) of income from manufacturing activities of new industrial plant or additional income attributable to expansion/rationalization of plant.
- 4) Exemption from income tax of up to 50% of income earned in any part of Italy if reinvested in Southern Italy in new plant, expansion/rationalization of existing plant or transformation or improvement of agricultural land. Deduction is limited to 50% of cost of investment, i.e. total investment must be twice the amount of income exempted from tax.
- 5) Municipalities are empowered to exempt industrial enterprises from municipal tax in whole or in part.
- 6) Registration and mortgage taxes are reduced in certain cases.
- 7) Excise duty on electric power used by industrial enterprises is reduced by 50%.

Proposed New Law

- 1) Exemption from customs duties and "conguaglia" tax eliminated.
- 3) Ten-year exemption from income tax extended to income from related commercial activities carried on by industrial production units whose manufacturing income is exempt from income tax for ten years.
- 5) Authority of municipalities to exempt industrial enterprises from municipal tax eliminated.
- 8) Ten year exemption of industrial firms from company tax. For firms already in operation, the period of exemption will begin with the enactment of the new law.

Freight Rate Reductions

Present Law

- 1) The Italian State Railways may reduce by up to 50% the freight rates on items needed for the construction of new industrial plants and the expansion/rationalization of existing plants and up to 20% on goods produced by them.
- 2) Freight rates on raw materials and equipment shipped by water to industrial enterprises in Sardinia are reduced by 20%.

Proposed New Law

- 1) The Minister of Transport in consultation with the Ministers of the South and the Treasury is authorized within 90 days after the enactment of the law to establish rules for the determination of freight rates on items needed for the construction of industrial plants and goods produced by them.

Expropriation of Land

Present Law

- 1) Land required for projects eligible for assistance may be expropriated subject to normal subsequent legal action and determination of compensation.
- 2) Municipalities are authorized to sell or lease on special terms land and buildings to be used for industrial purposes.

Proposed New Law

- 2) The right of municipalities to sell or lease on special terms land and buildings to be used for industrial purposes is eliminated.

Award of Contracts by Public Administrations

Present Law

Public administrations are required to place with South Italian enterprises 20% of their orders for equipment and works each year.

Proposed New Law

- 1) The percentage of orders to be placed in the South is increased from 20% to 30%.
- 2) The public administrations subject to this provision are to be listed in a decree issued by the Premier in consultation with the Ministers for the South and Industry. They will include, in addition to regular government agencies autonomous government agencies and public entities

Investments by State-owned Enterprises

State-owned enterprises are required to place in the South each year 60% of their investments in new plant and 40% of their total investments.

Bearer Shares

In Sicily and Sardinia, bearer shares may be issued by newly established enterprises.

Foreign Investments

Foreign capital may be invested in all except a few fields, e.g., hydrocarbons, aviation, credit, insurance. Firms with foreign capital are eligible for all benefits listed above.

17. The three Special Credit Institutes together have been the largest source of such credit. They provided about 45% of the total amount loaned for industry in the South between 1947 and 1963; 40% was provided by IMI; and the remaining 15% by the other credit institutions. The Cassa's interest subsidies cover the difference between the interest rates all these institutions pay for domestic funds and the rates at which they lend. In the case of the funds which the three Special Credit Institutes obtain from the Cassa's foreign borrowings, the difference between the Institutes' borrowing and lending rates is covered by the Treasury.

18. Capital grants are given to industrial investors after investigation of their applications by the three Special Credit Institutes and review by the Cassa. Cassa grants for industrial infrastructure are given to "consorzi" responsible for providing at a number of points in the South the facilities required by industry with the aim of concentrating industrial enterprises at these points and thus achieving maximum external economies. The concentrations are of two types, "nuclei" (centers consisting of one municipality or part of a municipality) and "areas", (larger geographic units which may include more than one municipality and must have populations of at least 100,000). There are, in addition, four broader regional units called industrial poles, each of which includes both "nuclei" and "areas" (see Map No. 2). The "consorzi" are local bodies, including representatives of all local interests (official and non-official), which are responsible for making plans to develop the concentrations and, after approval by the Prime Minister acting on the recommendations of both the Minister of Public Works and the Committee of Ministers for the South, for carrying these plans out.

19. Besides loans and grants, industrial investors can obtain equity capital from several investment companies established with government participation in the last few years to take participations in industrial enterprises, mainly in the South. These companies, INSUD, ISAP, SOFIS and FINSARDA, are described in Annex 1. Their activities have been limited to date, but they could play a more active part in the future.

20. In addition to the incentives to private investors, the government has promoted the industrialization of the South since 1957 by requiring the State Participations<sup>1/</sup> to place in the region 60% of their investment in new plant and 40% of their total investment. The aim was not so much to increase State industrial activity in the Mezzogiorno as to provide it with a heavy industry as a basis for further industrial growth. By 1962, the State-owned companies had brought their investments in the South to the specified level and in 1964, they placed over 45% of their total investments there. Their total investment in Southern Italy over the period 1957-64 has amounted to Lit. 1,400 billion (US\$2.2 billion), of which about 60% was in industry and the remaining 40% in power, radio and telecommunications and express highways.

<sup>1/</sup> The State Participations (Partecipazioni Statali) are government organizations holding participations in companies engaged in a wide variety of activities--steel production, shipbuilding, oil production, refining and distribution, petrochemicals, heavy engineering, cement production, road building, banking, etc. The most important State Participations are IRI (Institute for Industrial Reconstruction) and ENI (National Hydrocarbons Board). ENEL (National Electric Power Board) also falls under the regulation with respect to investment in the South.

## The Role of the Cassa

### Organization

21. The Cassa has 12 operating departments. Six are responsible for specific sectors: Agriculture; Aqueducts and Sewers; Transportation; Industry; Tourism, Handicrafts and Fisheries; and Vocational Training and Education; two have general responsibilities: Planning and Programming and Credit and Finance; and four have general administrative responsibilities. It employs about 2,000 persons.

22. The organization is administered by a Board of Directors which consists of a President, two Vice-Presidents and ten members.<sup>1/</sup> All are appointed on the basis of their professional qualifications for terms of four years and may be reappointed indefinitely. Under the existing law, the President of the Cassa is appointed by the President of the Republic on the nomination of the Prime Minister with the advice of the Cabinet; the two Vice-Presidents and the other members of the Board are appointed by the Prime Minister on the advice of the Cabinet. The new Cassa law provides for the nomination of all officers and members of the Board by the Minister for the South. The Board meets every two weeks. Its meetings are attended by the Director General who is the principal operating official. Board approval is required for every project undertaken by the Cassa.

23. The complexity and scope of the Cassa's activities make it difficult to evaluate its performance in detail. However, the staff gives a definite impression of competence and the criteria which have been developed for assigning priority for assistance seem sound. Responsibility for the overall development of Southern Italy has enabled the organization to see the broad implications of its activities in individual fields and to fit them into a coherent program which can be modified to meet changing circumstances.

### Financial Resources

24. The bulk of the Cassa's funds come from long-term government appropriations, and it can therefore make long-range plans with an assurance of continuity. Allocations from these appropriations are made annually by the Treasury and the amounts due have always been paid on schedule. The organization is empowered to anticipate future government allocations by discounting them at a number of national banks and to issue bonds on the domestic market but has not used either facility.

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<sup>1/</sup> Annex 2 gives the names of the members of the present Board and the principal officials of the Cassa at present.



25. Annex 3, shows, by years, the total amounts made available to the Cassa, by source, from the beginning of its operations to February 28, 1965. A summary is given below (billion lire):

Treasury Allocations	Domestic Resources			Foreign Resources			Grand Total
	IMI-ERP (Principal & Interest)	Interest on Bank Deposits	Credit Opera- tions (Princi- pal & Interest)	IBRD Loans	EIB Loans	Bond Issues	
2,031.8	210.6	83.3 <sup>1/</sup>	112.9	186.3	145.7	49.7	2,820.3 <sup>1/</sup>

<sup>1/</sup> Net of Lit. 54.0 billion operating expense.

26. In addition to the Treasury allocations, the Cassa has received funds from the following domestic sources: repayments of principal and interest on reconstruction loans made by IMI (Istituto Mobiliare Italiano) from the lire proceeds of the sale of goods provided to Italy under the European Recovery Program (ERP) which have been transferred by the Treasury to the Cassa; interest on Treasury allocations deposited in banks until needed, which are used to cover the Cassa's operating expenses; and principal repayments and interest on its own credit operations.

27. The Cassa is empowered to borrow abroad with the guarantee of the government, and to February 28, 1965 had borrowed Lit. 381.6 billion (US\$610.5 million) from foreign sources. Foreign loans are used only for purposes for which no provision is made in Cassa appropriations. The lire equivalent of about two-thirds of the foreign borrowings have gone for industrial projects; most of the remainder has gone for power plants and a small amount was used for technical assistance.

28. The Bank made seven loans to the Cassa between 1951 and 1959, totalling US\$298 million equivalent (Lit. 186.3 billion) and ranging in size from US\$10 million to US\$75 million equivalent. Between 1959 and February 28, 1965, the European Investment Bank (EIB) made 50 loans to it totalling US\$233.1 million equivalent (Lit. 145.7 billion) and ranging in size from US\$0.4 to US\$24.0 million. In addition, the Cassa has floated four bond issues, underwritten in the United States, Switzerland, Belgium and Luxembourg, totalling US\$79.4 million equivalent (Lit. 49.7 billion).

#### Allocation of Resources

29. An analysis of Cassa allocations by object, given in Annex 4, shows that by far the largest part has gone for public works. For some works, in particular aqueducts, the organization has assumed full responsibility and has covered the entire cost directly. In the case of others, the responsibility for execution has rested with local authorities, Enti or Consorzi, and the Cassa has provided the funds, covering project costs either in full or only in part.

30. The Cassa has also made grants to private individuals and firms. Besides those given to industrial investors, which have already been commented on, grants have been made to farmers to cover up to 30 - 40% of the cost of on-farm improvements. The interest subsidies furnished to the credit institutions fall into this category, as do also the contributions made by the Cassa to support certain institutions concerned with the development of the Mezzogiorno.

31. Modest amounts have been made available in the form of small loans, mainly for agriculture and tourism and usually in conjunction with Cassa grants. The loans have been made at interest rates of 2 - 3-1/2% either directly by the Cassa or, in accordance with Cassa criteria, by banks through which Cassa funds have been channeled. In the latter case, the credit risk has been borne by the banks. In addition, the Cassa has, as noted above, reloaned the proceeds of its foreign borrowings and bond issues either directly to ultimate users or, in the case of loans to industrial investors, mainly to the Special Credit Institutes for relending to the ultimate users. (These figures are not given in Annex 4 which shows only Cassa expenditures from domestic sources).

32. Finally, the Cassa has participations in the three Special Credit Institutes and in INSUD.

#### Past Programs - Use of Resources

33. The analysis of Cassa allocations by object given in Annex 4 compares these allocations under what have been designated as its Ten, Twelve and Fifteen Year Programs. A summary of that table is given below (amounts in billion lire):

	Ten-Year Program (1950)		Twelve-Year Program (1952)		Fifteen-Year Program (1957)		Average Annual Amounts	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	June - July 1950-59	1959-65
Agriculture	770	77	887	69	1,244	52	73.9	96.4
Transportation	110	11	190	15	340	14	15.8	32.7
Water & Sewerage	90	9	178	14	307	13	14.8	28.6
Industry	-	-	-	-	254	11	-	42.0
Other and un- allocated	30	3	25	2	240	10	2.1	38.2
Total	1,000	100%	1,280	100%	2,385	100%	106.6	237.6

34. Since the figures given for the programs are cumulative, a comparison of the distribution of Cassa allocations under the three programs does not reveal fully the changes that have occurred during the period that it has been operating. To show these changes more clearly, figures are also

given above for the average annual amounts available for each major purpose in two periods, July 1, 1950 to June 30, 1959 and July 1959 to June 30, 1965. The division was made in 1959 because it was in the fiscal year beginning July 1, 1959 that the Cassa first began to receive the larger allocations provided for in the 1957 Act.

35. In the earlier period, just under 70% of all the Cassa's available funds went for agriculture. Practically all the rest went for transportation and water and sewerage projects, with the former receiving a little more than the latter. The remaining 2% went for all other purposes, mainly hotels and improvement of roads and other facilities for tourists. The average amount available annually for all purposes was more than twice as great in the later period as in the earlier, and the amounts available for every major purpose were larger than they had been. But the increases varied considerably in magnitude. As a result, the share of agriculture fell from 70% to 40%, while the share going to industry rose from zero to 18% and that going for all other purposes--education and fishing, handicrafts and tourism--rose from 2% to 16%. The share of transportation and water and sewerage projects remained about the same.

#### Past Programs - Major Sectors of Activity

36. In agriculture, the Cassa has not only been concerned with increasing productivity, but has attempted also to deal in a broad way with social and economic problems. Its largest expenditures were for infrastructure. However, it also carried out the land reform program, which broke up the large estates in specific delimited regions and distributed the land among farm families. In addition, it provided rural relief.

37. Agricultural programs were executed in 70% of the area of Southern Italy, and the Cassa financed close to 80% of the programs in which it participated. Besides land reform, it concentrated mainly on: (a) irrigation works in reclamation districts (areas where a complete transformation of the conditions of production are required) with a total area of more than 500,000 hectares; (b) general development in dry farming areas extending over about 3.3 million hectares; and (c) soil conservation, flood control, reforestation and community development projects in mountainous regions with a total area of about 5 million hectares.

38. The agricultural public works were mainly those needed to make the irrigation areas more suitable for economic cultivation. In addition, to increase the effectiveness of irrigation, farmers were given grants and low-rate long-term loans to adapt their farms for irrigated cultivation.

39. At present, more emphasis is being given to increasing production in the reclamation districts. The Cassa continues to rely on local bodies (consorzi, enti, cooperatives) to initiate projects; the former Enti di Riforma which carried out the land reform have become Enti di Sviluppo and taken on developmental functions. However, the Cassa is itself increasingly assisting in the preparation and execution of projects. A rapidly growing

area is that of on-farm and land improvement. About 30% of total Cassa expenditures for agriculture have gone for projects in this field covering housing, storage facilities, equipment, farm roads and a substantial amount of technical assistance.

40. Cassa expenditures for transportation have been mainly for roads, principally those linking main highways and those between urban areas and the new expressways. They have been much smaller than those of the regular government departments, and their relative importance as compared with the latter has declined. In the case of roads, Cassa expenditures represented only 30% of total public expenditures in Southern Italy in 1950-55 and have declined to about 10%. In the case of railroads and ferries, they represented only 15% of other public expenditures. However, the Cassa has made a more significant contribution than these figures suggest through its advice to other transportation agencies on the planning of investments and work schedules and by undertaking necessary projects not included in other programs.

41. In water supply and sewage disposal, its third major field of activity, the Cassa is engaged in a 50-year program intended to make facilities available to practically the whole population of the South. To date, water and sewerage projects have been completed in over 1,815 communities. At the outset, the emphasis was mainly on collection and storage reservoirs, major aqueducts and trunk line sewers, but at present, the Cassa is also helping communities to build local water distribution and sewage collection networks. By providing technical and financial assistance to local organizations, the Cassa has made possible fuller utilization of the major works which it constructed and has helped to improve management standards.

42. In industry, as has already been pointed out, the Cassa's activities are limited to offering incentives to investors either directly or through other institutions. Although it began providing assistance in this field a number of years after it started operations, its expenditures have grown very rapidly and industry is becoming the major object of its efforts. The incentives offered vary somewhat with size of project (interest subsidies vary inversely with size), location (larger incentives are offered to projects in the less industrialized areas), labor intensiveness, etc. They are varied also to encourage concentration in the industrial development centers where Cassa funds are to be used to help create conditions favorable for industrial growth. The program to build up these centers is still in its early stages. The plan is to establish 26 industrial nuclei and 12 areas; to date plans for eight areas have been prepared and one has been approved.

#### Present Situation and Status of Funds

43. As at February 28, 1965, the amount available to the Cassa for regular activities through the close of the Fifteen-Year Program was Lit. 2,385 billion (US\$3.8 billion). That figure does not include expected earnings from bank deposits during the remaining four months of the Program (March 1 - June 30, 1965) against which no commitments may be made, or the

proceeds of foreign borrowings, which may be used only for purposes not included in government appropriations for the Cassa. Annex 5 gives a breakdown, by purpose, of availabilities, commitments and expenditures as at February 28, 1965. A summary is given below (billion lire):

	<u>Availa- bilities</u>	<u>Commit- ments</u>	<u>Expendi- tures</u>	<u>Expenditures as % of Commitments</u>	<u>Balance to be Committed</u>	<u>Projects Already Accepted</u>
Agriculture	1,244	1,220	1,053	86	24	91
Transporta- tion	340	332	265	80	8	42
Water & Sewage	307	306	254	83	1	42
Industry	254	225	98	44	29	8
Other and Un- allocated	<u>240</u>	<u>205</u>	<u>132</u>	<u>64</u>	<u>35</u>	<u>-</u>
	2,385	2,288	1,802	79	97	183

44. In the early years of Cassa operations, projects were prepared and processed relatively slowly, and idle funds accumulated. As a result of the momentum developed by the programs and improved preparation and accelerated processing of projects, funds are now committed very promptly. There is also little delay between commitments and expenditures, except in the case of industry where a lag is unavoidable because interest subsidies are paid to the Credit Institutes over the life of the bonds they issue to raise funds for lending.

45. As at February 28, 1965, only Lit. 97 billion (US\$155 million) had not been committed, and the Cassa had already made firm decisions as to how these uncommitted funds were to be used. Projects with a total cost estimated at Lit. 183 billion (US\$293 million) had been found acceptable after examination, but had not been approved for lack of funds to commit. In addition, applications for capital grants for industrial projects which might require expenditures of as much as Lit. 140 billion were being processed by the Cassa and the three Special Credit Institutes and potential requirements for interest subsidies on domestic bond issues of the Institutes (either outstanding or authorized) amounted to about Lit. 110 billion. In the case of capital grants and interest subsidies for industry, also, lack of funds made impossible further commitments.

#### Future Programs

46. The new Cassa law appropriates Lit. 1,640 billion (US\$2.6 billion) for 1965-69. Of this amount, Lit. 1,350 billion (US\$2.16 billion) would be made available in the years 1965-69 and the remaining Lit. 290 billion (US\$464 million) would be reserved for use in 1970 and 1971. A tentative distribution of the Lit. 1,640 billion, prepared by the Cassa, is given in Annex 6.

47. Only Lit. 70 billion (US\$42 million) of the new appropriation would be made available in 1965. In the four years 1966-69, average annual availabilities would amount to Lit. 320 billion. This would be 34% more than the Lit. 238 billion per annum available in the six years 1959-1965 (para. 33). But all sectors would not share alike. Sector comparisons are difficult because the Cassa distribution covers the entire appropriation, not the amount to be made available to 1969, but it can be estimated roughly that the amounts available for industry would be more than trebled and those for aqueducts increased by almost one-third, while amounts for agriculture and for other purposes would be reduced slightly and those for transportation would be reduced by almost one-third. As a result, industry would replace agriculture as the major object of Cassa expenditures and would account for 43% of the total, as against 18% in 1959-65. The share of agriculture would fall sharply (from 40% to 27%) as would that of transportation, while the share of aqueducts would remain unchanged.

48. The general future direction of the Cassa's activities is envisaged as follows. In agriculture, the main emphasis is to be placed on the extension of the irrigated area through a number of individual projects for which planning is far advanced. In addition, greater efforts are to be made to facilitate the transition from traditional to more modern methods of farming, in particular through on-farm improvements, land consolidation and land transformation.

49. In transportation, the major object of expenditures will continue to be roads, especially those going from irrigated areas to markets, those within the industrial development poles and linking these regions to main highways, and those leading to tourist attractions. Expenditures on ports will increase, but expenditures on railways will be largely limited to the completion of projects already under way.

50. In water and sewerage, the Cassa expects to continue constructing major works, but plans also to increase assistance to municipalities to help them improve local distribution and collection systems. Its aim is to make possible fuller utilization of works already in existence as well as to increase overall capacity.

51. In industry, the objectives are an increase of 8-10% per annum in investment and a total investment (excluding State-owned industries), over the period ending December 31, 1969, of about Lit. 3,000 billion (US\$4.8 billion). It is expected that there will be a shift from such capital-intensive industries as steel and chemicals, which have accounted for a large part of the investment in recent years, to the more labor-intensive industries processing the semi-finished products now available locally. The mechanical industries in particular are expected to grow rapidly, especially around the new steel plant at Taranto. At the same time, the growth of incomes and the movement to the cities are expected to expand the markets for a wide variety of finished products. Industrial employment is expected to increase by an estimated 275,000. This compares with the expected natural increase of about 900,000 in the total population (male and female) of working age (15 - 65) between 1966 and 1971.

52. The Cassa expects to increase its contributions for the development of tourist facilities. It believes that, in view of the rapid increase in European travel, larger expenditures would be justified. Improvements in accommodation and in the accessibility of the many spots of national beauty and historic interest would bring a much larger number of tourists to Southern Italy.

53. Certain fields in which the Cassa has been active until now, in particular the construction of schools and hospitals, rural electrification, welfare projects, adult education, etc., are to revert to the appropriate ministries.

### Results and Outlook

54. Judged by the improvement in the economic position of Southern Italy since the early 1950's, the program for its development must be considered a success. Per capita income (at constant prices) increased by two-thirds between 1951 and 1963, or by about 4.5% per annum. Unemployment fell to about 3% as compared with 6% as recently as 1959 and 12% in the early 1950's, partly, it is true, because of the migration of Southern workers to Northern Italy and abroad.

55. The gap between Southern and Northern incomes has, admittedly, not been narrowed. Looking back, however, it seems clear that no significant reduction in the disparities between the two regions should have been expected in as short a time as 15 years. Deficiencies in the infrastructure of the South had to be made good; its traditional agriculture had to be transformed; industrial investors had to be attracted to a largely unindustrialized region; new plants had to be built and brought into operation. Moreover, economic growth in the North was exceptionally rapid during this period. It was no small achievement for Southern Italy to have matched that high rate of growth.

56. There has, however, been an acceleration in the rate of economic growth in the South in the last few years. The average annual increase in per capita income (at constant prices) rose from 3.5% in the six years 1951-57 to 5.5% in 1957-63 and it was close to 8% between 1959 and 1963. In the three years 1960-63, for the first time, Southern Italian per capita income grew more rapidly than Northern.

57. The recent acceleration in the rate of economic growth in the South has paralleled a similar acceleration in the growth of industrial investment in the region. Total investment has been increasing rapidly in Southern Italy ever since the Cassa program was initiated, but it is only since 1958 that industrial investment has been growing as fast as (indeed, faster than) total investment (see Annex 7 for data on gross investment by sector and region). The acceleration in Southern industrial investment is, of course, attributable in part to the Italian boom of the last few years; the pace of North Italian industrial investment, too, has quickened. But other factors must have played a part, for Southern industrial investment has increased much more rapidly than Northern, and the spread between the two rates of growth has widened. The differences are shown in the following comparison

of rates of growth in industrial investment in the two regions<sup>1/</sup> (per cent per annum increases in industrial investment at constant prices):

	<u>1951-58</u>	<u>1958-63</u>	<u>1960-63</u>
Northern Italy	+3.7	+9.0	+8.3
Southern Italy	+7.6	+22.0	+22.5

58. About half of the recent increase in Southern Italian industrial investment is due to the State Participations. But there has also been a great increase in private investment which must be attributed in large part to the incentives that have been offered to industrial investors in the South since 1957. These incentives have brought in the much needed outside capital and technical knowledge. The Cassa estimates that the share of total equity capital supplied for industrial projects in the South by North Italians rose from 40% in the years through 1957 to 60% of the much larger total in 1958-63; foreign equity capital rose from a negligible percentage prior to 1957 to 14% in the later period.

59. The investments of the last few years have not yet come to full fruition. A number of the plants are still under construction. Recently completed plants have still to be broken in, and it has generally taken a relatively long time for new plants in Southern Italy to reach profitable operating levels. Moreover, investors in the South have tended conservatively to build plants that are somewhat smaller than the optimum size, with the intention of expanding to more economic levels out of profits. In any case, the development of industry in depth around the new heavy industry plants and in the industrial development poles will be a matter of time.

