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ITALY

KEY ISSUES AND POLICIES

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Italy: Key Issues and Policies

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Foreword

Small and medium-sized enterprises (SMEs) and entrepreneurs are major drivers of innovation, economic growth and job creation, and play a critical role in social cohesion. They are essential to the Italian economy. This review underlines some important points of strength with respect to Italian SMEs and entrepreneurship. Italy can be characterised as an SME economy, with very large numbers of SMEs and entrepreneurs. Italian medium-sized firms very often excel in their market niches and, on aggregate, their productivity exceeds that of their peers in countries such as Germany and France. Italian SMEs have a strong propensity to business collaboration, as found for example in many world class industrial clusters. The Italian business environment is also favourable to business start-ups. The time needed to open a business is shorter than in most other OECD countries. Administrative burdens on firms, especially those of small size, are also low thanks to simplification of rules and procedures during the last 10 years. Important steps have also been taken by the government to help SMEs negotiate the crisis by improving their access to finance; for example the resources of the national credit guarantee fund have been increased and the government has brought forward payments of state commercial arrears to private-sector firms.

But there are also areas of weakness. The global economic crisis has hit hard in Italy, which has suffered a double-dip recession that has seen a reduction in the total stock of SMEs. Furthermore, the Italian SME sector is dominated by micro and small firms, whereas productivity would be greatly enhanced if the country were able to generate more high-productivity medium-sized companies and high-impact entrepreneurship. For this to happen, barriers to business growth have to be removed, including reducing the tax wedge on labour, streamlining the Italian tax system, favouring competition, attracting and embedding foreign direct investment, supporting the growth of equity finance and improving the training and skills of SMEs and entrepreneurs. The coherence of national and local policies also needs to be increased, including the contribution of SME and entrepreneurship programmes to the development of the south, and policies for industrial clusters rethought to enable diversification and upgrading. The nature of these challenges is set out in this report together with recommended policy responses.

The study is one of a series of OECD country reviews of SME and entrepreneurship issues and policies, which provide a tool for assessing and improving the design and implementation of SME and entrepreneurship policies and programmes in specific countries and for sharing experiences across countries. They benchmark SME and entrepreneurship performance, explore the business environment for SMEs and entrepreneurs, assess policies and programmes specifically targeted on SMEs and entrepreneurs and offer recommendations for improvements. The reviews are based on a standard methodology including a diagnostic questionnaire completed by the national authorities, study missions and fieldwork, and a peer review of the report by Delegates in the OECD Working Party on SMEs and Entrepreneurship.

This review was requested by the Italian SME Envoy (i.e. Garante Nazionale delle PMI*), Mr. Giuseppe Tripoli, with a view to providing analysis and advice to Italian policy makers, SMEs and SME stakeholders. Mr. Tripoli's comments and feedback have also been helpful in steering the work of the OECD secretariat towards the issues of greatest relevance to entrepreneurship and SME development in Italy. The OECD will continue to work with the Italian government to push reforms forward in entrepreneurship and SME development, which are critical for recovery from recession and renewal with economic growth.*

Sergio Arzeni

Director of the Centre for Entrepreneurship, SMEs and Local Development
OECD

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The project was led by Dr. Jonathan Potter, Senior Economist, OECD, under the direction of Ms. Miriam Koreen, Deputy Director of the OECD Centre for Entrepreneurship, SMEs and Local Development.

Abbreviations

ABI	Italian Banking Association
ACE	Aalto Centre for Entrepreneurship
AIM	Alternative Investment Market
AVP	Aalto Ventures Programmes
B2B	Business to Business
B2C	Business to Consumer
BRICS	Brazil, Russian Federation, India, China, South Africa
CAN	Contract Award Notice
CCIE	Italian Chambers of Commerce Abroad
CDO	Compagnia delle Opere
CDP	Cassa Depositi e Prestiti
CGF	Credit Guarantee Fund
CIF	Committee for the Promotion of Women Entrepreneurship
CNA	National Confederation of Crafts and SMEs
CSR	Corporate Social Responsibility
CVT	Continuing Vocational Training
DASTI	Danish Agency for Science, Technology and Innovation
ECTS	European Credit Transfer and Accumulation System
EFG	Enterprise Finance Guarantee
EIP	Eco Industrial Park
ESF	European Social Fund
ETUC	European Trade Union Confederation
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GVC	Global Value Chain
HEIF	Higher Education Innovation Fund
HGF	High Growth Firm
i2e	Insights to Excellence
IBAN	Italian Business Angel Network
ICE	Foreign Trade Institute
ICT	Information and Communications Technologies
IPO	Initial Public Offering
ISO	International Standards Office
ISTAT	Italian National Statistical Office
ITF	Industry Training Fund
ISCED	International Standard Classification of Education

IVET	Initial Vocational Education and Training
MEPA	Public Administration eMarketplace
MGS	Mutual Guarantee Scheme
MISE	Ministry of Economic Development
NFI	National Fund for Innovation
NGO	Non-Governmental Organisation
OCS	Office of the Chief Scientist
OECD	Organisation for Economic Co-operation and Development
PMR	Product Market Regulation
R&D	Research and Development
RIA	Regulatory Impact Assessment
RIBES	Network of Biomedical Enterprises
SACE	Foreign Trade Insurance Service
SIMEST	Company for Support to Exporting Companies
SBA	Small Business Act
SFLG	Small Firm Loan Guarantee
SME	Small or Medium-Sized Enterprise
STEP	Shell Technology Enterprise Programme
TEA	Total Entrepreneurial Activity
VCT	Venture Capital Trust
VET	Vocational Education and Training
YVI	Virtual Learning Environment

BASIC STATISTICS OF ITALY

(The numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (1 000 000):	60.7		Population density per km²	196.0	(34.3)
Under 15 (%)	14.0	(18.4)	Life expectancy (years, 2009):	82.0	(79.7)
Over 65 (%)	20.5	(14.9)	Males	79.4	(76.9)
Foreign-born (%, 2010)	8.8		Females	84.6	(82.5)
Latest 5-year average growth (%)	0.0	(0.5)	Last general election: February 2013		
ECONOMY					
GDP, current prices (billion USD)	2 017		Value added shares (%, 2011):		
GDP, current prices (billion, local currency)	1 566		Primary	2.0	(2.6)
Latest 5-year average real growth (%)	-0.6	(0.8)	Industry incl. construction	24.7	(27.8)
GDP per capita, PPP (thousand USD)	33.1	(35.4)	Services	73.3	(69.5)
GENERAL GOVERNMENT					
Expenditure (% of GDP)	50.6	(45.0)	Gross financial debt (% of GDP)	127.0	(90.2)
Revenue (% of GDP)	47.7	(38.1)	Net financial debt (% of GDP)	112.9	(58.1)
EXTERNAL ACCOUNTS					
Exchange rate (per USD)	0.778		Main exports (% of total merchandise exports, 2011):		
PPP exchange rate (USA=1)	0.776		Manufactured	82.6	
Exports of goods and services (% of GDP, 2011)	28.9	(52.7)	of which, machinery and transport	35.1	
Imports of goods and services (% of GDP, 2011)	30.4	(49.7)	Main imports (% of total merchandise imports, 2011):		
Current account balance (% of GDP)	-0.6	(-0.7)	Manufactured	64.1	
			of which, machinery and transport	24.8	
			Mineral fuels, lubricants and related materials	19.8	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (%) for 15-64 year olds:	57.7	(64.9)	Unemployment rate (%):	10.6	(7.9)
Males	67.5	(73.0)	Youth (%)	35.2	(16.2)
Females	47.7	(56.8)	Long-term unemployed (%)	5.6	(2.6)
Average worked hours per year	1 774.0	(1 776.0)	Tertiary educational attainment 25-64 year-olds (%, 2010)	14.5	(30.0)
Gross domestic expenditure on R&D (% of GDP, 2010)	1.3				

Notes: Figures for 2012 except where otherwise noted; OECD average shown when data are available for at least 75% of the member countries

Sources: OECD.STAT (*http://stats.oecd.org*); OECD Economic Outlook database, OECD Better Life Index: *www.oecdbetterlifeindex.org*.

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Executive summary

Small and medium-sized enterprises (SMEs, i.e. enterprises with less than 250 employees) are the backbone of the Italian economy. They account for 99.9% of its firms, 80% of its employment and 67% of its value added, among the highest proportions in any OECD country, and medium-sized Italian firms (50-249 employees) have high productivity levels by international standards. Italy is also an entrepreneurial economy. Nearly one-half of the population would prefer to be business owners than employed, nearly one-quarter of the workforce is self-employed, and small businesses tend to be young.

But notwithstanding the strong physical presence of the small business sector in Italy, there are some significant structural weaknesses to address. The proportion of people starting businesses is below the OECD average. The SME sector is weighted towards micro enterprises; approximately 95% of Italian businesses have less than 10 employees, the highest proportion in the OECD area, and there is a relatively large informal sector. Because micro and informal enterprises have relatively low productivity, the high shares depress aggregate productivity across the economy. The highly competitive Italian medium-sized firm bracket is too small to really drive the Italian economy forward, accounting for only 0.5% of the firm stock. Finally, the "high-impact entrepreneurship" that is associated with the most impressive growth and job creation performance is also limited in scale; gazelles (young enterprises with rapid growth) account for only 0.2% of manufacturing businesses and 0.4% of services businesses in Italy, well below the rates of several more entrepreneurially-dynamic OECD economies. Italy's future policy agenda should therefore stress increasing the business creation rate, strengthening micro firms and formalising the informal economy, building a larger medium-sized firm sector and increasing the volume of high-impact entrepreneurship.

The policy framework within which the appropriate actions can be formulated and delivered was strengthened in 2011 by the enactment of the Statute of Enterprises. This has set out priorities for Italian SME and entrepreneurship policies and programmes and is directed to the application of the 10 principles of the Small Business Act for Europe (SBA) in the particular context of Italy. It is backed by an Annual Law for the Micro and SME Sector, which proposes specific policy interventions for each coming year. In addition, the government has appointed an SME Envoy, sitting at the centre of a network of regional SME Envoys, who is responsible for monitoring the implementation of the SBA, assessing the impact of new regulations on SMEs, and recommending new policy measures that will respond to national and regional needs. To ensure that the strategic framework is fully effective three further steps should be taken. First, the policies proposed by the SME Envoy should be adopted in the Annual Law for the Micro and SME Sector and subsequently funded and implemented without delay. Second, publicly-supported business development

services to SMEs and entrepreneurs should reach out further to start-up entrepreneurs and to people from social groups that are under-represented in entrepreneurship. Third, consideration should be given to creation of an SME agency or public financial institution devoted to promoting investment in and support of growth-oriented start-ups and existing and potential medium-sized SMEs, co-ordinating existing and developing new measures.

The Italian regulatory environment is quite favourable to business start-up, reflecting improvements made in recent years. For example, it now takes an average of only one day to open a sole-proprietorship firm. The more significant regulatory barriers affect business expansion, which is hindered by a tax system that is complex and imposes high nonwage labour costs on SMEs and by weak contract enforcement for SMEs and their investors. Recent administrative reforms go some way to addressing the issues, including new forms of contract dispute resolution, a simplified intellectual property regime for SMEs and favourable tax treatments for certain categories of entrepreneurship (e.g. youth and technology-based entrepreneurship). These improvements could be strengthened by better protection for forms of intellectual property that provide alternatives or complements to patents and are more applicable to non-technological innovation, reductions in business taxation in cases where it generates high rates of nonwage labour costs, and measures to increase competition in network services. The general business environment for start-ups, high impact entrepreneurship and high productivity medium-sized firms could also benefit from targeted fiscal incentives and improved legal and tax regimes aimed at expanding investment in equity finance, and increased incentives for universities to generate new firms and collaborate with SMEs on innovation.

SME and entrepreneurship programmes have been strengthened in Italy in several areas. To support the access of SMEs and entrepreneurs to financing, the government took actions during the crisis to encourage agreement of debt moratoria for SMEs by Italian banks, accelerate the payment of government debts to SMEs, offer soft loans to SMEs through the public bank, and expand the national loan guarantee fund. These temporary measures should be unwound when credit conditions stabilise and steps should be taken to limit support for non-additional loans and loan guarantees and non-performing loans. Structural financial measures should also be promoted to increase capabilities and scale in local mutual guarantee associations, expand mentoring and coaching in SME finance, and facilitate the emergence of SME equity investment funds. Some important new programmes have also been launched for SME innovation and internationalisation, notably "network contracts", which offer a mix of tax credits, cheaper bank credit and simplified administrative procedures for SMEs engaging in innovation collaborations, and "innovative start-up legislation", which offers tax incentives for young and small technology businesses. However, these measures are biased towards technological innovation, and there is also a need for some targeted support for non-technological innovation as well as increased support for university spin-out companies, and collaborations between universities and SMEs on innovation.

Another priority action area for Italy lies in building the skills of SME workforces and management and entrepreneurial attitudes, skills and competencies in the population. For example, only 40% of young people say that their school education helped them to develop an entrepreneurial attitude, compared to an EU27 average of 53%. This could be addressed by introducing a national entrepreneurship education strategy and action plan. Furthermore, only 29% of Italian SMEs participate in continuous vocational training for their employees, one of the lowest rates in the EU25. Appropriate responses include

national standards regarding the contents and methods of apprenticeship training, placements of university students in SMEs, and introduction of SME training vouchers. For SME management, an online system of "enterprise diagnostics", greater use of retired professionals as consultants and mentors and support for peer-to-peer learning should be considered. On the other hand, the government's corporate social responsibility strategy is helping build SME capabilities through support measures such as fiscal incentives, consultancy and training for environmental protection or employment of vulnerable groups. The potential of youth and women entrepreneurship has also been recognised in a number of public programmes, although there are gaps to be filled in support for ethnic minority, senior and social entrepreneurship.

A persistent problematic feature of the Italian economy is the large spatial disparity in the performance of the relatively prosperous North and the lagging South; a gap which is reflected in and perpetuated by relatively low SME densities and start-up rates in the South. The annual National Plan for the South and the European Union Structural Funds both offer important funding for regional economic development. However, spending in the past has been weighted to infrastructure and other programme types at the expense of SME and entrepreneurship development, while there are also some constraints related to the capacity to absorb the available funding and to deliver business development support services on the ground, which limit the extent to which these funds are exploited for SME and entrepreneurship development. At the same time there are many local SME and entrepreneurship policy actions and actors throughout Italy, and better co-ordination is needed among them and between the local and national levels. In particular, the local dimension can be strengthened by stronger inter-regional co-operation on cluster development and smart specialisation strategies, national support to achieve an appropriate minimum level of business development support services in all regions and an effort to expand regulatory simplification efforts at regional level. Finally, local industrial clusters are a traditional mainstay of the Italian economy, accounting for 30% of manufacturing exports for example, which face important challenges in adapting to competition from emerging economies. More forward and outward-looking cluster policies are needed, aimed at increasing the productivity of cluster firms, encouraging them to move up the value chain, diversifying cluster activities beyond their traditional cores, and internationalising their markets, supply chains and innovation collaborations.

Given this context, some of the main policy recommendations offered to the Italian government include:

Galvanise the SME sector

- Take actions to increase the business start-up rate and the development of high-productivity medium-sized enterprises and high-impact growth-oriented start-ups.

Address weaknesses in framework conditions that hinder business expansion

- Implement intellectual property reform aimed at non-technological innovation, reduce labour taxation where non-wage labour costs are high, increase incentives for university engagement with entrepreneurship, and improve tax incentives and legal regimes for investors in SME equity finance.

Fill gaps in national SME and entrepreneurship programmes

- Introduce targeted programmes to build up equity finance, expand innovation support to non-technology activities, promote participation of domestic SMEs in global value chains, renew the SME workforce skills development approach, introduce extensive enterprise diagnostics and management development approaches, and develop a national strategy and action plan for entrepreneurship education.

Tackle the North-South divide in entrepreneurship and SME development and improve the co-ordination of national local programmes

- Increase the emphasis on actions to increase the capabilities of SMEs and entrepreneurs in the key national and European support funds for the South, improve the co-ordination of SME and entrepreneurship programmes among regions including for innovation and cluster support, roll out regulatory simplification measures across all regions, and refocus cluster support measures on innovation, internationalisation and diversification.

Ensure that policy design is followed by implementation

- Implement the Annual Law for SMEs and Micro Enterprises in order to establish policy actions to be implemented each year, consider creation of a national SME agency or financial institution for the support of growth-oriented start-ups and SMEs, and ensure that business development support reaches out to start-ups and ethnic minority, senior and social entrepreneurs.

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Chapter 1

SME and entrepreneurship issues and policies in Italy: Assessment and recommendations

SME and entrepreneurship performance

Italy is a small business economy

SMEs and entrepreneurs are the backbone of the Italian economy. With nearly 100 enterprises per thousand people its business density is one of the highest among OECD countries. One-quarter of the working population is self-employed, the second-highest rate in the European Union (EU). Italian SMEs contribute 80% of national employment and 67% of value added, the third and fifth highest shares in the OECD area respectively. SMEs are also at the core of Italy's export and innovation performance, accounting for over 50% of the total volume of exports and 22% of business R&D investment. The share of firms that are young, with less than three years of age (14% of Italian enterprises), is in line with the most entrepreneurial OECD economies.

Signs of fragility in start-up and self-employment activity and in business survival rates

However, the overall business start-up rate in Italy is not particularly high. Data from the Global Entrepreneurship Monitor (GEM) indicate that the total entrepreneurship activity rate (the proportion of adults starting a nascent or young business less than three and a half years old) is below the OECD average. The proportion of gazelle firms (i.e. young fast-growing firms) is also lower in Italy than in many OECD economies, pointing to a paucity of high-impact entrepreneurship. Italy's business survival rate is relatively low, especially in the services sector where many firms start up in low value-added sectors where competition is driven by prices.

Furthermore, although the self-employment rate is high, this may be signalling a lack of alternative labour market opportunities; GEM data suggest that the proportion of Italians starting a business through necessity rather than opportunity is quite high (42% compared with an EU average of 27% in 2012). And a non-trivial share of self-employed people in Italy work full-time for only one employer, in what may frequently be a form of disguised employment rather than genuine entrepreneurship and favoured by incentives to employers to avoid a high tax wedge on labour. There is also evidence of untapped entrepreneurial potential. According to the Eurobarometer survey, while 44% of Italians say that they would prefer to be self-employed, only 27% consider self-employment to be a feasible career option, mainly because of lack of financial resources and adverse economic conditions. The gap between "preference for" and "feasibility of" self-employment is one of the highest across the EU.

A weighting of SMEs towards less productive micro- and small enterprises

The structure of the Italian business economy is also weighted towards less productive size bands. Approximately 95% of Italian SMEs are micro-firms with less than 10 employees, among the highest values in the OECD area, and another 4.5% are small firms with less than 50 employees. However, the productivity of Italian small and micro firms is both lower than

firms in larger size bands and lower than their peers in several other key OECD economies. Aggregate productivity levels in the Italian economy are therefore penalised by under-performance in its micro- and small-sized enterprise sector, and a relative weighting of its enterprises to these smaller size bands. By contrast, Italian medium-sized companies (with 50-249 employees) perform extremely well on average in exports, innovation and productivity, but there are not enough of them; they make up only 0.5% of the total SME population.

Significant levels of informality

While measuring informality is difficult, the most optimistic estimates gauge the size of Italy's shadow economy at 16% of national GDP and 10% of employment, which are high by international standards. Large swathes of economic informality pose problems of an economic and social nature. Informal enterprises may seek to stay small in order to conceal parts of production from tax and labour inspection authorities and have relatively little incentive to invest in the modernisation of production. They thus tend to drag down employment and productivity growth. Furthermore, tax evasion implies unfair competition for other SMEs and entrepreneurs and foregone government revenues. Informality also engenders a segmented labour market where the rights of workers are unprotected.

Business ownership is common among all segments of the population, although business quality varies

Business ownership is relatively inclusive in Italy, as shown by comparatively high self-employment rates among youth, women, seniors and immigrants compared with other countries. For example, Italy's youth self-employment rate is twice as high as in the United Kingdom or the United States, and it has recently risen further in response to the dramatic increase in youth unemployment. To some extent this reflects difficult labour market conditions. However, it would be misleading to interpret self-employment by traditionally under-represented groups as only driven by the necessity to avoid unemployment. Italy's opportunity-driven Total Entrepreneurial Activity rate for women is one of the highest across the GEM-observed countries and reveals the desire of Italian women for greater flexibility in combining family and work time.