#### The Policy of Incentives for Industrial Investment

60. Nevertheless, there seems to be ample justification for a continuation of the policy of incentives for industrial investment in the Mezzogiorno. Southern Italian industry is still at a disadvantage as compared with industry in the more industrialized North in many respects, including the size of its market, its distance from complementary and ancillary industries and the expertise of local managerial and operative personnel. These disadvantages are not offset by lower wages, as in developing countries. Local wages are not much lower than in the North and are rapidly approaching Northern levels, and higher salaries often have to be paid to attract managerial staff and skilled workers from the North. However, there has been a marked improvement in the prospects for industry in the region, as a result of the strengthening of the infrastructure (including educational facilities), the rise in per capita incomes and expansion of the local market, the growth of external economies resulting from industrial expansion, and the emergence of

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<sup>1/</sup> Because of the much lower absolute level of industrial investment in the South, the rate of growth has been consistently higher than in the North.



the entire Mediterranean region as a source of industrial raw materials and a market. Given this improved climate for industry, continued assistance to offset Northern advantages ought to make possible a fairly rapid development of an industrial sector capable of self-sustaining growth, and thus enable Italy to realize a return on its already large investment in a relatively short time.

61. Moreover, in assessing the policy of incentives, its cost should be balanced against the cost of alternatives. One of the main purposes of industrializing Southern Italy is to limit the migration of a labor force that has been found very easy to train, by increasing local opportunities for employment at reasonably attractive wages. Thus, the cost of promoting industrialization should be balanced against the cost of the additional migration that would occur if the special efforts to industrialize the South were discontinued. Certain of these costs are roughly quantifiable. Estimates indicate, for example, that it may cost almost twice as much to provide housing and social utilities for industrial workers in the North as in the South. Other costs, though less easily quantifiable, are by no means less important. The greater the drain of what are likely to be the most enterprising elements in the population, the greater the obstacles to the continued economic development of the South. The greater the population movements from one part of a country to another, the greater the social and political problems created.

62. The commonest form of assistance provided to "infant industries"--tariff protection--cannot, of course, be given to Southern Italian industries as against Northern. But the incentives that are offered as an alternative compare favorably with a tariff in their economic effect. They reduce capital costs and the tax burden in the early years of operation, but do not introduce price distortions which often prove difficult to eliminate. From the time they begin operations, the industrial firms in Southern Italy that receive assistance must be preparing to meet competition without assistance, in their case, not only from the rest of Italy but from the entire Common Market.

63. There may be some question as to whether the present level of incentives is higher than needed to achieve the desired rate of investment in Southern industry. That question is extremely difficult to answer. The Cassa has been making studies but has not yet been able to arrive at definite conclusions. It is significant, however, that it was not until the present level was reached that industrial investment in the South began to rise sharply. And there is no evidence that the incentives have resulted in the establishment of uneconomic enterprises.

64. It can be argued that in the case of certain enterprises or somewhat already industrialized areas, the incentives may be too high. The Italian government is aware of this possibility, and as has been indicated, differentiates to a certain extent. It does not seem advisable, however, to make any significant changes in the incentive system at this time because that might shake the confidence of investors in the continuity of government policy and halt the still new investment boom. Although changes are likely

to be gradual, the program is susceptible to change. Interest rates on industrial loans, one of the major incentives, can be altered at any time by the Interministerial Committee for Credit and Savings.

65. In the long run, it is unlikely that the incentives will be maintained at a level high enough to support the establishment or continued operation of uneconomic enterprises in the South. The Italian authorities are aware that Italy cannot afford to provide assistance for a substantial segment of industry except on a temporary basis. The policy of incentives can be regarded as self-limiting.

### III. THE INSTITUTES

66. The three Special Credit Institutes, ISVEIMER, IRFIS and CIS<sup>1/</sup> were established by law in early 1953<sup>2/</sup> to make medium and long-term loans to small and medium-size industrial enterprises in the Mezzogiorno in order to increase employment and the utilization of natural resources in the region. ISVEIMER operates on the mainland of Southern Italy, IRFIS in Sicily and CIS in Sardinia. (See Map No. 1) As has already been pointed out, 40% of the equity of each Institute is held by the Cassa; the remainder is distributed among regional banks (the most important of which are the Banks of Naples, Sicily and Sardinia) and the Autonomous Regions of Sicily and Sardinia (See Annex 8).

67. The Institutes were the channels through which the proceeds of four of the seven loans granted to the Cassa by the Bank between 1951 and 1959 were made available to industry in the South. They relented a total of US\$90.7 million to 21 enterprises, mainly in the chemical, fertilizer and cement industries. All of these enterprises, except a food processing and household appliance firm which still have problems, are now in satisfactory operation, and in most cases their capacities have been expanded substantially since they received the original credits financed out of the Bank loans. A list of Bank-assisted projects is given in Annex 9.

#### Past Operations

68. By the end of 1963, which was ten years after they began lending in the South, the Institutes had made more than 4,500 loans for a total amount of over US\$1.2 billion equivalent. Of the total amount, ISVEIMER accounted for 58%, IRFIS for 23% and CIS for 19%. A large number of their loans were made to relatively small enterprises and were for amounts of less than Lit. 50 million (US\$30,000) each, but the Institutes have also made individual loans as large as US\$10 million equivalent. Their lending has been very largely concentrated in the last four or five years and has been growing rapidly (See Annex 10); in the late fall of 1964, the loans which the Institutes had approved but had not yet signed because of a lack of funds and the loans they had under active consideration amounted to about US\$790 million equivalent.

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<sup>1/</sup> Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER).  
Istituto per il Finanziamento alle Industrie in Sicilia (IRFIS).  
Credito Industriale Sardo (CIS).

<sup>2/</sup> ISVEIMER and CIS were in existence prior to 1953, but were given new functions by that law.

69. An analysis, by industry, of the loans made by each Institute to the end of 1963, which is given in Annex 11, shows that there are distinct regional differences. In the case of both IRFIS and CIS, about 50% of the loans have been made for projects in the capital-intensive chemical industry and only a very small percentage for projects in industries where a high degree of skill is required, e.g. metal processing and light engineering. Although the concentration of these Institutes on the chemical industry is explained in part by the presence of deposits of chemical raw materials on Sicily and Sardinia, the relative unimportance of engineering industries in their lending suggests that the islands are still in an early stage of industrialization. The more advanced industrial character of the mainland is indicated by the fact that the engineering industries have accounted for a much larger percentage of the loans made by ISVEIMER.

70. An analysis, by size, of the loans made by the three Institutes, which is given in Annex 12, presents a similar picture of the differences among the regions. In the case of both IRFIS and CIS, almost 70% of the number of loans made have been for amounts of less than Lit.50 million each, but because of the concentration of the two Institutes on capital-intensive industries, almost 60% of the total amount of their lending is accounted for by loans of over Lit.1,500 million. In contrast, only 40% of the number of loans made by ISVEIMER have been for amounts of less than Lit.50 million each, while loans of over Lit.1,500 million each have accounted for only 30% of the total amount of its lending.

#### Degree of Governmental Influence

71. The Institutes are subject to the supervision and influence of a number of government bodies--in a broad way, the Cassa and the Committee of Ministers for the South, and, in specific respects, the Bank of Italy, the Interministerial Committee for Credit and Savings, the Ministry of the Treasury and the Ministry of Commerce and Industry.

72. The Cassa has three direct means of control over the Institutes:

- a) Its equity participation, which entitles it to substantial representation on the Boards of Directors and Auditors;
- b) Its power to approve the projects for which it will make available interest subsidies and capital grants; and
- c) Its position as a lender of funds borrowed abroad.

In addition, the Cassa has an important indirect influence on the Institutes, stemming from its relation to the Committee of Ministers for the South which has the ultimate responsibility for establishing and coordinating policy for the development of Southern Italy.

73. In practice, the Cassa's direct control over the Institutes is more formal than substantive. The Boards of Directors of the Institutes tend to rely heavily on the recommendations of their managements. Cassa representation on the Board of Auditors may be as important as its representation on the Board of Directors, but its influence on Institute activity through that Board is indirect and difficult to measure. Cassa approval of projects for interest subsidies and capital grants is largely formal; approval is virtually assured if the projects meet the standards set for location, size, branch of industry, etc. The Cassa does not itself make thorough checks of the technical, financial and economic soundness of projects; it relies largely on the recommendations of the Institutes.

74. As an obligor to foreign lenders, the Cassa is responsible for presenting and following up projects. However, the major responsibility for the selection of projects has in the past rested with the lenders, who have applied their own criteria, while the Cassa has shared responsibility for follow-up with both the lenders and the Institutes. In the case of bond issues and loans the purposes of which are not specified, the Cassa has usually distributed the proceeds among the Institutes either in accordance with the formula applied by the Treasury in apportioning its contributions or in accordance with the overall capital requirements of the Institutes.

75. However, the Cassa does exercise a considerable indirect influence on the Institutes. Under the former law, the criteria for eligibility for capital grants were set by the Committee of Ministers for the South, following a recommendation by the Cassa and after consultation with the Ministry of Industry and Commerce<sup>1/</sup>. The amount of interest subsidy to be given by the Cassa to industrial lending institutions was determined under the old law by the Interministerial Committee for Credit and Savings, following a recommendation by the Committee of Ministers for the South<sup>2/</sup>. The close relations between the Cassa and the Committee of Ministers for the South make it probable that the Cassa exercises an influence on the Committee's recommendations, even where Cassa participation is not formally provided for. In general, the Cassa has exercised more influence on the Institutes indirectly through its recommendations to the Committee of Ministers for the South on development policy in general as well as specific matters than through its direct control over their activities.

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<sup>1/</sup> Under the new law, they are required to be in conformity with the plans for the coordination of public intervention in the South which are to be prepared by the Committee for the South and must be approved by the Interministerial Committee for Reconstruction, the body which will be responsible for national planning. Responsibility for insuring conformity to these plans will rest with the Minister for the South.

<sup>2/</sup> Under the new law, the amount of the subsidy is to be determined by the Minister of the Treasury, in agreement with the Minister for the South and the Minister of Industry and Commerce.

76. Like all Italian banks and credit institutions, the Institutes must submit detailed quarterly statements to the Bank of Italy, and are subject to audit and supervision by its Vigilance Committee. The Bank also serves as the executive organ of the Interministerial Committee for Credit and Savings and, in that connection, reviews and makes recommendations on proposed Institute loans of Lit.500 million and over, which must be approved by the Interministerial Committee. It should be noted, however, that the criteria applied by both the Bank of Italy and the Interministerial Committee in passing on such loans is the financial position of the borrower, not the technical, financial or economic soundness of the project to be financed.

77. The Interministerial Committee for Credit and Savings exercises further important controls over the Institutes. On the lending side, the Committee establishes the structure of interest rates under which Italian banking and credit institutions must operate. With respect to borrowing, it must authorize all bonds to be issued on the domestic market and approve the timing and offering terms of individual flotations. The latter decisions are obviously of great importance since the placement of bonds that have been authorized may prove difficult if the offering terms have been set below the prevailing market, especially if no underwriter is available, as is usually the case for two of the Institutes. Finally, the Committee may recommend the sectors to be given priority in lending. To date, such recommendations have in practice been limited to directives against further investment in a few fields which the Committee considers to be already over-expanded.

78. The Treasury's influence on the Institutes stems from its substantial financial contributions to them, its right to appoint the Chairmen of their Boards of Directors and of their Boards of Auditors, and, under the new law, its right to determine, in agreement with the Minister for the South and the Minister of Industry and Commerce, the amount of interest subsidy. The Treasury requires separate accounting for its funds and must approve all Institute loans of Lit.500 million and over made from them. However, these approvals appear to be a matter of form.

79. The Ministry of Industry and Commerce is represented on the Boards of Auditors of the Institutes, on the Committee of Ministers for the South and on the Interministerial Committee for Credit and Savings, and with the Treasury and the Committee for the South, is to approve interest subsidies. Together with the Cassa, it must give its approval for all loans carrying a special interest rate (3% rather than 4%).

80. In general, in spite of the formal authority of various government bodies with respect to the Institutes, they enjoy a considerable measure of independence. This is due to the diffusion of government authority and the government's choice of the role of vigilance rather than of intervention;

however, the government has a reserve of power which it could exercise to check the Institutes, if it considered it necessary. Moreover, as public interest entities, the Institutes' interest rates for borrowing and lending are fixed by the government and their earnings are therefore determined by it.

#### The Institutes' Place in the Credit System

81. The Institutes are limited by law to lending; they may not take equity participations, convertible options or underwriting commitments. Although they were established to promote the industrial development of the South, their responsibility for development is confined to making loans and providing their borrowers with a measure of advice and assistance in connection with these loans. However, the Institutes are more project oriented than other lending institutions, and are in other ways more responsive to the general economic policies of the government for the development of the Mezzogiorno. As one example, all the Institutes have been very active in promoting investment in the South and have actively attempted to attract North Italian and foreign capital and technology.

82. At the same time, their approach has been the traditional Italian commercial banking approach, in which creditworthiness and profitability are the ruling criteria. They give more consideration to the prospects of timely repayment, the general business reputation of the borrower and the value of the assets offered as security than to the economic impact of the project to be financed. This approach has kept down their losses (para. 120). However, their security requirements have not so encumbered the assets of their borrowers as to make it impossible for them to obtain funds for working capital or for further expansion. In general, the commercial banking approach has served to protect the assets of the Institutes while meeting the needs of the South well.

83. Although the three Special Credit Institutes are not the only credit institutions lending at subsidized rates for industrial projects in Southern Italy (see para. 16), they have together been the most important source of such loans. Annex 13 which analyzes industrial lending in the region, by lending institution, shows that the Institutes accounted for 45% of the total amount loaned from 1947 through 1963, with IMI accounting for another 40% and all the other credit institutions for the balance. In 1963 alone, the Institutes provided 47% of the Lit. 365 billion (US\$584 million) made available for industry in the South by all credit institutions, IMI about 38% and the other credit institutions the remaining 15%. The three Special Credit Institutes, IMI and the other credit institutions named in the Annex are the only significant source of long-term capital for industry in the Mezzogiorno.

84. Apart from their greater financial dependence on the government, the three Institutes differ from other credit institutions lending for industry in the South in several respects. Each Institute operates in a limited area and is therefore particularly well informed about its condition and problems. Their loan portfolios differ somewhat from those of the other credit institutions in industrial composition: the food processing, textile

and clothing, hides and leather, and paper, printing and publishing industries bulk larger in their portfolios; mining, metallurgy and rubber in those of IMI and the other credit institutions. The chemical, mechanical and building materials' industries are of about equal importance for both groups.

85. On another matter, emphasis on project viability, the view was expressed, especially at the Cassa, that the Institutes place the greatest emphasis on project viability, with IMI ranking next. The implication was that the Institutes ask for more information from their borrowers and require less in the way of security than the other institutions. It was not possible to confirm the correctness of this view with respect to all the other institutions, but there seemed to be little difference between the practices of IMI and the Institutes.

86. Finally, some of the other lending institutions have longstanding banking connections with established firms in the North which could give them an advantage in securing investments and in access to credit information. There is no evidence, however, that these connections have made it difficult for the Special Credit Institutes to carry out their institutional tasks.

#### Lending Policies and Procedures

##### Appraisal of Projects

87. In reviewing the activities of the Institutes, particular attention was given to their appraisal procedures. On the whole they seem sound.

88. Loan applications are submitted on standard forms. They must be accompanied by supporting information, including explanations of the data given on the forms, market forecasts and information on the value of assets. For existing enterprises, financial information is required for the preceding two to three years. The Institutes (or their representative offices) assist the applicants in making applications, but the amount of assistance is taken as some indication of managerial skill.

89. The review of an application normally consists of four stages: (a) a preliminary review to determine whether the project falls into an industrial sector for which the Institutes lend and whether it justifies more detailed appraisal; (b) a detailed technical, financial and economic appraisal, followed by a review by the Technical Consultative Committee<sup>1/</sup>; (c) consideration by the Board of Directors; and, if it approves, (d) the drawing up of the loan contract and the legal covenants between the Institute and the borrower. Dismissals after preliminary review also require Board action.

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<sup>1/</sup> These Committees are unique to the Institutes. Each Institute has a committee composed of outside experts which review the technical and economic aspects of all loan applications before they are presented to the Board of Directors.



90. About one application in two results in a loan. A small number of applications are withdrawn for a number of reasons including, in a very few cases, the amount of information called for and the cumbersomeness of the procedures. For the most part, however, the applicants who do not receive loans have been rejected by the Institutes. The judgment of the Institutes evidently carries considerable weight within the lending community, for few unsuccessful applicants have been able to obtain loans subsequently from other sources.

91. Each appraisal includes a field visit to the project site and a detailed review of the considerable body of information which the applicant is required to supply. The Institutes provide assistance to the applicants in the preparation of final projects: they may help to work out the scope of the projects, the list and sometimes the sources of equipment, layout plans, building designs and the sources and adequacy of financing. Their influence in the preparation of projects is substantial, although they do not impose their views on the borrowers. Finally, as has also already been indicated, the Institutes take account not only of the technical, financial and economic aspects of the projects, but attach great weight also to the business experience and character of the promoter and the management.

92. The appraisal proper is made by three departments which work in close cooperation: the technical department which is responsible for verifying the cost estimates and evaluating the technical and economic merits of the project; the financial department which reviews the borrower's credit standing, the adequacy and suitability of the available sources of financing and, where appropriate, the financial performance of the enterprise; and the research department, which evaluates market prospects.

93. Four to six months normally elapse between the receipt of an application and its approval by the Board, but a longer period may be required for large and complex projects. There is usually another interval of two or three months between the approval of a loan and the signing of the legal contracts. With very few exceptions, contracts are signed for all loans approved by the Board, since the applicants are usually informed of the major terms of the proposed contracts before the loans are submitted for Board approval. As a result, many borrowers consider Board approval sufficient assurance that the loans will be made and begin work on their projects with their own funds. The Institutes have not discouraged this practice, although they are not legally committed until the loan contracts are signed.

94. The Institutes have no formal criteria for evaluating projects, as for example, a minimum rate of return, but their analyses seem thorough and their judgments realistic. Their financial projects are not as detailed as those prepared in the Bank, but are sufficiently detailed to show whether the borrowers can handle debt service requirements and earn a reasonable return on invested capital. At IRFIS and CIS, the projections extend through the third year following the expected date of completion of the project. At ISVEIMER, the estimate covers a normal year of operations, but in order to determine the term of the loan and the grace period, an estimate is made of the time required for the project to reach a normal rate of operation.

95. The loan contracts and security arrangements between the Institutes and their borrowers are discussed in Annex 14. The loan contracts are, with a few exceptions, basically the same as those agreed to by the Bank in connection with the earlier Bank loans which were channeled to Italian industry through the Institutes. The supervision and disbursement procedures of the Institutes are also discussed in Annex 14.

96. The information submitted to the Boards for investment decisions varies in type and amount from Institute to Institute. At ISVEIMER and IRFIS, fairly detailed technical and financial reports are submitted, together with an evaluation and recommendations. The reports provide the type of information given in Bank appraisal reports for industrial projects, in somewhat less detail. At CIS, only a short summary is submitted. At all the Institutes, the Boards are given access to additional supporting information, but rarely make use of it.

97. In deciding on the suitability of individual projects for financing, the Boards necessarily rely heavily on the recommendations of the managements because of the number of projects reviewed at each meeting which is sometimes as great as 50. In addition to reports on the projects themselves, the Boards are given information on the commitments of the Institutes in the industrial sectors in which the projects under consideration fall, the general position of these sectors, past developments in and future prospects of the economy as a whole and other pertinent subjects.

#### Lending Terms and Criteria

98. The most important credit facilities made available to industry by the Institutes are set forth on the following page. They include: (1) long-term financing of (a) fixed assets for new plant or expansion or rationalization of existing plant and (b) initial inventories; and (2) medium-term financing for individual items of machinery and equipment. IRFIS and CIS also offer special medium-term financing for working capital from funds provided by the Autonomous Regions of Sicily and Sardinia. In lending from these funds, the two Institutes act only as agents for the Regions and do not carry any risk. By far the most important facility offered by the Institutes is long-term financing for fixed assets and, to a limited extent, initial inventories, and that activity is described below.

99. The Institutes are authorized to make loans of up to 15 years, divided into three distinct periods: (1) the disbursement period which, except in special cases, is limited to two years; (2) the preamortization period which may not exceed three years; and (3) the repayment period which is a maximum of ten years. ISVEIMER permits interest to accrue during the period of disbursement; the two other Institutes require interest to be paid during this period. None of the Institutes provide in their loans for capitalizing interest during construction.

SUMMARY OF MOST IMPORTANT MEDIUM AND LONG-TERM CREDIT FACILITIES FOR INDUSTRIAL ENTERPRISES IN SOUTHERN ITALY

	<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount of Credit</u>	<u>Terms of Credit</u>	<u>Security</u>
<u>Small and Medium-Size Enterprises</u>	Financing of new plant (including initial inventories) and expansion/rationalization of existing plant.	4% per annum. A 3% rate may be granted for loans up to Lit. 1.0 billion (in exceptional cases up to Lit. 1.5 billion) for new plant and up to Lit. 0.5 billion for expansion/rationalization projects.	Up to 70% of total project cost including plant and initial inventories. Inventories financed may not exceed 30% of total project costs (under new law, limit on inventories financed is raised to 40%).	Maximum, 15 years, including a maximum of 2 years during which disbursements are made and an additional 3 year period during which interest but no principal is paid. <sup>1/</sup>	Mortgage, chattel mortgage and personal guarantees. For loans for new plant not exceeding Lit. 50 million, supplemental government guarantees may be obtained, covering up to 50% of losses.
Excluding cottage-type enterprises, production units in which investment does not exceed Lit. 6 billion (US\$9.6 million).	Special financing of machinery and equipment. <sup>2/</sup>	5.5 - 5.6% per annum.	Up to 75% of expenditures not exceeding Lit. 10 million. (Lit. 15 m. in case of IRFIS).	Maximum 5 years.	Chattel mortgage.
	Special financing of inventories for new plant only. <sup>3/</sup> (Raw materials, semi-finished and finished products).	IRFIS - 4% per annum CIS - 3.5% per annum (for loans of Lit. 25 - 75 million)	Up to 100% of inventories. Maximum of Lit. 75 million.	Maximum 5 years, of which up to one-third as grace period.	Inventories.
<u>Large-Scale Enterprises</u>	Financing of new plant and expansion/rationalization of existing plant.	5%	Up to 50 - 60% of fixed assets.	Normally not exceeding 15 years, but based on life of fixed assets.	Mortgage, chattel mortgage and other guarantees.
Production units in which investment exceeds Lit. 6 billion.					
<u>Enterprises Exporting Agricultural Products</u>	Financing of exports. <sup>4/</sup>	5.6% per annum.	Up to Lit. 100 million for unincorporated single owner enterprises; may be increased to Lit. 200 million for incorporated enterprises or partnerships.	Maximum 15 years, including two years of grace.	Mortgage, chattel mortgage and other guarantees.

<sup>1/</sup> In the case of loans made by ISVEIMER, interest accrues on loans during the disbursement period; in the case of IRFIS and CIS, interest is payable during the disbursement period as well as the following three years.

<sup>2/</sup> Under a decree published in the official Gazette of March 15, 1965, the Institutes are authorized to finance through December 31, 1966 up to 85% of the cost of machinery up to a maximum of Lit. 100 million.

<sup>3/</sup> With funds supplied by the Regions of Sicily and Sardinia inventory financing is handled mainly by commercial banks.

<sup>4/</sup> In addition to all facilities listed above.

NOTE: Unsubsidized industrial medium and long-term credit is presently available at about 8%.

100. In setting the length of the disbursement and preamortization periods all the Institutes now give their borrowers as much margin as possible, and in the last few years, the duration of loans has tended to amount to 13 - 15 years. Before 1959, loans could not be made for more than ten years, and repayment had to start almost as soon as construction was completed. These conditions proved unduly onerous and a considerable amount of rescheduling of amortization became necessary.