At the same time, women, youth and migrants run enterprises that are weaker in some respects than enterprises in general. For example, there is some evidence that Italy's women-owned enterprises are undercapitalised, partly due to discrimination in credit markets. Female entrepreneurs in Italy find it more difficult than male entrepreneurs to receive a bank loan and must deal with poorer loan terms and conditions when they obtain credit, even if their risk profile is the same as that of men. Foreign-born entrepreneurs are disadvantaged for other reasons. Immigrant entrepreneurs in Italy have lower levels of education than in many other OECD countries and tend to start low-impact firms generating little value and few jobs.

Key policy recommendations: SME and entrepreneurship performance

- Develop policies to increase the business start-up rate, the rate of high-impact entrepreneurship, and growth of the high-productivity medium-sized firm sector in Italy.
- Implement reforms to reduce the scale of informal economy activity.

- Ensure that people who are disadvantaged in the labour market (youth, women, seniors and migrants) are adequately represented among the recipients of mainstream government-funded entrepreneurship and SME support programmes, or develop bespoke programmes for these groups.

Business environment and framework conditions

Macroeconomic conditions have been difficult causing business closures and a credit crunch for SMEs

The 2008 global financial crisis and the 2011 sovereign debt crisis led to a double-dip recession in Italy which created adverse macroeconomic conditions for SMEs and entrepreneurship. Public debt ballooned, reaching 130% of GDP in 2013, and the interest rate spread between long-term Italian and German government bonds, an indicator of the relative ease of government borrowing underlain by perceptions of economic vulnerability, climbed to above 500 basis points in mid-2012, before dropping to under 200 basis points at the start of 2014.

The adverse conditions led to an increase in enterprise death rates and a contraction in enterprise birth rates, causing a loss of 63 000 firms between 2008 and 2010, a drop of 1.5% in Italy's total firm stock, and 610 000 job losses. Access to finance has also become more difficult. Italian banks, traditionally large holders of Italian sovereign bonds, have become more exposed to risk-rated assets, increasing their refinancing costs and making them less willing to lend to enterprises. Compared with other OECD countries, Italian SMEs are relatively under-capitalised and over-reliant on bank credit, making them particularly vulnerable to constrained bank lending.

Government anti-crisis measures to support SME finance

The government responded with a large-scale liquidity injection plan to help SMEs weather the crisis, involving four major measures:

- Italy's national credit guarantee system was enlarged and increased support provided to local SME loan guarantee associations; from 2009 to 2012, nearly 250 000 SME loans were guaranteed for a value of EUR 41.5 billion. Between 2012 and 2013, at a time when the sovereign debt crisis was at its peak, the number of firms eligible for a loan guarantee increased from 32 000 to 36 000 while the volume of guarantees increased from EUR 3.0 billion to EUR 4.3 billion.
- Rapid payment was authorised of EUR 47.2 billion of the public administration's commercial arrears to Italian businesses. By the end of November 2013, EUR 24.4 billion had been made available by the central government to debtor public institutions (nearly 90% of the total commitment) to enable them to make the repayments, of which 16.3 billion had been paid to creditors (two-thirds of the resources transferred).
- A series of debt moratoria were agreed between the Italian Banking Association, *Cofindustria* (the major Italian business association), SME associations and the Government in 2009, 2011, 2012 and 2013, enabling SMEs to postpone the repayment of their loan principals for up to a year. The most recent, signed in July 2013 and called "Agreement for Credit 2013", renews the measures of suspension of the payment of the loan principal until June 2014 for those firms that find it difficult to repay their loan due to a temporary downturn of sales caused by the recession.

- EUR 18 billion have been transferred since 2009 to the banking system through the operational arm of the *Cassa Depositi e Prestiti* (CDP) to support soft loans for SMEs.

These measures played a key role in supporting the liquidity and investment needs of SMEs and reducing the impact of the credit crunch on Italy.

Adjustments will be needed as economic recovery kicks in

Liquidity injection programmes are of exceptional nature and should be withdrawn when economic recovery is strong. The CDP-sponsored soft loans should be phased out as the SME loan market starts showing signs of vitality to prevent a flow of liquidity towards subprime loans. Similarly, the government should make an effort to implement the EU directive imposing a 30-day limit for most state payments, not only out of fairness towards business but also to avert the administrative complexities that have characterised the sudden payment of the first tranche of arrears worth EUR 20 billion in the first quarter of 2013.

The equity market remains weak

Italy's equity market is one of the smallest among the OECD economies as measured by venture capital investment as a percentage of GDP, and there are barriers on the demand as well as the supply side, reflecting a prevailing loan culture among SMEs and a reluctance of many family-owned firms to take in external ownership as well as limited numbers and values of venture and angel funds. The relative dependence on credit rather than equity affects investment and growth finance required by high-impact entrepreneurship and medium-sized firms in particular. The development of this market could be stimulated with tax measures to encourage private investors to invest in SME equity and improvements in contract enforcement procedures for SMEs and investors.

The regulatory environment is favourable to start-up

Italy has a relatively easy regulatory environment for business start-up, and performs very well compared to other OECD countries on time needed to establish a business, although the performance premium with other countries is less in terms of costs (taxes and fees) involved. Across all enterprise types, the number of days needed to set up a business activity is only 6 days compared to an OECD average of 12 days. In the case of sole proprietorships the business registration process is estimated to take only one day and EUR 35, while for limited companies the toll is two days and approximately EUR 2 000, 80% of the latter covering notary fees. The regulatory conditions for start-up have been improved for example by putting the business registration process online in 2010, and by the creation of special tax regimes for two new legal forms of business: the "Innovative Start-Up" and the "Simplified Limited Company", which both offer simplification and fiscal incentives for entrepreneurship.

Regulatory complexity and weak contract enforcement procedures hinder business growth

On the other hand, the regulatory environment surrounding enterprise expansion is less friendly. A complex system of tax breaks (e.g. differences across different categories of investment), tax penalties (e.g. differences across different types of work contracts) and tax deadlines (scattered throughout the year) render it difficult for businesses to unravel the tax code and anticipate how much will need to be paid at the end of the year. Such complexity represents a greater proportionate burden for SMEs than larger firms. In addition, although

the overall corporate tax burden in Italy is in line with or below other large OECD countries, the social contributions paid by employers on labour costs are very high, representing 24% of labour costs in Italy, compared with an OECD average of 14%. High non-wage labour costs are likely to cramp SME expansion and favour the informal economy. Furthermore, limited competition in public utilities and significant regulatory and fee restrictions in some professional activities increase the operating costs faced by SMEs.

Weak contract enforcement procedures are also a barrier to SME investments and collaborations; it takes an average of over 1 200 days and 30% of the disputed amount to resolve a commercial dispute in Italy, compared with OECD averages of 510 days and 20%. This has been improving. For example, in 2012, steps were taken to streamline the civil justice system in order to facilitate the resolution of conflicts involving business contracts, including a geographical aggregation of courts, thematic specialisation of judges, and stricter rules on filing appeals. Since March 2011, a dispute between two companies or between a company and a consumer can also be settled outside of over-burdened courts through an administrative procedure called "mediation" managed by administrative bodies such as the chambers of commerce. In two-and-a-half years of operation, 220 000 disputes have been settled in this way, speeding up resolution and generating savings worth EUR 420 million for the companies involved. Furthermore, Italy has made encouraging strides in the area of intellectual property through the reform of its patent code in 2005 and introduction of a rapid conciliation procedure for firms wishing to enforce a trademark.

The outstanding regulatory issues affect inward foreign direct investors as well as domestic SMEs in a context of relatively low stocks of inward foreign direct investment (FDI) in Italy compared with other economies of similar (e.g. France) or even of smaller size (e.g. Spain and Sweden). This should be addressed in order to exploit the potential of SME participation in global value chains for accessing foreign markets and technologies. A "fast-track" lane and simplified regulations for foreign investors in relationships with Italian public administration would be helpful, as announced in the *Destinazione Italia* campaign.

Skills and training problems are affecting SMEs and entrepreneurship

Start-up activity and SME innovation in Italy are constrained by gaps in workforce and management skills. In terms of recruitment, the rate of hiring of university graduates into Italian SMEs is low, even though young higher education graduates in Italy are more likely to be unemployed than young people with only upper secondary education. This reflects both a mismatch between the university educational offer and labour market needs and a labour market in which many companies are locked into low-skill sectors and technologies. Recent data point to some moderate improvements – 17% of private sector recruitment is projected to concern high-skilled jobs, while university graduates are expected to fill 11.4% of anticipated new jobs – but employers continue to report difficulties filling high-skilled positions such as in engineering and software development. Training is not filling the gaps. Only 29% of Italian SMEs offer continuous vocational training, one of the lowest rates in the European Union. Only 5% of employees in microenterprises receive training in the workplace in Italy.

More investment and collaboration is needed in business innovation

Business innovation activity is relatively limited in Italy. For example, Italian manufacturing firms invest three times less in research and development (R&D) than their peers in Germany, France or the United States. Industry-university collaboration is also low,

highlighted for example by a low proportion of industry-financed public R&D in Italy. An innovation culture needs to be built in Italian SMEs, and more incentives are needed for universities to engage with entrepreneurship, including increased emphasis on university spin-offs and consultancy to complement licensing and contract research.

Key policy recommendations: Business environment and framework conditions

- Phase out anti-crisis financial support to small businesses (e.g. the expanded Central Loan Guarantee Fund) when the economy is back on the path of full recovery, but do not allow late payments to accumulate.
- Introduce additional liberalisation and privatisation reforms, for example by reducing the size and scope of state-owned enterprises, including in public utilities, and the number of trades where entry is regulated by the grant of expensive licenses.
- Implement ongoing reforms aimed at streamlining the civil justice system in order to reduce contract enforcement costs and delays and simplify business taxation procedures, including alternative dispute resolution mechanisms for informal intellectual property protection.
- Reduce the tax wedge on labour and carry forward current labour market reforms to reduce the scale of informal business activity and ensure that self-employment is not used by employers to avoid a higher tax wedge on wage employment.
- Expand the SME equity market through tax concessions to equity investors and to firms that open themselves to external co-ownership and improving the legal system for resolving commercial conflicts involving external investors.
- Strengthen the link between formal education and the labour market by increasing employer engagement in the national vocational training system and improving the tertiary education offer for the skills most in demand by employers.
- Strengthen the incentives of universities to stimulate start-up enterprises and support SME innovation.
- Improve the attractiveness of Italy to FDI through special agreements and administrative "fast-track" lanes such as those foreseen in the *Destinazione Italia* initiative and making the business environment more friendly to foreign direct investors.

The strategic framework and delivery system for policy

The Statute of Enterprises and Annual SME Law provide a basis for prioritising policy actions

In Italy, entrepreneurship and SME policies are generally implemented by passing a specific law for each policy measure and establishing a related fund to be managed by the relevant Ministry. In 2011, the integration and coherence of this policy setting process was strengthened by the enactment of a Statute of Enterprises; a document that prioritises the ten principles of the EU Small Business Act (SBA) in terms of those that are the most relevant to Italy. It has set forward as major objectives a streamlined and transparent public administration, innovation, fair access to finance, and stimulation of formal inter-firm networks. To complement the Statute of Enterprises, it is proposed to pass an SME Law each year that will propose a series of programme actions for the year. It is important to ensure that the Annual Law is passed in practice. In addition, to favour implementation and help with prioritisation, indicative budgets should be established for the full set of actions implied by the Statute of Enterprises and the Annual SME Law.

The SME Envoy plays a key role in policy formulation

As in other European Union countries, the Italian government has appointed an SME Envoy who sits at the centre of a network of SME Envoys in each Italian region and maintains very close relations with chambers of commerce and business associations. The Envoy makes an important contribution to policy development by gathering of intelligence on policy requirements from the SME and entrepreneur perspectives, advocating the role of SMEs in the economy, encouraging impact evaluation of major programmes, and supporting co-ordination between national and regional actions. Increased emphasis on policy evaluation would nevertheless help strengthen the policy design process.

Business services are provided through a dense network of business associations, but gaps should be filled for start-up and under-represented entrepreneurs

The delivery of policies and programmes benefits from a dense system of well-funded chambers of commerce and business associations operating right across the country with large memberships and close links to SMEs and entrepreneurs. However, it is important to reach out in the delivery of business development services to enterprises and entrepreneurs that are not so well covered by existing services and business associations, in particular start-up entrepreneurs and people from social groups that are under-represented in entrepreneurship including women, youth, ethnic minorities and seniors.

Co-ordination, competition and capacity building should be strengthened in policy delivery

Further steps could also be taken to co-ordinate programmes and ensure some competition in service delivery by encouraging new suppliers to bid for training. Furthermore, new measures with respect to improving regulatory processes for SMEs imply training needs for those government officers and civil servants required to take on additional responsibilities.

A public agency or financial institution for SMEs and entrepreneurship could make an important contribution

Many countries have established a national SME agency or public financial institution to manage and co-ordinate public investments and support programmes for SMEs and entrepreneurs, involving recent institutions, such as the British Business Bank and BPI France as well as longer established institutions such as the US and Japanese SME agencies. Such an agency or financial institution could potentially play an important role in Italy by co-ordinating investments in and support for growth-oriented start-ups and SMEs.

Key policy recommendations: Strategic framework and delivery arrangements for policy

- Ensure that the proposed Annual SME Law is instituted and introduce a parallel budget allocation process to fund the implementation of policy actions advanced in the Annual SME Law and the Statute of Enterprises.
- Strengthen the evaluation of SME and entrepreneurship policies and programmes as an input into policy formulation.
- Consider the establishment of an SME agency or public financial institution responsible for co-ordinating investment and innovation support for medium-sized SMEs and high-impact entrepreneurship.

- Reach out to nascent entrepreneurs and entrepreneurs from under-represented populations, including firms of very small size and entrepreneurs that are not members of any specific business association, by communicating through appropriate channels on regulations and available programme support and by developing accessible programmes tailored to these groups.
- Develop a training programme to support public officials charged with implementation of foreseen regulatory simplification measures for SMEs.
- Strengthen co-ordination in the delivery of SME and entrepreneurship policy, drawing on the institutional role of the SME Envoy.
- Increase competition in the delivery of business support services by encouraging new suppliers to bid for contracts to deliver public programmes.

National SME and entrepreneurship programmes

Italy has a well -functioning central credit guarantee system

Italy has one of the largest credit guarantee systems among OECD countries, resting on a very strong Central Guarantee Fund (CGF). As well as the counter-cyclical role it took on in the crisis the CGF plays a long-term structural role in the economy enabling many SMEs and new firms to obtain credit that they could not otherwise obtain because of lack of collateral. In future, the Government proposes to create special sections in the CGF that will target specific categories of entrepreneurs or investment projects (i.e. SME internationalisation, innovative start-ups and women entrepreneurs), and this will be very helpful in the sorts of start-up entrepreneurship, high impact entrepreneurship and development of medium-sized enterprises that are required to strengthen Italy's SME economy.

The local loan guarantee associations network shows signs of fragility

Italy also has a broad network of local loan guarantee associations (*Confidi*), which are generally endorsed by the local branches of national business associations and sometimes supported by the CGF. The system is well adapted to the strength and tradition of the Italian banking sector and the importance of local co-operation amongst entrepreneurs at local level, and has been instrumental in enabling SMEs with limited relationships with banks to obtain credit at better terms and conditions than would otherwise be possible. However, approximately one-half of *Confidi* registered losses in 2011 and requires shoring up. The system could be strengthened by encouraging the merger of the smallest *Confidi*, or their aggregation in consortia (offering the advantages of more professional management, cross-subsidisation strategies and reduced exposure to sector or local slowdowns), and by providing training to their managers. It would also be sensible to keep a sizeable proportion of CGF support to *Confidi* in the form of direct guarantees to banks rather than weighting the Fund overly towards counter-guarantees to the local associations, which would require them to take more of the risk.

New programmes are encouraging the equity market, but they lack scale

Certain national programme measures have been taken to boost Italy's equity market. The Italian Stock Market's Elite programme is an investment-readiness initiative that prepares firms with growth potential to receive equity finance in the near future and be ready for an Initial Public Offering (IPO). The Italian Investment Fund (*Fondo Italiano*), endowed with EUR 1.2 billion, targets growth-oriented medium-sized Italian firms

either directly or indirectly through participation in funds of funds. These initiatives are noteworthy but of small scale. A common approach to buttressing equity markets in many countries is the concession of tax breaks to investors and there is a good case to relax Italy's rules on tax breaks for equity investment, including business angel investment. Managed funds listed on the public stock market could also be promoted, through which informal investors could buy and sell shares in unlisted SMEs, stimulated by tax incentives such as exemptions from capital gain tax on disposal of shares.

Italy has introduced measures to support R&D

Italy has established a range of innovation funds which give a combination of tax breaks, grants and soft loans for business R&D and university applied research. Examples include the Concessional Research Fund (*Fondo Agevolazioni Ricerca*), which provides tax breaks to firms contracting university research, and the National Innovation Fund, which finances projects based on the exploitation of industrial designs. Business R&D has also been favoured by the new Innovative Start-Ups programme. This scheme provides a favourable treatment in terms of taxation and employment relations to young R&D-based firms, which become eligible if they meet one of the following three conditions: i) at least 20% of turnover is re-invested in R&D; ii) at least one-third of staff members hold a Ph.D. degree; iii) they hold or have licensed a patent. By the end of September 2013, nearly 1 200 new businesses had registered as innovative start-ups.

Complementary measures are needed for innovation

However, the existing approach to innovation support is biased towards R&D and technology, and more could be done both for commercialisation of research outputs and for non-technological innovation in firms. For example, research commercialisation could be promoted by creating co-operative research centres or consortia where staff members of universities and private sector companies work together on joint product development, or by tying part of university research grants to the commercialisation of research. For non-technological innovation, the target group of the Innovative Start-Up programme could be widened, and other forms of innovation such as marketing and organisational innovation could find better support. Consultancy could also be subsidised for innovation in services.

SME exports are promoted, but the scale has dropped

Italy offers a full range of export promotion programmes for SMEs covering export credits, export guarantees and insurances, grants and soft loans for market feasibility studies and promotional activities, coaching and matchmaking services, etc., through support organisations such as the External Trade Agency (*Istituto Commercio Estero*), technical agencies such as SACE and SIMEST and the chambers of commerce. While these programmes have tended to focus on larger SMEs, the government and chambers of commerce have also recently launched the World Pass network of one-stop shops to help the smallest SMEs to obtain information about opportunities in international markets, foreign legislation, import-export regulations, etc. Recently, Italy launched a National Export Plan for 2013-15 calling for more coordination among the export support agencies, higher prioritisation in targeted markets and sectors, greater involvement of southern Italy's firms in export activities, and the creation of a new Bank for Exports. However, although the Plan favours rationalisation its measures are likely to require more resources than those currently made available. For example, the External Trade Agency's budget was more than halved in 2012

from an average of EUR 80 million per year in the period 2008-10 to EUR 30 million in 2012, while other programmes have very small budget outlays (e.g. export consortia measures).

Entrepreneurship education should be better mainstreamed in school and college curricula

Only 30% of Italians believe they have the right set of skills and experience to be able to start a business, compared for example to 56% in the United States and 47% in the United Kingdom. In addition, a lower-than-average share of Italians has taken entrepreneurship-related courses in schools or university, 17% of Italians as against 23% on average in the EU27. Only 40% of Italians participating in the GEM survey reported that schools have helped them develop entrepreneurial attitudes; the second-lowest value across OECD countries.

Italy would benefit from stronger attention to entrepreneurship education at school, vocational training and higher education levels. A number of noteworthy initiatives already exist, either run by semi-public (e.g. the Union of the Chambers of Commerce) or not-for-profit organisations (e.g. Junior Achievement), but they are loosely coordinated and of insufficient scale to address the full population.

A clear national strategy for entrepreneurship education, which sets out objectives, indicators, incentives and rewards, would help recognise the importance of entrepreneurship education in society and create appropriate activities and infrastructures. The approach should include measures to motivate and train future entrepreneurship teachers, for example by giving special signs of financial or immaterial recognition, and to collaborate intensively with the private sector, because of the practical and experiential nature of entrepreneurship education compared to other disciplines.

SME workforce training increased dramatically with establishment of Industry Training Funds, but participation of smaller SMEs is limited

With a budget of EUR 450 million in 2012, the Industry Training Funds (ITFs), or *Fondi Paritetici Interprofessionali*, are Italy's main workforce training policy, although the European Social Fund (ESF) is also a big player by financing EUR 400 million of training activities at firm level. Established in 2004, ITFs are jointly managed by the main national business associations and trade unions. They are financed by a 0.3% compulsory levy on total wage costs, which has laid the ITFs open to the criticism of adding to non-wage labour costs. However, since their introduction the number of SMEs offering training to their workers has increased dramatically. Whereas in 2005 only 32% of enterprises with more than 10 employees offered training to their employees, the percentage had nearly doubled to 56% in 2010. Unfortunately, smaller SMEs are less than proportionally represented among ITF users and those smaller SMEs that do participate tend to choose more traditional types of training. Potential revisions to the programme should be considered to encourage greater and better participation by smaller SMEs, for example through the use of training vouchers.

The apprenticeship system needs some adjustments

The Italian apprenticeship system has been reformed on several occasions during the last 15 years. Today's approach is based on a three-year programme in which work-based training is combined with a maximum of 120 hours of theoretical training and classroom activities delivered by a private training agency. However, apprenticeship contracts have sometimes been used by SMEs as a form of cheap labour rather than as a genuine attempt to build the skills and competences of tomorrow's labour force. This abuse has been facilitated

by the lack of national standards regarding the contents and quality of apprenticeship training and an insufficient system of monitoring, supervision and quality controls. In an effort to strengthen the quality of apprenticeship, the government has introduced stricter quantitative criteria on the minimum and maximum duration of apprenticeship, number of apprentices per company, and minimum retention rate of apprentices. Further national standards for the apprenticeship training system should be introduced, including arrangements for the examination and authorisation of training companies and trainers, the establishment of institutions for monitoring and supervising apprenticeship training at regional level, and the creation of a central organisation for the final examination of apprentices.

A few firms benefit from intensive support for SME management but additional low-cost programmes are needed to reach out to more firms

A wide range of effective consulting, business development services and management training programmes are offered by local chambers of commerce. However, these programmes tend to provide intensive and high-cost support to a select group of SMEs and start-ups with the greatest development potential and the number of firms that can benefit from these programmes is small given the high costs of face-to-face provision. A priority should be to expand the proportion of SMEs that benefit by complementing existing intensive support with lower-cost solutions. An online business diagnostic tool, hosted by the website of the chambers of commerce, could reach a larger number of SMEs with a free and quick analysis of their strategies and operating practices, and could offer links into further subsidised or non-subsidised management training, mentoring and consultancy support. The use of volunteer mentors could also be expanded.

There are further opportunities for SME development through public procurement

Important steps have been taken to improve SME finance by tackling a tradition of late payments by the public sector. However, SMEs do not participate as much in public procurement contracts in Italy as would be expected from their share of sales in the economy as a whole. Various actions could be developed to address this such as subdivision of contracts into smaller lots, an online tool to publicise procurement opportunities and provision of guidance and training to SMEs in successful tendering.

Support for social target groups could be scaled up

Italy is a leader in public programmes for women entrepreneurs although there are some opportunities for renewal of the institutional framework of support for this under-represented group of entrepreneurs. At the same time there is considerable scope to upscale existing rather rare and fragmented support for other social target groups, in particular youth, immigrants and ethnic minorities and seniors. Many of the finance and training barriers faced by social enterprises are not yet adequately addressed by public programmes implying the opportunity for a comprehensive national programme for social enterprises promotion to complement recent reforms of the legal status of social enterprises.

Italy's corporate social responsibility strategy is also a force for SME upgrading

Italy's National Action Plan on Corporate Social Responsibility (CSR) 2012-14 stresses the importance of CSR processes within the business strategies of all sizes of enterprises, including SMEs, and especially internationalised SMEs with foreign operations or roles in global value chains. With a common approach at national and regional levels, the

plan includes fiscal incentives for employment of people from disadvantaged groups, reduction of negative environmental impacts, and improvement of the work-life balance of employees, together with guidance and best practice exchange measures and consultancy and training for workforces and management in CSR processes. The focus is not only on individual SMEs but also on SME networks and SMEs in supply chains. The CSR strategy is therefore helping to improve the competitiveness of SMEs as well as their social impacts, and does not just concern large firms. Many policy initiatives are underway in this area at national and regional levels and those that prove the most effective may usefully be extended.

Key policy recommendations: National programmes

- Increase value for money from the Credit Guarantee Fund by capping lender default payments, allowing borrowers to post personal guarantees, and permitting larger firms to participate in the scheme. Set limits to the total volume of counter-guarantees to local mutual guarantee associations to reduce potential moral hazard and systemic risk problems.
- Strengthen the viability of the *Confidi* by encouraging mergers and the creation of consortia and offering training and good practice exchange to increase management capabilities.
- Broaden the financial instruments for high-impact entrepreneurship and medium-sized firms by opening up the mini-bond market to non-professional investors, expanding tax breaks for mini-bond and business angel investors, supporting a dedicated small caps or accelerator programme, considering an initiative to facilitate indirect investment by informal investors in SME equity on the Italian stock market through managed funds, and offering financial education programmes for entrepreneurs and SME managers.
- Introduce new initiatives to favour collaboration between universities, SMEs and entrepreneurs, for example through mentoring of potential academic entrepreneurs, dedicated seed funding for early-stage commercialisation of research, funding for co-operative research centres for staff of universities and enterprises, and a major national programme for joint research between universities and small collections of related SMEs.
- Develop information, education and training programmes to support entrepreneurs and SME owners to manage their intellectual assets, and extend current innovation policy support to promote other types of intellectual property in addition to patenting.
- Amend the criteria for obtaining tax breaks under the "innovative start-up legislation" to reward firms generating innovation outputs, rather than using technology inputs (R&D, PhD staff and patents), and including non-technological innovation.
- Streamline and prioritise the system of support for SME exports based on comprehensive review of existing initiatives, ensuring that adequate resources are provided to the most effective actions. Favour the development of networks of SMEs for the purposes of collaboration on exporting to new markets. Offer advice and training to SME managers and workers aimed at better exploiting export opportunities in areas such as foreign language skills and supply chain and operations management, including by encouraging banks to play a more proactive role in assisting entrepreneurs and SMEs with exports. Develop infrastructure, awareness and training programmes to promote e-commerce among SMEs.

- Develop a national strategy and action plan to promote entrepreneurship education at all levels (schools, vocational training, and higher education institutions) and to incentivise education institutions to offer entrepreneurship support. Accompany this with a promotional campaign to create awareness towards entrepreneurship and new business creation in the general population.
- Integrate components of a dual apprenticeship system into vocational education. This includes industry- and nation-wide standards for training, formal labour contracts with apprentices, formal centralised examinations, and proper quality assurance mechanisms.
- Expand company-based apprenticeship training schemes by increasing their quality, and hence their attractiveness to businesses and young people, by further development of national standards on the contents and methods of training and improved arrangements for authorisation of training companies and tutors, monitoring and supervising the training, and central organisation of apprentices' final examinations.
- Revamp existing workforce training measures, including the Industry Training Funds, so that they can better respond to the relatively limited organisational capabilities and budgets of SMEs with respect to training by increasing SME awareness of available public training programmes, introducing a simplified procedure for SME applications to ITF courses, encouraging training for networks of SMEs, and making more use of training vouchers for SMEs.
- Introduce a national programme to encourage the recruitment of graduates by SMEs, such as through specific goal-oriented internships for university students in SMEs supervised by university teachers and researchers as part of their degrees, which may lead to subsequent hiring at the same time as promoting SME innovation directly.
- Expand the reach of public management support to more SMEs by developing low cost solutions including a comprehensive system of enterprise diagnostic self-assessment health checks, the use of retired professionals as mentors and advisors, and peer-to-peer learning activities such as a national company visit programme to discuss best management practices.
- Create an online portal providing signposting to all public management support measures available at different levels of government and across different public institutions, together with tailored search facilities which allow SMEs to easily identify appropriate support across different stages of the life-cycle of a company.
- Increase the participation of SMEs in public procurement contracts by increasing the subdivision of contracts into lots, increasing the visibility of public contracts to SMEs, for example with an online search tool, offering basic online guidance and training to SMEs in winning contracts, and organising "meet the buyer" events to match SMEs with public agencies with potential contracts.
- Pilot test and scale up promising new initiatives for female, youth, ethnic minority and senior entrepreneurship. Broaden the support by placing a stronger accent on business training and coaching in addition to offering financing, encourage programme participants to develop more growth and innovation-oriented business projects, and facilitate and support intergenerational business succession.
- Increase programme support for social enterprises by increasing awareness of the economic and social contribution of the sector, adapting the fiscal regime to provide suitable incentives to social enterprise activity, developing new measures for social

enterprise finance, such as fiscal incentives for investors, adapting existing business development services to facilitate access by social enterprises to regular support and offer certain tailored services such as training, mentoring and social enterprise incubators, and making public procurement contracts more open to social enterprises through better use of social clauses.

- Set up a comprehensive evaluation framework for regular and rigorous evaluations of SME and entrepreneurship support programmes to determine their effectiveness and ways they can be improved, including guidance on the regularity, scope and methods of evaluation to be used.

The local dimension of SME and entrepreneurship policy

Entrepreneurship and SME performance is weaker in the lagging South

Italy is one of the OECD countries with the largest income inequalities across regions, twice as high as countries such as Spain, Germany, Japan and the United Kingdom. Regional disparities are also a feature of entrepreneurship and SME performance. Both business density (number of enterprises per thousand population) and business demography indicators (enterprise birth and death rates) are typically lower in the south than in the north. On average, southern firms are also smaller, less profitable, less export-oriented and less technology-based than those in the north. However, southern regions are not homogenous and some do better than others, as shown for example by the presence of strong export-oriented industrial clusters in Puglia and Campania.

Convergence policies place insufficient emphasis on SME and entrepreneurship development

Policies aimed at the convergence of the south are underpinned by programmes set out in the annual National Plan for the Development of the South, which is backed by national resources and the European Union Structural Funds. Both have increased attention to local enterprise development in recent years. For example, among the measures of the National Plan are extensive business development incentives and a small automatic voucher as an entry point for entrepreneurs seeking public support. Overall, however, business support plays a relatively small role in the National Plan for the Development of the South, which focuses more strongly on improving framework conditions in the areas of infrastructure, education, innovation, the rule of law, and local public financing. Furthermore, the share of European Regional Development Fund resources for 2007-13 that were allocated to research and technology development, innovation and entrepreneurship was only 29.5% in the southern regions of Italy, compared with average shares of 58.0% in the United Kingdom, 46.9% in Germany, 36.9% in France and 30.1% in Spain, and only 7% of EU Structural Fund resources for the programme period 2007-13 had been spent by the end of 2011. There is therefore scope to fund a broader set of actions for SME competitiveness and entrepreneurship such as measures for training, advice, mentoring, consultancy and innovation. This would require some re-direction of the resources of existing funds to SME and entrepreneurship resources from less productive uses, as established by evaluations, complemented by actions to build capacities of local policy makers to design and implement SME and entrepreneurship programmes that can draw down unused funds in time.

Italy's decentralised governance system calls for strong national-regional coordination in SME and entrepreneurship actions

Italy has a governance structure in which regions share important economic development powers with the central government. This principle is embedded in the Constitutional Law; Article 117 giving concurrent competences to the state and regions in a range of areas such as scientific and technological research, innovation support for productive sectors, and regional credit institutions. The decentralisation process was advanced further in 2009 by a delegated law for the introduction of fiscal federalism. The joint responsibilities across levels of government make policy coordination an important issue for SME and entrepreneurship policies and programmes in Italy.

One of the main government bodies responsible for policy coordination is the State-Region Conference (*Conferenza Stato-Regioni*), a forum in which regions give their opinions on national government legal and administrative decisions relevant to them, and where the priorities of EU-funded regional development programmes are co-ordinated. This structure has proved useful in setting programmes that are coherent among each other and, at the same time, tailored to the different development needs of regions. However, there are two main priorities to improve co-ordination further. One is greater synergies between regional and national initiatives that target the same type of company (e.g. growth-oriented firms). The other is the introduction of mechanisms to better match the distribution of national programme resources to the size of the target firm base. The loan guarantee programme is a case in point, with 20% of operations and value concentrated in the single region of Piedmont.

Policy co-ordination will also be instrumental to the success of regional smart specialisation strategies in the context of the 2014-20 EU programming period. Smart specialisation involves a process of identifying competitive advantage and setting strategic priorities at regional level, to maximise the knowledge-based potential of each region. Without a national approach that coordinates regional smart specialisation strategies, there is a danger that regions enter in competition with each other in choosing the same generic specialisations, and lose the development potential stemming from larger-scale cross-regional initiatives (e.g. inter-regional supply chains). For example, it is important to identify clusters of national relevance and providing national steering and support when these clusters cross local administrative boundaries.

Regulatory simplification should be rolled out further at regional level

There is a wide regional variation in administrative efficiency. For example, while the Lombardy region has only 600 business regulations, there are more than 2 000 in Lazio, Sardinia, and Sicily. There are also important differences in the coherence of regulations and the way in which they are implemented. There is a clear scope for an exchange of best practices in regulatory and administrative reform so that lagging regions can learn from those forging ahead in the field of improving business regulations. Priorities include reducing the number of regional business regulations and introducing e-government measures more widely.

Key policy recommendations: The local dimension

- Increase the emphasis on SME and entrepreneurship programmes in the annual National Plan for the Development of the South and in the use of 2014-20 EU Structural Fund resources for regional development, by reweighting support towards programmes for

training, consultancy, finance and innovation in SMEs and start-ups, and building local capacities to manage programme actions for SMEs and entrepreneurship.

- Introduce tailoring and monitoring mechanisms for key national SME and entrepreneurship programmes in order to ensure that southern SMEs are proportionally represented among recipients and that they are effective for supporting economic development in the South as well as the North.
- Ensure that the rules of business incentives for the South are clear and consistent over time.
- Strengthen coordination between national and regional government programmes where they target the same types of company, including a written agreement stating clearly how competences are divided and co-funding organised between national and regional levels with regard to entrepreneurship and SME policy.
- Widen the remit of the national one-stop shops network to include business development services offered by the regional level as well as national government, perhaps through individual agreements with the regions and co-financing to ensure that there is a base level of service across the whole country.
- Identify clusters of national importance and establish a mechanism for support when the clusters operate in multiple regions, considering the use of national competitions as a way of targeting resources.
- Consolidate regional business laws and regulations and provide better information and contact points, including through e-government platforms at regional level. Support regional administrative simplification through formulation of a set of national guiding principles, publication of comparisons of administrative efficiency between regions, evaluation of the impact of various regional administrative simplification initiatives, and exchange of information on good practices.

Industrial clusters

The Italian 'cluster effect' has weakened in recent years

Italian industrial clusters are a celebrated strength of the economy, accounting in 2011 for 30% of total national manufacturing exports. They refer to local labour market areas that are specialised in a particular manufacturing industry and are made up of a number of SMEs rather than one or more dominant large firms. They occur in a range of traditional manufacturing sectors such as textiles, furniture, white goods and footwear. Their success has been based on the close co-operation of their component SMEs in tightly-bound local subcontracting networks and their flexibility to adapt rapidly to changes in market requirements.

However, the cluster effect has weakened during the last two decades. From 1991-2010 the number of clusters meeting the criteria for inclusion in national statistics declined from 199 to 156, the number of cluster employees fell from 5.2 million to 4.4 million, and the share of Italy's employment in clusters fell from 29% to 26%. This was accompanied by a near disappearance of the performance advantage of cluster firms compared with non-cluster firms with respect to returns on investment and equity, value added per worker and product and process innovation rates.

Italian industrial clusters must adapt to profound structural change

Italian industrial clusters have been exposed to substantial structural changes in the past two decades as a result of increased international competition from low cost producers. This is forcing cluster firms to avoid direct competition with traditional goods

from emerging economies by competing on quality and innovation and shifting into high-end niche products for international markets. As in the Italian economy as a whole, medium-sized firms are doing better at this than small firms, which have been hit hard by an increasing tendency of cluster firms to source from abroad to cut costs. The medium-sized firms in Italian clusters must be allowed to innovate and internationalise to secure anchor points for continued cluster presence.

A shift in the traditional Italian cluster policy approach is required

Traditional cluster policies in Italy have focused on the establishment and support of networks of firms within the geographical boundaries of the clusters and investments in training and technology within clear sector specialisations. However, today the key cluster players are seeking to innovate, diversify and internationalise. Rather than seeking to preserve the traditional structure and specialisations of clusters, policy should be seeking to support cluster upgrading to new activities and technologies. Tying subsidies to local interactions is no longer appropriate since the best innovation and market partners may be national and international. Neither are policies that constrain the most dynamic cluster firms in their attempts to develop new activities outside of the traditional sector definitions. Instead the emphasis should be placed on promoting innovation and internationalisation among cluster actors and favouring the evolution of clusters towards related specialisations.

Key policy recommendations: Industrial clusters

- Permit strong flexibility in partner selection in network support programmes, enabling firms to collaborate with capable partners outside cluster boundaries.
- Promote the diversification of clusters into related industries and high-end activities. This may be facilitated by shifting existing subsidies and incentives onto "new" activities with diversification potential, such as support for strategic research projects, innovation collaboration networks involving companies and/or researchers that belong to different sectors and/or fields of specialisation, and labour mobility between related industries.
- Strengthen the external knowledge and innovation connections of clusters by promoting inward and outward foreign direct investment in clusters, the participation of cluster firms in global value chains, including by helping them meet the necessary quality and certification requirements and identify new market opportunities, and reinforcing links between cluster firms and capable public technology and research centres.
- Tailor policy to different types of cluster firms, focusing on rapidly increasing the productivity of small inefficient enterprises, maintaining the engagement of medium-sized firms with their clusters, and supporting the knowledge gatekeeper role of leading cluster firms within their supply chains. Offer selective support targeted at those cluster firms that demonstrate the strongest potential to grow in domestic and international markets.
- Promote the competitive award of incentives for the adoption of socially and environmentally sustainable standards and certifications, and other formal corporate social responsibility policies in clusters.
- Develop long-term strategies for clusters with the participation of expert working groups at the local level to guide policy support by national and regional governments.

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Chapter 2

SME and entrepreneurship performance in Italy

This chapter examines the structure and performance of the new and small firm sector in Italy. It compares Italy with other OECD countries with respect to the distribution of firms by size class, business density and self-employment rates, high-impact entrepreneurship rates, productivity export and innovation levels, and the entrepreneurial attitudes of the population. The chapter shows that Italy is a small business-oriented and entrepreneurial economy with some signs of fragility, with respect to low business start-up rates, low numbers of high-growth firms, relatively few medium-sized enterprises, and a large informal economy.