101. The rates of interest on loans are fixed by the Boards of Directors of the Institutes within the limits established by the Interministerial Committee for Credit and Savings. The minimum rates (see page 26) are 4% per year for small and medium-scale enterprises, which by legal definition are production units in which capital investment does not exceed Lit.6.0 billion (US\$9.6 million equivalent), and 5% for large-scale enterprises. The interest rate may be further reduced to 3% for small loans to enterprises in specified industrial sectors meeting certain criteria (see page 26). Even if it were possible for industrial firms in the South to issue their own bonds--and this is generally not the case--the cost of borrowing would amount to about 8%. Thus, the Institutes provide funds at about 3% to 4% under the market rate, or even more in the case of small loans.

102. Loans are limited to 70% of project costs (which cover land, buildings, machinery, equipment, essential services and initial inventories); the inventory component may not exceed 30% of project costs (40% under the new Cassa bill). Few loans actually reach these limits, as the following table shows.

	<u>Project Cost</u>			<u>Percentage Financed by Institutes</u>	
	<u>Initial</u>		<u>Total</u>	<u>Fixed Assets and</u>	
	<u>Fixed Assets</u>	<u>Inventories</u>		<u>Fixed Assets</u>	<u>Initial Inventories</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
ISVEIMER	71.5	28.5	100.0	54.7	42.7
IRFIS	84.9	15.1	100.0	49.2	41.8
CIS	87.4	12.6	100.0	62.1	54.3

On the average, IRFIS has financed less than 50% of fixed assets, ISVEIMER about 55% and CIS 62%. The concentration of IRFIS and CIS on the capital-intensive chemical industry which was commented on above is shown by the relatively large proportion of the total costs of the projects which they have financed that is accounted for by fixed assets.

103. Institute loans for inventories have been modest, and IRFIS and CIS have for the most part used special regional funds for that purpose. Lending for inventories and other working capital has traditionally been the province of the commercial banks, especially those which are shareholders of the Institutes. The capital grants given by the Cassa and the Regions provide an additional source of working capital for the borrowers because, although the amounts of the grants are based on the cost of fixed

assets, payments are not made until after completion of the projects. The Institutes do not expect to increase their financing of inventories, except where other sources of financing are inadequate.

104. There is no upper limit for Institute loans. The lower limit is Lit. 5.0 million (US\$8,000), but the average size of loans of less than Lit. 50 million has been over three times the minimum. As noted in para. 70, a large percent of the total number of loans has been made for small amounts, and the handling of such a large number of small loans places a great burden on the staffs of the Institutes.

105. The Institutes are not authorized to lend, except from regional funds, to cottage-type industries, which are defined in Italy as establishments in which the proprietors are technical workers or which, with certain exceptions, employ fewer than ten workers.

106. Although one important aim of the program to industrialize the South is the absorption of its excess labor, the mission found no evidence either of pressure on the Institutes to give preference to labor-intensive industry or of their giving such preference. They appear to give weight primarily to the efficiency and competitiveness of their borrowers.

107. All industries are eligible for loans. The Institutes have in fact financed as "industrial projects" a few projects in transport (primarily trucking) and public utilities (mostly projects connected with industrial complexes). However, investments in these field have amounted to less than 1% of total loans (Annex 11).

108. To the end of 1963, 69% of the total amount loaned and 44% of the number of loans made by the Institutes were for new plant. Nevertheless, the Institutes do not show any preference for projects for new plant as against expansion nor is there any indication of a trend towards one or the other type of project. There is some indication, however, that in discussing loans with borrowers, the Institutes often recommend construction in stages, and indicate that they are prepared to give favorable consideration to subsequent applications for justifiable loans for expansion of new plants which they have financed. In general, they expect the relative importance of loans for expansion to increase.

109. The Institutes do not make any distinction between private and state-owned enterprises in principle. In practice, however, the latter would ordinarily look to IMI for financing. Only ISVEIMER has made loans to enterprises of the national government; about 12% of its loans have gone to such enterprises. CIS has made one loan to an enterprise owned by the Region of Sardinia.

110. Apart from projects for which the European Investment Bank has made loans, the Institutes have been the sole source of loan funds for projects which they have financed. The EIB loans, with the exception of the first two and the loan to FINSIDER were relaned for projects for which the Institutes were also making loans; about 60% of the loan requirements were usually covered by EIB funds.

### Organization and Management

111. The organizations and managements of the Institutes are described in Annex 15; the Annex also includes a typical organization chart and brief descriptions of the staffs of the Institutes and the functions and powers of the Shareholders' Assembly, the Board of Directors, the Board of Auditors and the Technical Consultative Committee.

112. The mission's review of the organization of the Institutes, and especially of the managements and staff, was necessarily limited, but the following major conclusions seem warranted. The organizations of the Institutes are satisfactory, and their managements and staffs are capable of performing their principal functions: the promotion of the industrialization of the regions in which they operate; the evaluation of the financial, technical and economic aspects of projects; the drawing up of effective loan contracts; the proper administration and supervision of loans; and the efficient administration of their own organizations and accounts.

113. On the whole, the quality of the top and middle management, which includes a group of fairly young men, is impressive. The three Institutes differ in the degree to which authority is delegated and the work of the departments is coordinated, but in general, detailed operational procedures in all three seem well established, and the Institutes appear to function smoothly. In one Institute where there seemed to be a particular need for expansion and strengthening of staff, corrective measures have already been taken.

114. Between 1959 and 1963, the lending volume and number of projects approved by ISVEIMER increased eight-fold, IRFIS's doubled and CIS's increased about six times. In the same period, the staffs of ISVEIMER and IRFIS were each increased by about 50% and that of CIS by about 90%. The achievement of the Institutes in handling their growing work load without a significant reduction in depth of review or follow-up of projects is noteworthy.

115. ISVEIMER has the smallest staff in relation to its work load, but makes extensive use of outside technical consultants; it has about 50 to call on. IRFIS and CIS make much less use of consultants, although the technical department of CIS, in particular, seems understaffed. All three Institutes will need more staff in the next few years because there is likely to be an increase in the number of projects under construction and of outstanding loans while at the same time the need for project supervision is likely to be intensified because of increased competition and a resulting pressure on profit margins. Greater competition will also increase the need for evaluation of market prospects. Additional senior professional staff may prove difficult to secure, but the recruitment of younger men who can be trained for work in the organizations should offer no problems.

Financial Resources, Disposition of Funds and Financial Position

116. All three Institutes have access to the same sources of capital, but they differ considerably in their ability to call on these sources and the relative importance of each to them. Their five basic sources of capital are: (1) their endowment funds (40% of which were provided by the Cassa); (2) funds made available by the Treasury which include its capital contributions and long-term loans; (3) funds made available by the Cassa which include loans from its foreign borrowings and the interest on loans made by IMI from the lire proceeds of aid granted to Italy under the European Recovery Plan (ERP) which were transferred by the Treasury to the Cassa and in turn made available by it to the Institutes; (4) bonds issued by the Institutes on the domestic capital market; and (5) earnings and repayments of principal on their own loans. The Cassa can also advance funds to the Institutes temporarily on account of bonds whose issuance has been approved by the Interministerial Committee for Credit and Savings. The Institutes' two principal sources of loan capital have been their bonds, which have made up 47% of the total, and the funds supplied to them by the Cassa, mainly from its foreign borrowings, which have constituted 42%. The sources and disposition of Institute funds and a discussion of the differences in the ability of the three Institutes to call on each source and particularly to issue bonds, are included in Annex 16. Comparative Balance Sheets and Income Statements for the three Institutes are given in Annexes 17 and 18.

117. The capital structures of the Institutes as at October 31, 1964 are shown in the following table:

	<u>ISVEIMER</u>		<u>IRFIS</u>		<u>CIS</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
	-----		(Billion Lire)		-----	
<u>EQUITY</u>						
Endowment Fund	5.0	1.5	4.0	3.5	3.0	3.2
Special Fund						
Capital Contributions:						
Cassa	14.4	4.3	6.7	5.9	2.2	2.3
Regional Funds	-	-	2.0	1.8	2.3	2.4
Earned Surplus	<u>1.6</u>	0.5	<u>0.4</u>	0.3	<u>0.5</u>	0.5
	16.0	4.8	9.1	8.0	5.0	5.2
Revolving Fund-Equity <sup>1/</sup>	<u>10.2</u>	3.1	<u>4.8</u>	4.3	<u>1.7</u>	1.8
Total Equity	<u>31.2</u>	9.4	<u>17.9</u>	15.8	<u>9.7</u>	10.2
<u>DEBT</u>						
Advances by Cassa	-	-	21.0	18.7	3.5	3.8
Domestic Borrowings	213.3	64.4	2.3	2.0	37.7	39.8
Revolving Fund-Debt <sup>2/</sup>	20.0	4.6	9.5	8.4	3.2	3.4
Long-term Debt through Cassa from:						
IBRD	31.7	9.6	37.8	33.4	5.0	5.2
EIB	27.0	8.2	12.9	11.4	32.0	33.9
Cassa Bond Issues	<u>12.5</u>	3.8	<u>11.6</u>	10.3	<u>3.5</u>	3.7
Total Long-term Debt through Cassa	<u>71.2</u>	21.6	<u>62.3</u>	55.1	<u>40.5</u>	42.8
	<u>304.5</u>	90.6	<u>95.1</u>	84.2	<u>84.9</u>	89.8
Total Equity plus Debt	<u>335.7</u>	100.0	<u>113.0</u>	100.0	<u>94.6</u>	100.0

<sup>1/</sup> Based on capital contributions from the Treasury.

<sup>2/</sup> Based on long-term loans from the Treasury out of European Recovery Plan funds.

118. The equity of the Institutes is only a small fraction of their capitalization, and its relative importance is not likely to increase significantly in the next few years, even though Parliament has approved a capital contribution from the Treasury of Lit. 175 billion (US\$280 million) over the next five years. The Institutes will have to borrow considerably larger amounts at home and abroad if they are to continue lending at their present high rate.



119. Their financial structure has evidently not impaired their ability to obtain loans in the past, and seems unlikely to do so in the future. In the domestic market, they derive their strength from their position as public interest entities, having the full support of the government; this is enhanced by their financial record. Moreover, the high priority which the government accords them places them in a relatively good position to tap the market. They have access to foreign funds through the Cassa which can count on a government guarantee. As far as the foreign lenders are concerned, the capacity of the Institutes to administer loan funds is likely to be judged by the ability they have shown in appraising and selecting projects rather than their financial structure, which is merely a manifestation of their special character.

#### Financial Evaluation of the Institutes' Portfolios

120. It was not feasible to examine individual projects financed by the Institutes either in the field or on paper. Their loss and default records have therefore provided the only gauge of the financial viability of these projects. Based on the data given in Annex 19 which analyzes the losses, defaults and reserves of the three Institutes, it seems fair to conclude that their portfolios are on the whole sound. Their losses have been negligible to date, default rates have been low and reserves seem adequate. It must be remembered, however, that the surge in Institute lending began in 1960 and that few of the loans made after that date are yet subject to repayment, because the average grace period for loans made since 1959 has been a little over four years. Thus the evaluation of their portfolios rests on a relatively narrow base.

121. The Bank expects to follow the loss, delinquency and default records of the Institutes carefully. Its reporting requirements will include periodic statements on these important indicators of the results of Institute activities.

#### Cash Flow Forecasts

122. Estimates of the financial requirements of the three Institutes and of the funds likely to be available to them (excluding the proposed Bank loan) from April 1, 1964 to September 30, 1966, and the assumptions on which the estimates are based, are given in Annex 20. A summary is given below (in billion Lire):

April 1, 1964 - September 30, 1966

	<u>ISVEIMER</u>	<u>IRFIS</u>	<u>CIS</u>	<u>TOTAL</u>
<u>SOURCES</u>				
Earnings and Repayments of Principal	20.1	20.2	4.5	44.8
Balance of Sources Presently Available (Domestic Bonds, Treasury Funds, Cassa Borrowings)	76.3	11.7	40.4	128.4
Sources Expected to Become Available:				
Domestic Bond Offerings	54.5	9.0	9.2	72.7
Treasury Funds	58.7	27.9	9.6	96.2
European Investment Bank	4.9	2.5	0.8	8.2
Total New Sources	<u>118.1</u>	<u>39.4</u>	<u>19.6</u>	<u>177.1</u>
TOTAL SOURCES	<u>214.5</u>	<u>71.3</u>	<u>64.5</u>	<u>350.3</u>
<u>APPLICATIONS</u>				
Repayment of Debt	11.9	36.3	5.9	54.1
Disbursements to Borrowers:				
Existing Commitments	147.9	25.4	61.3	234.6
Unsigned Commitments	75.7	25.0	40.7	141.4
New Commitments	<u>69.1</u>	<u>11.5</u>	<u>24.3</u>	<u>104.9</u>
Total Disbursements to Borrowers	<u>292.7</u>	<u>61.9</u>	<u>126.3</u>	<u>480.9</u>
TOTAL APPLICATIONS	<u>304.6</u>	<u>98.2</u>	<u>132.2</u>	<u>535.0</u>
Surplus (Deficit) at Beginning of Period	49.1	8.0	15.1	72.2
Increase (Decrease) During Period	(90.1)	(26.9)	(67.7)	(184.7)
Surplus (Deficit) at End of Period	(41.0)	(18.9)	(52.6)	(112.5)
Surplus (Deficit) at End of Period (Million US\$)	(65.6)	(30.2)	(84.2)	(180.0)

123. The estimates were made in the light of the situation as at the end of November 1964; however, the changes which have occurred since that date would not make any significant revisions necessary. The estimates indicated that, on conservative assumptions as to new lending, the funds which the Institutes could reasonably count on (excluding the proposed Bank loan) would fall short of requirements by Lit.112.5 billion (US\$180 million equivalent). The estimate of disbursements to borrowers included, in addition to the Lit.234.6 billion to cover existing commitments, the large amount of Lit.141.4 billion (US\$226 million) to be disbursed against loans which had been approved by November 30, 1964 but for which contracts had not yet been signed, mainly because of lack of funds, and a smaller amount of Lit.104.9 billion (US\$168 million) to be disbursed against additional loans expected to be made during the period covered.

124. The estimate of disbursements for these additional loans was arrived at as follows. Based on past experience, it was estimated that about half the loan applications in various stages of appraisal at the end of November 1964 (Lit.354 billion or US\$566 million equivalent) would result in loans. It was assumed that all of these loans would be made in 1965, that no other new loans would be made in that year and that disbursements against them would start in the fourth quarter and run over two years. In 1966, it was assumed that new loan commitments would be made for an amount equal to about three-quarters of the average for 1962 and 1963, and that disbursements against these commitments would begin in the second quarter and continue for two years. The gap between expected sources and applications would not be affected significantly if new commitments in 1966 should exceed the estimates because only a small part of the disbursements against these loans would be made in the projection period.

125. The estimate gives only an order of magnitude of the potential requirements of the Institutes for loan funds in the period covered. Some of the projects which had been approved for loans (subject to the availability of funds) could be given up by the promoters. Growing competition in some of the industrial sectors could increase the rejection rate above the past figure of 50%. On the other hand, the assumption that the Institutes would make no loans in 1965 over and above one-half of those under appraisal at the end of November 1964 is probably conservative. On balance, the estimate of Institute requirements for loan funds in the period ending September 30, 1966 may well be on the low side.

126. The estimate of the funds likely to be available to the Institutes during the projection period is even more tentative than the estimate of requirements, but seems reasonably realistic. No increase in the Endowment Funds has been assumed; there are no indications that the participants intend to increase them. No transfer of interest on IMI/ERP loans has been assumed. Legislation would be needed to give the Cassa renewed access to repayments of these loans and to transfer the interest portion to the Special Funds of the Institutes. No proposal to that effect has been made, and there is no indication that any will be made. There remain then, four sources - interest and principal repayments on Institute loans which will continue to be absorbed by debt service in the period covered, domestic bond offerings, Treasury contributions and the Cassa's foreign borrowings.

127. A Treasury contribution of Lit.175 billion (US\$280 million) to be made available to the Institutes over the five year period January 1965-December 1969 was voted by Parliament in early 1965. It has been assumed in the projections that Lit.96.2 billion (US\$154 million) of the contribution would be made available in the projection period. Since the amount voted by Parliament is several times the amount given to the Institutes by the Treasury since 1953, it seems unlikely that any additional funds will be made available from that source during the period covered.

128. The Cassa's foreign borrowings, apart from the proposed Bank loan, could include loans from the European Investment Bank and bond issues to be floated on the capital markets of Europe or the United States. The Institutes have been receiving loans from the EIB through the Cassa at an annual rate of about US\$38 million equivalent in the past three years, but there is good reason to believe that the flow will slacken. Up till now, Italy has been the principal recipient of EIB loans. To the end of November 1964, it had received US\$245 million (about 65% of all EIB loans made to that date) of which about US\$213 million (87%) was used for projects in the Mezzogiorno, including about US\$128 million (over half the total amount loaned to Italy) reloaned by the Cassa to the Institutes.

129. At present the EIB is extending the scope of its operations beyond the Common Market countries to the Associated States, such as Greece. In addition, it has indicated that it intends to direct a larger share of its lending to Italy to large State-owned enterprises and to agriculture. It did not seem realistic, therefore, to assume that the Institutes would obtain more than US\$15-\$20 million equivalent a year from the EIB in the next few years, and the projections assume EIB lending at an annual rate of US\$17.5 million, to be drawn down over a two year period.

130. Because of the U.S. interest equalization tax and the high cost of borrowing and congestion in the European capital markets, it seems unlikely that the Cassa can obtain substantial amounts on either. Moreover, there is a growing demand for the Cassa to use its borrowing power for purposes other than the financing of the Institutes (e.g. direct lending to State-owned enterprises). The Cassa's most recent bond issue (US\$20 million equivalent) which was floated in Europe earlier this year went to finance a thermal power plant in Sardinia. The Cassa has tentative plans to issue the equivalent of US\$120-\$160 million in bonds on foreign markets during the next five years, but no plans yet as to the allocation or timing of the issues. Because of the uncertainties attached to this source of funds, no amount has been included in the projection.

131. The only remaining significant source of funds (apart from the proposed Bank loan) is, therefore, the domestic bond market. This is the most difficult source about which to make any predictions. The market is basically thin and already congested; there seems to be a shortage of capital for long-term investment. However, the bonds of the Institutes rank, with those of IMI and other credit institutions, next to government securities in investment stature, and the Interministerial Committee for Credit and Savings, which regulates the issuance of securities, has always assigned a high priority to them.

132. At the end of 1964, the Committee had authorized bond issues of Lit.56 billion by IRFIS and Lit.22 billion by CIS, and both Institutes had started offering procedures for the issuance of Lit.10-11 billion. These issues were expected to be for 15 years at an interest rate of 6% and a yield of about 7%, and were expected to be made in the first half of 1965. These amounts and identical amounts of bonds to be floated in 1966 are included in the projections. ISVEIMER had not been authorized to issue any additional bonds at the end of 1964, but two issues of Lit.30 billion each were included in the projection because this has been the consistent pattern

of its offerings in the last few years. An issue of Lit.30 billion was, in fact, made in early May; 6% 15 year bonds were issued at 94½, yielding 6.80% to the investor.

133. The uncertainties of the market make it very difficult to predict the exact amounts that the Institutes can raise in 1965 and 1966. Late in 1964, they tended to be pessimistic about their prospects. In view of other needs for financing that must be met from the domestic market, it seems unlikely that the Institutes will be able to raise more than the Lit. 50 billion a year through bond issues which have been assumed in the projections. That view is shared by the Cassa.

134. The projections suggested that unless additional funds became available the tightness of loan funds which has affected all the Institutes, and particularly IRFIS and CIS, since mid-1964 would become acute by the second quarter of 1965. The latest information indicates that the situation has developed as anticipated. The institutes can, of course, obtain temporary relief through advance payments of the portions of the Treasury contribution due at later dates and deferment by the Cassa of repayment of its advances beyond March 31, 1965, the date assumed in the projection. The Cassa has in fact agreed to a deferment, and the Italian authorities have indicated that needed relief would continue to be given so far as possible.

135. However, these are only temporary expedients. The Institutes cannot continue lending in the next 18 months even at the rather conservative rate assumed in the projection, unless they can obtain long-term financing over and above the amounts that would be available from all sources, excluding the proposed Bank loan. Unless additional long-term financing becomes available, they are bound to slowdown signing contracts for loans which they have approved as meeting their standards. Such a slowdown could seriously retard the industrial development of the South, since there is no assurance that some of these projects will not be abandoned if their execution is postponed for a relatively long time.

CHAPTER IV

ADMINISTRATION OF THE LOAN

136. The Bank loan would be made to the Cassa per il Mezzogiorno with the guarantee of the Republic of Italy. The Cassa would pass on the loan proceeds to the three Institutes in the following proportions: ISVEIMER, 55; IRFIS, 25 and CIS 20.

137. The Bank has not made, nor does it intend to make, appraisals of the projects to be financed out of the proposed loan, as it did in connection with its earlier loans to the Cassa. The Institutes have demonstrated their ability to select projects and administer loans. They would be fully responsible for the selection, appraisal and follow-up of the projects for which the loan proceeds are to be used.

138. The Bank has, however, agreed with the Cassa that certain criteria will be applied in the selection of projects to be financed under the proposed loan. There will be upper and lower limits for project size; the projects will be confined almost entirely to the field of manufacturing; and finally, selection will be limited to projects of high economic priority which seem likely to be carried out quickly and efficiently.

139. Some of the loans which the Institutes have approved and which are now ready for signing are for projects involving investments of up to the equivalent of US\$25 million. It did not seem desirable to have such large projects financed out of the proceeds of the proposed loan. The aim is to secure a broad distribution of the loan proceeds; moreover, it is known that it is possible to obtain financing more easily for such large projects than for smaller projects from other sources, including the European Investment Bank which appraises projects individually. The lower limit was set mainly to facilitate loan administration. The size limits were obviously not set for economic reasons, and it is not intended that they should be applied rigidly.

140. Applying the indicated criteria, a list of projects to be financed out of the Bank loan was prepared by the Institutes and the Cassa and was given to the Bank in May 1965. A Bank representative subsequently discussed the list with the Cassa in Italy. The list agreed on contains 185 projects with total loan requirements of US\$132 million. All projects on the list will be eligible for financing under the loan up to the limit set for each Institute. Since the list includes projects with loan requirements of about US\$70 million equivalent which had already been approved by the Boards of the Institutes by the end of May 1965 and most of the remaining projects are expected to be approved (to the extent that financing is available) by the end of July, the list would seem to provide enough projects for rapid utilization of the proceeds of the loan. However, to permit the Institutes further flexibility, the Bank has indicated that it would not object to their financing projects not included on the list in place of some on it. They would be expected to supply the Bank through the Cassa with basic information for these additional projects similar to the in-

formation they supplied for the projects on the list. This information is not sought to enable the Bank to pass judgment on the merits of the projects, since, as has been indicated, it does not intend to do so, but to serve as a basis for later evaluation of the effects of the loan.

141. Annexes 21 and 22 analyze the projects on the list by Institutes, sector and size of loan. Although there are great variations from Institute to Institute in the loan requirements of the various industrial sectors, overall, the chemical, metal processing and general engineering industries are by far the most important, accounting for about 45% of total loan requirements. ISVEIMER and IRFIS's projects are well distributed by size. CIS, for reasons given earlier in the report, still shows a heavy concentration on relatively large projects. Total sales of all projects listed are estimated at about US\$450 million; the total number of jobs to be provided by them is estimated at about 18,000. The projects are about equally divided between new plants and expansions. The loans to be made for fixed assets and inventories amount on the average to about 55% of total project costs, including initial inventories; the percentages for ISVEIMER, IRFIS and CIS are respectively 59%, 51% and 55%.

142. The Bank would not follow up individual projects. Its supervision of the loan would be limited to determining that its funds were on the whole being used efficiently and effectively. To that end, it would follow the Institutes' general performance closely, paying particular attention to their defaults and losses, changes in their lending policies and the impact of their lending activities on the industrial economy of the Mezzogiorno. The Bank would expect to examine the reasons for project successes and failures and compare the results for projects financed out of the proceeds of the loan with those for other projects financed by the Institutes.