The size and structure of the SME sector

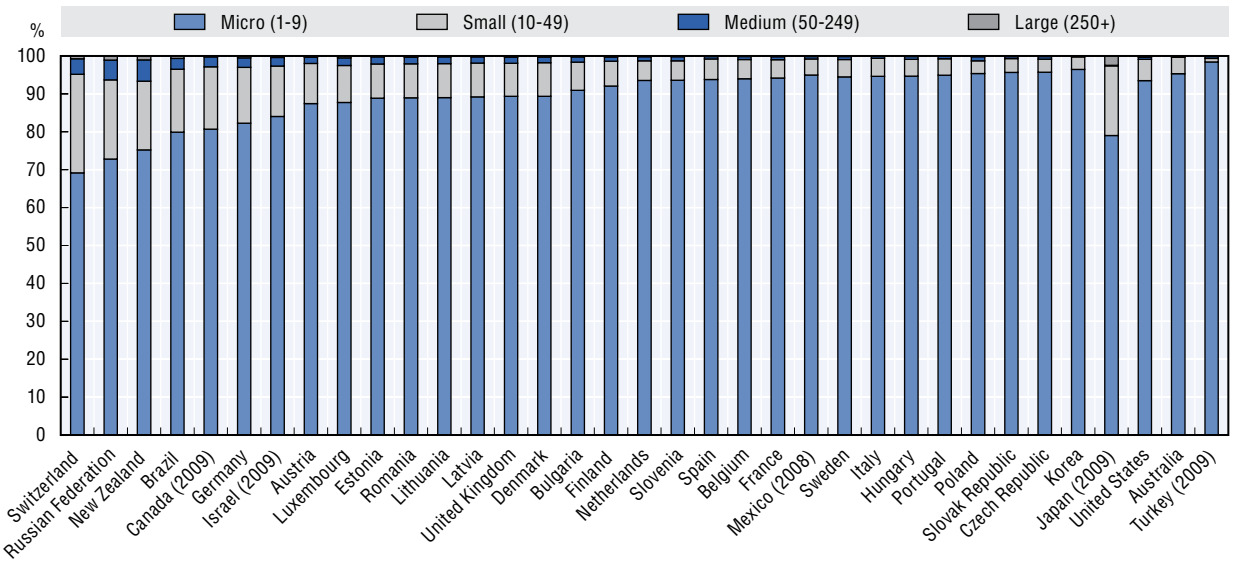
SMEs are key players in the Italian economy

The SME sector as a whole (inclusive of micro firms) in Italy accounts for 99.9% of all firms, 80.4% of employment in businesses and 67% of the value added of the business sector; respectively the second, third and the fifth highest values among OECD countries. These statistics underline the importance of SMEs for the Italian economy, but also provide an early sign of a productivity problem; there is a gap of 13.3 percentage points between the share of Italian SMEs in national employment and in national value-added.

Figure 2.1 shows how the Italian business sector is strongly weighted towards an overwhelming majority of micro-enterprises employing less than 10 employees. In OECD countries this business size class accounts for between 70% and 95% of all enterprises. Italy ranks at the very top end of this distribution, with 94.6% of micro firms in the total business population. Italy is also one of the OECD countries with the lowest proportion of medium-sized firms (with 50-249 employees) (0.5%), well below Germany (2.5%) and the United Kingdom (1.5%). Italy has more firms per unit of GDP than any other major European economy (OECD, 2013a), pointing to a fragmented business sector characterised by a large number of low-productivity micro and small firms.

Figure 2.1. **Enterprise by size class, 2010 or latest available year**

Percentage values



Note: All countries present information using the enterprise as the statistical unit except Japan, Korea and Mexico which use establishment. Data for Korea include financial services. Different size classes apply to Australia (1-19; 20-199; 200+), Japan (1-9; 10-49; 50-299; 300+), Korea (1-9; 10-99; 100-299; 300+), Mexico (1-10; 11-50; 51-250; 251+), Turkey (1-19; 20-49; 50-249; 250+), and the United States (1-9; 10-99; 100-499; 500+). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

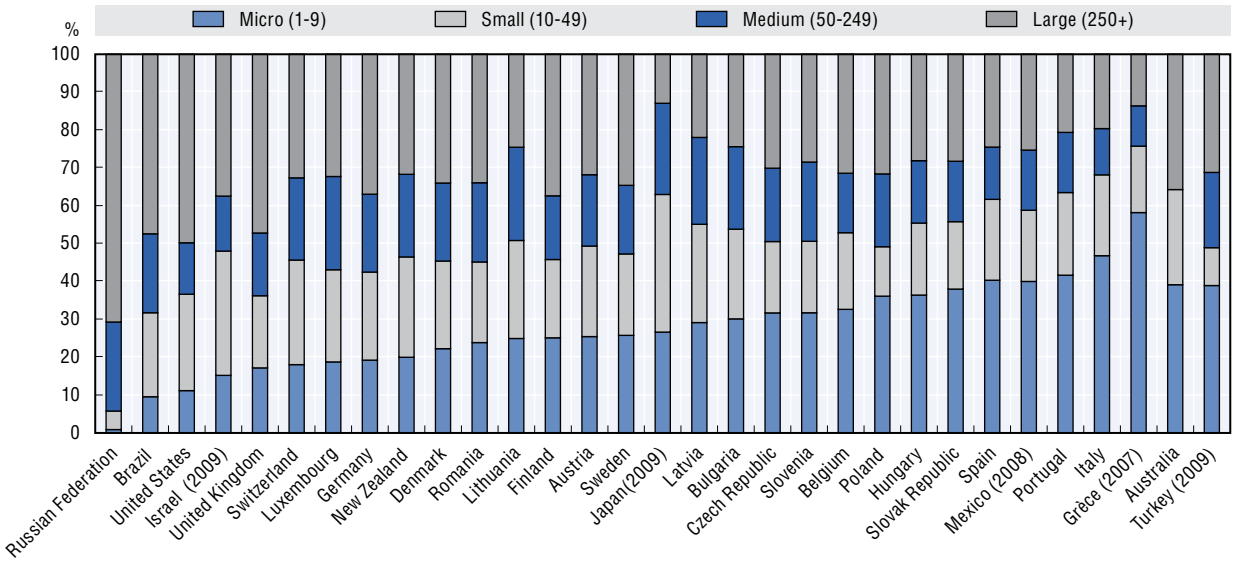
Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147027*

The relative weight of the micro-enterprise sector in Italy is confirmed by employment and value-added figures (Figure 2.2 and Figure 2.3). Italian micro-enterprises account for 47% of national employment, small firms contribute 21% and medium-sized firms contribute only 12%, the second-lowest value among OECD countries. The contribution of micro-enterprises to value added is 30%, one of the highest figures in the OECD area, with small firms contributing a further 20%, and medium-sized firms contributing only 18%. The problem these figures point to is of a dearth of medium-sized enterprises in Italy; a size class which in Italy and elsewhere tends to have higher productivity and greater investment in physical and human capital than smaller firms.

Figure 2.2. **Employment by enterprise size class, 2010 or latest available**

Percentage values



Note: All countries present information using the enterprise as the statistical unit except Japan and Mexico which use establishment. Data for all countries refer to the number of persons employed, with the exception of New Zealand, the Russian Federation and the United States which use number of employees and therefore exclude the working proprietors without employees. Different size classes apply to Australia (1-19; 20-199; 200+), Japan (1-9; 10-49; 50-299; 300+), Korea (1-9; 10-99; 100-299; 300+), Mexico (1-10; 11-50; 51-250; 251+), Turkey (1-19; 20-49; 50-249; 250+), and the United States (1-9; 10-99; 100-499; 500+). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

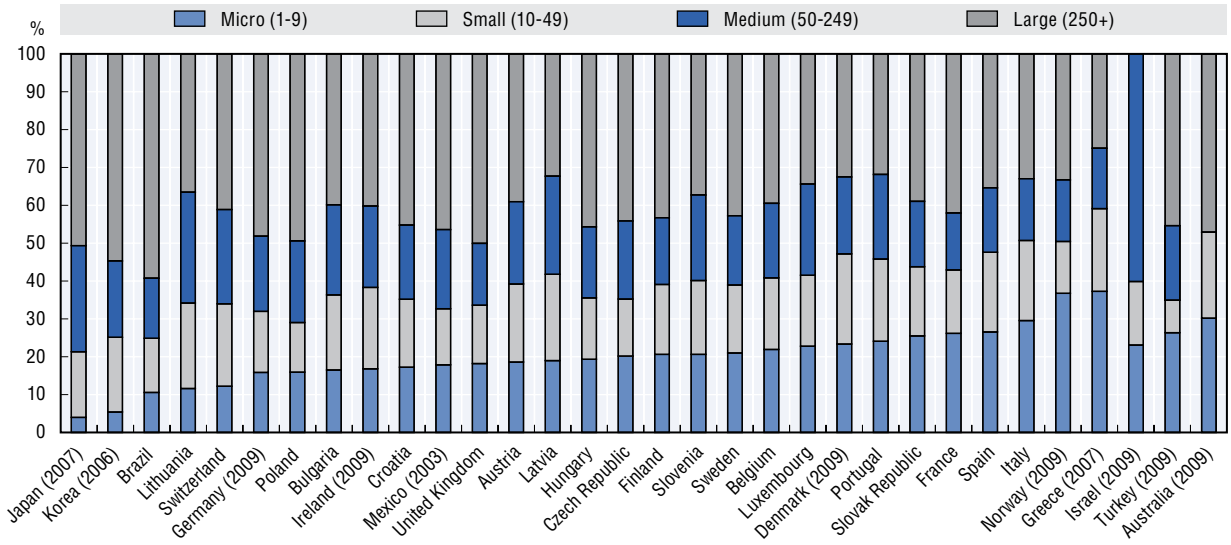
StatLink *http://dx.doi.org/10.1787/888933147034*

SMEs are important in manufacturing as well as services

In OECD countries, countries with a strong services sector tend to have a larger proportion of micro and small firms. However, the small average size of the Italian business sector is not a simple product of the country's industrial structure; Italy is an economy in which manufacturing still plays an important role. Before the outbreak of the 2008 global economic crisis, manufacturing accounted for 30.5% of national employment, higher than in Germany and only second to a group of Eastern European economies in the OECD area, and although employment in manufacturing has since dropped by 8.5%, Italy has traditionally been more resilient to manufacturing employment decline than most other OECD countries. Furthermore, structural business statistics for manufacturing alone confirm Italy's weighting towards smaller firms. Micro-enterprises represent

Figure 2.3. **Value added by enterprise size class, 2010 or latest available year**

Percentage values



Note: Data refer to value added at factor costs in EU countries and value added at basic prices for other countries. Different size classes apply to Australia (1-19; 20-199; 200+), Israel (1-9; 10-49; 50+) Japan (4-9; 10-49; 50-299; 300+), Korea (5-9; 10-99; 100-299; 300+), Luxembourg (1-19; 20-49; 50-249; 250+), Mexico (1-10; 11-50; 51-250; 251+), Turkey (1-19; 20-49; 50-249; 250+), and the United States (1-9; 10-99; 100-499; 500+). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147044*

82% of the total business population and 24.5% of total employment in manufacturing (Figure 2.4 and Figure 2.5), the latter being the third-highest value across OECD countries, whereas medium-sized companies make up only 2% of total enterprises and 21.5% of total employment, the fifth-lowest values in the OECD area. A separate data source from Italian Ministry of Economic Development, which is not strictly comparable to the OECD data, shows that the presence of micro-enterprises is even stronger in the other sectors of the economy (Table 2.1).

Italy's SME sector lacks economies of scale

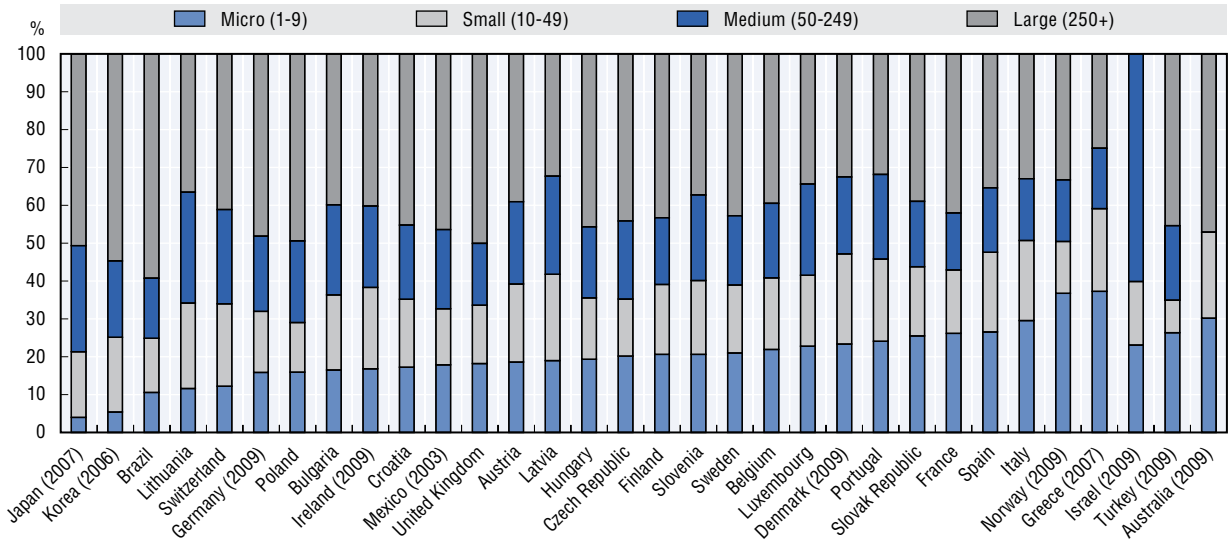
Italy's rates of business density and self-employment indicate relatively large numbers of firms relative to the size of the population and relatively large numbers of self-employed people in the population by international standards (Figure 2.6 and Figure 2.7). While this is suggestive of positive entrepreneurial attitudes in the Italian population and low entry barriers in the market, it reinforces the message that Italy's business sector lacks economies of scale.

The informal economy is large by OECD standards

The Italian economy also displays a high degree of informality, referring to the market-based production of legal goods and services that is partly or totally concealed to tax authorities to save on production costs (e.g. labour costs, compliance with regulations) and increase revenues (e.g. no payment of income or value-added taxes). While in the short-term the informal economy is a source of jobs and livelihoods, in the long-term it hampers economic growth and job quality. Informal enterprises tend to restrict investment and have an incentive not to grow in order to avoid the attention of tax authorities. This translates

Figure 2.4. **Enterprises by size class in manufacturing, 2010 or latest available year**

Percentage values



Note: All countries present information using the enterprise as the statistical unit except Japan, Korea and Mexico which use establishment. Different size classes apply to Australia (1-19; 20-199; 200+), Japan (1-9; 10-49; 50-299; 300+), Korea (1-9; 10-99; 100-299; 300+), Mexico (1-10; 11-50; 51-250; 251+), Turkey (1-19; 20-49; 50-249; 250+), and the United States (1-9; 10-99; 100-499; 500+). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

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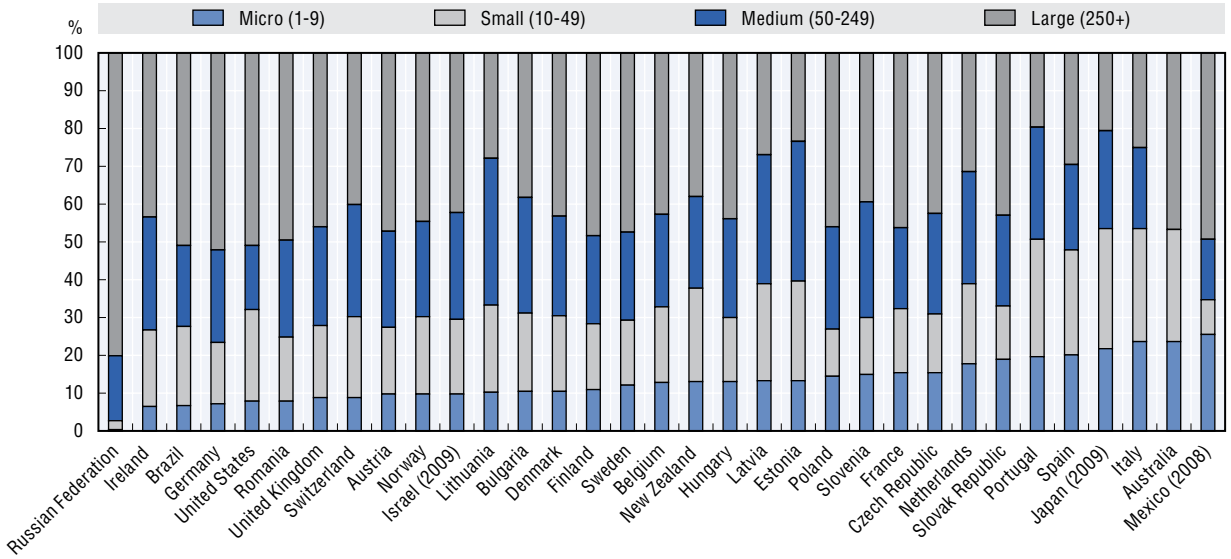
Figure 2.5. **Employment by enterprise size class in manufacturing, 2010 or latest available year**

Percentage values



Note: All countries present information using the enterprise as the statistical unit except Japan and Mexico which use establishment. Data for all countries refer to the number of persons employed, with the exception of New Zealand, the Russian Federation and the United States which use number of employees and therefore exclude the working proprietors without employees. Different size classes apply to Australia (1-19; 20-199; 200+), Japan (1-9; 10-49; 50-299; 300+), Korea (1-9; 10-99; 100-299; 300+), Mexico (1-10; 11-50; 51-250; 251+), Turkey (1-19; 20-49; 50-249; 250+), and the United States (1-9; 10-99; 100-499; 500+). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147067*

Table 2.1. **Contribution to total business population, employment and value-added by business size class and economic sector, 2012**

Percentage values

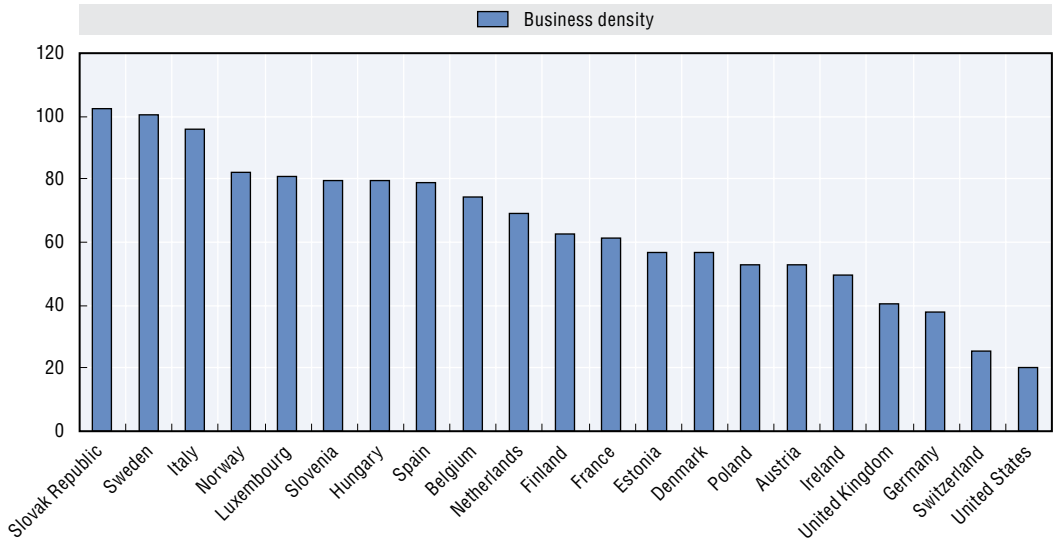
	Micro firms	Small firms	Medium firms	Large firms	Total
Industry					
Enterprises	82.3	15.2	2.2	0.3	100
Employment	23.2	29.7	21.5	25.6	100
Value added	11.9	23.9	24.4	39.8	100
Construction					
Enterprises	95.2	4.5	0.3	0	100
Employment	64.4	25.6	7	3	100
Value added	51.0	29.2	11.1	8.7	100
Trade and tourism					
Enterprises	95.7	4	0.3	0	100
Employment	53.9	18.7	8.6	18.8	100
Value added	-	-	-	-	
Other services					
Enterprises	97.7	2	0.3	0	100
Employment	51.6	12.4	10.9	25.1	100
*Value added**	39.8	17.8	11.8	30.5	100
Total					
Enterprises	95.1	4.3	0.5	0.1	100
Employment	46.6	20.2	12.4	20.8	100
Value added	31.1	20.9	16.1	31.9	100

Source: (*) Value added in "other services" includes also trade and tourism but excludes financial sector activities that are instead included in the count of enterprises and employment.
Source: Data supplied by the Italian Ministry of Economic Development, based on ISTAT (2012a), *Struttura e Dimensione delle Imprese*, Rome.

StatLink http://dx.doi.org/10.1787/888933147636

Figure 2.6. **Business density rate in selected OECD countries, 2010**

Number of firms per thousand active people

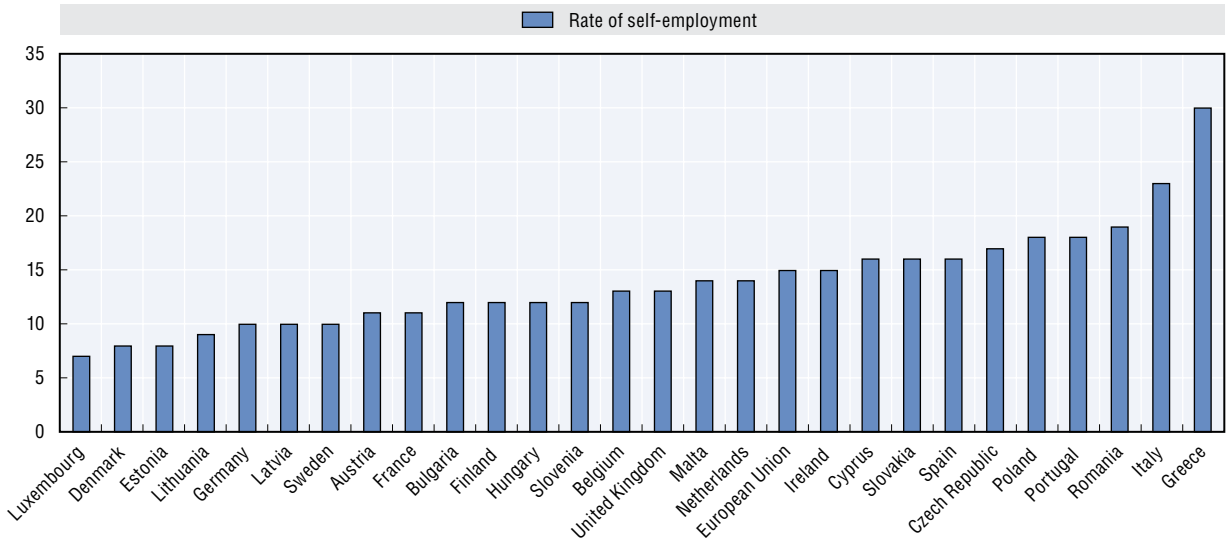


Note: Firms do not include financial and insurance activities. Only active population (aged 15-64) is taken into consideration for the calculation of business density.
Source: OECD based on OECD Population and Structural Demographic and Business Statistics databases.

StatLink http://dx.doi.org/10.1787/888933147075

Figure 2.7. **Rate of self-employment in EU countries, 2010**

Percentage values (out of total employment)



Source: EUROSTAT Labour Force Survey.

StatLink http://dx.doi.org/10.1787/888933147089

into low wages reflecting low productivity per worker, while at the same time representing unfair competition to compliant firms and missing tax revenues for the government.

International estimates on the size of the informal economy by country are rare because of the inherent difficulty of measuring what is concealed to public authorities. One attempt is by Schneider et al. (2010), who appraise the size of the informal economy in Italy at 27% of the national GDP, one of the highest values across OECD countries (Figure 2.8).[1] Other estimates by the Italian National Statistical Office (ISTAT) set the value of the informal economy at a lower but still considerable level, between 16.3% and 17.5% of GDP in 2008 (Figure 2.9). One positive note is that the weight of the informal economy has declined over the last 8 years taken into consideration. On the downside, the current recession may be reducing business and job opportunities in the formal economy and increase the incentive for entrepreneurs and workers to move to the informal economy. The upward switch in 2008 hints at this possible scenario.

Figure 2.10 shows that there is a positive relationship between the size of the informal economy and the size of the micro-enterprise sector. Since undersized business sector and economic informality are related, there is scope for the government to take action on the latter by addressing key issues that prevent business growth in the economy.

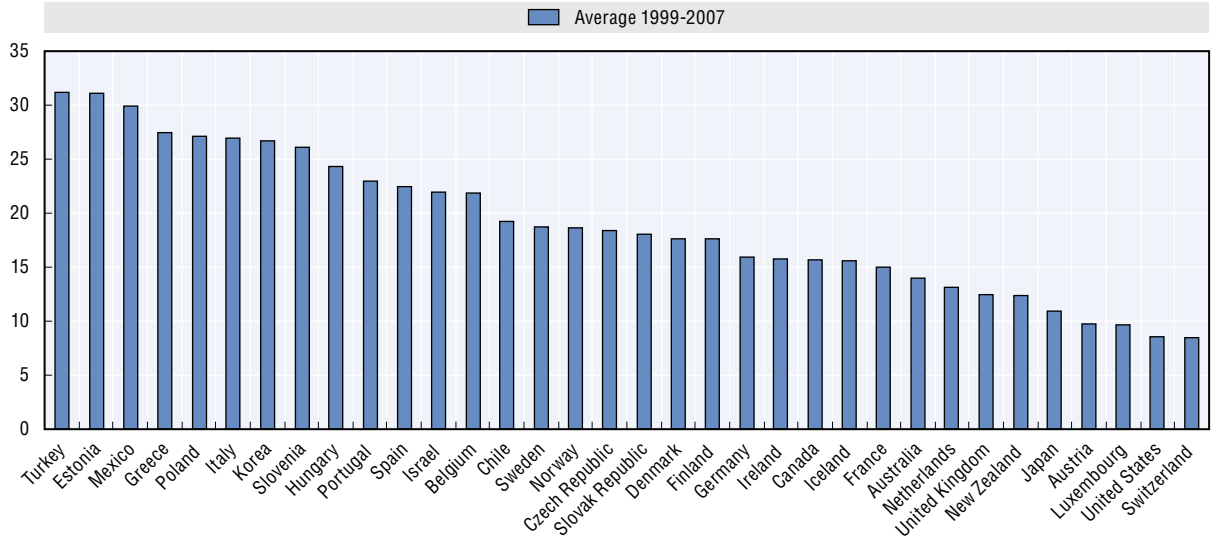
Italy's share of young firms is in line with the most entrepreneurial economies

Italy's share of young firms aged three years or less in the total employer enterprise population is quite high (Figure 2.11). This is a positive feature of the economy, given that young firms tend to have disproportionate benefits for productivity, innovation and employment growth compared with enterprises in general (Acs et al., 2005, 2009; Stangler and Litan, 2009), and indicates a relatively rapid churn, or renewal, of the enterprise stock.

In manufacturing, the percentage of young firms in Italy (14.1%) is similar to those of very entrepreneurial economies such as the United States (14.3%) and Israel (11.3%). Italian young manufacturing firms are also quite equally distributed among the three

Figure 2.8. **Size of the informal economy across OECD countries, average 1999-2007**

Percentage of GDP



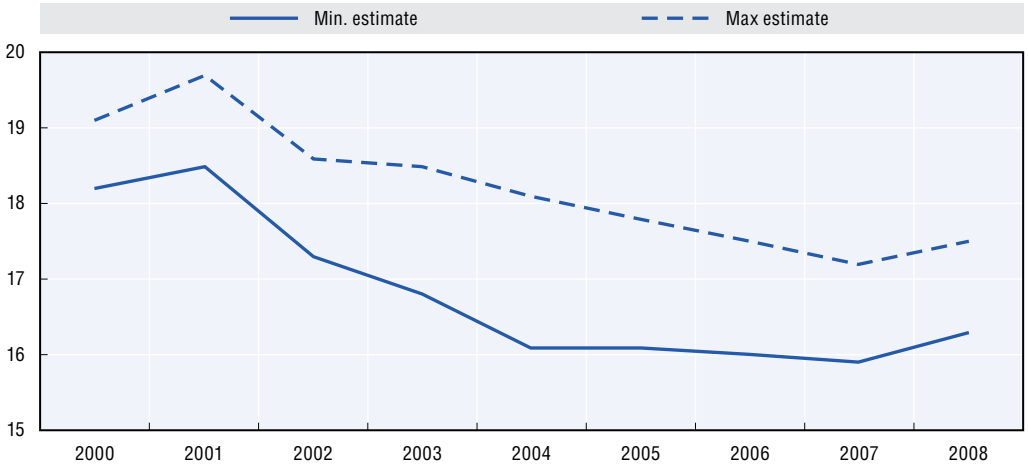
Note: The Schneider definition of the shadow economy uses a multiple indicator multiple cause model to estimate the shadow economy econometrically with a structural equation with one latent variable. It is an attempt to estimate all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid payment of income taxes, social security contributions, respect of legal labour market standards and administrative procedures.

Source: Schneider, F., A. Buehn and C. Montenegro (2010), "New Estimates for the Shadow Economies all Over the World", *International Economic Journal*, 24, 443-461.

StatLink http://dx.doi.org/10.1787/888933147098

Figure 2.9. **Value added produced by the informal economy in Italy, 2000-2008**

Percentage of GDP



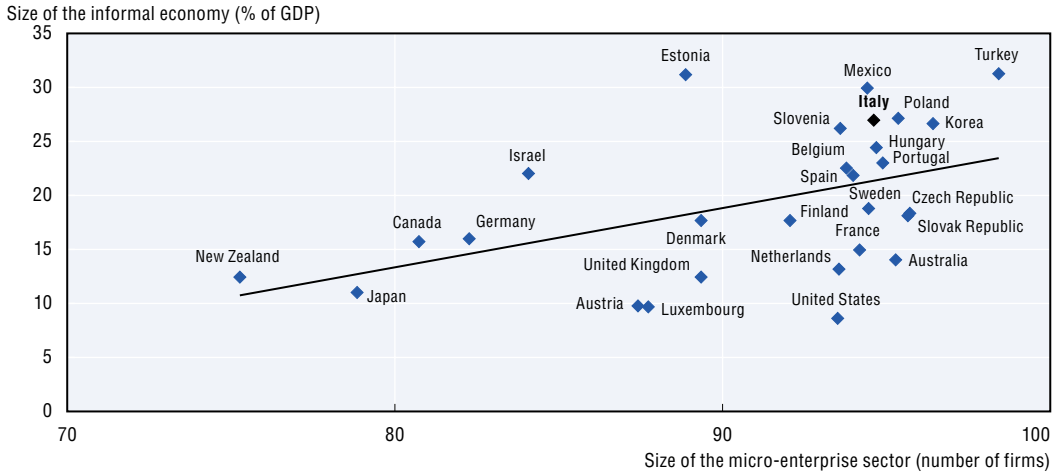
Source: ISTAT Working Group on the Unobserved Economy.

StatLink http://dx.doi.org/10.1787/888933147104

age classes composing the group (i.e. one-, two- and three-year old), which suggests that start-ups in manufacturing are able to cope with the challenges posed by the first years of business operations. In services, the proportion of young firms tends to be higher than in manufacturing, reflecting lower entry costs. In Italy, nearly a quarter of services firms are three years old or less (22%), a higher figure than in most other countries.

Figure 2.10. **The relationship between micro-enterprises and the informal economy**

Percentage values



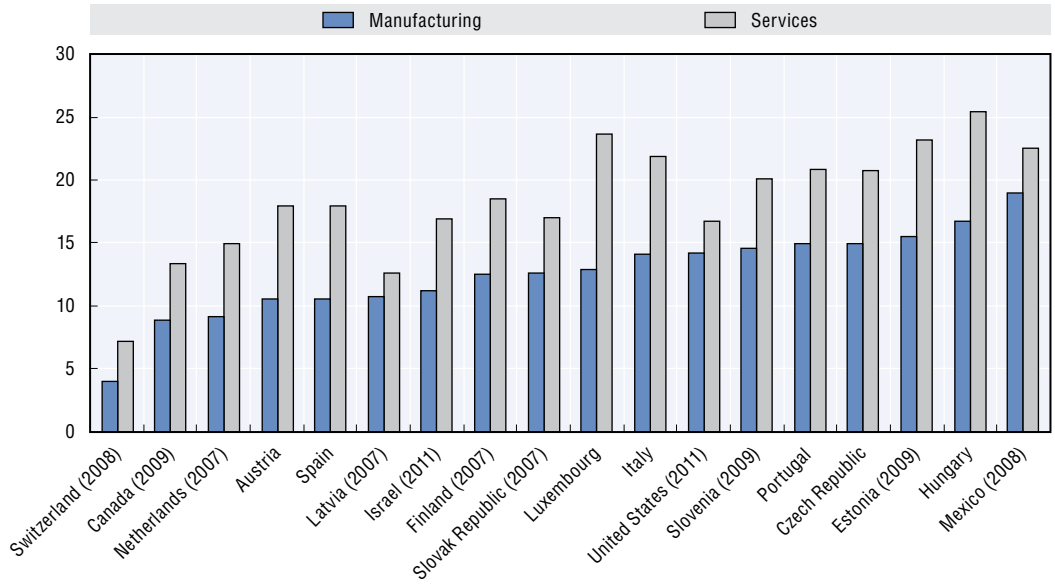
Note: The micro-enterprise sector is the proportion of firms with less than 10 employees in the economy. The size of the informal economy is measured as a percentage of total GDP. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en* and Schneider, F., A. Buehn and C. Montenegro (2010), "New Estimates for the Shadow Economies all Over the World", *International Economic Journal*, 24, 443-461.

StatLink *http://dx.doi.org/10.1787/888933147112*

Figure 2.11. **Share of young enterprises (aged 3 years or less) in manufacturing and services sectors, 2010 or latest available year**

Percentage of total employer enterprises



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147123*

High-impact entrepreneurship is rare

High-growth firms (HGFs) and gazelles (young firms with rapid growth) are important players in the economy because of the impact they have on economic growth and job creation.[2] For example, it has been estimated across several countries that around 4-6% of HGFs generate half to three-quarters of all new jobs (Henrekson and Johansson, 2010). High-growth firms and gazelles are not necessarily high-tech and are prevalently found in services (OECD, 2013b).

Figure 2.12 and Figure 2.13 look at the rates of HGFs and gazelles across countries measured by growth in employment. Italy's rates are relatively low. In 2010, the rate of HGFs was 1.5% in manufacturing and 3% in services, down from slightly higher levels in 2006 (2% in manufacturing and 4% in services). The rate of gazelles, which is less than 1% across most countries, was 0.2% in manufacturing and 0.4% in services, down from 0.3% and 0.6% in 2006. In comparative terms, the United States, Israel and France have between one-and-a-half and three-and-a-half the number of HGFs than Italy in manufacturing, while the gaps in services are slightly smaller. Similar gaps are observed in the number of gazelles. There is, therefore, a deficit of growth-oriented firms in Italy.

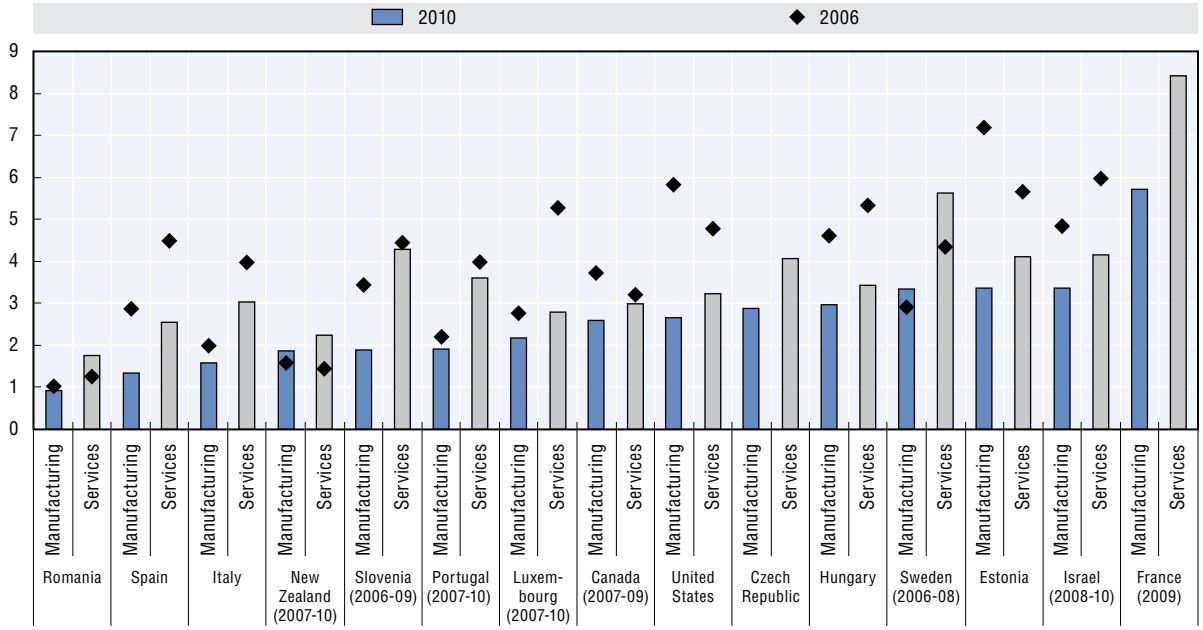
Productivity, exports and innovation

Productivity is greater in medium-sized and manufacturing SMEs

Figure 2.14 shows gaps in productivity per employee by size and sector of Italian firms compared to French, German and UK firms. There are significant productivity deficits between Italy and the comparator countries in the two smallest enterprise size

Figure 2.12. **High-growth firms in selected OECD countries, 2010 and 2006**

Measured by employment growth, percentage values



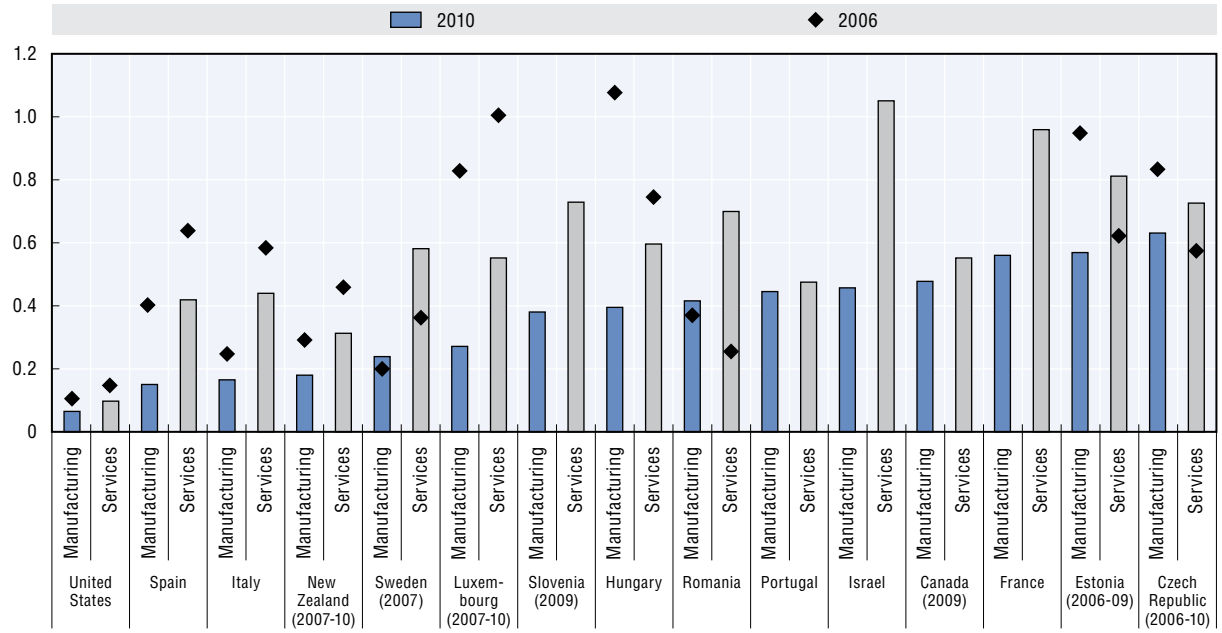
Note: Data presented refer to the whole population of employer enterprises, with the exception of Canada, for which data for 2006 refer to employer enterprises with less than 250 employees. Employment data are based on the number of persons employed, with the exception of Israel where the number of employees is used. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.*