143. It is proposed that the Bank loan be made to the Cassa for 15 years, including a grace period of four years, to coincide with the average grace period of the sub-loans. The schedule of Institute repayments to the Cassa would correspond to the amortization schedule of the proposed Bank loan. The Institutes would be free to reinvest repayments by sub-borrowers. As provided by law, the Treasury would bear the exchange risk. The Cassa would relend the lire equivalent of the Bank loan to the Institutes at an interest rate not exceeding 3.55%. The Treasury would reimburse the Cassa for the difference between the rate and the rate it would pay on the Bank loan and for other charges. The Institutes would relend the loan proceeds at 4%. That would give them a spread of at least 0.45%, which is the spread they have received on the relending of foreign loans in recent years. Since the Institutes receive a spread of over 1.00% on loans made from domestic bond issues and the Treasury allocation and, in addition, recover a part of the cost of appraisal from their borrowers, the Bank is satisfied that their overall earnings will give them sufficient margin to administer the loan proceeds properly. The Treasury representative also indicated during negotiations that interest spreads on loans from all major sources of the Institutes would be adjusted so as to provide the Institutes with adequate operating funds.

144. It is estimated that not over 10-15% of the proceeds of the proposed Bank loan would be utilized for expenditures in foreign exchange, mainly for imports of special machinery. It is not proposed to insist on international procurement. The Bank is satisfied that the Institutes see to it that goods purchased with the proceeds of their loans are of satisfactory quality and are procured at the lowest price, regardless of source. According to information supplied by the Cassa, a large proportion of the industrial projects in the Mezzogiorno which have received Cassa aid use some foreign machinery. There are no restrictions on imports into Italy, and machinery imported for use in the South is exempt from tariffs. Industrial firms in the region receive a capital grant amounting to 10% of the cost of machinery produced in Italy outside of the Mezzogiorno, and 20%, if the machinery is produced in the region.

145. As in earlier Bank loans, disbursements would be made to the Cassa against certification by it that the funds had been applied for projects eligible for Bank disbursement. The certification would be made on the basis of evidence supplied by the Institutes. The Cassa would send the Bank advance estimates of disbursements on the projects, to be adjusted every two months, in line with actual disbursements, at the time when the next advance is made. It is estimated that most of the loan will be disbursed by the end of 1967, with some disbursements on the larger projects running over into 1968.



V. LEGAL ARRANGEMENTS

146. The following provisions should be included in the loan documents:

1. The proceeds of the Bank loan to be used effectively and efficiently for industrial enterprises: the projects to be selected and the loans administered by the Institutes according to sound banking, technical and financial standards.
2. The loan agreements between the Cassa and the Institutes to be satisfactory to the Bank.
3. The standard provisions of the subsidiary loan agreements between the Institutes and their borrowers to be satisfactory to the Bank. The Cassa and the Bank to be given the right to inspect the Institutes and the projects which receive financing from the proceeds of the loan.

VI. CONCLUSION

147. Demand for industrial credit in Southern Italy is growing rapidly. Past investments in infrastructure and basic industries have established a foundation for the development of medium and small-scale industry processing the semi-finished products of the basic industries and supplying the wide variety of goods needed in a developing economy. The prospects for the development of a self-sustaining industry in the South seem promising.

148. The proposed loan would assist the government in carrying out its industrialization program by helping to meet the requirements of the three Special Credit Institutes--ISVEIMER, IRFIS and CIS--for funds for long-term industrial lending over the next two years. The Bank loan would help to fill a gap which, even assuming a reduction in the rate of lending of the Institutes below the level of the past three years, cannot be covered from any other foreseeable domestic or foreign sources.

149. The project and the arrangements to channel funds through the Institutes to industry in Southern Italy are sound and would be a suitable basis for a Bank loan of US\$100 million equivalent to the Cassa per il Mezzogiorno for a term of 15 years including a grace period of four years.

June 10, 1965

Alphabetical List of Principal Agencies Concerned  
with the Industrialization of Southern Italy

Comitato dei Ministri per il Mezzogiorno	- Rome, Via Boncompagni 30.
Comitato Interministeriale del Credito e del Risparmio	- Rome, Via Nazionale 91.
Ministero dell'Industria e del Commercio	- Rome, Via Vittorio Veneto 33.
Ministero del Tesoro	- Rome,
Cassa per le opere straordinarie di pubblico interesse per l'Italia meridionale - Cassa per il Mezzogiorno	- Rome, Palazzo dei Congressi 20.
* Associazione per lo Sviluppo dell'Industria nel Mezzogiorno, SVIMEZ	- Rome, Via di Porta Pinciana 6.
Banca centrale di credito popolare, CENTROBANCA	- Milan, Corso Europa 18.
Banca di credito finanziario, MEDIOBANCA	- Milan, Via Filodrammatici 10.
Banca d'Italia	- Rome, Via Nazionale 91.
Banca Nazionale del Lavoro, Sezione autonoma per l'esercizio del credito alberghiero e turistico	- Rome, Via Vittorio Veneto 119.
Banca Nazionale del Lavoro, Sezione speciale per il credito alle piccole e medie industrie	- Rome, Via Vittorio Veneto 119.
Banca per finanziamenti a medio termine, INTERBANCA	- Milan, Via Montenapoleone 23.
Banco di Napoli, Sezione di credito fondiario	- Naples, Palazzo San Giacomo.
Banco di Napoli, Sezione di credito industriale	- Naples, Palazzo San Giacomo.
Banco di Sicilia, Sezione di credito fondiario	- Palermo, Via Roma 185.

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\* Those marked with an asterisk are discussed in more detail in this Annex below.

Banco di Sicilia, Sezione di credito industriale	- Palermo, Via Roma 185.
Credito Industriale Sardo, CIS	- Cagliari, Corso Vittorio Emanuele 68.
Ente Finanziario Interbancario, EFIBANCA	- Rome, Via S. Nicolo da Tolentino 5.
Ente Nazionale per l'Artigianato e le Piccole Industrie, ENAPI	- Rome, Via Vittoria Colonna 39.
* Nuove Iniziative per il Sud, INSUD	- Rome, Via Bissolati 72.
Istituto Centrale per il Credito a Medio Termine a Favore delle Medie e Piccole Industrie (Mediocredito)	- Rome,
Istituto di credito per il finanziamento a medio termine alle medie e piccole imprese del Lazio (Mediocredito del Lazio)	- Rome, P. Belle Arti 2.
Istituto di credito per il finanziamento a medio termine alle medie e piccole imprese delle Marche	- Ancona, Corso Stamira 61.
Istituto di credito per il finanziamento a medio termine alle medie e piccole imprese della Toscana	- Florence, Via Martelli 8.
Istituto Mobiliare Italiano, IMI	- Rome, Via Quattro Fontane 121.
* Istituto per l'Assistenza allo Sviluppo del Mezzogiorno, IASM	- Rome, Via Collina 27.
* Istituto per lo Sviluppo delle Attivita Produttive, ISAP	- Rome, Via Sardegna 40.
Istituto per lo Sviluppo Economico dell'Italia Meridionale, ISVEIMER	- Naples, Via S. Giacomo 19.
Istituto Regionale per il Finanziamento alle Industrie in Sicilia, IRFIS	- Palermo, Via Generale Magliocco 1
* Societa finanziaria sarda, FINSARDA	- Cagliari, Via Sassari 77.
* Societa finanziaria siciliana di investimenti industriali, SOFIS	- Palermo, Via M. Stabile 182/A.
Societa per le Esportazioni e le Importazioni, SPEI	- Rome, Via del Tritone 132.

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\* Those marked with an asterisk are discussed in more detail in this Annex below.

INSUD, Rome

The Nuove Iniziative per il Sud-Societa per Azioni (INSUD) was established in 1963. It has an authorized capital of Lit. 10 billion (US\$16 million equivalent). One-third is owned by the Cassa per il Mezzogiorno, another third by Breda Finance of Milan, a government holding company and the remainder is held by a number of banks including ISVEIMER and IMI. The function of INSUD is to take equity participations in industrial enterprises on the mainland of Southern Italy.

There is no statutory limitation on the equity position which INSUD may hold in an enterprise, but to date it has taken 50% share participations in every case. Besides purchasing shares, it has loaned money in the form of shareholders' advances to some of the companies in which it has invested. Since its staff consists of only four people, INSUD draws heavily upon the expertise of Breda. Its actual participation in management has been limited to the appointment of directors and management personnel. INSUD is interested in playing an active promotional role: one of its first investments was a joint venture with a Japanese firm.

By the end of 1964, INSUD had committed about Lit. 9 billion in the form of equity participations and shareholders' advances for projects involving a total investment of Lit. 55 billion. It appears to have limited its participations so far to projects which have received medium or long-term loans from ISVEIMER and IMI--about 60% from ISVEIMER and about 40% from IMI. INSUD has enough projects under consideration to commit its present sources of finance fully. It can secure additional funds either through the issue of bonds, which it is authorized to do, or through subscriptions by its shareholders to additional stock.

So far, INSUD appears to have acted rather as a holding company than as a development finance company, and this is likely to continue to be the case for some time to come. This is due partly to its self-imposed limitation to 50% participations and partly to the limited availability of funds. Despite these limitations and although it is early to judge, INSUD seems to have made a fairly good start.

ISAP, Rome

The Istituto per lo Sviluppo delle Attivita Produttive (ISAP) is an investment company organized to promote and assist financially sound enterprises which have a high development potential and can serve the national

economy. It provides minority share capital--as a rule not over 30%--to industrial enterprises, particularly those located in Southern Italy or other economically underdeveloped areas in Italy. It is prepared to sell its participation to the majority shareholders at any time.

The Institute was created in 1954 by the Banca Nazionale del Lavoro and IMI, but did not begin active operations until 1962. In 1960, a majority interest (about 54%) was purchased by IRI, the state-owned Institute for Industrial Reconstruction. About 32% is now held by a number of banks including IMI, the largest shareholder in this group, together with Banca Nazionale del Lavoro, the Banco di Napoli and Banco di Sicilia. The balance is held by the Mediobanca. ISAP's share capital amounts to Lit. 3.0 billion (US\$4.8 million).

ISAP's policy is to leave control with the majority shareholders, but it reserves the right to appoint its own representatives to the Board of Directors and to the Board of Auditors, and to inspect the company's plants and books.

In the first years after IRI purchased control, ISAP built up its staff. It now has a staff of 60 persons, all of whom are experienced and 40 of whom are university graduates. Its active operations began at the very time when the Italian boom began to level off. Its activities have therefore been limited both by its inability to raise money on the tight capital market and by unfavorable business conditions.

To date, the Institute has examined about 700 applications, but has taken participations in only about 40 companies. Its total participations amounted as at December 31, 1963, to Lit. 5,545 million (US\$8.9 million). The capital of the companies in which ISAP holds participations amounts on the average to Lit. 400 million (US\$640,000) and ranges from Lit. 20 million (US\$32,000) to (one company of) Lit. 1,000 million (US\$1.6 million).

ISAP's present reluctance to purchase participations is reinforced by the poor condition of the firms in which it now holds stock, half of whom are in difficulties. At present, it is interested in investing only in new firms in Southern Italy. In the near future, however, it is likely to begin considering investing also in older firms which are in difficulties, with a view to promoting orderly liquidation in some cases and to preserving firms where this is feasible.

#### SOFIS, Palermo

The Societa Financiera Siciliana per Azioni (SOFIS), was established in 1958 for the purpose of taking equity participations in both private and public industrial enterprises in Sicily. Its original paid-in share capital was Lit. 6.75 billion (US\$10.8 million), contributed by the Region of Sicily, which is required by the SOFIS statute to be the majority

shareholder, the Banco di Sicilia, IRFIS and several other financial institutions, as well as a number of industrial enterprises including Montecatini, Fiat and Edison. At present, SOFIS' share capital amounts to Lit. 32.5 billion (US\$52.0 million). Up to now, share capital has been SOFIS' only source of finance and all additional capital has been supplied by the Region of Sicily. The Sicilian Region now holds 85% of the capital of SOFIS, and is expected to increase its share gradually. IRFIS' share in SOFIS is now only about 4%.

As at the end of 1963, SOFIS had participations totalling about Lit. 8.72 billion (US\$14.0 million) in 60 enterprises, mostly private and mainly in the metalworking, agricultural machinery and chemical and petrochemical industries. SOFIS' participations amount on the average to about 50% of the share capital of the companies in which it has invested but ranges from 10% to 99%. Its participation in private enterprises is limited to 25%, but may go up to 99% in companies in which the Sicilian Region holds even a nominal interest.

SOFIS was originally intended to provide equity capital only, but its scope has broadened considerably. It is now empowered also to make medium and long-term loans, to function as a savings bank and carry on other banking activities. By the end of 1963, it had outstanding loans almost equal in amount to its participations, and it expects its loan activities to increase more rapidly than its investments in share capital in the future. An early limitation permitting SOFIS to make loans only to enterprises in which it has an equity interest has recently been removed.

So far, SOFIS has not been very successful in its operations nor do they appear always to have been soundly conceived. None of its participations have yet yielded a return, and the mission was told that its losses have reached 12% of its share capital. It has been financing fixed assets with one year revolving loans at an interest rate of 8% per year. Apparently, in only three cases has SOFIS or the enterprises it has assisted been able to obtain loans from other sources. Recently, however, SOFIS has begun to exercise more influence in the management of some of the enterprises in which it holds participations and now often uses its own staff for managerial functions.

The near future prospects of SOFIS depend largely on the support it will receive from the Sicilian Region. Although SOFIS recently obtained authorization to float bonds, it does not appear yet to have established a good enough credit standing to be able to get funds from any other source.

#### FINSARDA, Cagliari

The Societa Financiera Sarda (FINSARDA) was founded in December 1960 with an initial share capital of Lit. 300 million (US\$0.48 million), divided equally among CIS, IMI and the Banca Nazionale del Lavoro. Although its

statutes empower FINSARDA to carry on a wide range of banking activities, including medium and long-term lending, its main purpose is to provide equity capital to industrial enterprises located in Sardinia. FINSARDA's participations have been limited by its Board of Directors to minority holdings in order to spread the risk, avoid becoming involved in the management of enterprises and distribute its limited funds to as great a number of enterprises as possible.

In 1962, the Bank of Sardinia became a shareholder in FINSARDA, and the Society's capital was increased to Lit. 1.5 billion (US\$2.4 million).

The appraisal of projects and the other operations of FINSARDA are carried out by CIS, whose President is also President of FINSARDA; IMI acts as a supervisory organization. As of the end of 1964, FINSARDA had taken participations in five enterprises for an amount of about Lit. 1.2 billion and had committed most of the remainder of its funds. FINSARDA's maximum participation in any enterprise amounts to 30%, and all its share holdings are in companies to which CIS has granted long-term loans.

The Region of Sardinia has recently been authorized to establish an institute like FINSARDA in which the Region will have a majority interest. This new institute is to be established shortly, and FINSARDA has decided to stop operating and put its share capital into this institute, which is expected to be called SFIRZ. The initial capital of SFIRZ is to be about Lit. 4.0 billion (US\$6.4 million), to which CIS is expected to contribute about 10%.

While FINSARDA's decisions to take participations have been based mainly on technical/economic grounds, it may not be possible to prevent the influence of the Region of Sardinia from increasing the importance of political considerations. Like FINSARDA, SFIRZ is likely to operate on a relatively modest scale for the next few years to come.

#### SVIMEZ, Rome

The Associazione per lo Sviluppo dell'Industria nel Mezzogiorno (SVIMEZ), was organized in 1947 as a private organization to study the problems of underdevelopment and poverty in Southern Italy. It has always been a relatively small organization, but its work has provided much of the basis for the policies adopted for the development of Southern Italy. SVIMEZ receives about half of its financing from the Cassa, about one-quarter at present from the Ford Foundation and the balance from miscellaneous sources.

The organization carries on three types of activities: research, education and information. It has six research divisions: economic, statistics, econometrics, agriculture, sociology and legislation. Their work together with that of outside students, has been published in factual and



theoretical studies on various aspects of the problem of Southern Italian development. In addition, it publishes a weekly journal, Informazione SVIMEZ, a monthly statistical annex to Informazione and pamphlets on various aspects of the problems studied by its research department. Finally, SVIMEZ operates a center for the study of development economics, financed by the Ford Foundation.

In the last few years, the organization has been closely associated with the move towards the establishment of a planning organization in the Italian Government. It can be expected to play a continued role in the formulation of policies for the development of Southern Italy.

### IASM, Rome

The Istituto per l'Assistenza allo Sviluppo del Mezzogiorno (IASM), is a private non-profit organization established by statute in November 1961 to promote industrial investment in Southern Italy. It began operations in May 1962, but did not start to function actively until one year later.

IASM was founded by the Cassa and the three Regional Credit Institutes (ISVEIMER, IRFIS and CIS). It is authorized to admit to membership other public and private agencies which also have the purpose of furthering the economic development of the South. To date it has admitted SOFIS and ISAP. It would like to add large private concerns to its membership; this would require a change in its statutes. Its life extends to June 30, 1965 (the terminal date of the Cassa) but is very likely to be extended by its members.

The organization is financed by the annual dues of its members, grants from the State and private or public agencies, donations and fees for certain services which cover part of their cost. Its expenditures to June 30, 1964 totalled Lit. 746 million.

IASM carries on four major types of activities: the promotion of investment, particularly foreign investment, in Southern Italy; the provision of services of all kinds (commercial, financial, technical, marketing, etc.) to potential investors; studies, particularly market studies and sector analyses; and the provision of assistance to the "Consortia" in industrial areas and for the development of tourism, a field in which it has not yet done very much.

IASM could undoubtedly be very useful to the Regional Institutes since it is in a position to look at market and sector problems from a broad point of view while at the same time remaining aware of the problems of individual investors.

CASSA BOARD

Board of Directors

President: Prof. Gabriele Pescatore

Vice-Presidents: Dr. Rocco Gullo, Dr. Michele Cifarelli

Members: Prof. Iginio Altara, Dr. Arrigo Chiavegatti, Prof. Nicola Damiani, Dr. Guido Delcogliano, Dr. Michele della Morte, Dr. Giacinto Froggio, Prof. Alessandro Petriccione, Dr. Berardino Polcaro, Prof. Domenico Rubino, Prof. Bruno Vecchiarelli.

Management

Director General: Dr. Francesco Coscia

Deputy Director: Dr. Romeo Picchetti

Assistant Director: Dr. Pietro Celentani Ungaro.

Audit Committee

Chairman: Dr. Guido Petrocelli, Counselor of Court of Accounts

Members: Dr. Mario Napolitano, Inspector General of the Treasury, Dr. Settimio Gagliardi, Inspector General of the State General Accountant.

FINANCIAL RESOURCES OF THE CASSA  
Position as at February 28, 1965  
(in millions of Lire)

Years <sup>1/</sup> (July 1 to June 30)	DOMESTIC SOURCES						FOREIGN BORROWINGS				TOTAL
	Endowment Fund	Revenues and Other Funds									Aggregate Cumulative Total
	Treasury Allocations	IMI-ERP (Principal)	IMI-ERP (Interest)	Interest on Bank Deposits <sup>2/</sup>	Credit Operations (Princ. & Interest)	Total	IBRD Loans	EIB Loans	Bond Issues	Total	
1950-51	100,000	-	-	1,046	-	101,046	-	-	-	-	101,046
1951-52	100,000	-	-	3,535	-	103,535	6,250	-	-	6,250	210,831
1952-53	80,000	2,996	5,623	4,654	-	93,273	-	-	-	-	304,104
1953-54	90,000	5,905	4,532	6,471	4	106,912	6,250	-	-	6,250	417,266
1954-55	90,000	8,778	4,718	4,573	161	108,230	42,750	-	-	42,750	568,246
1955-56	90,000	16,132	7,595	4,940	476	119,143	-	-	-	-	687,389
1956-57	90,000	12,253	5,420	3,367	629	111,669	46,643	-	-	46,643	845,701
1957-58	90,000	13,343	4,097	4,031	724	112,195	46,875	-	-	46,875	1,004,771
1958-59	100,000	12,722	4,868	4,016	1,084	122,690	12,500	12,500	18,750	43,750	1,171,211
1959-60	179,000	12,433	3,309	6,058	1,919	202,719	25,000	-	-	25,000	1,398,930
1960-61	190,000	11,372	3,503	8,326	3,276	216,477	-	25,625	7,146	32,771	1,648,178
1961-62	191,350	10,731	2,800	7,378	4,233	216,492	-	2,350	-	2,350	1,867,020
1962-63	186,940	11,540	2,371	10,650	3,715	215,216	-	45,325	-	45,325	2,127,561
1963-64	186,850	9,004	1,773	14,293	6,338	218,258	-	29,762	11,250	41,012	2,386,831
after June 1964)	267,700 <sup>3/</sup>	32,791	-	-	90,338 <sup>4/</sup>	390,829	-	30,100	12,500	42,600	2,820,260 <sup>2/</sup>
Total	2,031,840	160,000	50,609	83,338 <sup>2/</sup>	112,897	2,438,684 <sup>2/</sup>	186,268	145,662	49,646	381,576	
Total net of Lit. 54.0 billion operating expenses ...						<u>2,384,700</u>	...				<u>2,766,300</u>

<sup>1/</sup> Years 1950-51 to 1951-52 relate to the Ten-Year Program; years 1952-53 to 1956-57 relate to the Twelve-Year Program; years 1957-58 and following relate to the Fifteen-Year Program.

<sup>2/</sup> Including Lit. 54.0 billion covering Cassa's operating expenses.

<sup>3/</sup> Formed by: Lit. 186,000 million for 1964-65 from Law No. 634 of July 29, 1957 (and its amendment);

Lit. 850 million for 1964-65 and Lit. 850 million for 1965-66 from Law No. 28 of January 30, 1962 (Palermo);

Lit. 80,000 million from Law No. 608 of July 6, 1964, to be spread over four years.

<sup>4/</sup> Including Lit. 25 billion lent by the sector "Contribution to interest on bonds and loans" to the sector "Hotels and Tourism credits".

Source: Cassa per il Mezzogiorno

## COMPARISON OF THE THREE CASSA PROGRAMS

Position as at February 28, 1965

(in billions of Lire)

Sector	TEN-YEAR PROGRAM (1950)		TWELVE-YEAR PROGRAM (1952)		FIFTEEN-YEAR PROGRAM (1957)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
I. <u>DIRECT ACTION</u>	<u>870.0</u>	<u>87.0</u>	<u>1,150.0</u>	<u>89.8</u>	<u>1,745.8</u>	<u>73.2</u>
<u>Agriculture</u>	<u>640.0</u>	<u>64.0</u>	<u>757.0</u>	<u>59.1</u>	<u>946.9</u>	<u>39.7</u>
Public works (incl. reforestation)	360.0	36.0	477.0	37.2	666.9	28.0
Land reform	280.0	28.0	280.0	21.9	280.0	11.7
<u>Aqueducts</u>	<u>90.0</u>	<u>9.0</u>	<u>178.0</u>	<u>13.9</u>	<u>307.0</u>	<u>12.9</u>
<u>Transportation</u>	<u>110.0</u>	<u>11.0</u>	<u>190.0</u>	<u>14.8</u>	<u>339.6</u>	<u>14.2</u>
Roads	110.0	11.0	115.0	9.0	214.5	9.0
Railways, Ferries and Ports	-	-	75.0	5.8	125.1	5.2
<u>Other</u>	<u>30.0</u>	<u>3.0</u>	<u>25.0</u>	<u>2.0</u>	<u>152.3</u>	<u>6.4</u>
Tourism	30.0	3.0	25.0	2.0	54.2	2.3
Industrial Areas, Nuclei	-	-	-	-	23.0	1.0
School Buildings, Social Institutions, Vocational Training, Hospitals	-	-	-	-	70.8	2.9
City of Palermo (Special Slum Clearance Proj.)	-	-	-	-	4.3	0.2
II. <u>INCENTIVES TO PRIVATE</u> <u>INVESTMENT</u>	<u>130.0</u>	<u>13.0</u>	<u>130.0</u>	<u>10.2</u>	<u>625.8</u>	<u>26.3</u>
Contribution to Private Land Improvement (Agriculture)	130.0	13.0	130.0	10.2	228.7	9.6
Fishing, Handicraft	-	-	-	-	44.3	1.9
<u>Industry</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230.5</u>	<u>9.7</u>
Capital Grants	-	-	-	-	49.4	2.1
Contribution to Finan- cing Institutes, and Participations	-	-	-	-	42.1	1.8
Interest Subsidization	-	-	-	-	139.0	5.8
<u>Credits</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122.3</u>	<u>5.1</u>
Agriculture	-	-	-	-	68.2	2.9
Hotels and Tourism	-	-	-	-	54.1	2.2
I + II TOTAL	1,000.0	100.0	1,280.0	100.0	2,371.6	99.5
Unallocated as to Sector	-	-	-	-	13.1	0.5
TOTAL	1,000.0	100.0	1,280.0	100.0	2,384.7	100.0
RECAPITULATION						
Total Agriculture	770.0	77.0	887.0	69.3	1,243.8	52.2
Total Industry	-	-	-	-	253.5	10.6
Total Other	230.0	23.0	393.0	30.7	874.3	36.7

AVAILABILITIES, COMMITMENTS AND EXPENDITURES OF THE CASSA  
as at February 28, 1965 1/  
(in billions of Lire)

<u>Sectors</u>	<u>Availa- bilities</u>	<u>Commit- ments</u>	<u>Expendi- tures</u>	<u>Balance to be committed</u>
<u>I. DIRECT ACTION</u>	<u>1,745.8</u>	<u>1,724.0</u>	<u>1,455.1</u>	<u>21.8</u>
<u>Agriculture:</u>	<u>946.9</u>	<u>943.0</u>	<u>845.9</u>	<u>3.9</u>
Public works	666.9	663.0	565.9	3.9
Land Reform	280.0	280.0	280.0	-
<u>Aqueducts:</u>	<u>307.0</u>	<u>305.8</u>	<u>253.8</u>	<u>1.2</u>
External works	282.8	282.1	238.1	0.7
Internal distribution	24.2	23.7	15.7	0.5
Roads	214.5	210.7	167.1	3.8
Railways, Ferries and Ports	125.1	121.2	97.6	3.9
Tourism	54.2	53.9	44.1	0.3
Industrial Areas and Nuclei	23.0	20.9	8.0	2.1
School Buildings, Social Insti- tutions, Vocational Training and Hospitals	70.8	68.5	38.6	2.3
City of Palermo	4.3	-	-	4.3
<u>II. INCENTIVE TO PRIVATE INVESTMENT</u>	<u>625.8</u>	<u>564.0</u>	<u>347.1</u>	<u>61.8</u>
<u>Agriculture:</u>				
Contribution to private land improvement	228.7	220.5	166.2	8.2
Fishing and Handicraft	44.3	39.7	29.3	4.6
<u>Industry:</u>				
Grants	49.4	49.1	31.2	0.3
Contribution to interest on bonds and loans	139.0	112.2	20.2	26.8
Contribution to Financing Insti- tutes, and participations	42.1	42.1	38.1	-
<u>Credits:</u>				
Agriculture	68.2	56.5	41.1	11.7
Hotels and Tourism	54.1 <sup>2/</sup>	43.9	21.0	10.2
<u>I + II TOTAL</u>	<u>2,371.6</u>	<u>2,288.0</u>	<u>1,802.2</u>	<u>83.6</u>
Unallocated	13.1	-	-	13.1
<u>TOTAL</u>	<u>2,384.7</u>	<u>2,288.0</u>	<u>1,802.2</u>	<u>96.7</u>
<u>Add other elements:</u>				
Operating expenses	54.0	54.0	54.0	-
Temporary anticipations	-	-	48.0	-
<u>GRAND TOTAL</u>	<u>2,438.7</u>	<u>2,342.0</u>	<u>1,904.2</u>	<u>96.7</u>

1/ Domestic sources only.

2/ Including Lit. 25 billion lent by the sector "Contribution to interest on bonds and loans".

ESTIMATED BREAKDOWN BY SECTORS OF CASSA CONTRIBUTIONS  
UNDER THE GENERAL PROGRAM FOR 1965-1969  
(in billions of Lire)

<u>Sector</u>	<u>Total Investments</u>	<u>Cassa Contributions</u>
General Infrastructure	320	320
Aqueducts	200	200
Transportation	120	120
Agriculture	580	450
Infrastructure:		
Irrigation and related projects	265	250
Soil Conservation and Reforestation	60	60
Other:		
Land Improvement	200	100
Processing Plants	40	25
Technical Assistance and Applied Research	15	15
Industry and Industrial Development Areas	2,660	700
Infrastructure:		
Industrial Areas and Nuclei	95	80
Housing	25	10
Ports	40	40
Incentives:		
Capital Grants	2,500	280
Interest Subsidies		290
Tourism	150	90
Vocational Training, Social Institutions	90	80
TOTAL	<u>3,800</u>	<u>1,640<sup>1/</sup></u>

<sup>1/</sup> To be increased by Lit. 60 billion under Law No. 608 of July 6, 1964. This amount belongs to the 1965-69 program but has already been committed as part of the last semi-annual appropriations under the first Fifteen-Year Program.

Italy - Gross Fixed Investment by Economic Branch and Region  
(In Billion Lire at 1954 Prices)

	<u>1951</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>North-Center</u>											
Agriculture	178	186	203	215	211	212	233	292	259	291	287
Industry	609	632	681	756	828	795	832	967	1,136	1,198	1,227
Transport and Communication	211	307	303	348	335	340	431	572	702	760	836
Housing	277	478	579	646	734	755	815	805	875	1,016	1,090
Public Works <sup>a</sup>	102	130	139	119	164	188	241	274	234	244	236
Miscellaneous	103	102	110	123	152	167	181	212	244	281	290
Total	1,490	1,835	2,005	2,207	2,424	2,463	2,733	3,112	3,500	3,790	3,966
<u>South</u>											
Agriculture	89	151	158	139	162	167	182	199	214	208	212
Industry	92	118	151	148	159	154	181	235	289	358	435
Transport and Communication	53	107	130	151	152	132	146	171	215	248	261
Housing	46	101	122	143	162	163	168	178	197	220	251
Public Works <sup>a</sup>	92	112	106	106	96	117	110	135	135	124	120
Miscellaneous	29	30	30	33	41	45	48	65	84	98	98
Total	400	619	697	720	772	778	835	1,003	1,134	1,256	1,377
<u>Italy</u>											
Agriculture	277	337	361	354	373	379	415	491	473	499	499
Industry	701	750	832	904	987	949	1,013	1,202	1,425	1,556	1,662
Transport and Communication	264	414	433	499	487	478	577	770	918	1,008	1,097
Housing	323	579	701	789	896	918	983	987	1,071	1,236	1,341
Public Works <sup>a</sup>	194	242	239	225	260	305	351	399	419	368	355
Miscellaneous	131	132	140	156	193	212	229	277	328	379	388
Total	1,900	2,454	2,706	2,927	3,196	3,241	3,568	4,122	4,634	5,046	5,342

Source: Comitato dei Ministri per il Mezzogiorno - Relazione sulla Attività di Coordinamento, 1964, Vol. II. (Data from ISTAT)

a/ Includes roads, ports, hydraulic works, sanitary work, public buildings and miscellaneous.

Stockholders of ISVEIMER, IRFIS and CIS  
(Position as at December 1964)

<u>ISVEIMER</u>		<u>IRFIS</u>	
<u>Stockholders</u>	<u>% Parti- cipation</u>	<u>Stockholders</u>	<u>% Parti- cipation</u>
Cassa per il Mezzogiorno	40.0	Cassa per il Mezzogiorno	40.0
Banco di Napoli	40.0	Regione Autonoma Siciliana	20.0
Cassa di Risparmio di Calabria e Lucania	16.5	Banco di Sicilia	20.0
Cassa di Risparmio di Puglia		Cassa Centrale di Risp.V.E. per le Prov. Siciliane	15.6
Cassa di Risparmio di Roma		Banca Popolare S. Venera - Acireale	4.4
Cassa di Risparmio dell'Aquila		Banca Popolare Cooperativa di Augusta	
Cassa di Risparmio della Provincia di Chieti		Banca Operaia Cooperativa - Belpasso	
Cassa di Risparmio di Pescara		Banca Mutua Popolare di Bronte	
Cassa di Risparmio di Teramo		Banca Popolare Siciliana - Canicatti	
Cassa di Risparmio di Ascoli Piceno		Banca Popolare - Carini	
Cassa di Risparmio di Salerno		Banca Popolare S. Agata - Catania	
Banca Mutua Popolare Cooperativa di Altamura		Banca Popolare Sant'Angelo - Licata	
Banca Popolare di Brancalione		Banca Cooperativa Commerciale di Mazara	
Banca Popolare di Casteldisangro	3.5	Banca Agricola Popolare di Ragusa	100.0
Banca Popolare del Molise		Banca Popolare di Ribera	
Banca Popolare di Napoli		Banca Popolare di Siracusa	
Banca Cooperativa di Credito - Crotone		Banca del Popolo - Trapani	
Banca Popolare di Grottaglie			
Banca Popolare di Nicastro			
Banca Popolare di Pescopagano			
Banca Popolare di Polistena			
Banca Popolare di S. Antimo			
Banca Popolare di Secondigliano			
Banca Agricola Industriale Coop.di Sulmona	100.0		
Banca Popolare di Torre del Greco			
Banca Popolare dell'Irpinia - Avellino			
Banca Popolare di Frattamaggiore			
Banca di Nola			
Banca Popolare di San Matteo - Salerno			
Banca Popolare di Taranto			
Banca Popolare Andriese - Andria			
Banca "Vincenzo Tamborino" - Maglie			
Banca Sannitica - Benevento			
Banca dei Comuni Vesuviani - Napoli			
Banca della Provincia di Napoli - Napoli			
Banco di Santo Spirito - Roma			
	100.0		

CIS

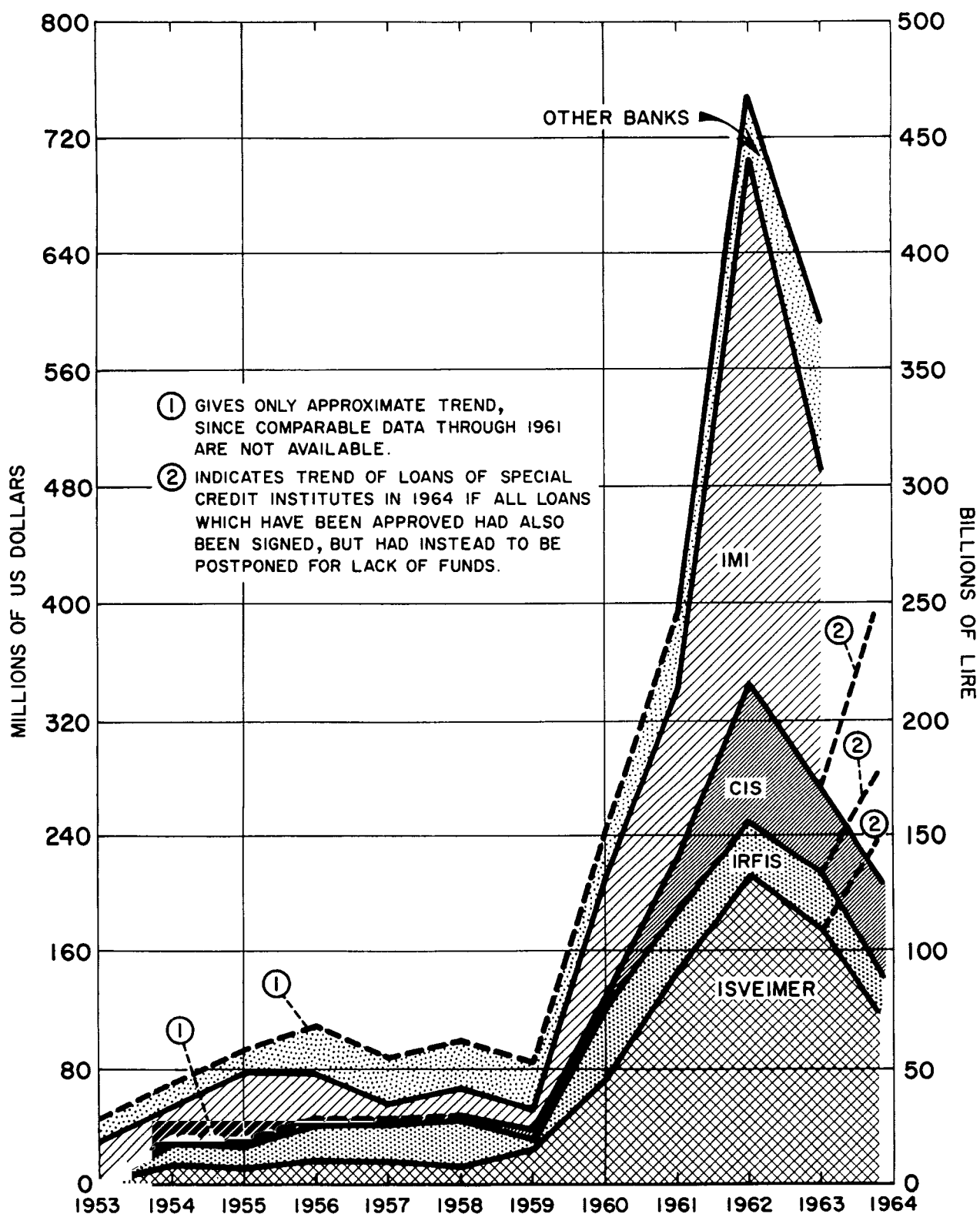
<u>Stockholders</u>	<u>% Parti- cipation</u>
Cassa per il Mezzogiorno	40.0
Regione Autonoma Sarda	35.0
Banco di Sardegna	20.0
Banca Popolare di Sassari	5.0
	100.0



Industrial Projects Financed by IBRD Between 1951 and 1959, by Institutes Through Which Loans Were Made

	<u>Name of Ultimate Borrower</u>	<u>Location</u>	<u>Sector of Industry</u>	<u>Cost of Project</u> (in Million US\$ equivalent)	<u>IBRD Loan</u> (in Million US\$ equivalent)
<u>ISVEIMER</u>	1. Lanificio Maratea	Potenza	Textiles	5.26	2.64
	2. Dalmine	Napoli	Welded Tubes	3.66	1.92
	3. Cementir	Napoli	Cement	5.44	2.40
	4. Cementeria Discafa	Pescara	Cement	1.16	0.64
	5. S.I.L.	Avezzano	Paper	6.09	4.16
	6. Forino	Salerno	Food Canning	1.36	0.92
	7. Saint Gobain	Caserta	Glass	12.69	4.00
	8. Fiat	Napoli	Assembly of Cars	8.01	4.80
	9. Partenopea Trasporti	Napoli	Assembly of Truck & Bus Chassis	2.45	1.34
	10. Marzotto Sud	Salerno	Clothing	2.60	2.08
	11. C.O.N.E.	Napoli	Household Appliances	1.44	1.12
	Total ISVEIMER			50.16	26.02
<u>IRFIS</u>	1. Akragas	Agrigento	Fertilizer	4.80	2.40
	2. Cementerie Siciliane	Palermo	Cement	7.22	1.70
	3. Augusta Petrolchimica	Siracusa	Fertilizer	8.00	4.38
	4. ABCD (3 loans)	Ragusa	Polyethylene, etc.	20.51	10.40
	5. SINCAT (3 loans)	Siracusa	Fertilizer	73.31	25.56
	6. Cementerie di Augusta	Siracusa	Cement	2.56	1.44
	7. Trinacria	Enna	Potash	12.16	6.00
	8. Montecatini	Caltanissetta	Potash	16.61	6.40
	9. Celene	Siracusa	Polyethylene	22.40	4.00
	Total IRFIS			167.57	62.28
<u>CIS</u>	1. Cementerie di Sardegna	Sassari	Cement	4.76	2.40
	Total ISVEIMER, IRFIS, CIS			222.49	90.70

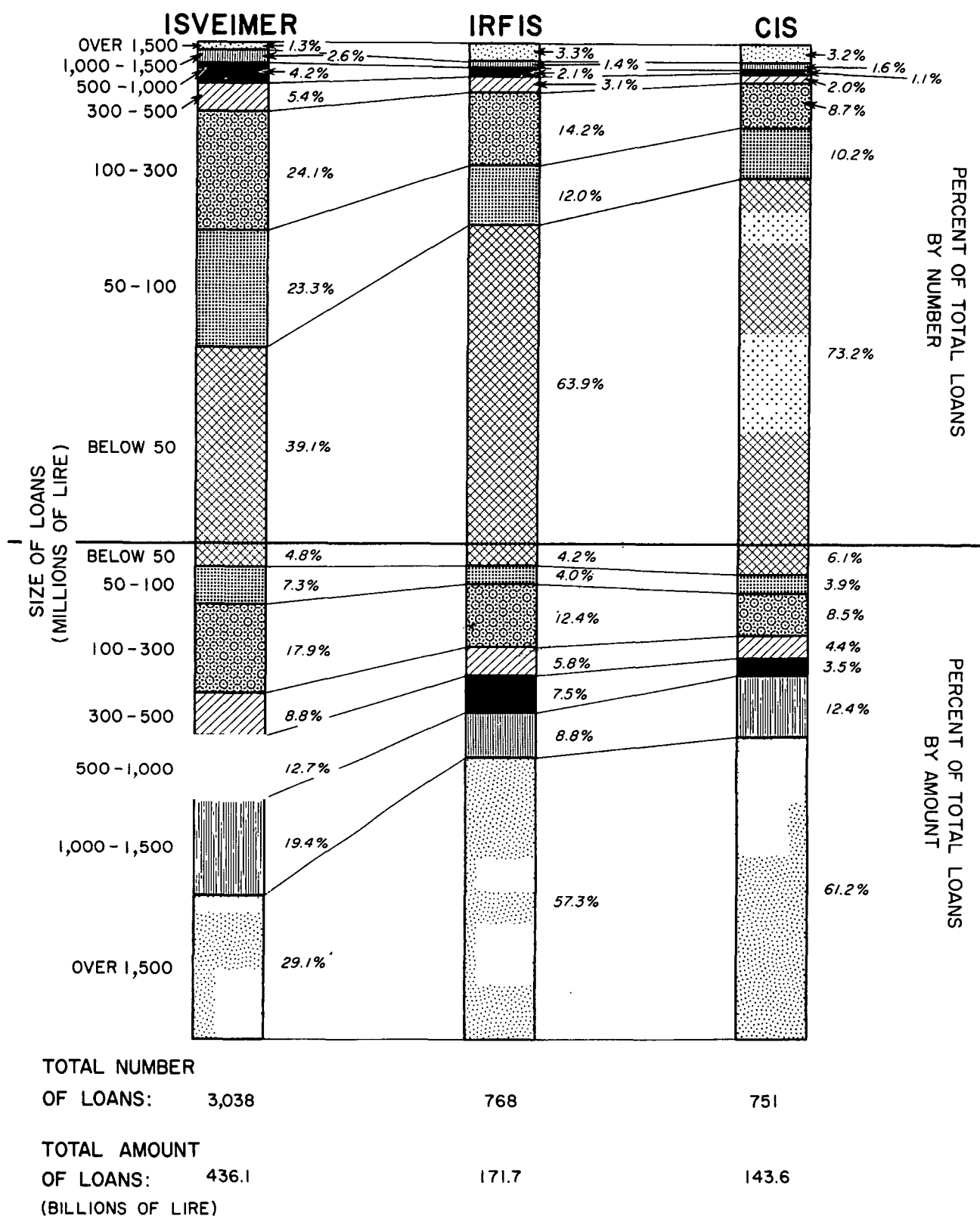
# **INDUSTRIAL LOANS MADE BY THE SPECIAL CREDIT INSTITUTES (ISVEIMER, IRFIS, CIS), IMI AND OTHER BANKS IN SOUTHERN ITALY DURING 1954 TO 1963/1964**



Breakdown of Industrial Loans by Sectors Made by ISVEIMER, IRFIS and CIS during 1954-1963  
(in Billion Lire)

Sector of Industry	ISVEIMER					IRFIS					CIS				
	No. of Loans	of which for New Plants	Amount of Loans	Per cent of Total Loans		No. of Loans	of which for New Plants	Amount of Loans	Per cent of Total Loans		No. of Loans	of which for New Plants	Amount of Loans	Per cent of Total Loans	
				No.	Amount				No.	Amount				No.	Amount
Mining	4	2	0.1	-	-	19	4	0.7	2.5	0.4	22	10	3.4	2.9	2.4
Food, Food Processing and Refrigeration Plants	795	318	66.3	26.2	15.2	223	89	11.2	29.0	6.5	265	76	15.1	35.3	10.5
Tobacco	51	14	2.6	1.7	0.6	-	-	-	-	-	-	-	-	-	-
Textile and Garment Industry	295	134	35.4	9.7	8.1	35	17	3.7	4.6	2.2	14	11	13.1	1.9	9.1
Wood Processing	254	121	12.6	8.4	2.9	18	10	1.7	2.4	1.0	59	18	3.2	7.8	2.3
Metal Processing and Engineering Industries	488	268	84.3	16.1	19.3	149	52	20.2	19.4	11.8	72	28	5.3	9.6	3.7
Chemical, Photographic and Related Industries	169	107	90.1	5.6	20.7	47	27	90.3	6.1	52.6	42	28	70.1	5.6	48.8
Paper, Board and Processing thereof	194	71	40.7	6.4	9.3	33	17	10.7	4.3	6.2	36	10	18.4	4.8	12.8
Construction Materials, Glass, Ceramics	578	291	79.6	19.0	18.3	140	75	20.3	18.2	11.8	145	58	11.8	19.3	8.2
Transport and Communications	-	-	-	-	-	41	5	0.8	5.3	0.5	-	-	-	-	-
Public Utilities (Electricity, Gas, Water)	-	-	-	-	-	4	3	6.0	0.5	3.5	12	1	0.5	0.4	0.3
Miscellaneous Industries	210	112	24.5	6.9	5.6	59	38	6.0	7.7	3.5	84	9	2.7	12.4	1.9
TOTAL	<u>3,038</u>	<u>1,438</u>	<u>436.2</u>	<u>100.0</u>	<u>100.0</u>	<u>768</u>	<u>337</u>	<u>171.6</u>	<u>100.0</u>	<u>100.0</u>	<u>751</u>	<u>249</u>	<u>143.6</u>	<u>100.0</u>	<u>100.0</u>
US\$ Million equivalent			<u>697.9</u>					<u>274.5</u>					<u>229.7</u>		

# BREAKDOWN OF INDUSTRIAL LOANS BY SIZES FOR PERIOD 1954 - 1963



Breakdown of Industrial Loans by Sectors made by ISVEIMER, IRFIS, CIS  
and other Institutions in Southern Italy during 1947 - 1963

Sector of Industry	By Number of Loans					By Loan Amount (in Billion Lire)				
	ISVEIMER IRFIS CIS (1953)	IMI (1950)	Other 1/ Instg.	Total	Per cent of ISVEIMER, IRFIS, CIS of Total	ISVEIMER IRFIS CIS (1953)	IMI (1950)	Other 1/ Instg.	Total	Per cent of ISVEIMER, IRFIS, CIS of Total
Mining	45	57	29	131	34.0	4.2	16.5	6.0	26.7	15.7
Food, Food Processing (including Tobacco) and Refrigeration Plants	1,334	5,817	1,355	8,506	15.7	95.2	24.0	46.1	165.3	57.6
Textile and Garment Industry	344	78	282	704	48.9	52.2	12.9	16.1	81.2	64.3
Wood Processing	331	94	292	717	46.2	17.5	1.5	10.0	29.0	60.3
Metal Processing and Engineering Industries	709	289	561	1,559	45.5	109.8	164.9	41.7	316.4	34.7
Chemical, Photographic and Related Industries	258	113	308	679	38.0	250.5	136.4	50.8	437.7	57.2
Paper, Board and Processing thereof	263	53	234	550	47.8	69.8	12.1	8.6	90.5	77.1
Construction Materials, Glass, Ceramics	863	379	495	1,737	49.7	111.7	33.9	17.1	162.7	68.7
Transport and Communications	41	841	188	1,070	3.8	0.8	66.6	25.3	92.7	0.9
Public Utilities (Electricity, Gas, Water)	16	56	79	151	10.6	6.5	84.9	10.6	102.0	6.4
Miscellaneous Industries	<u>353</u>	<u>984</u>	<u>438</u>	<u>1,775</u>	19.9	<u>33.2</u>	<u>107.3</u>	<u>22.3</u>	<u>162.8</u>	20.4
TOTAL	<u>4,557</u>	<u>8,761</u>	<u>4,261</u>	<u>17,579</u>	25.9	<u>751.4</u>	<u>661.0</u>	<u>254.6</u>	<u>1,667.0</u>	45.1
US\$ Million Equivalent						<u>1,202.2</u>	<u>1,057.6</u>	<u>407.4</u>	<u>2,667.2</u>	

1/ Include: Banco di Sicilia (1947), Banco di Napoli (1947), Banco Nazionale del Lavoro (1947), Medio Credito del Lazio (1955), Efibanca (1955), Centrobanca (1955), Mediobanca (1955).