StatLink http://dx.doi.org/10.1787/888933147131

Figure 2.13. **Gazelles in selected OECD countries, 2010 and 2006**

Measured by employment growth, percentage values



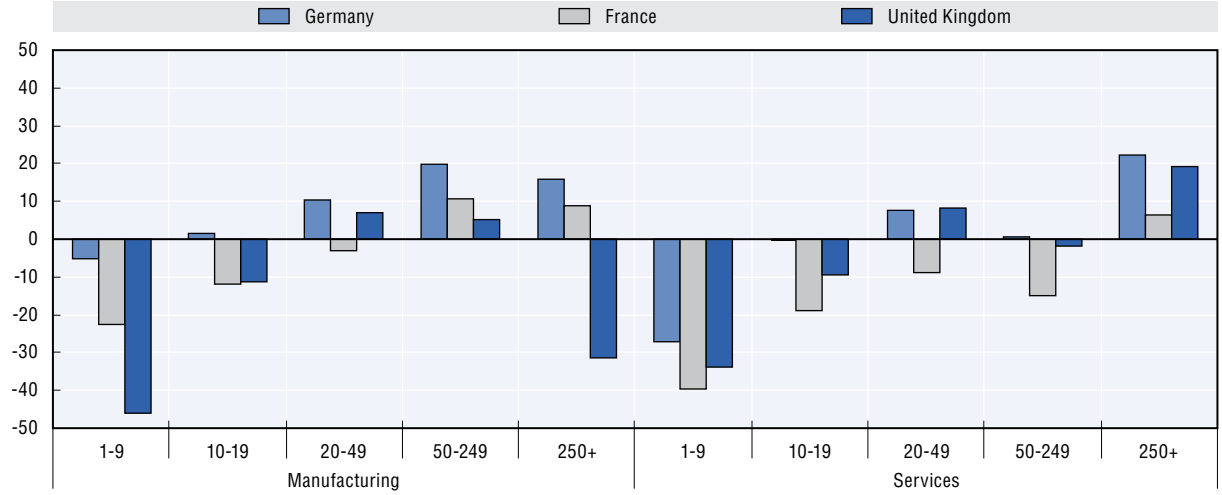
Note: Data presented refer to the whole population of employer enterprises, with the exception of Canada, for which data for 2006 refer to employer enterprises with less than 250 employees. Employment data are based on the number of persons employed, with the exception of Israel where the number of employees is used. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147148*

Figure 2.14. **Gaps in productivity of Italian SMEs with SMEs in Germany, France and the UK, 2010**

Productivity per employee, thousands of US dollars



Note: This graph displays gaps in productivity of Italian SMEs by sector and size compared to their peers in Germany, France and the UK. Italy is not visually represented in the graph because the bars point to how much behind or ahead Italian firms are with respect to productivity per employee in German, French and British same-sized firms.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147158*

bands (i.e. 1-9 and 10-19 employees) in both manufacturing and services. However, Italian manufacturing SMEs with 20-49 or 50-249 employees generally have higher productivity than their peers. This points to an important strength of the Italian SME sector, namely the high productivity of small and medium-sized companies in manufacturing. The drawback is that there are not enough of these enterprises in absolute numbers and employment accounted for, as shown earlier in Figures 2.4 and 2.5, given the dominance of micro firms in the economy. By contrast, in services, there are more often than not productivity deficits for SMEs compared with the peer countries. This is explained by a number of factors. First, Italy has a low share of employment in knowledge-intensive services, which accounts for 15.5% of total employment in Italy, as against 19.5% in France and 21% in the United Kingdom (OECD, 2011). Second, economic informality has traditionally been higher in services than in manufacturing. Third, Italy's services sector has been disproportionally affected by the diffusion of non-standard labour contracts during the last ten years.

SMEs' export performance is robust

Italy's export performance has traditionally been solid. If we take the volume of exports as the benchmark, Italy is one of the first 10 countries in the world. In 2011, Italy's exporting excelled in seven sectors: clothing and fashion; leather and footwear; textiles; non-electronic mechanics; basic manufactured goods; miscellaneous products; and food. In particular, Italy had the third highest trade surplus worldwide in the mechanics sector, preceded only by Japan and Germany. The main destination countries of Italian exports are EU countries, although performance in the United States, the Middle East and Far East has been constantly improving.

Italian SMEs are heavily involved in this exporting story. Figure 2.15 shows that on average 28% of Italian SMEs were involved in direct export activity for the period 2006 to 2008, which is above the average of 25% of SMEs across the European Union, despite the fact that smaller countries tend to show higher percentages due to fewer opportunities in the domestic market.

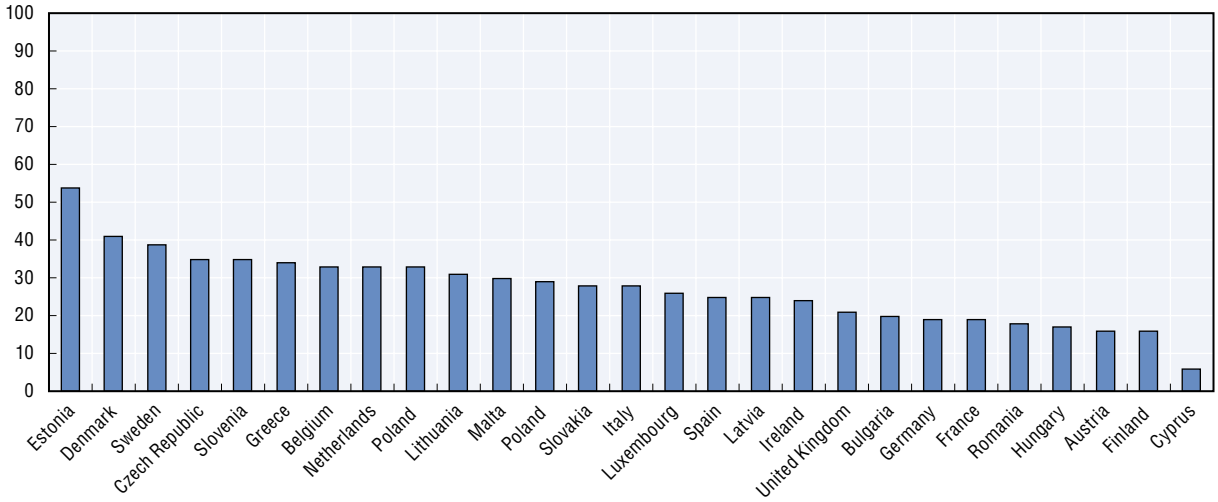
The SME share of the total volume of exports (56.5%) is significantly larger than in other large EU economies or the United States (Figure 2.16). The export performance of Italian SMEs is driven in particular by medium-sized companies, which make up 27% of total exports, while small-sized companies contribute a further 18% of total exports. The impact of micro-enterprises is marginal (6.8%) and one of the lowest across the observed economies.

Table 2.2 confirms this picture, giving information on numbers of exporting enterprises and their associated employment and export volumes by enterprise size class. Examining the data shows that the average values of exports by exporting enterprises are EUR 190 000 for micro-enterprises; EUR 1.1 million for small enterprises; EUR 8.6 million for medium enterprises; and EUR 74.1 million for large enterprises.

The performance of exporting firms is also significantly better than that of non-exporting firms (Table 2.3). Not only are the former on average larger than the latter, but they also exhibit higher turnover and value added per employee. In particular, the turnover per employee of exporting firms is between 2 and 2.5 times higher than that of firms without a presence in foreign markets, while the value added per employee is between 1 and 1.4 times higher for firms that export than for those that do not. Exporting companies also pay higher salaries and invest more in the business, which are both key drivers of productivity performance.

Figure 2.15. **Proportion of SMEs with direct export activity, 2006-2008**

Percentage values (of total SMEs)

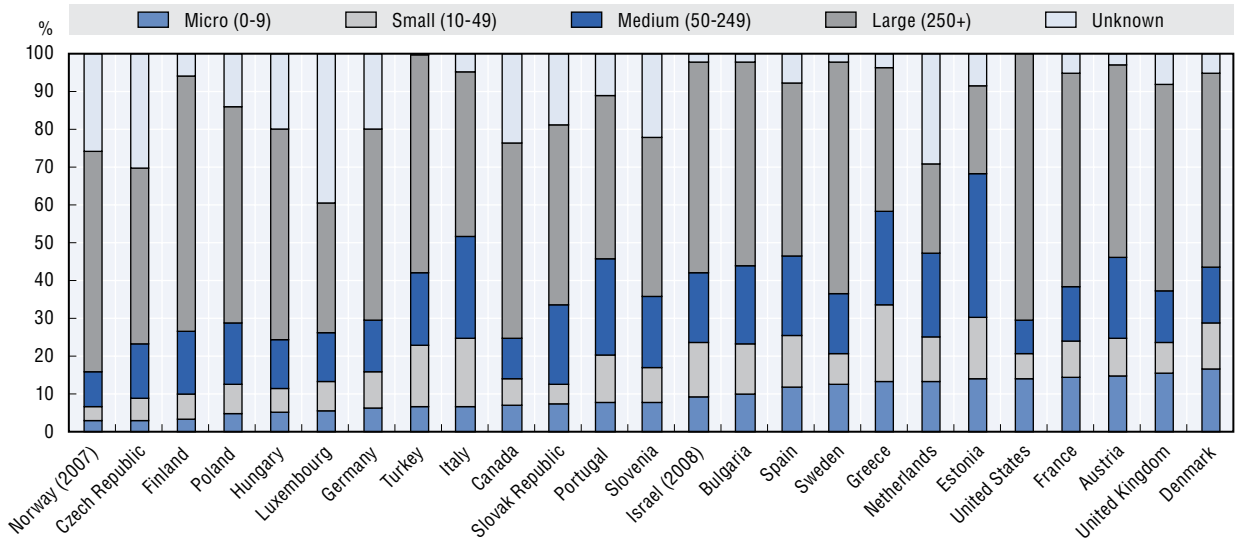


Source: OECD based on European Commission (2010), Internationalisation of European SMEs, Brussels.

StatLink http://dx.doi.org/10.1787/888933147160

Figure 2.16. **Exports by enterprise size class, 2010 or latest available year**

Percentage of exports of all exporting enterprises, values in US dollars



Note: For EU member states, total exports are compiled by adding intra-EU and extra-EU exports. In European countries, the enterprise is used as the statistical unit, while the establishment is used in Canada and the United States. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink http://dx.doi.org/10.1787/888933147175

Direct exporting is only one of a number of internationalisation processes. In total some 35% of Italian SMEs have internationalised across one or more of various internationalisation modes, including foreign direct investment, compared with an average of 44% in the EU as a whole (Figure 2.17). This suggests that while Italian SMEs are strong exporters, they have more to do in terms of establishing operations abroad.

Growing competition from emerging economies and the prospect of continued slack internal demand mean that many Italian SMEs may have to approach international

Table 2.2. **Exporting enterprises by size class in Italy, 2010**

	Enterprises		Employees		Export Volumes	
	Number	%	Number	%	Millions of Euro	%
Micro	121 256	64.2	424 973	9.2	22 926	7.1
Small	55 076	29.2	1 112 883	24.0	59 979	18.7
Medium	10 582	5.6	1 041 405	22.5	91 152	28.4
Large	1 982	1.0	2 052 874	44.3	146 939	45.8
Total	188 896	100.0	4 632,135	100.0	320 996	100.0

Source: Data supplied by the Ministry of Economic Development based on ISTAT (2012b), Struttura e Competitività delle Imprese 2012, Rome.

StatLink http://dx.doi.org/10.1787/888933147646

Table 2.3. **Performance of exporting firms versus non-exporting firms, 2011**
Average size and thousands of euros

	Average size (employees)	Turnover by employee (EUR 000s)	Value added by employee (EUR 000s)	Labour cost by employee (EUR 000s)	Gross salary by employee (EUR 000s)	Investment by employee (EUR 000s)
Export firms						
0-9	4.3	200.7	35.5	30.5	21.9	3.3
10-19	13.7	214.8	47.2	34.8	25.0	6.3
20-49	31.2	269.2	54.9	39.2	27.8	6.0
50-249	98.8	298.1	69.4	44.4	31.6	7.9
250+	726.2	406.2	79.9	50.4	35.1	10.4
Total	34.7	319.6	66.8	44.4	31.3	8.1
Non-export firms						
0-9	2.6	75.5	23.6	24.2	17.4	3.2
10-19	13.1	105.7	35.3	29.0	20.9	4.1
20-49	28.1	122.7	39.2	32.4	23.0	5.9
50-249	81.1	156.1	47.4	36.4	25.5	6.1
250+	499.3	173.6	44.1	37.0	25.8	6.3
Total	4.2	95.2	30.2	28.5	20.4	4.0

Source: Data supplied by the Ministry of Economic Development based on ISTAT (2012b), Struttura e Competitività delle Imprese 2012, Rome.

StatLink http://dx.doi.org/10.1787/888933147651

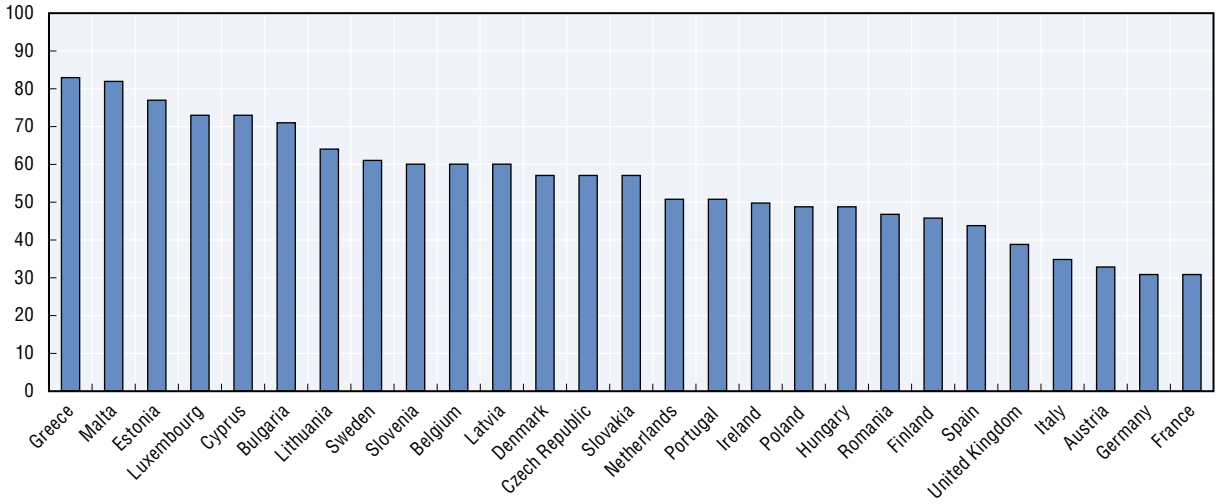
markets for the first time to survive, while those that already export may have to expand further their international presence. Italian firms also need to break more strongly into emerging markets accounting for a growing share of international demand. In particular, there are likely to be significant opportunities in the so-called BRICS thanks to the rise of a sizeable middle class in these countries that is potentially interested in the high-quality and design-intensive products of the "Made in Italy".[3]

SMEs are active in innovation

SMEs account for 22% of total business R&D in Italy, a value that has been constant during the second half of the last decade and above the average for OECD countries (Figure 2.18). The important role of Italian SMEs in innovation activities is confirmed by the results of an ISTAT survey on innovative enterprises covering firms with at least 10 employees (Figure 2.19 and Figure 2.20). As many as 42% of small companies and 63% of medium companies have introduced or are in the process of introducing innovations. At the same time, Italian SMEs are more likely to introduce non-technological innovation than technological innovation (including organisational and marketing innovation and design), particularly in the case of services firms (OECD, 2011).

Figure 2.17. **Proportion of internationalised SMEs, 2006-2008**

Percentage values (of total SMEs)

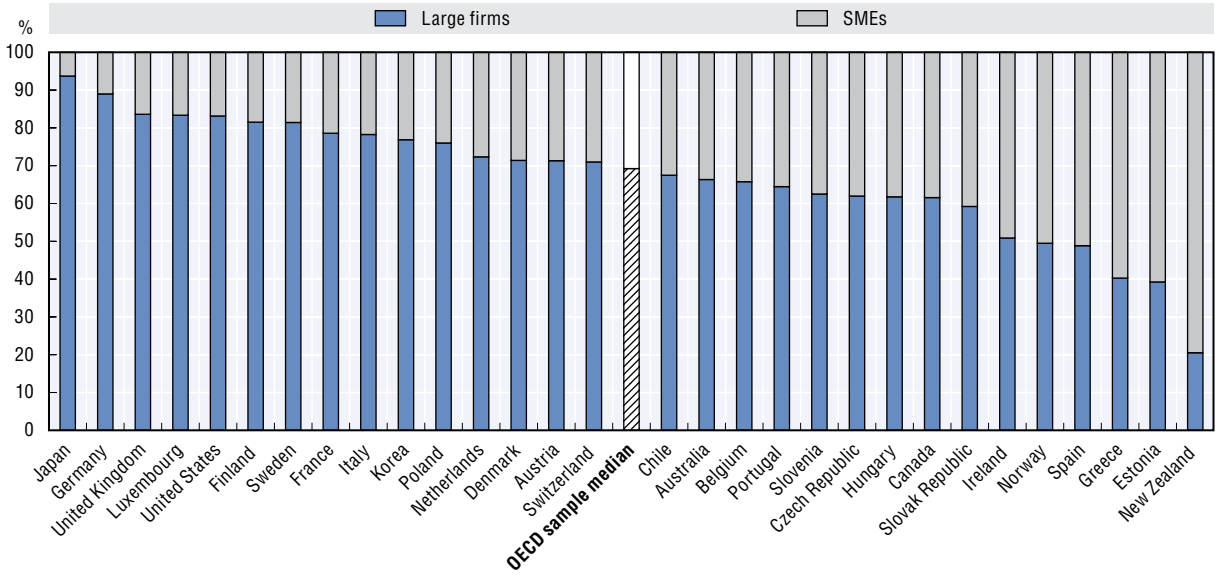


Source: OECD based on European Commission (2010), Internationalisation of European SMEs, Brussels.

StatLink http://dx.doi.org/10.1787/888933147180

Figure 2.18. **Business enterprise R&D by firm size, 2010 or latest available year**

Percentage values



Source: OECD based on OECD Science, Technology and Industry Outlook database.

StatLink http://dx.doi.org/10.1787/888933147198

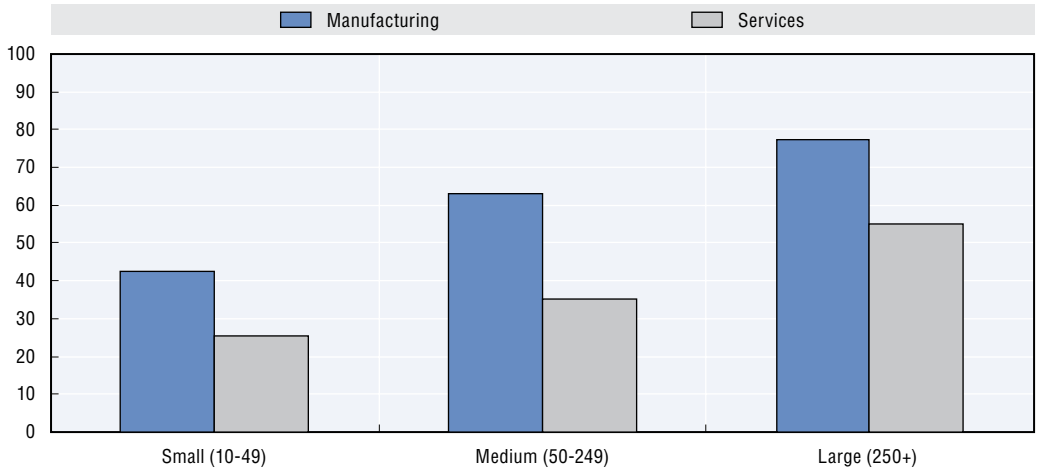
Entrepreneurship and business demography

Entrepreneurship: desirable, but often seen as not feasible

Business creation activity in a country is affected by the entrepreneurial attitudes of the population; whether people would like to be an entrepreneur, whether they think entrepreneurship is a feasible option, whether they hold entrepreneurs in high esteem, etc., which in turn are affected by deep-rooted legal and social institutions. In Italy, the share of the population who state that they would like to be self-employed

Figure 2.19. **Innovative enterprises in Italy by sector and size class, 2008-2010**

Percentage values (out of total enterprises)

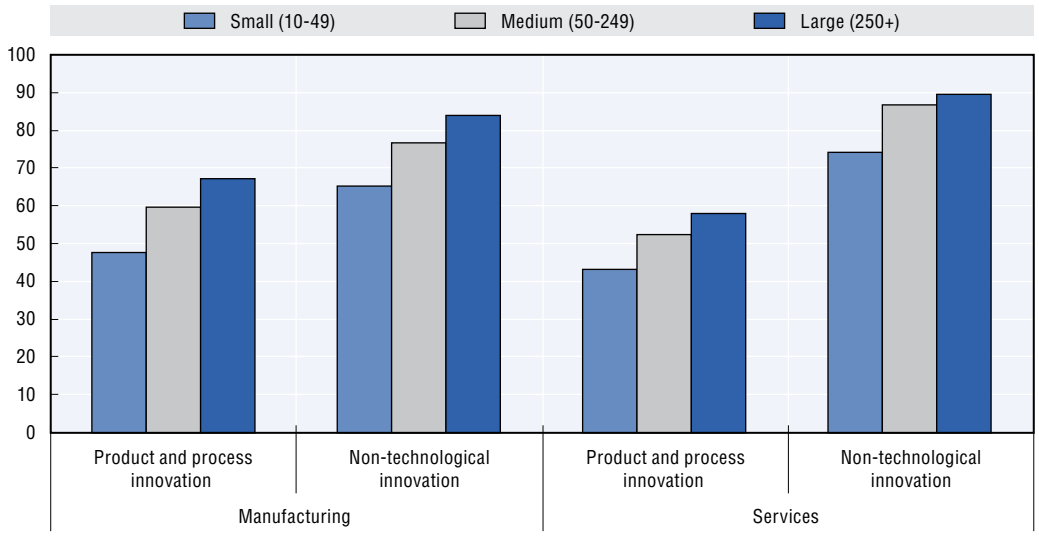


Source: ISTAT (2012c), Rilevazione sull'Innovazione nelle Imprese. Anni 2008-2010, Rome.