Note: Dates in parentheses indicate when Institutions started industrial financing in Southern Italy.

Source: Comitato dei Ministri per il Mezzogiorno Relazione sulla attivita di Coordinamento, 1964. Vol. II and ISVEIMER, IRFIS AND CIS.

Loan Contracts, Security Provisions, Supervision and Disbursement Procedures

Some of the more important contract conditions which the Institutes enter into with their borrowers are described below. The project which the borrower agrees to carry out is spelled out in great detail and forms an integral part of the loan contract. In addition, the disbursement procedures give the Institutes a firm control over the proper execution of the project and use of the loan funds. However, the procedures are flexible enough to permit changes in the project if justified. As a result of the Institutes' past experience with project cost overruns, due to rising prices and wages, they normally press for as rapid an execution of the project as feasible. Sometimes loan contracts include specific dates by which definite stages of the project must be completed.

The contracts specify the amount and dates by which the equity to be supplied by the borrower must be made available and the proportions in which loan and equity funds must be contributed. Failing the timely contribution of the borrower's own funds, the Institutes have the right to stop disbursements, and it appears that this clause is quite strictly administered. The contracts also normally stipulate how project cost overruns are to be met. The borrower is often obligated to cover any cost increases, including increases in initial working capital requirements; in certain cases, the Institutes agree to increase their loan in proportion to the increase in project cost. If the borrower is permitted to supply additional funds in the form of shareholders' advances instead of actual equity capital, he is as a rule, not allowed to withdraw these advances without the consent of the Institutes and only after other debts have been paid. Interest or other cash compensation on advances is normally limited to earnings and must be no more than proportional to dividends. The Institutes may also require on the contract that grants from the Cassa or the Regions of Sicily and Sardinia, which are made on completion of projects, must be used to increase the share capital.

Insurance of fixed assets against fire, lightning and explosion is required but borrowers are not required to insure against other risks which occur in particular industries. Extensive damage from a recent tornado in Sicily was not covered by insurance; however, a tornado of this size has not occurred as far back as records are available.

As security the Institutes normally require a first mortgage on the borrower's industrial assets; in addition they often require a personal guarantee which is joint and indivisible among the partners. The amount of security required is not determined by the loan amount alone but takes into account such potential charges as interest payments on the loan, interest on delayed repayments of principal, uncovered insurance premiums, etc. There seems to be no consistent policy among the Institutes (or even within one Institute) as to the amount by which the security required exceeds the loan; it ranges from 20% to 60% of the loan amount. IRFIS appears to be the most severe in this respect, followed by ISVEIMER and CIS, but the mission did not

see a sufficient number of contracts to be certain on this point. Assets are normally valued not at their book or present market value but at their projected sales value during the most critical period for the borrower, that is to say normally when the loan starts being repaid. Such a valuation must necessarily be quite subjective. These security requirements are sufficient to give the Institutes a high rate of recovery of their bad losses.

Although security requirements are high, particularly for development lending, the mission found no evidence that they have inhibited the execution of projects which should have been carried out. In the past, commercial banks have sometimes found it difficult to collect sufficient security for their working capital loans thus hampering the initial operations of projects particularly. This does not appear to be a serious problem any longer, on the one hand, the Institutes have demonstrated that the projects they finance are sound and the commercial banks are showing a growing interest in sharing in their financing. On the other, there has been an increase in the funds of the Institutes and of the Regions of Sicily and Sardinia available for working capital financing and their sources are considered when the Institutes make their loans, rather than when the need for them arises.

In order to ensure that a manager-promoter essential to the success of a project remains with a company during the most crucial years of its life, the Institutes may require either that he deposit his stockholdings, sometimes until more than halfway through the repayment period of the loan, or that the shares be registered in his name. The Institutes may also require that they be asked for their consent on the appointment of the borrower's key personnel, be represented on the Board of the borrower or have a person acceptable to them on the Board of Auditors.

Financial covenants such as adherence to an adequate liquidity and debt/equity ratio or limitations on further borrowings and on payment of dividends are rarely inserted in loan contracts. The Institutes argue that their relationship to their borrowers is based mainly on mutual confidence and trust and that their permanent direct contact normally guarantees that any deterioration of a borrower's finances will be detected earlier than through sole reliance on financial statements and covenants. Even if not directly informed by their borrowers, the Institutes claim that because of the practice of mutual security checks among Italian banks and the limited sources of funds, they would become aware of any request for an additional loan from their banks, including a loan for short-term financing in time to take corrective action, if needed.

With respect to limitations in the payment of dividends it has been the experience of the Institutes that dividends are paid only after adequate allowances for depreciation have been set aside and after payment of all debts, and that there is a general tendency of industry to reinvest earnings to the maximum extent possible. The Institutes did not recall a single case where dividends were paid or earnings taken out to the extent of impairing the liquidity position of a borrower.

With each disbursement request, the borrower must submit a construction progress report, accompanied by documents showing that the work has been carried out in accordance with the project description and that payments have been made. The Institutes make a detailed check of the justifications provided and, whenever possible, make on-the-spot investigations of actual progress. At the same time, they ask banks at which the borrower is known for the latest information on his credit standing, and check the adequacy of his insurance and whether the premiums have been paid.

As these procedures are time-consuming, the minimum amount for which a disbursement may be requested is set fairly high so as to reduce administrative work, but not so high as to cause the borrower difficulties in pre-financing his expenditures. The final payment is never made until the Institutes have verified the complete execution of the project on the spot. If execution of the project runs smoothly, three to four visits during the construction period are normal but more are made when required. Fairly detailed reports are made after each visit. Particular emphasis is placed on anticipating any possible cost overruns so that coverage can be arranged in good time. If cost increases are attributable to the borrower, for example, if they result from unnecessary frills in building design, or the use of unduly expensive materials, as a rule the Institutes will not consider them justified, and will adjust their share of the investment cost accordingly.

After completion of the project, the borrower must submit annual reports giving information on the past year's operations and finances. So long as repayments are made on time, the Institutes normally do not visit the borrowers more than once a year. However, if a borrower encounters any difficulties the Institutes usually make prompt on-the-spot inspections followed very shortly by recommendations. Project supervision appears to be adequate but additional staff will be necessary to provide the same degree of supervision in the future.



Organization and Management of ISVEIMER, IRFIS and CIS

The activities of each Institute are supervised by a Shareholders Assembly, a Board of Directors, a Board of Auditors and a Technical Consultative Committee.

The Shareholders Assembly convenes annually to receive the Annual Report and to approve the financial statements. Among its more important powers are the power to authorize increases in share capital, to vote dividends, to initiate changes in the statutes and to determine the size of the professional staff of the Institute.

The Board of Directors meets at least every second month and has the final decision on loan applications. However, since the Board must review a great number of loans at each meeting (sometimes 50 or more) it must necessarily rely heavily on the recommendations of management. In only rare instances, has any one of the Boards gone against management recommendations. Besides passing on loans, the Board has important policy and administrative responsibilities with respect to the borrowing activities of the Institute and the establishment of the terms and criteria for lending within the general guidelines established by the Committee of Ministers for the South.

In each Institute, the Chairman of the Board maintains an office and is in daily attendance. His role in the day-to-day activities and lending operations of the Institute varies markedly from one Institute to the other, and depends mainly on the personalities of and the relationship between the Chairman and the General Manager.

The Chairman of the Board of Directors is appointed by the Minister of the Treasury, on the nomination of the Committee of Ministers for the South, and like the members serves a three year term. In line with its share participation, the Cassa appoints four of the ten members, primarily from its own directors. Table 1 lists the members of the Boards of Directors, the Boards of Auditors, the Technical Consultative Committees and the Management of the three Institutes, and shows their professional background or affiliation and by whom they are appointed. With possibly a few exceptions, the selections seem to have been made primarily on the basis of the professional competence of the appointees rather than their political background.

The Board of Auditors attends every Board Meeting. Its main function is to make sure that the Institute acts within the terms of its statutes and the provisions of the laws governing these statutes. Although the Auditors have no vote, they may intervene in the operations of the Institutes by reporting directly to the stockholders, the Treasury, the Ministry of Industry or the Vigilance Committee of the Bank of Italy, all of whom have certain supervisory powers over the Institute. Since the auditing function brings the Board of Auditors into intimate contact with the operations and finances of the Institute, its influence, though indirect is substantial.

The Board is made up of a Chairman, appointed by the Ministry of the Treasury, and four members, who are appointed by the Ministry of Industry, the Cassa, another major shareholder and the Assembly of Shareholders respectively. All appointments are for three year terms.

Each of the Institutes makes use of a Technical Consultative Committee to pass judgment on the technical and economic aspects of all projects before they are submitted to the Board of Directors. This is an external Committee whose members are appointed for two year terms by the Board of Directors. The Committee is chaired by the General Manager. ISVEIMER's Committee has seven members, IRFIS' and CIS' five each.

The members are selected, to the extent possible, on the basis of their expertise in the fields on which the Institute concentrates most heavily. The authority of the Committee is limited to making recommendations, but these carry great weight with the Board. By statute, the Committee is required to meet once every two months, but the General Manager may call a meeting at any time and in practice it convenes more frequently. The meetings normally last for more than one day to permit a fairly detailed review of the projects. The staff of the Institute is on hand to present the projects and to answer questions.

The General Manager is the chief executive officer of the Institute and is responsible for its general administration. In making an investment decision, the Board acts on his recommendation.

A typical organization chart for an Institute is given in Table 2 of this Annex. All three Institutes are organized in much the same way and offer much the same services. Although the responsibilities of specific departments differ from one Institute to another, all the Institutes are so organized that they can carry out the following basic functions: (1) promotion of industrialization through contact with potential investors and market research; (2) evaluation of the technical and economic soundness of projects for which financing is requested, verification of cost estimates and provision of technical advice; (3) evaluation of the financial and business standing of the entrepreneur, the assets offered as security and the financial viability of the project itself; (4) legal review of the project and securities offered and contract negotiation; (5) supervision of the use of loan proceeds and general administration of the loan; and (6) administration of their own organization and accounts.

The promotional function is carried out in several ways. Each Institute has a development office (or service), a research and statistical office and representative offices in Milan as well as in other important industrial centers in Italy. These offices establish contacts with potential investors and publicize the services offered by the Institutes and the incentives for investing in the South. In addition, they help industrial investors in applying for loans and for other benefits and supply their parent Institutes with information about the business standing of the applicant. After a loan application has been received, the representative offices are

called upon to help verify the local costs of the project. The Institutes share this promotional function with the Istituto per l'Assistenza allo Sviluppo del Mezzogiorno, Rome (IASM), in which they have participations (see Annex 1).

Like the development and representative offices, the research offices have a function which is partly external, or promotional, and partly internal. Their market studies are used by the Institutes which they serve to help attract potential investors as well as to provide a basis for project evaluation. In addition, they provide the Institute managements with economic data which may be used as a basis for the formulation of lending policies. The statistical data which the Institutes (and particularly ISVEIMER) compile on industry and individual borrowers are impressive; they are clearly presented and kept up to date and could be of great value to management and staff in making investment decisions and appraising projects. The mission gained the impression, however, that the data are not yet being used fully.

For technical and financial evaluation each Institute has separate departments, but they work in close cooperation and form the nucleus of a working party from an early stage of the loan review. The financial department is generally the controlling department and uses the data supplied in a technical report to make up an overall technical and financial report for the General Manager to submit to the Board of Directors.

The role of the legal department is subordinated to that of the financial and technical departments; the latter recommend what the security arrangements should be. During the loan review the work of the legal department consists primarily of determining the extent of the existing encumbrances on the assets of the borrower. It also provides assistance to the borrower in meeting the legal requirements of the loan application. After the Board has decided in favor of a loan, the department draws up loan contracts and commitment letters which are negotiated with the borrower.

The responsibility for loan administration and project supervision is usually divided among the financial, technical and accounting departments. However, because of the very close supervision and documentation of the use of proceeds, there may be a separate division for coordinating this work. In ISVEIMER, there is a disbursements division in the financial department which coordinates disbursements with project supervision. In IRFIS this is a joint function of the financial, technical and accounting departments, coordinated by the financial department. In CIS there is a separate control department for this purpose.

Aside from these basic functions, all of the Institutes are called upon to perform services for their stockholders. All three Institutes work for the Cassa in processing applications for capital grants. In addition, IRFIS and CIS administer loans out of the regional funds of Sicily and Sardinia, in part to provide working capital loans for projects financed by these two Institutes. This imposes an administrative burden on the Institutes, but there are separate staffs in both Institutes to handle most of the work; each Institute is reimbursed by the Region for its expenses and neither carries a risk in this operation.

To administer its own organization and accounts, each Institute has a secretariat which provides routine administrative services and a separate accounting department which advises management on financial policies, maintains the Institute's accounting system, schedules cash requirements and provides for the collection, custody and disbursement of the Institute's funds.

The number and functions of staff at each of the three Institutes is shown in Table 3, which also gives indicators of the volume of work of each Institute in relation to staff.

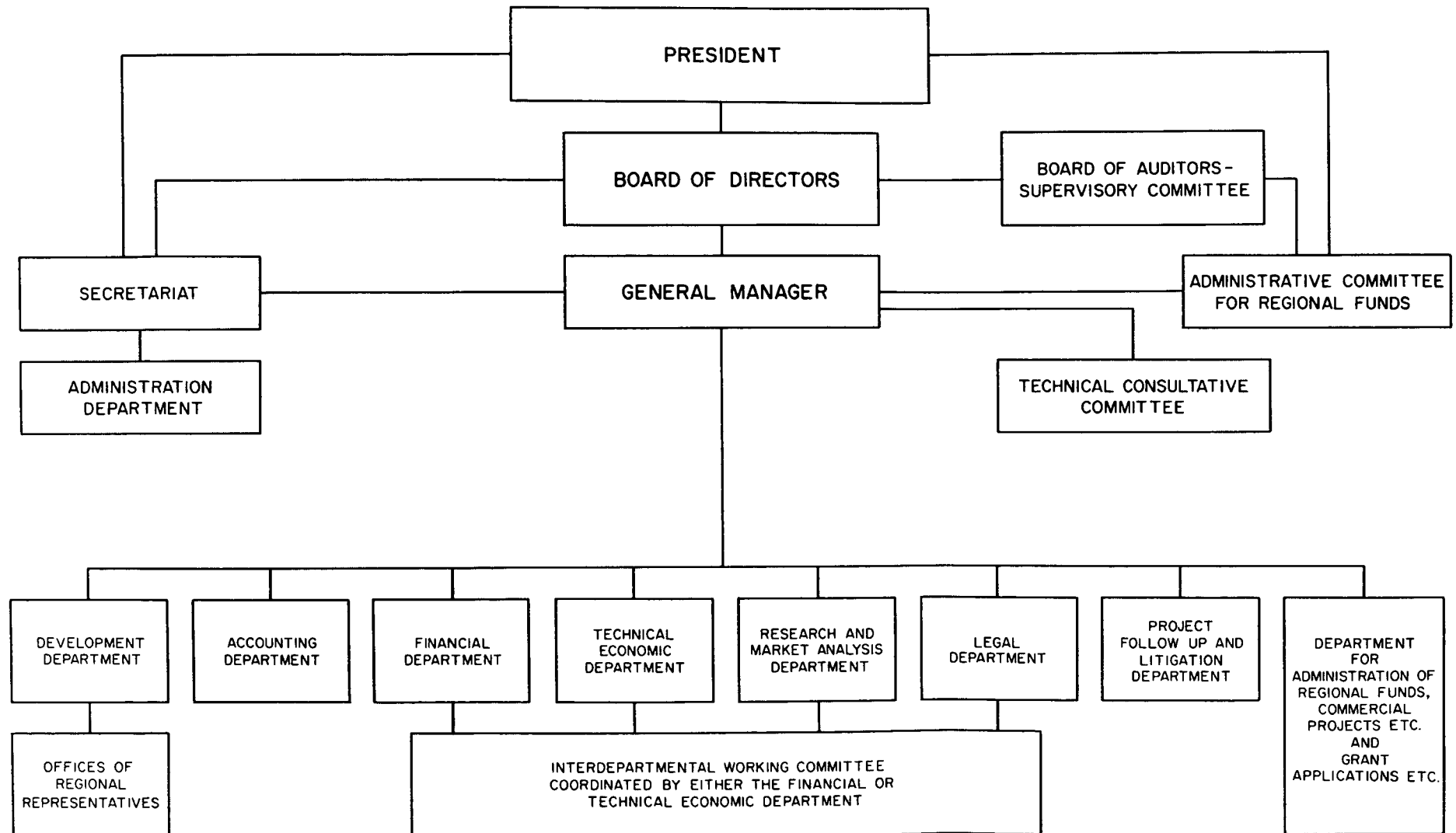
TABLE 1

Names, Source of Appointment and Professional Background of the Board of Directors, Board of Auditors, Technical Consultative Committee and Management of ISVEDMER, IRFIS and CIS

IS V E I M E R			I R F I S (Continued)		
BOARD OF DIRECTORS			BOARD OF AUDITORS		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Alfonso Menna, Chairman	Treasury	Mayor of Salerno	Alceste Silvi Antonini, President	Treasury	Insp. General, Treasury
Stanislao Fusco, Vice Chairman	Bank of Naples	Gen. Manager, Bank of Naples	Mario Bususso, Member	Cassa	Chief of Industry Div., Cassa
Bernardino Polcary, Vice Chairman	Cassa	Director of Cassa, Civil Engineer	Santi Bonaccorsi, Member	Assy. of Participants	Chamber of Comm. Catania
Giacinto Froggio, Member	Cassa	Director of Cassa, Pres. Svgs. Bank of Calabria	Giovanni Janicelli, Member	Sicilian Region	Sec'y Gen'l, Sicilian Region
Mario Follieri, Member	Cassa	Lawyer	Salvatore Mercadante, Member	Min. of Industry	Insp. Gen'l. Min. of Industry
Cristoforo Ricci, Member	Cassa	Economist			
Domenico Florio, Member	Bank of Naples	Pres. of Agricultural Agency			
Renato Morelli, Member	Bank of Naples	Chairman, Workmen's Comp. Board			
Costantino Cutolo, Member	Bank of Naples	Industrialist, Pharmaceutics			
Florindo Antonozzi, Member	Minority Stockholders	Gen. Manager, Svgs. Bank of Calabria			
Raffaele Giannino, Member	Minority Stockholders	Gen. Manager, Banco Popolari di Napoli			
BOARD OF AUDITORS			TECHNICAL CONSULTATIVE COMMITTEE		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Salvatore Viaggio, Chairman	Treasury	Treasury Official	Gandolfo Dominici, Chairman	Board of Directors	Gen. Manager, IRFIS
Mario Siraine, Member	Min. of Industry	Ministry Official	Alberto Conigliaro, Member	Board of Directors	Pres. Chamber of Commerce of Siracusa
Romeo Picchetti, Member	Cassa	Vice Gen. Manager, Cassa	Pietro Frasca Polara, Member	Board of Directors	President, Ind. Cons. of Palermo
Rafaele Manna, Member	Bank of Naples	Inspector General, Bank of Naples	Gaspare Gagliardo, Member	Board of Directors	Eng., V.P. Committee for Economic Devp. of Sicily
Nicola Mitolo, Member	Assy. of Participants	Pres. Svgs. Bank of Puglia	Umberto Pagnano, Member	Board of Directors	Prof. of Finance, Univ. Palermo
MANAGEMENT			MANAGEMENT		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Daniele Pelosi, Chairman	Board of Directors	Gen. Manager, ISVIMER	Raffaele Garzia, Chairman	Treasury	Merchant
Prof. Luigi D'Amelio, Member	Board of Directors	Gen. Manager, ISVIMER	Prof. Iginio Altara, Vice Chairman	Cassa	Prof. of Medicine, Public Health
Prof. Manlio Rossi Doria, Member	Board of Directors	Prof. Mech. Eng., University of Naples	Gustavo Puddu, Vice Chairman	Sardinian Region	Engineer-Industry
Prof. Giovanni Malquori, Member	Board of Directors	Prof. Econ. Univ. of Naples	Vittorio Bozzo, Member	Bank of Sardinia	Pres. Bank of Sardinia
Prof. Biagio Pesce, Member	Board of Directors	Prof. Chemical Eng., University of Naples	Vincenzo Gardone, Member	Cassa	Lawyer
Gino Martinoli, Member	Board of Directors	Engineer, Management Consultant, Director of Olivetti	Francesco Masala, Member	Sardinian Region	Shipping business
Prof. Vitantonio Lozupone, Member	Board of Directors	Mechanical Engineer	Raffaele Maria, Member	Sardinian Region	Lawyer
Prof. Vincenzo Solimena, Member	Board of Directors	Civil Engineer	Andrea Meloni, Member	Popular Bank of Sassari	Lawyer
MANAGEMENT			MANAGEMENT		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Daniele Pelosi, Gen. Manager	Board of Directors	Gen. Manager, Bank of Italy	Salvatore Serra, Member	Sardinian Region	Specialist in Labor Problems
Ottorino Cappelli, Vice Gen. Manager	Board of Directors	Manager, Bank of Naples	Prof. Giovanni Silva, Member	Cassa	Prof. of Electrical Engineering, Consultant
Mario Battistelli, Vice Gen. Manager	Board of Directors	Director, SVIMEZ	Prof. Bruno Vecchiarelli, Member	Cassa	President of IASM
I R F I S			BOARD OF AUDITORS		
BOARD OF DIRECTORS			BOARD OF AUDITORS		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Antonino Sergi, Chairman	Treasury	Lawyer	Giovanni Rivano, Chairman	Treasury	Treasury Official
Rocco Gulla, Vice President	Cassa	Vice President, Cassa	Andrea Borghesan, Member	Assy. of Participants	Industrialist
Gian Battista Cartia, Member	Minority Stockholders	Director of Banca Agricola Popolare di Ragusa	Enrico Cosci, Member	Min. of Industry	Ministry Official
Prof. Vittorio Ciarrocca, Member	Cassa	Prof. Economics, Univ. Rome	Mario Ruta, Member	Cassa	Chief of Finance, Cassa
Michele Gifarelli, Member	Cassa	Lawyer, V.P. Cassa	Enea Bombi, Member	Sardinian Region	Industrialist
Vito Guarrasi, Member	Sicilian Region	Lawyer			
Giuseppe la Barbera, Member	Bank of Sicily	Gen. Manager, Bank of Sicily			
Prof. Domenico Rubino, Member	Cassa	Prof. of Law, Univ. of Rome			
Enrico Sagone, Member	Sicilian Region	Official Regional Adm.			
Federico Sollima, Member	Bank of Sicily	Manager, Bank of Sicily			
Giuseppe Trapani, Member	Minority Stockholders	Manager, Svgs. Bank V.E. for the Sicilian Provinces			
MANAGEMENT			MANAGEMENT		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Antonino Sergi, Chairman	Treasury	Lawyer	Giuseppe Susini, Chairman	Board of Directors	General Manager of CIS
Rocco Gulla, Vice President	Cassa	Vice President, Cassa	Luigi Azzena, Member	Board of Directors	Industrialist
Gian Battista Cartia, Member	Minority Stockholders	Director of Banca Agricola Popolare di Ragusa	Prof. Mario Carta, Member	Board of Directors	Prof. of Engineering
Prof. Vittorio Ciarrocca, Member	Cassa	Prof. Economics, Univ. Rome	Alfonso Falzari, Member	Board of Directors	Chamber of Comm. Cagliari
Michele Gifarelli, Member	Cassa	Lawyer, V.P. Cassa	Luigi Fantola, Member	Board of Directors	Chemical Eng., Industrialist
Vito Guarrasi, Member	Sicilian Region	Lawyer	Angelo Rocca, Member	Board of Directors	Pres. Agricultural Consortium
Giuseppe la Barbera, Member	Bank of Sicily	Gen. Manager, Bank of Sicily			
Prof. Domenico Rubino, Member	Cassa	Prof. of Law, Univ. of Rome			
Enrico Sagone, Member	Sicilian Region	Official Regional Adm.			
Federico Sollima, Member	Bank of Sicily	Manager, Bank of Sicily			
Giuseppe Trapani, Member	Minority Stockholders	Manager, Svgs. Bank V.E. for the Sicilian Provinces			
MANAGEMENT			MANAGEMENT		
Name and Position	Appointed by	Professional Background or Affiliation	Name and Position	Appointed by	Professional Background or Affiliation
Antonino Sergi, Chairman	Treasury	Lawyer	Giuseppe Susini, Gen. Manager	Board of Directors	Accountant
Rocco Gulla, Vice President	Cassa	Vice President, Cassa	Antonio Ferrari, Vice Gen. Manager	Board of Directors	Lawyer, Bank of Sardinia
Gian Battista Cartia, Member	Minority Stockholders	Director of Banca Agricola Popolare di Ragusa			
Prof. Vittorio Ciarrocca, Member	Cassa	Prof. Economics, Univ. Rome			
Michele Gifarelli, Member	Cassa	Lawyer, V.P. Cassa			
Vito Guarrasi, Member	Sicilian Region	Lawyer			
Giuseppe la Barbera, Member	Bank of Sicily	Gen. Manager, Bank of Sicily			
Prof. Domenico Rubino, Member	Cassa	Prof. of Law, Univ. of Rome			
Enrico Sagone, Member	Sicilian Region	Official Regional Adm.			
Federico Sollima, Member	Bank of Sicily	Manager, Bank of Sicily			
Giuseppe Trapani, Member	Minority Stockholders	Manager, Svgs. Bank V.E. for the Sicilian Provinces			

Table 2

# TYPICAL ORGANIZATION\* CHART OF THE THREE INSTITUTES: ISVEIMER, IRFIS AND CIS



\* There are some differences in the scope and competence of some of the Departments but functionally the overall organization of the three Institutes is alike.

TABLE 3

Number and Composition of Staff<sup>1/</sup>, Volume of Work in Relation  
to Number of Staff of ISVEIMER, IRFIS, CIS  
(as at December 1964)

	ISVEIMER	IRFIS	CIS
Manager and Assistant Manager	3	2	2
Departments: Financial	65	17	12
Technical	47	9	7
Research, Statistics, Market Analysis	16	7	5
Accounting	24	5	12
Development Services, Project Follow-up and Control	28	9	8
Other (Administration, Legal, Secretarial, etc.)	<u>70</u>	<u>26</u>	<u>32</u>
	<u>253</u>	<u>75</u>	<u>78</u>

Approximate Indicators of Volume of Work<sup>2/</sup> in relation to Number of Staff

	ISVEIMER	IRFIS	CIS	Indicators (CIS=1.00)
Loans made up to Dec, 31, 1963:				
by Number	3,038	768	751	4.0 - 1.0 - 1.0
by Amount (Million US\$)	698	275	230	3.0 - 1.2 - 1.0
Loan Requests (average of 1962 and 1963):				
by Number	1,107	192	157	7.1 - 1.2 - 1.0
by Amount (Million US\$)	442	63	79	5.6 - 0.8 - 1.0
Loans Made (average of 1962 and 1963):				
by Number	735	103	82	9.0 - 1.3 - 1.0
by Amount (Million US\$)	192	38	48	4.0 - 0.8 - 1.0
Loans under Consideration at Oct. 31, 1964:				
by Number	1,073	90	156	6.9 - 0.6 - 1.0
by Amount (Million US\$)	238	31	85	2.8 - 0.4 - 1.0
Number of Staff	253	75	78	3.2 - 1.0 - 1.0

<sup>1/</sup> Does not include secretaries, drivers, etc. It was not possible to obtain a completely comparable distribution between professional and non-professional staff for all three Institutes.

<sup>2/</sup> Does not include commercial projects or those administered for the Autonomous Regions of Sicily and Sardinia.

## Financial Resources, Disposition of Funds and Financial Position of the Institutes

The Institutes have five basic sources of capital: (1) their stockholders; (2) the Treasury; (3) the Cassa; (4) the domestic capital market; and (5) earnings and repayments of principal.

### Stockholders' Equity

The stockholders' equity participation is evidenced by an "Endowment Fund", which is a very small percentage (2.2% as of October 31, 1964) of total capitalization (equity plus long-term debt) but which entitles the participants to normal stockholders' rights, including representation on the Board of Directors. Besides the Endowment Funds, which amount to Lit. 12.0 billion, the shareholders have provided the Institutes with another Lit. 30.0 billion in the form of capital contributions; 78% of these contributions were made available by the Cassa and the balance by the Regions of Sicily and Sardinia.

### The Treasury

The Treasury provides funds to the Institutes in the form of capital contributions and long-term loans, which make up a "Revolving Fund" (9.1% of capitalization). The Treasury retains a proprietary interest in these funds and requires that they be accounted for separately and that all loans in excess of Lit. 0.5 billion made from them be submitted for its approval. However, approval has been withheld in only a few cases, and approval procedures are speedy and have not as a rule delayed the beginning of work on projects.

Treasury funds are distributed among the Institutes in proportions which do not correspond with their present relative importance as lenders or their capital needs. ISVEIMER receives 61%, IRFIS 29%, and CIS 10%, while their respective shares in loans made to the end of 1963 were 58%, 23% and 19%.

Between 1957 and October 31, 1964, the Treasury granted three long-term loans to the Institutes, totaling Lit. 32.2 billion; these loans carry 4% interest and mature between 1992 and 1998 (see Table 1). Treasury capital contributions over the same period amounted to Lit. 16.7 billion.

### The Cassa

The Cassa has been the most important source of funds for the Institutes, contributing about 42% of their capitalization. It has made funds available in four ways:

As a stockholder, the Cassa has provided 40% of their Endowment Funds, or Lit. 4.8 billion;



It has remitted to the Institutes the interest payments on loans made by the government from the lire proceeds of funds made available to Italy under the European Recovery Plan. Although these funds are accounted for separately and the Cassa retains a proprietary interest in them, they are not repayable, nor does the Cassa gain any additional rights through them. The money is placed in a "Special Fund" into which the retained earnings of the Institutes also flow, thus increasing the equity base. To October 31, 1964, the amounts contributed totaled Lit. 23.3 billion; they were distributed in the customary proportions of 61% for ISVEIMER, 29% for IRFIS and 10% for CIS. In addition, a total surplus of Lit. 4.3 billion had been earned.

The Cassa is authorized to advance funds to the Institutes in anticipation of their issuance of bonds on the domestic market. All bond issues must be authorized by the Interministerial Committee for Credit and Savings. However, the Institutes may delay issuance after receiving authorization if they conclude that the market would not accept the bonds. When this occurs, the Cassa may and has advanced the entire amount authorized; the advance is repaid when the bonds are issued. The interest rate on the Cassa advance is 3-1/2% per annum; thus the Institutes receive a 1/2% margin on the operation if they lend at 4%. Up to October 31, 1964 the Cassa had advanced Lit. 52.0 billion to the Institutes, of which Lit. 27.5 billion had been repaid. Figures for each Institute are shown below (amounts in billion lire):

	<u>Amount Advanced</u>	<u>Amount Repaid</u>	<u>Balance</u>
ISVEIMER	18.0	18.0	-
IRFIS	21.0	-	21.0
CIS	<u>13.0</u>	<u>9.5</u>	<u>3.5</u>
	52.0	27.5	24.5

It will be noted that IRFIS has taken advantage of this facility to a greater extent than either ISVEIMER and CIS. However, the Cassa is not designed to handle this type of operation except on a short-term basis and when it is in a liquid position. If the Institutes find it difficult to market their securities for a long time, as is now the case in Sicily and Sardinia, the Cassa advances become frozen and it cannot meet other commitments when they fall due.

The Cassa relends to the Institutes a major portion of its foreign borrowings. This is the most important of the Cassa contributions, and has been the greatest single source of funds for both IRFIS and CIS. Because it can obtain the government's guarantee, the Cassa has access to the capital markets of Europe and the United States as well as to the European Investment Bank and the World Bank. To October 31, 1964, the Cassa had borrowed a total of Lit. 339 billion equivalent abroad and relent Lit. 204 billion (60%) to the

Institutes (see Table 2 for source and distribution of proceeds). In the case of direct loans, it has generally been the practice for the lender to select the projects to be financed and to stipulate that the loan proceeds be used for these specific projects. When funds have been raised through bond issues, the Cassa has distributed the proceeds either according to the 61-29-10 pattern or its own estimate of the capital requirements of the Institutes, and the Institutes themselves have selected the projects. In all these operations, the Institutes assume the risk, but to cover their risk and operating costs are either paid 0.45% by the Cassa or in some cases have charged the ultimate beneficiaries interest rates 0.45% in excess of the Institutes' borrowing rates.

### The Domestic Capital Market

The Cassa plays an important role in the domestic borrowings of the Institutes, which amount to about 47% of their capitalization. The cost of capital for domestic borrowings is now about 8%, but the Institutes lend at 3, 4 or 5%, depending on the type and size of the project. The Cassa provides the difference between the lending and borrowing rates, and in addition gives the Institutes an operating subsidy of above 1.00%. In other words they receive a subsidy on domestic borrowings in excess of the margin they received for handling external loans. Without the Cassa contribution, the lending rate of the Institutes would have to be raised to a prohibitive level to cover the cost of borrowing and provide an adequate operating margin.

The Institutes have had varying success with their bond issues. ISVEIMER has fared by far the best; it has raised Lit. 264 billion with ten issues. IRFIS has floated two issues for a total of Lit. 14 billion and CIS eight issues for a total of Lit. 40 billion. The most important terms of these issues are set forth in Table 3.

The very different experiences of the Institutes with bond issues seem to be due primarily to the differences in their stockholders. ISVEIMER's stockholders include the Bank of Naples, which has a 40% interest, and 36 other financial institutions. The Bank of Naples, with 440 branches, 350 of which are in the Mezzogiorno, has acted as the managing underwriter for ISVEIMER bonds, and the 36 other financial institutions have formed the underwriting syndicate. There has thus been a wide distribution of the risk and a broad coverage of the market. Even in 1964 when the bond market was weak, ISVEIMER was able to float two bond issues for Lit. 50 billion each.

In contrast, there are only a few financial institutions among the stockholders of IRFIS and CIS (see Annex 8), and they have seemed neither able nor willing to take on an underwriting relationship with these institutions like that of the Bank of Naples with ISVEIMER. In addition, of course, neither Sicily nor Sardinia has as well developed a capital market as the mainland of Southern Italy. Thus, the two insular Institutes have had to place their securities directly, mainly with the institutional investors of their Regions.

The differences in the borrowing experience of the Institutes are more apparent in the volume of their operations than in their cost. As can be seen in Table 3, all three Institutes placed 6%, 15-year bonds in the fall of 1964 at issue prices of 92-1/2 in the case of ISVEIMER and IRFIS and 92 in the case of CIS (corresponding to yields of 6.31% and 7.13% respectively). The issue price is actually determined by the Interministerial Committee for Credit and Savings, but these results suggest that the market has been willing to place all three Institutes on the same investment level. There seems little doubt that a strong underwriting effort could improve the borrowing position of IRFIS and CIS.

#### Earnings and Repayments of Principal

Because the Institutes were not set up to make profits, their earnings are not an important source of funds for their lending operations. As can be seen from Annex 18, giving Comparative Income Statements, their revenues have been sufficient to cover administrative costs, interest charges, taxes and reserve requirements. Net earnings are divided so as to provide a modest increment for the Special Fund and a nominal dividend for the stockholders. Dividends, which must be approved by the Interministerial Committee for Credit and Savings, are currently paid at the rate of 5% (of Endowment Fund) by ISVEIMER, 3% by IRFIS and 3.5% by CIS.

Because of the limited equity base, repayments of principal of Institute loans go primarily for debt service. The only repayments of principal which have not gone into debt service have been those of loans made from the Endowment Fund, the Special Fund and the part of the Revolving Fund which is not subject to repayment.

TABLE 1

REVOLVING FUNDS - Schedule of Long-Term Loans and Capital Contributions from the Treasury to the Institutes  
(Amounts in Millions of Lire)

<u>Long-Term Debt</u>	<u>ISVEIMER</u>	<u>IRFIS</u>	<u>CIS</u>	<u>Total</u>	<u>Interest Rate<sup>1/</sup></u>	<u>Period of Amortization</u>	
						<u>1st Payment</u>	<u>Last Payment</u>
Law No. 48 of Feb. 15, 1957	5,338	2,358	875	8,571	4%	Aug. 1, 1961	Feb 1, 1998
" " 102 of Feb. 8, 1958	9,684	4,604	1,588	15,876	4%	June 1, 1962	Dec 1, 1998
" " 657 of June 29, 1960	2,678	1,273	439	4,390	4%	July 1, 1966	July 1, 1992
" " " " " " (2nd Tranche)	2,080	989	341	3,410	4%	Dec. 1, 1962	Dec 1, 1998
 TOTAL LONG-TERM DEBT:	 19,780	 9,224	 3,243	 32,247			
 <u>Capital Contributions</u>							
Law No. 38 of Feb. 2, 1955	7,850	3,722	1,291	12,863	) Not Subject to Interest or Amortization		
Law No. 623 of July 30, 1959	2,359	1,128	379	3,866			
 TOTAL CAPITAL CONTRIBUTIONS:	 10,209	 4,850	 1,670	 16,729			
 TOTAL DEBT PLUS CONTRIBUTIONS:	 <u>29,989</u>	 <u>14,074</u>	 <u>4,913</u>	 <u>48,976</u>			

<sup>1/</sup> In order to enable the Institutes to lend at 4%, the Institutes are given an operating subsidy of 1% on loans administered out of Treasury Funds. The effective rate of interest on the above indebtedness, therefore, is 3%.

**TABLE 2**

DISTRIBUTION OF CASSA BORROWINGS (BY SOURCE) TO THE SPECIAL CREDIT INSTITUTES

	ISVELMER			IRFIS			CIS			TOTAL		
	No. of Projects	Amount Millions of Lire	%	No. of Projects	Amount Millions of Lire	%	No. of Projects	Amount Millions of Lire	%	No. of Projects	Amount Millions of Lire	%
<b>A. Bank Loans</b>												
IBRD <u>1/</u>	11	16,263	28.7	13	38,925	68.6	1	1,500	2.7	25	56,688	100
" <u>2/</u>	3	24,167	60.8	3	11,503	29.0	3	4,029	10.2	9	39,699	100
EIB	34	33,762	42.2	6	13,975	17.4	6	32,300	40.4	46	80,037	100
<b>B. Bond Issues</b>												
Morgan Stanley	1	7,105	61.0	1	3,378	29.0	1	1,164	10.0	3	11,647	100
Swiss	-	-	-	1	6,000	88.7	1	762	11.3	2	6,762	100
Banque Lambert	1	5,403	57.0	1	2,500	26.4	1	1,571	16.6	3	9,474	100
<b>TOTAL:</b>	<u>50</u>	<u>86,700</u>	<u>42.4</u>	<u>25</u>	<u>76,281</u>	<u>37.3</u>	<u>13</u>	<u>41,326</u>	<u>20.3</u>	<u>88</u>	<u>204,307</u>	<u>100</u>

1/ The loans in this category were made for specific industrial projects which the lender selected and appraised according to its own criteria.

2/ The loans in this category were made to the Cassa for irrigation projects contained in the general program. The lire counterpart funds were re-lent to the Institutes to finance industrial projects of their own selection.

TABLE 3

SCHEDULE OF BORROWINGS BY THE SPECIAL CREDIT INSTITUTES  
ON THE DOMESTIC CAPITAL MARKET

Issue	Principal Amount	Date of Issue	Maturity	Offering Terms		
	(Millions of Lire)			Interest Rate	Offering Price	Yield
<b>ISVEIMER</b>						
I. Ten Year Bonds of 1956	4,000	June 1, 1956	July 1, 1966	5½%	93	6.46
II. " " " " 1958	10,000	Oct 1, 1958	Jan 1, 1969	6 %	96½	6.45
III. Fifteen Year Bonds of 1960	15,000	Dec 5, 1960	Jan 1, 1976	5½%	98	5.70
IV. " " " " 1961	15,000	Oct 5, 1961	Jan 1, 1977	5½%	98	5.70
V. " " " " 1962	20,000	May 2, 1962	April 1, 1977	5½%	98	5.70
VI. " " " " 1962	22,000	Sept 5, 1962	Oct 1, 1977	5½%	96½	5.86
VII. " " " " 1963	28,000	April 1, 1963	April 1, 1978	5½%	96½	5.86
VIII. " " " " 1963	50,000	Oct 8, 1963	Oct 15, 1978	5½%	95	6.01
IX. " " " " 1964	50,000	Feb 10, 1964	March 15, 1979	6 %	97½	6.26
X. " " " " 1964	50,000	Oct 5, 1964	Oct 15, 1979	6 %	92½	6.81
TOTAL:	264,000					
<b>IRFIS</b>						
I. 1. Eleven Year Bonds of 1956	1,000	Dec 1, 1956	Dec 31, 1967	4 %	100	4.00
2. Nine " " " 1958	1,000	Feb 1, 1958	Dec 31, 1967	4 %	100	4.00
3. Ten " " " 1957	2,000	Oct 1, 1957	Dec 31, 1967	5 %	95	5.66
II. Fifteen " " " 1964	10,000	Sept 1, 1964	Dec 31, 1979	6 %	92½	6.81
TOTAL:	14,000					
<b>CIS</b>						
I. 1. Ten Year Bonds of 1954	200	Nov 1, 1954	Dec 1, 1964	6 %	92½	7.05
2. " " " " " "	500	Dec 1, 1954	Oct 1, 1964	6 %	92½	7.05
3. " " " " " "	300	Dec 1, 1954	Jan 1, 1965	6 %	92½	7.05
II. 1. " " " " 1955	500	May 1, 1955	June 1, 1965	6 %	92½	7.05
2. " " " " " "	500	Nov 1, 1955	Dec 1, 1965	6 %	92½	7.05
III. 1. " " " " 1958	700	Jan 1, 1958	Jan 1, 1968	4 %	100	4.00
2. " " " " 1959	300	Jan 1, 1959	Jan 1, 1969	4 %	100	4.00
IV. " " " " 1962	1,000	Oct 1, 1962	Oct 1, 1972	5½%	95½	6.11
V. Fifteen Year Bonds of 1962	5,000	Nov 1, 1962	Jan 1, 1977	5½%	96½	5.85
VI. " " " " 1963	20,000	May 1, 1963	June 1, 1978	5½%	96	5.91
VII. " " " " 1964	10,000	July 1, 1964	July 1, 1979	6 %	91	6.98
VIII. " " " " " "	1,000	Oct 1, 1964	Aug 1, 1974	6 %	92	7.13
TOTAL:	40,000					

Comparative Balance Sheets 1960 - 1963 of ISVEIMER, IRFIS and CIS  
(In Million Lire)

<u>I S V E I M E R</u>									
<u>As at December 31,</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>As at December 31,</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>ASSETS</u>					<u>LIABILITIES</u>				
Cash, Banks and Receivables	19,186	28,885	23,761	35,415	Accruals and other Transitory Items	2,697	3,085	5,206	8,759
Subscription to Endowment Fund	-	-	4,000	-	Provision against Losses	1,150	1,250	1,570	2,070
Government Securities	126	128	195	195	Other Provisions	203	379	545	794
Other Investments	-	31	17	125	Long-Term Debt:				
Loans to Industrial Enterprises	100,313	147,771	221,090	326,330	Outstanding Debentures	17,300	46,750	87,600	164,150
Loans to Commercial Enterprises	-	652	2,145	2,721	Cassa 2/	44,235	46,559	44,791	66,136
Loan Balance to be received from:					Commitments not Disbursed	32,765	51,815	82,786	115,700
(a) Treasury	11,485	5,555	5,636	692	Endowment Fund	1,000	1,000	5,000	5,000
(b) Cassa	7,105	4,665	2,400	14,948	Special Fund	15,244	15,458	15,616	15,789
Land, Buildings & Office Furniture	292	305	303	308	Revolving Fund	27,166	28,793	29,823	29,922
Other Assets	-	-	-	11,748 <sup>1/</sup>	Net Profit for Year	304	283	309	512
Transitory Items	3,557	7,380	13,699	16,350					
TOTAL ASSETS	142,064	195,372	273,246	408,832	TOTAL LIABILITIES	142,064	195,372	273,246	408,832
<u>I R F I S</u>									
<u>ASSETS</u>					<u>LIABILITIES</u>				
Cash, Banks and Receivables	11,088	12,539	12,230	13,816	Accruals and other Transitory Items	4,855	7,818	8,644	11,004
Investments	500	500	500	460	Provision against Losses	838	1,100	458	918
Loans to Industrial Enterprises	52,859	67,715	113,709	118,443	Other Provisions	162	249	1,585	1,868
Loan Balance to be Received from:					Long-Term Debt:				
(a) Treasury	5,535	1,756	3,786	1,043	Outstanding Debentures	3,900	3,458	2,979	2,448
(b) Cassa	4,815	1,348	5,528	2,470	Cassa 2/	54,297	60,344	76,198	87,502
Land, Buildings & Office Furniture	-	-	-	-	Commitments not Disbursed	68	220	24,282	12,652
Other Assets	9,045	9,524	4,507	6,441	Endowment Fund	800	800	4,000	4,000
Transitory Items	789	946	1,055	1,048	Special Fund	8,936	8,989	9,011	9,033
TOTAL ASSETS	84,631	94,328	141,315	143,721	Revolving Fund	10,679	11,294	14,086	14,149
<u>C I S</u>					Net Profit for Year	96	56	72	147
<u>ASSETS</u>					TOTAL LIABILITIES	84,631	94,328	141,315	143,721
Cash, Banks and Receivables	6,967	5,402	11,102	24,061					
Subscription to Endowment Fund	-	-	2,400	672	Accruals, and other Transitory Items	414	585	1,119	2,188
Investments	30	100	300	628	Provision against Losses	1,100	1,350	1,625	2,038
Loans to Industrial Enterprises )					Other Provisions	45	53	69	108
Loans to Commercial Enterprises )	10,856	13,115	19,829	90,683	Long-Term Debt:				
Loan Balance to be Received from:					Outstanding Debentures	1,890	1,620	7,370	26,928
(a) Treasury	163	26	133	162	Cassa 2/	5,610	6,761	13,185	40,086
(b) Cassa	-	-	-	16,721	Commitments not Disbursed 3/	n.a.	n.a.	n.a.	53,874
Land, Buildings & Office Furniture	50	50	53	19	Endowment Fund	600	600	3,000	3,000
Other Assets	557	1,275	1,382	783	Special Fund	3,846	4,192	4,538	4,878
Transitory Items	189	275	764	2,821	Revolving Fund	5,161	5,015	4,991	5,578
TOTAL ASSETS	18,812	20,243	35,963	138,834	Net Profit for year 4/	146	67	66	156
					TOTAL LIABILITIES	18,812	20,243	35,963	138,834

<sup>1/</sup> Unamortized Bond Discount.

<sup>2/</sup> Includes Cassa's external borrowings from IBRD, EIB, and Bonds issued abroad as well as advances from the Cassa to the Institutes to be refunded through the Institutes' domestic Bond Placements.