StatLink http://dx.doi.org/10.1787/888933147200

Figure 2.20. **Innovative enterprises by type of innovation, sector and size class, 2008-2010**

Percentage values (out of total innovative enterprises)



Source: ISTAT (2012c), Rilevazione sull'Innovazione nelle Imprese. Anni 2008-2010, Rome.

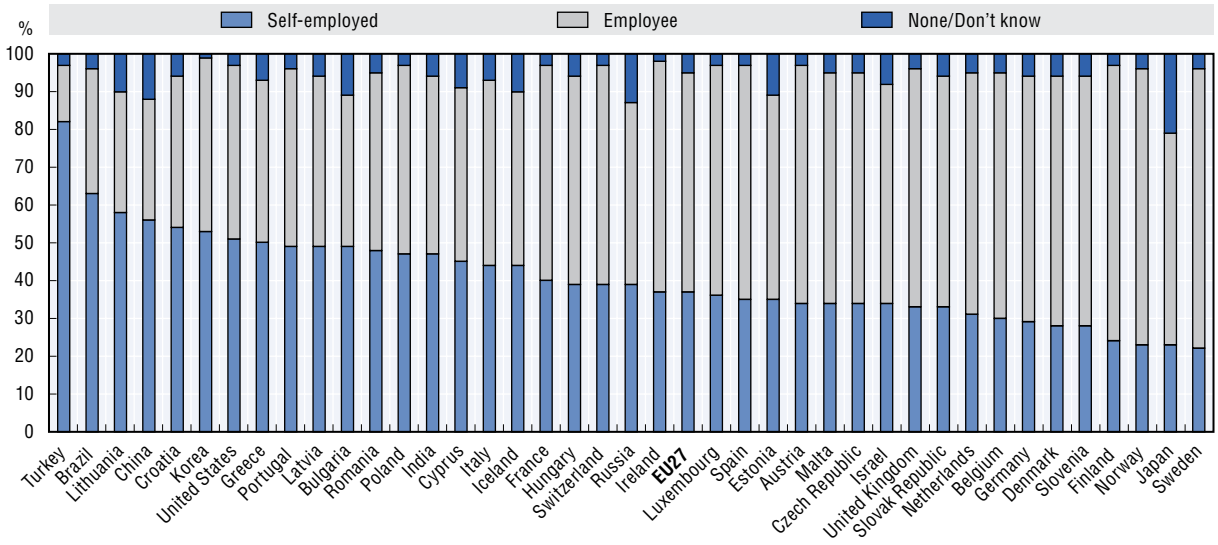
StatLink http://dx.doi.org/10.1787/888933147210

(44%) is above the EU27 average benchmark. On the other hand, at 27%, Italy has a lower-than-average population share considering that self-employment is a feasible option for them (Figure 2.21 and Figure 2.22). There is therefore a gap between "preference for self-employment" and "feasibility of self-employment" of 17 percentage points in Italy, which is significantly higher than the EU27 average of only 7 percentage points (37% vs. 30%). Lack of capital and financial resources to become self-employed (17%) and the current adverse economic climate (14%) are the reasons most cited by Italians to forsake their entrepreneurial ambitions (European Commission, 2012).

The Global Entrepreneurship Monitor's (GEM) Total Entrepreneurial Activity (TEA) rate estimates provide information on the proportion of the adult population (18-64 years old)

Figure 2.21. **Preference for self-employment across EU and selected other countries, 2012**

Percentage values

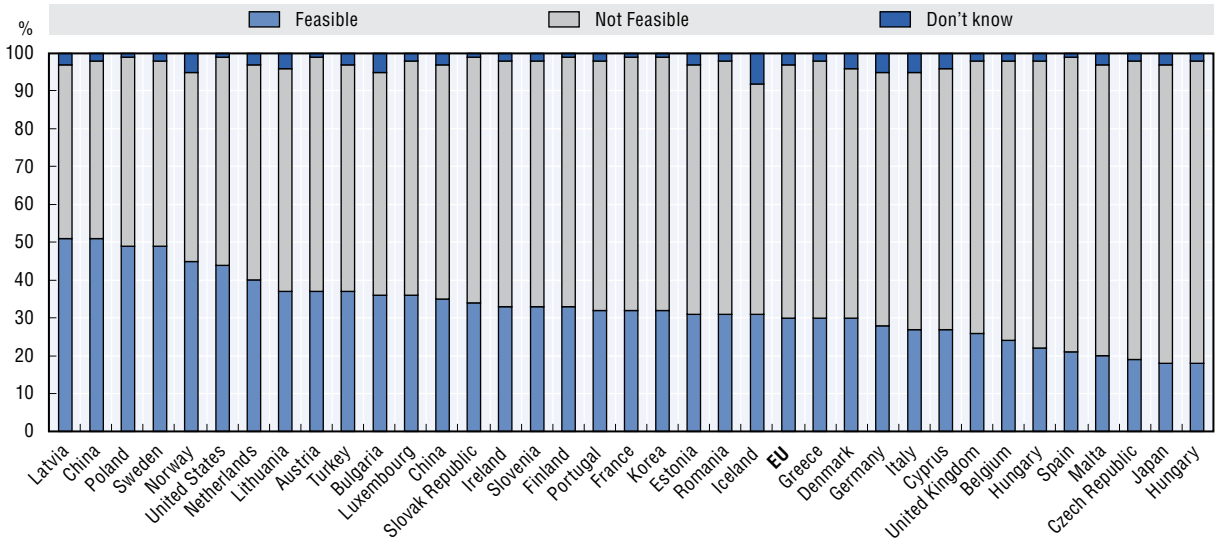


Source: European Commission (2012), Entrepreneurship in the EU and Beyond, Flash Eurobarometer, n. 354, Brussels.

StatLink http://dx.doi.org/10.1787/888933147227

Figure 2.22. **Feasibility of self-employment across the EU and selected other countries, 2012**

Percentage values



Source: European Commission (2012), Entrepreneurship in the EU and Beyond, Flash Eurobarometer, n. 354, Brussels.

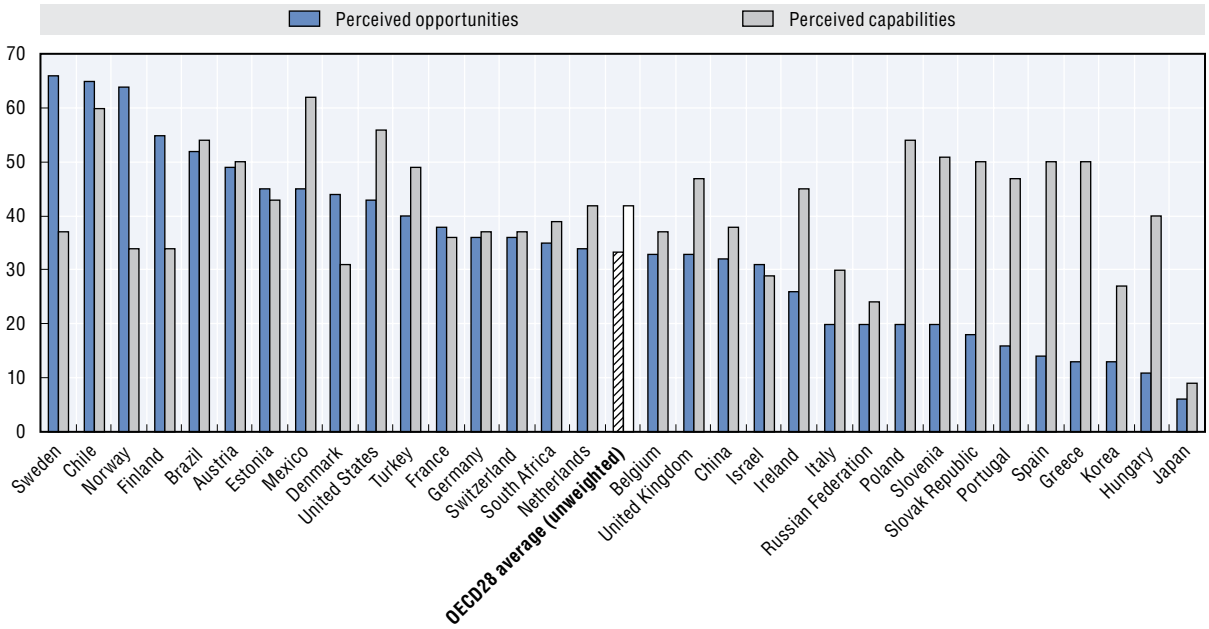
StatLink http://dx.doi.org/10.1787/888933147236

who say that they are actually involved in starting a business (i.e. nascent entrepreneurship) or who have already started one aged less than three-and-a-half years (i.e. new business ownership rate). It shows that in Italy only 4% of the population is launching an enterprise or managing a new one. This is only half the rate of the OECD un-weighted average of 8%. In a highly entrepreneurial economy like the United States, TEA stands at 13% (Figure 2.23).

There are therefore barriers that prevent Italian would-be entrepreneurs from taking action. The GEM data show that these barriers are to be found both in the market and

Figure 2.23. **Total early-stage entrepreneurial activity (TEA) rate, 2012**

Percentage values



Note: GEM Total Early-Stage Entrepreneurial Activity (TEA) rate consists of the percentage of individuals aged 18-64 years in an economy who are in the process of starting or are already running new businesses. The TEA rate therefore includes both nascent and new entrepreneurs.

Source: GEM (2012), *Global Entrepreneurship Monitor: 2012 Global Report*, GEM Consortium.

StatLink *http://dx.doi.org/10.1787/888933147246*

individual spheres. Only 20% of Italians see good market opportunities for starting a business, compared to values above 50% in northern Europe, while only 30% believe they have the skills and experience needed to set out a business activity, compared to 56% in the United States and 47% in the United Kingdom (Figure 2.24). Perceptions of the availability of market opportunities and skills and experience are both below the un-weighted averages for the OECD countries for which GEM data are available.

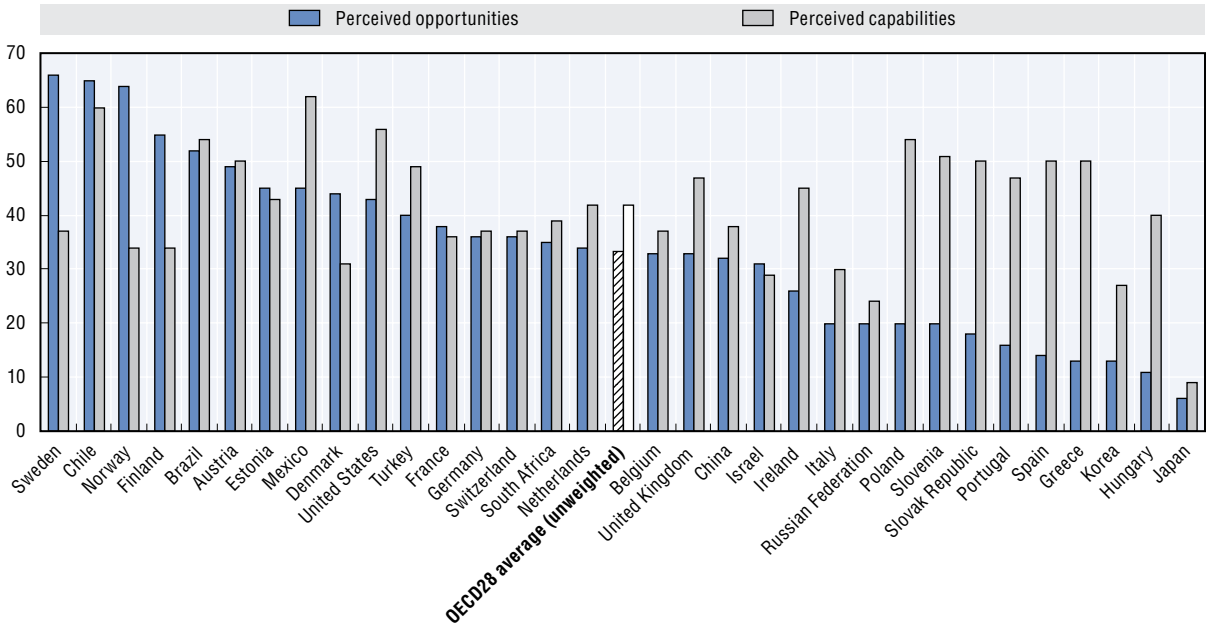
Fear of failure is also very high in Italy: nearly 3 out of 5 (i.e. 58%) of those who perceive a market opportunity for starting a business also express a fear of failure likely to become a barrier to business start-up. This has an impact on the TEA rate of opportunity-driven entrepreneurship: entrepreneurs in Italy are on average only 1.4 times more likely to be driven by an opportunity than by necessity (i.e. lack of alternatives in the labour market), while across the EU as a whole the ratio is 2.7 opportunity entrepreneurs for each necessity entrepreneur (GEM, 2012).

The stock of enterprises in the economy has declined

Examination of business birth and death rates in Italy demonstrate a short-term decline in the stock of SMEs and associated employment, induced by difficult macroeconomic conditions. In 2010, Italy showed a very small positive balance between business birth and death rates (+0.14%), in contrast to other OECD economies such as Canada, France and the United States, which had negative growth rates (Figure 2.25). However, Italy's enterprise birth rates have declined since 2007 while death rates have risen compared to 2008. The result has been a decrease in the stock of companies and reduced private-sector job opportunities in the economy (Figure 2.26).

Figure 2.24. **Perceptions of individuals about existing market opportunities and personal entrepreneurial capabilities, 2012**

Percentage values



Source: OECD based on GEM (2012), Global Entrepreneurship Monitor: 2012 Global Report, GEM Consortium.

StatLink http://dx.doi.org/10.1787/888933147255

In terms of employment change, in 2010 Italy experienced net job destruction as a result of the business entry-exit process (-1.6%), which was a deterioration compared to net job creation recorded in 2008 (+0.1%) and 2006 (+1.3%) (Figure 2.27 and Figure 2.28). Overall, these dynamics have decreased the total number of companies by 63 000 units and the number of people employed by 610 000 units in the period 2008-10, but they have not altered the size distribution of business enterprises.

Aside from the change in business stock associated with recent recessionary pressures, the data indicate that Italy has a favourable business churn or turnover rate, which enables "creative destruction" and economic growth by permitting reasonable rates of firm entry and exit from the economy.

Social target groups

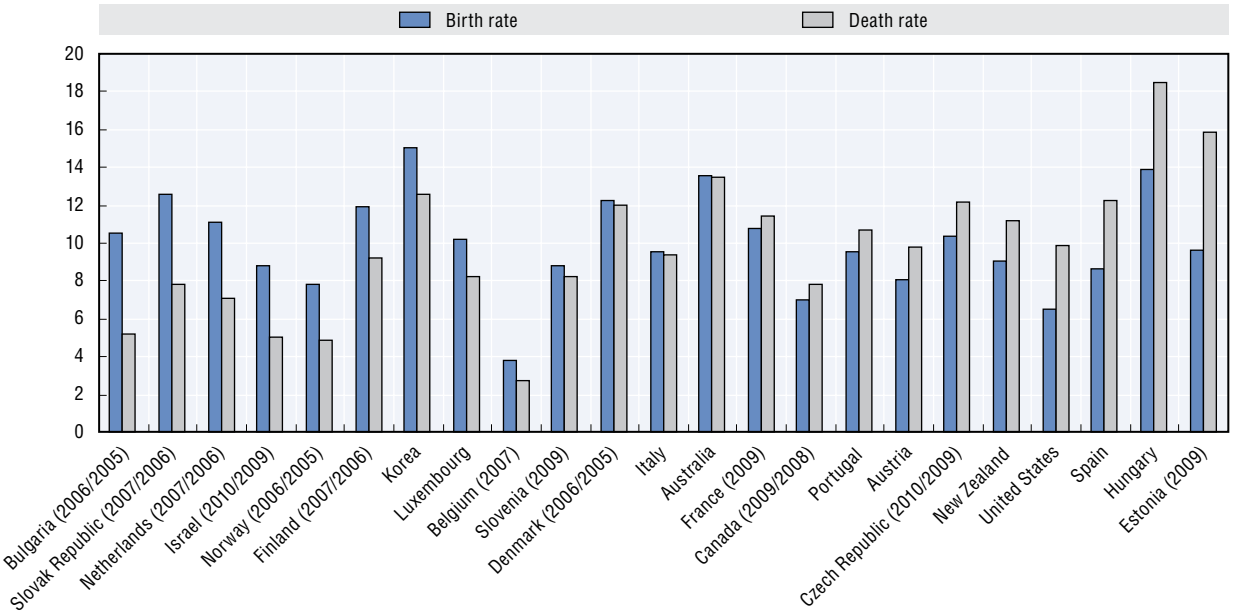
It is common in OECD countries that certain social target groups experience lower opportunities for successful entrepreneurship activity, which is a barrier to both economic growth and social inclusion. Here we examine the evidence on women, youth, seniors and migrants in Italy.