<sup>3/</sup> Undisbursed commitments for dates prior to December 31, 1963 are not available.

<sup>4/</sup> Includes Net Profit from operations with Regional Funds which cannot be separated from CIS Balance Sheets. Otherwise Operations with Regional Funds are excluded.

Comparative Income Statements 1960 - 1963 of ISVEIMER, IRFIS and CIS  
(In Million Lire)

	- - - I S V E I M E R - - - -				- - - - - I R F I S - - - - -				- - - - - C I S - - - - -			
<u>Calendar Years</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>INCOME</u>												
Interest from Loans	2,552	3,444	4,665	6,621	1,291	1,494	2,255	3,103	681	748	828	1,870
Interest from Current Account with Banks	1,102	1,177	1,090	814	584	792	586	703	354	362	436	1,239
Contributions from Cassa and the Ministry of Industry & Commerce	369	990	2,566	5,313	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	68	245	<u>1/</u>
Commissions, Refunds and Other Income	<u>133</u>	<u>150</u>	<u>108</u>	<u>120</u>	<u>289</u>	<u>601</u>	<u>625</u>	<u>667</u>	<u>45</u>	<u>43</u>	<u>61</u>	<u>111</u>
TOTAL INCOME	4,156	5,761	8,429	12,868	2,164	2,887	3,466	4,473	1,080	1,221	1,570	3,220
<u>EXPENSES</u>												
Interest on Borrowed Funds	2,521	3,824	5,714	8,899	990	1,517	1,772	2,349	450	568	854	2,087
Duties and Taxes	158	190	327	484	115	155	325	426	71	99	108	147
Administrative Expenses	688	942	1,266	1,723	425	543	605	832	132	178	249	404
Depreciation and Provisions	<u>485</u>	<u>522</u>	<u>813</u>	<u>1,250</u>	<u>538</u>	<u>616</u>	<u>692</u>	<u>719</u>	<u>281</u>	<u>309</u>	<u>293</u>	<u>426</u>
TOTAL EXPENSES	3,852	5,478	8,120	12,356	2,068	2,831	3,394	4,326	934	1,154	1,504	3,064
Net Profit <u>2/</u>	304	283	309	512	96	56	72	147	146	67	66	156
<u>Distribution of Net Profit</u>												
Dividends <u>3/</u>	50	50	50	211	24	24	40	101	30	30	30	67
Scholarship Fund	40	75	85	100	20	10	10	10	15	16	15	20
Contribution to Special Fund	<u>214</u>	<u>158</u>	<u>174</u>	<u>201</u>	<u>52</u>	<u>22</u>	<u>22</u>	<u>36</u>	<u>101</u>	<u>21</u>	<u>21</u>	<u>69</u>
	304	283	309	512	96	56	72	147	146	67	66	156

- 1/ Contributions from Cassa and Ministry of Industry and Commerce are included under "Interest from Loans".  
2/ With respect to CIS only: includes Net Profit from operations with Regional Funds (See also Footnote 4/ in Annex 17).  
3/ From 1960 to 1963 dividends were paid regularly at the following rates on endowment funds:  
ISVEIMER 5%; IRFIS 3%; CIS 5% except in 1963 when CIS reduced its dividend to 3.5%.



Analysis of Losses, Defaults and Reserves of ISVEIMER, IRFIS and CIS

The following table gives a rough statistical analysis of the Institutes' losses, defaults and reserves as at December 31, 1963 (in millions of Lire):

	<u>ISVEIMER</u>	<u>IRFIS</u>	<u>CIS</u>	<u>TOTAL</u>
Cumulative Amount of Loans Made (as of December 31, 1960)	154,536	100,446	25,247	280,229
Total Loan Portfolio	329,050	118,443	91,217	538,710
Loans Disbursed	213,380	105,791	38,735	357,906
Cumulative Net Losses on Loans	423	35	104	562
Loans in Default	2,556	289	347	3,192
Projected Losses on Defaults	383	43	52	478
Reserve for Bad Debts	2,070	918	2,038	5,026

Analysis

Cumulative Net Losses as % of Cumulative Amount of Loans Made (as of Dec.31,1960)	0.3%	0.03%	0.4%	0.2%
Loans in Default as % of Loans Disbursed	1.2%	0.3%	0.9%	0.9%
Projected Losses on Defaults as % of Loans Disbursed	0.2%	0.04%	0.1%	0.1%
Reserve for Bad Debts as % of Total Loan Portfolio	0.6%	0.8%	2.2%	0.9%
Reserve for Bad Debts: Cumulative Net Losses on Loans	4.9:1	26.2:1	19.6:1	8.9:1
Reserve for Bad Debts: Projected Losses on Defaults	5.4:1	21.3:1	39.2:1	10.5:1
Reserve for Bad Debts: Loans in Default	0.8:1	3.2:1	5.9:1	1.6:1

Losses to date have been negligible. For all three Institutes, they have amounted to Lit. 562 million to December 31, 1963, or 0.2% of the amount of loans made to the end of 1960. Since comparable statistics on loans in the course of repayment could not be obtained from all Institutes, that date was chosen as a reasonable way of excluding loans on which repayment had not started.

The default rate has also been low. The outstanding balance of loans made by all the Institutes in default as at December 31, 1963, was Lit. 3.2 billion. This is 0.9% of the total volume of loans fully disbursed as of that date, which amounted to about Lit. 358 billion. "Loans in Default" in this case include only those loans which are so seriously in arrears that legal proceedings have begun. Like most banks, the Institutes are reluctant to commence bankruptcy or foreclosure proceedings against a delinquent borrower and

do so only as a last resort. On the other hand, the Institutes impose a virtually automatic penalty charge of 8-9% on the outstanding balance of loans, from the date payments of interest or principal go into arrears. This measure, while it may induce borrowers to meet payments, also seems likely to make it more difficult for them to reinstate the loan.

It was not possible to determine to what extent the loss figures actually reflects business failures, since that may be obscured by the effective security arrangements. Judging from past experience, these measures should allow the Institutes to cover at least 85% of the unpaid balances of defaulted loans. On that basis, the overall projected loss on account of defaults would amount to Lit. 478 million, or only 0.1% of disbursed loans. Losses and defaults are not concentrated in any sector or sectors of industry although the incidence has been higher among smaller enterprises. Lack of managerial skills has been mentioned as the most common cause for business failure.

The Institutes have accumulated reserves of Lit. 5.0 billion, or 0.9% of their total loan portfolios of Lit. 538.7 billion outstanding at the end of 1963. There are no statutory provisions with respect to the setting up of reserves, nor are the reserves funded, but for tax purposes, the Institutes may establish bad debt reserves by annual charges to income not exceeding 0.4% of gross profits.<sup>1/</sup> In addition, the Treasury allows the Institutes to charge up to 70% of the losses incurred out of the lending of Revolving Funds to the Treasury's contributions to these Funds. The reserves appear to be sufficient in relation to historical losses (amounting to 8.9:1 on the average) and even more so in relation to projected losses (in which case the average ratio rises to 10.5:1). Using a more conservative measure, even current defaults are covered 1.6 times by reserves, although the average is considerably distorted by ISVEIMER, where the ratio (0.8:1) is not nearly as sound as the others.

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<sup>1/</sup> This provision may be used until the reserve funds reach a level equal to 5% of the portfolio, at which time the charges must be reduced to 0.2% of gross profits.

Principal Assumptions for the Cash Flow Forecasts for ISVEIMER, IRFIS and CIS for the Period April 1, 1964 to September 30, 1966

Sources of Funds

Net Income is the balance left from what the Institutes refer to in their income statements as "Utile Netto", after distribution of dividends and allocations to the scholarship fund. No allowance was made for depreciation of fixed assets because the Institutes have almost no fixed assets. Because this source of funds is so small no detailed forecasts have been attempted.

Loan Repayments by Borrowers were calculated only on loans that have already been made. Since the average grace period of the Institutes' loans is about four years, no repayments on new loans would fall into the forecast period.

Capital Contributions. Additional contribution of Lit. 175 billion (US\$280 million) are to be made by the Treasury to cover the period July 1, 1963 to June 30, 1969. A Law authorizing these contributions has been passed early in 1965, and it was assumed that the initial contribution (on amounts accrued) would be made in the second or third quarter of 1965. Allocations will be in the following proportions: ISVEIMER 61%, IRFIS 29%, and CIS 10%. Contributions are forecast as follows: (in billions of Lire):

	Forecast Period	Oct. 1, 1966 to June 30, 1967	July 1, 1967 to June 30, 1968	July 1, 1968 to June 30, 1969	Total
ISVEIMER	58.70	24.15	16.00	7.90	106.75
IRFIS	27.90	11.45	7.60	3.80	50.75
CIS	<u>9.60</u>	<u>4.00</u>	<u>2.60</u>	<u>1.30</u>	<u>17.50</u>
Total	96.20	39.60	26.20	13.00	175.00

Domestic Bond Issues and proceeds from existing external borrowings. (The domestic bond issues are discussed in paras. 131-133 of the main body of the report). With respect to new loans from the European Investment Bank, it was assumed that the annual lending volume would amount to US\$17.5 million equivalent (Lit. 10.94 billion) and that ISVEIMER, IRFIS and CIS would receive 60%, 30% and 10% respectively. Drawdown on the loans has been assumed to run over two years. The drawdown may in fact be slower since EIB projects have tended to be larger than average size.

Applications of Funds

Repayments to Lenders were based on loans outstanding as at October 31, 1964. Repayments on loans made after that date were not taken into account, since only a negligible amount, if any, would fall into the forecast period.

Disbursements to Borrowers. These represent disbursements on existing loans and on additional loans to be contracted for from among the loans already approved but not yet signed. The figures for loans to be contracted are Institute forecasts, based on their foreseeable cash availabilities.

On new commitments, it was assumed that 50% of the loans under consideration as at October 31, 1964 would be made by mid-1965 and that disbursements would start in the fourth quarter of that year and run over two years. No additional loans were assumed for 1965.

For 1966, it was assumed that the Institutes would lend Lit. 150 billion at a constant rate, that disbursements would start in the second quarter and continue for two years, and that they would be divided among the Institutes as follows: ISVEIMER 58%, IRFIS 23% and CIS 19% (based on their share in total loans to the end of 1963).

TABLE 1

ISVEIMER  
(Istituto Sviluppo Economico dell' Italia Meridionale)

Semi-annual Periods	ESTIMATED CASH FLOW (in million of Lire)					
	April 1, 1964 - Sept. 30, 1964	Oct. 1 1964 - Mar. 31, 1965	April 1, 1965 - Sept. 30, 1965	Oct. 1, 1965 - Mar. 31, 1966	April 1, 1966 - Sept. 30, 1966	TOTAL April 1, 1964 - Sept. 30, 1966
	- Actual -	- - - - -	- - - - -	- Forecast -	- - - - -	- - - - -
<b>SOURCES</b>						
Net Income	202	-	210	-	230	642
Loan Repayments by Borrowers:						
Endowment and Special Funds	1,355	1,470	1,495	1,615	1,640	7,575
Revolving Funds (Treasury)	500	500	700	800	1,000	3,500
Externally Borrowed Funds	605	1,589	1,867	1,915	2,384	8,360
Total Loan Repayments	2,460	3,559	4,062	4,330	5,024	19,435
Capital Contributions:						
New Revolving Funds (Treasury)	-	-	37,400	10,650	10,650	58,700
Payments of Balance of Existing Revolving Funds <sup>1/</sup>	-	700	-	700	-	1,400
Domestic Bond Issues	-	46,250	-	27,250	27,250	100,750
Proceeds from External Borrowings of the Cassa:						
European Investment Bank <sup>2/</sup>	5,213	3,664	3,165	7,300	7,455	26,797
Banque Lambert Bond Issue <sup>2/</sup>	944	283	635	-	-	1,862
European Investment Bank	-	-	820	1,640	2,460	4,920
TOTAL SOURCES	8,819	54,456	46,292	51,870	53,069	214,506
<b>APPLICATIONS</b>						
Repayments to Lenders:						
Domestic Bond Issues	-	900	-	2,500	-	3,400
Revolving Fund (Treasury)	21	26	31	36	43	157
Cassa External Borrowings:						
European Investment Bank and World Bank	605	879	1,512	1,560	1,759	6,315
Morgan Stanley Bond Issue	-	710	355	355	355	1,775
Banque Lambert Bond Issue	-	-	-	-	270	270
Total Repayments to Lenders	626	2,515	1,898	4,451	2,427	11,917
Disbursements to Borrowers:						
a) Industrial Projects:						
On Existing Loan Contracts	50,000	50,000	29,000	17,000	-	146,000
On Loan Applications approved by Directors (No Loan Contract Signed)	-	13,000	25,000	36,000	-	74,000
On Loan Applications under Study	-	-	-	29,800	29,800	59,600
On Expected New Loan Applications	-	-	-	-	9,500	9,500
Total Disbursements Industrial Projects	50,000	63,000	54,000	82,800	39,300	289,100
b) Commercial and Special Machinery Credits:						
On Existing Loan Contracts	827	275	275	275	275	1,927
On Loan Applications Approved by Directors (No Loan Contract Signed)	-	300	400	500	500	1,700
Total Disbursements (a plus b)	50,827	63,575	54,675	83,575	40,075	292,727
TOTAL APPLICATIONS	51,453	66,090	56,573	88,026	42,502	304,644
Surplus (Deficit) at beginning of period	49,128	6,494	(5,140)	(15,421)	(51,577)	49,128
Increase (Decrease) during period	(42,634)	(11,634)	(10,281)	(36,156)	10,567	(90,138)
Surplus (Deficit) at end of period	6,494	(5,140)	(15,421)	(51,577)	(41,010)	(41,010)

<sup>1/</sup> Law No. 623 (1959).<sup>2/</sup> Disbursements on loans already contracted for by the Cassa.

TABLE 2

IRFIS  
(Istituto Regionale per il Finanziamento alle Industria Sicilia)ESTIMATED CASH FLOW  
(in millions of Lire)

Semi-annual Periods	April 1, 1964 - Sept. 30, 1964	Oct. 1, 1964 - Mar. 31, 1965	April 1, 1965 - Sept. 30, 1965	Oct. 1, 1965 - Mar. 31, 1966	April 1, 1966 - Sept. 30, 1966	TOTAL April 1, 1964 - Sept. 30, 1966
	- Actual -	- - - - -	- - - - -	- Forecast -	- - - - -	- - - - -
<u>SOURCES</u>						
Net Income	51	-	60	-	75	186
Loan Repayments by Borrowers:						
Endowment and Special Funds	480	503	504	377	343	2,207
Revolving Funds (Treasury)	235	335	371	435	436	1,812
Externally Borrowed Funds	2,712	2,809	2,943	3,157	3,161	14,782
Domestic Bond Issues	149	188	191	350	351	1,229
Total Loan Repayments	3,576	3,835	4,009	4,319	4,291	20,030
Capital Contributions:						
New Revolving Funds (Treasury)	-	-	17,700	5,100	5,100	27,900
Payments of Balance of Existing Revolving Funds <sup>1/</sup>	-	650	711	-	-	1,361
Domestic Bond Issues	-	9,050	-	9,050	-	18,100
Proceeds from External Borrowings of the Cassa:						
European Investment Bank <sup>2/</sup>	700	270	-	-	-	970
Banque Lambert Bond Issue <sup>2/</sup>	300	-	-	-	-	300
European Investment Bank	-	-	410	820	1,240	2,470
TOTAL SOURCES	4,627	13,805	22,890	19,289	10,706	71,317
<u>APPLICATIONS</u>						
Repayments to Lenders:						
Domestic Bond Issue	141	445	146	492	155	1,379
Revolving Funds (Treasury)	198	200	202	204	207	1,011
Cassa Advances	-	9,050	11,960	-	-	21,010
Cassa External Borrowings:						
European Investment Bank and World Bank	2,212	2,292	2,398	2,475	2,446	11,823
Banque Lambert and Morgan Stanley Bond Issues	-	279	274	269	264	1,086
Total Repayments to Lenders	2,551	12,266	14,980	3,440	3,072	36,309
Disbursements to Borrowers:						
a) Industrial Projects:						
On Existing Loan Contracts	7,606	7,326	5,657	4,657	-	25,246
On Loan Applications Approved by Directors (No Loan Contract Signed)	-	6,674	8,343	8,343	1,219	24,579
On Loan Applications under Study	-	-	-	3,900	3,900	7,800
On Expected New Loan Applications	-	-	-	-	3,700	3,700
Total Disbursements Industrial Projects	7,606	14,000	14,000	16,900	8,819	61,325
b) Commercial and Special Machinery Credits:						
On Existing Loan Contracts	90	64	-	-	-	154
On Loan Applications Approved by Directors (No Loan Contract Signed)	-	50	80	100	150	380
Total Disbursements (a plus b)	7,696	14,114	14,080	17,000	8,969	61,859
TOTAL APPLICATIONS	10,247	26,380	29,060	20,440	12,041	98,168
Surplus (Deficit) at beginning of period	8,039	2,419	(10,156)	(16,326)	(17,477)	8,039
Increase (Decrease) during period	(5,620)	(12,575)	(6,170)	(1,151)	(1,335)	(26,851)
Surplus (Deficit) at end of period	2,419	(10,156)	(16,326)	(17,477)	(18,812)	(18,812)

<sup>1/</sup> Law No. 38 (1955); Law No. 623 (1959); Law No. 48 (1957); Law No. 102 (1958) and Law No. 657 (1960).<sup>2/</sup> Disbursements on loans already contracted for by the Cassa.

TABLE 3

CIS  
(Credito Industriale Sardo)ESTIMATED CASH FLOW  
(in millions of Lire)

Semi-annual Periods	April 1, 1964 - Sept. 30, 1964	Oct. 1, 1964 - Mar. 31, 1965	April 1, 1965 - Sept. 30, 1965	Oct. 1, 1965 - Mar. 31, 1966	April 1, 1966 - Sept. 30, 1966	TOTAL April 1, 1964 - Sept. 30, 1966
	- Actual -	- - - - -	- - - - -	- Forecast -	- - - - -	- - - - -
<b>SOURCES</b>						
Net Income	45	-	55	-	65	165
Loan Repayments by Borrowers:						
Endowment and Special Funds	239	244	277	327	372	1,459
Revolving Funds (Treasury)	140	150	190	200	218	898
Externally Borrowed Funds	146	154	165	174	186	825
Domestic Bond Issues	142	176	216	260	319	1,113
Total Loan Repayments	667	724	848	961	1,095	4,295
Capital Contributions:						
New Revolving Funds (Treasury)	-	-	6,100	1,750	1,750	9,600
Payments of Balance of Existing Revolving Funds <sup>1/</sup>	130	45	-	-	-	175
Advances from the Cassa	3,500	-	-	-	-	3,500
Domestic Bond Issues	9,100	10,120	-	9,200	-	28,420
Proceeds from External Borrowings of the Cassa:						
European Investment Bank <sup>2/</sup>	4,823	12,095	400	-	-	17,318
Banque Lambert Bond Issues <sup>2/</sup>	-	205	-	-	-	205
European Investment Bank	-	-	140	275	410	825
TOTAL SOURCES	18,265	23,189	7,543	12,186	3,320	64,503
<b>APPLICATIONS</b>						
Repayments to Lenders:						
Domestic Bond Issues	190	125	135	110	100	660
Revolving Funds (Treasury)	68	28	89	70	71	326
Cassa Advances	-	3,500	-	-	-	3,500
Cassa External Borrowings:						
European Investment Bank and World Bank	233	215	223	249	255	1,175
Banque Lambert Bond Issue	-	49	50	51	52	202
Total Repayments to Lenders	491	3,917	497	480	478	5,863
Disbursements to Borrowers:						
a) Industrial Projects:						
On Existing Loan Contracts	14,825	31,866	12,551	1,819	-	61,061
On Loan Applications approved by Directors (No Loan Contract Signed)	-	3,555	10,947	13,074	12,977	40,553
On Loan Applications under Study	-	-	-	10,600	10,600	21,200
On Expected New Loan Applications	-	-	-	-	3,100	3,100
Total Disbursements Industrial Projects	14,825	35,421	23,498	25,493	26,677	125,914
b) Commercial Projects:						
On Existing Loan Contracts	182	62	-	-	-	244
On Loan Applications Approved by Directors (No Loan Contracts Signed)	-	30	59	67	22	178
Total Disbursements (a plus b)	15,007	35,513	23,557	25,560	26,699	126,336
TOTAL APPLICATIONS	15,498	39,430	24,054	26,040	27,177	132,199
Surplus (Deficit) at beginning of period	15,065	17,832	1,591	(14,920)	(28,774)	15,065
Increase (Decrease) during period	2,767	(16,241)	(16,511)	(13,854)	(23,857)	(67,696)
Surplus (Deficit) at end of period	17,832	1,591	(14,920)	(28,774)	(52,631)	(52,631)

<sup>1/</sup> Law No. 38 (1955); Law No. 623 (1959); Law No. 48 (1957); Law No. 102 (1958) and Law No. 657 (1960).<sup>2/</sup> Disbursements on loans already contracted for by the Cassa.

List of Industrial Loans to be Made from Proceeds of Bank Loan by Institutes, Industrial Sectors and Size of Loan

SECTOR OF INDUSTRY	ISVEIMER					IRFIS					CIS					% of Total Amount for ISVEIMER IRFIS & CIS
	Below Lire 500 Million		Above Lire 500 Million		% of Total Amount	Below Lire 500 Million		Above Lire 500 Million		% of Total Amount	Below Lire 500 Million		Above Lire 500 Million		% of Total Amount	
	No.	Amount	No.	Amount		No.	Amount	No.	Amount		No.	Amount	No.	Amount		
	No.	Amount	No.	Amount	Amount	No.	Amount	No.	Amount	Amount	No.	Amount	No.	Amount	Amount	
Food, Food Processing and Refrigeration Plants	9	1,958	3	2,400	12.3%	13	2,425	1	1,211	15.2%	5	637	-	-	2.8%	10.5%
Textile & Garment Industry	15	2,391	1	600	8.4%	3	720	-	-	3.1%	1	96	2	4,037	17.9%	9.5%
Metal Processing and Engineering Industry	29	5,712	3	6,782	35.2%	8	1,469	3	2,400	16.2%	2	168	-	-	0.7%	20.0%
Chemical, Photographic and Related Industries	9	1,755	4	5,260	19.8%	3	475	2	2,500	12.4%	-	-	3	10,500	45.4%	24.8%
Paper, Board and Processing Thereof	6	1,013	2	1,730	7.7%	5	1,430	3	7,595	37.7%	-	-	2	4,000	17.3%	19.1%
Construction Materials, Glass, Ceramics	18	3,377	2	2,100	15.4%	7	879	2	2,650	14.6%	9	1,953	1	1,140	13.4%	14.7%
Miscellaneous Industries	5	397	-	-	1.2%	1	200	-	-	0.8%	3	577	-	-	2.5%	1.4%
Total	91	16,603	15	18,872	100%	40	7,598	11	16,356	100%	20	3,431	8	19,677	100%	100%



List of Industrial Loans to be Made from Proceeds of Bank Loan by Institutes and Size of Loan  
(In Million Lire)

	ISVEIMER			IRFIS			CIS		
	No.	Amount	Per Cent	No.	Amount	Per Cent	No.	Amount	Per Cent
50 - 60	3	164	0.5	-	-	-	1	55	0.3
61 - 100	21	1,631	4.6	10	833	3.5	8	699	3.0
101 - 300	57	10,586	29.8	24	4,409	18.4	9	1,845	8.0
301 - 500	12	5,123	14.5	6	2,356	9.8	3	1,332	5.8
501 - 1,000	5	3,550	10.0	5	4,125	17.2	1	537	2.3
1,001 - 1,500	5	6,430	18.1	3	3,911	16.3	1	1,140	4.9
Over 1,501	<u>3</u>	<u>7,991</u>	<u>22.5</u>	<u>3</u>	<u>8,320</u>	<u>34.8</u>	<u>5</u>	<u>17,500</u>	<u>75.7</u>
Total	106	35,475	100.0%	51	23,954	100.0%	28	23,108	100.0%



## ITALY

## INDUSTRIAL DEVELOPMENT CONCENTRATION