High female self-employment rates but a gap in business creation by women

Women's labour market participation has traditionally been low in Italy, primarily dragged down by very low rates in the South; in 2012, the rate of female participation in the Italian labour market was 54.7%, compared to an OECD average of 64.6%. At the same time, Italy's female self-employment rate is one of the highest in the OECD area, 15.9% compared to an OECD average of 10.4% (Figure 2.29), suggesting that self-employment can be part of the response to low female activity rates in Italy.[4] According to the National Observatory for Women Entrepreneurship, there are a total of 1.4 million registered female-owned

Figure 2.25. **Employer enterprise birth and death rates, 2010 or latest available year**

Percentage values (out of total employer enterprises)



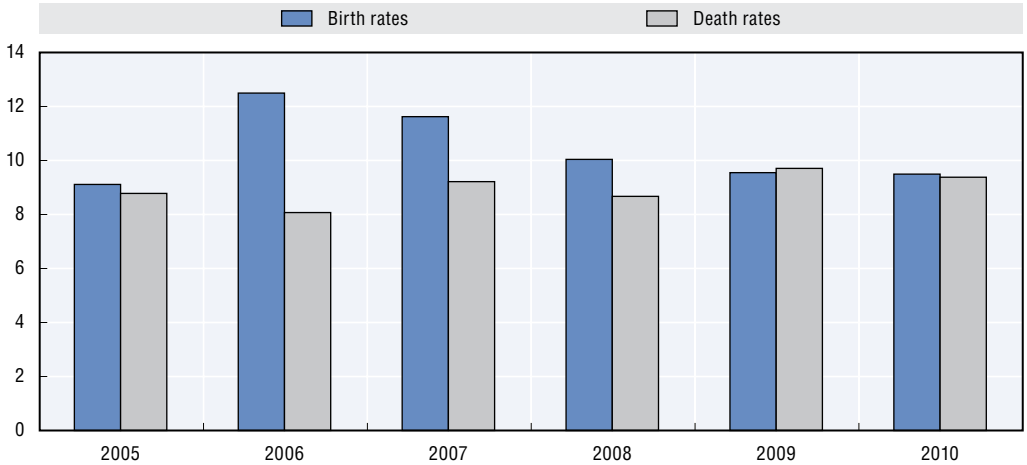
Note: Employer enterprise indicators are found to be more relevant for international comparison than indicators covering all enterprises, as the latter are sensitive to the coverage of business registers. Data presented refer to the whole population of employer enterprises, with the exception of Canada, for which data for 2007 and earlier years refer to employer enterprises with less than 250 employees. For Australia, the transition of a non-employer enterprise to the status of employer firm is not considered as an "employer enterprise birth". The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147265*

Figure 2.26. **Employer enterprise birth and death rates in Italy, 2005-2010**

Percentage values (out of total employer enterprises)



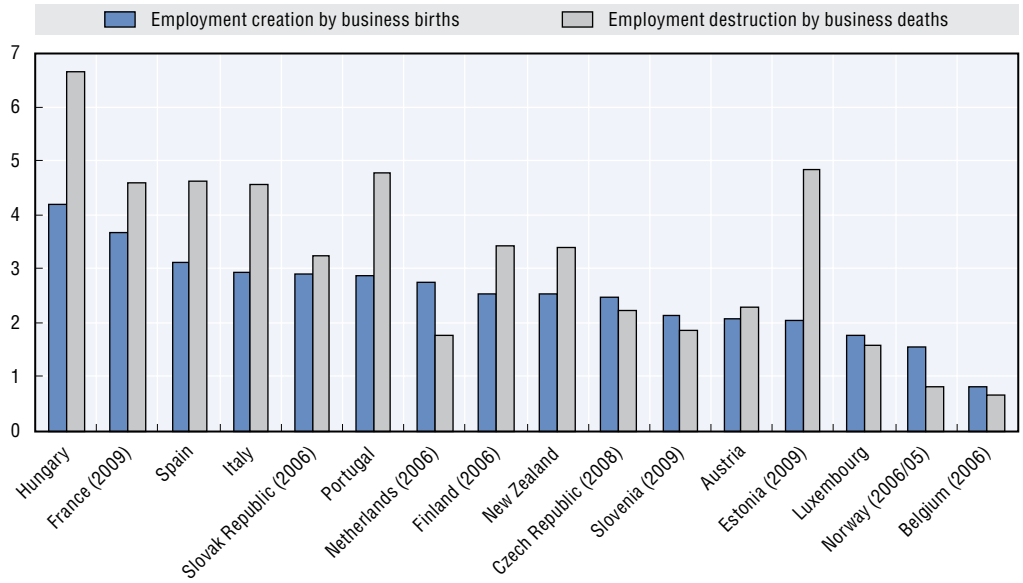
Note: Employer enterprise indicators are found to be more relevant for international comparison than indicators covering all enterprises, as the latter are sensitive to the coverage of business registers.

Source: OECD based OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147275*

Figure 2.27. **Employment creation by employer enterprise births and employment destruction by employer enterprise deaths, 2010 or latest available year**

Percentage values



Note: The employment creation by births is measured as the employment share of employer enterprise births. It is calculated as the number of persons employed in the reference period t in employer enterprises newly born in t divided by the number of persons employed in t in the population of employer enterprises. The employment destruction by death is measured as the employment share of employer enterprise deaths. It is calculated as the number of persons employed in the reference period t in exiting employer enterprises divided by the number of persons employed in t in the population of employer enterprises.

Source: OECD based OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.*

StatLink *http://dx.doi.org/10.1787/888933147286*

Figure 2.28. **Employment creation by employer enterprise births and employment destruction by employer enterprise deaths in Italy, 2006-2010**

Percentage values

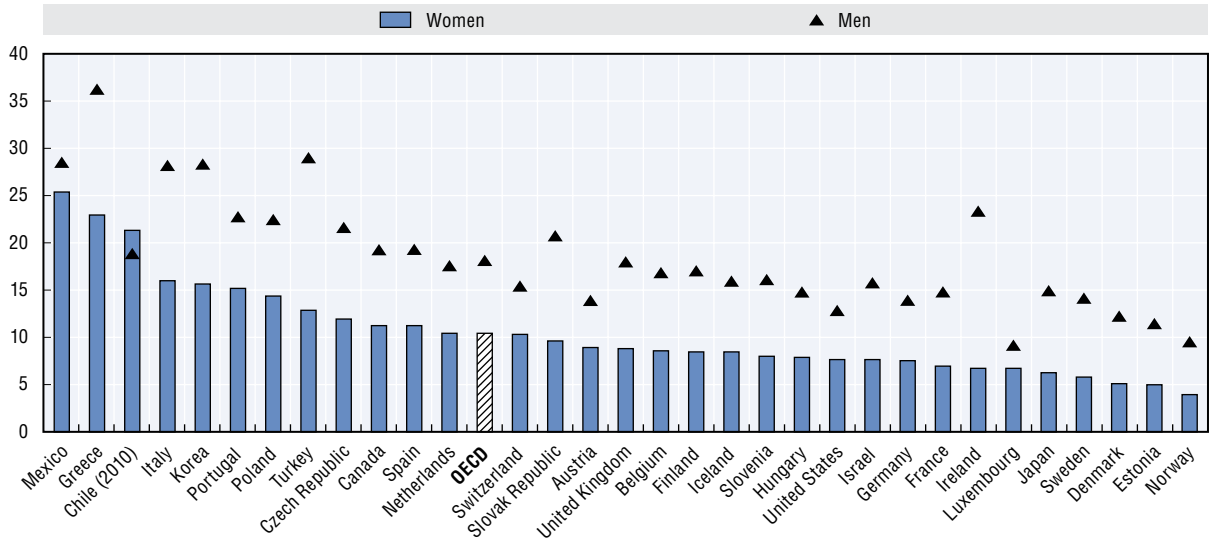
Note: The employment creation by births is measured as the employment share of employer enterprise births. It is calculated as the number of persons employed in the reference period t in employer enterprises newly born in t divided by the number of persons employed in t in the population of employer enterprises. The employment destruction by death is measured as the employment share of employer enterprise deaths. It is calculated as the number of persons employed in the reference period t in exiting employer enterprises divided by the number of persons employed in t in the population of employer enterprises.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.*

StatLink *http://dx.doi.org/10.1787/888933147297*

Figure 2.29. **Self-employment rates of women compared to men, 2011**

Percentage values



Note: The self-employment rate is given by the number of people who report their occupation as self-employed, either with or without employees, in relation to the total number of employed people.

Source: OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.*

StatLink *http://dx.doi.org/10.1787/888933147309*

enterprises (i.e. having a numerical majority of women owners) in Italy, representing a share of 23.5% in the Italian business population.

On the other hand, data from the Global Entrepreneurship Monitor (GEM) show that women's total entrepreneurial activity (TEA) rate (covering business creators rather than self-employed status) is relatively low in Italy (3%), although the proportion of female entrepreneurs in Italy pursuing entrepreneurship for opportunity rather than necessity is relatively high (Figure 2.30). This suggests that there is a gap in female business creation in Italy.

A regional analysis of the incidence of female business ownership in the total number of businesses shows that female rates are highest mostly in the South (Molise, Basilicata, Campania, Calabria and Sicily), where lack of alternative employment opportunities is likely to influence the result, and lowest in the North (Veneto, Trentino-Alto-Adige, Emilia Romagna and Lombardy) (Figure 2.31).[5]

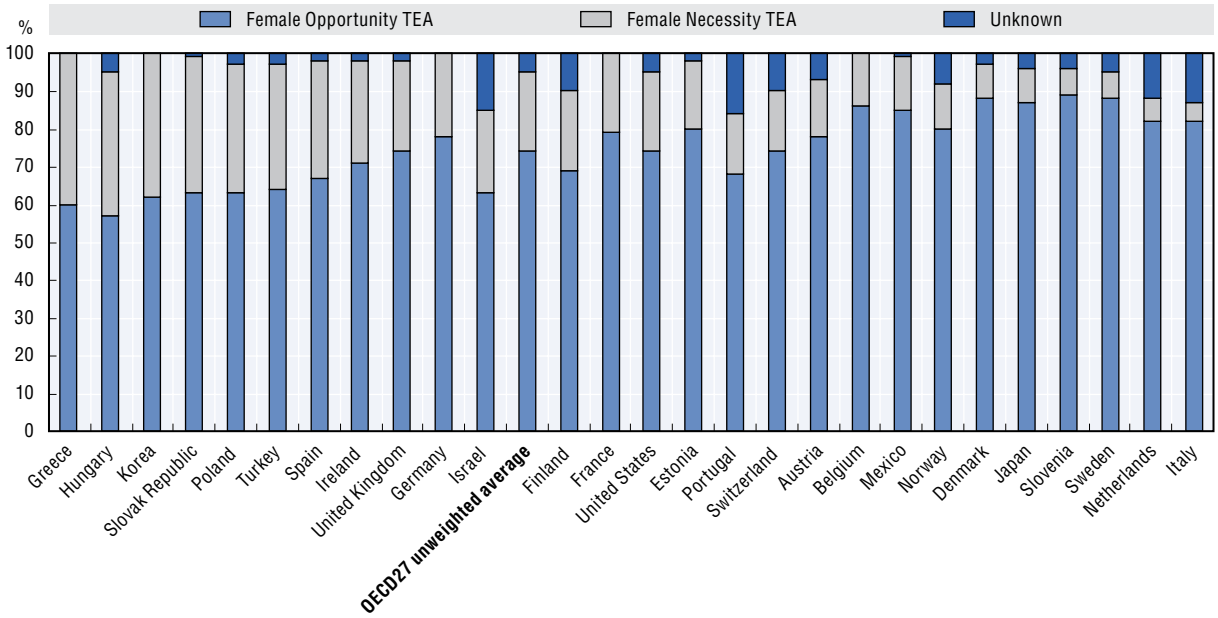
Untapped entrepreneurial potential among Italian youth

Italy's youth unemployment has nearly doubled since the onset of the crisis, rising from 18.2% in 2007 to 35.3% in 2012. Italy's youth self-employment is also comparatively high (10.4%), being more than twice that of the United States and the United Kingdom (Figure 2.32), reflecting a push effect from lack of alternative opportunities.

At the same time, GEM pooled data for the period 2007-11 on business creation more specifically suggest that there is still some further entrepreneurial potential to be tapped among young Italians. Italy's mean TEA rate over this period was 5.5%, 1.3 percentage points lower than the average for the 21 EU countries for which data are available (Figure 2.33). Despite soaring unemployment levels, many young Italians remain reluctant to engage in entrepreneurship. This might be the result of lack of confidence in current market conditions or in their personal skills.

Figure 2.30. **Distribution of women's necessity-driven and opportunity-driven total entrepreneurial activity (TEA) across selected OECD countries, 2012**

Percentage values



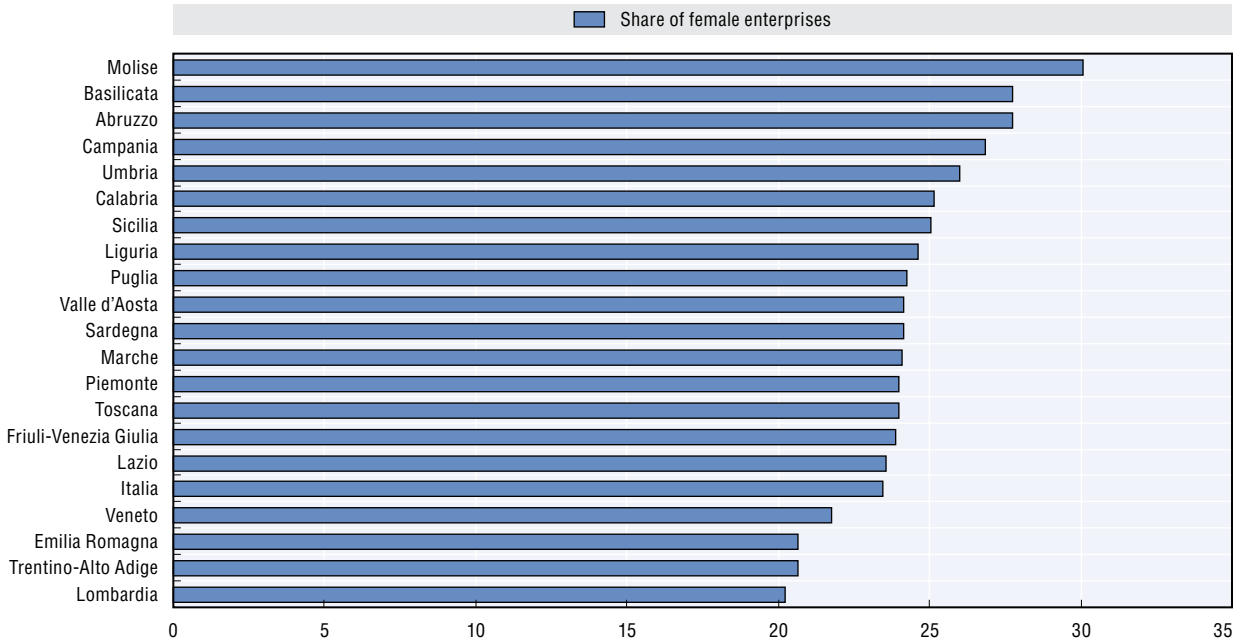
Note: GEM Total Early-Stage Entrepreneurial Activity (TEA) rate consists of the percentage of individuals aged 18-64 years in an economy who are in the process of starting or are already running new businesses. The TEA rate therefore includes both nascent and new entrepreneurs. The use of Israeli data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: GEM (2012), *Global Entrepreneurship Monitor: 2012 Global Report*, GEM Consortium.

StatLink *http://dx.doi.org/10.1787/888933147314*

Figure 2.31. **Share of female enterprises out of the total by region in Italy, 2011**

Percentage values

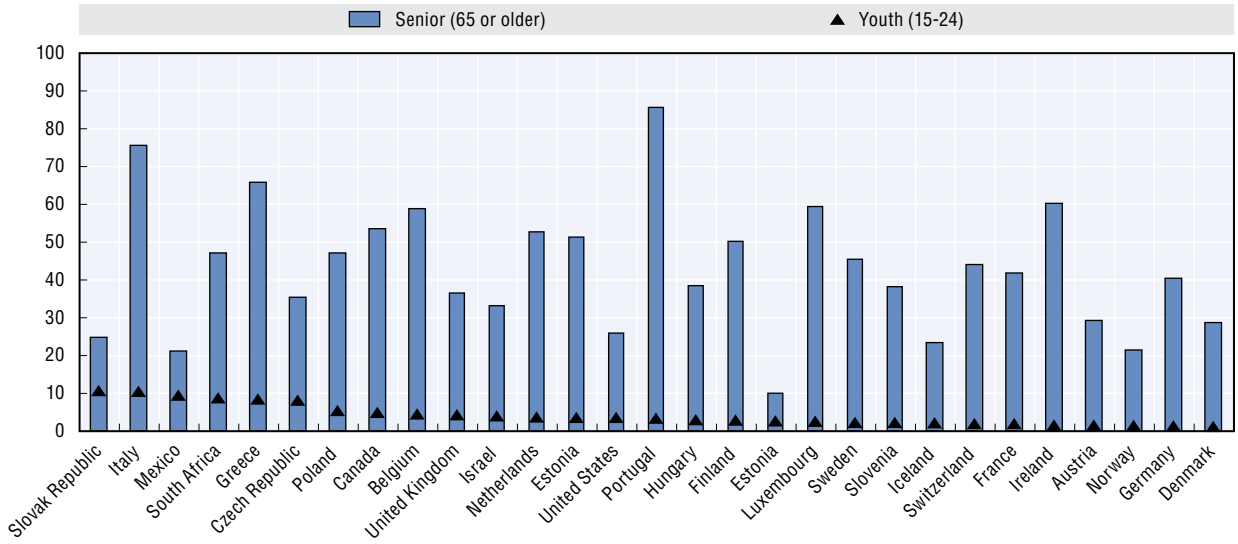


Source: OECD based on data supplied by the Ministry of Economic Development originating from Unioncamere's Osservatorio sull'Imprenditoria Femminile, *http://www.unioncamere.gov.it/P43K630O0/imprenditoria-femminile.htm*

StatLink *http://dx.doi.org/10.1787/888933147325*

Figure 2.32. **Youth and senior self-employment rates across selected OECD countries, average 2009-11**

Percentage values

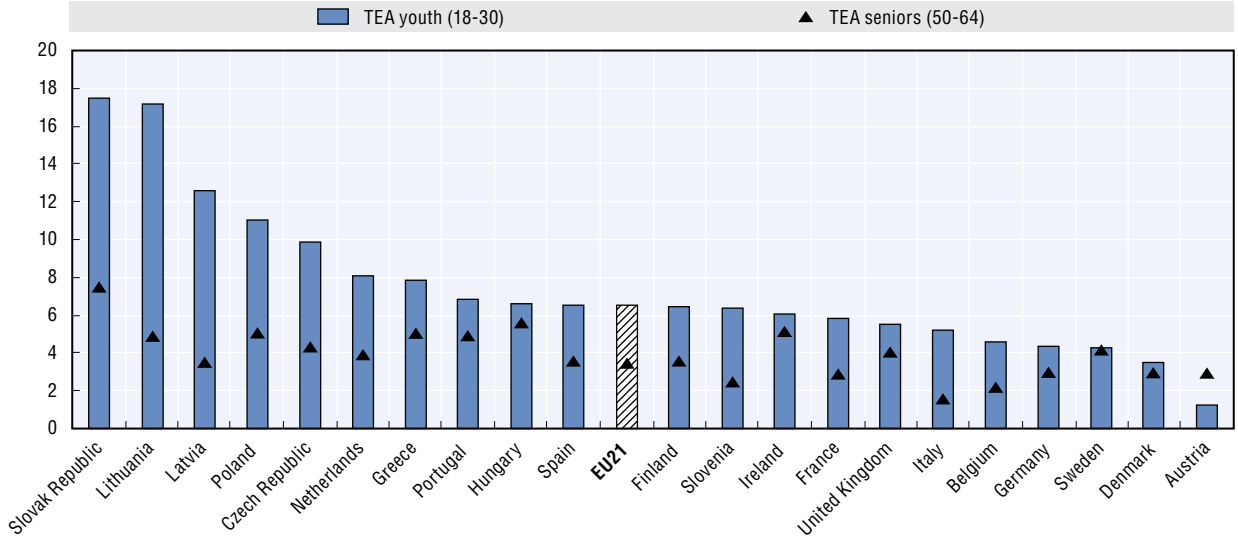


Note: Given the low numbers of self-employed seniors and youths, values are averaged for three years for all countries to increase statistical precision. Comparability issues can be generated by the different treatment of incorporated self-employed, who are considered employees in Japan, New Zealand, Norway and the United States. As the young are less likely to have incorporated their business, youth self-employment rates may be lower in countries that restrict the self-employed to those owning unincorporated business. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en.*

StatLink *http://dx.doi.org/10.1787/888933147333*

Figure 2.33. **Youth and senior Total Entrepreneurial Activity (TEA) rates, 2007-11 mean**

Percentage values



Note: GEM data on specific target groups are based on a small sample of observations. Values are grouped and averaged for 4 years to increase statistical accuracy.
Source: OECD based on GEM (2012), *Global Entrepreneurship Monitor: 2012 Global Report*, GEM Consortium.

StatLink *http://dx.doi.org/10.1787/888933147341*

More potential for senior entrepreneurship

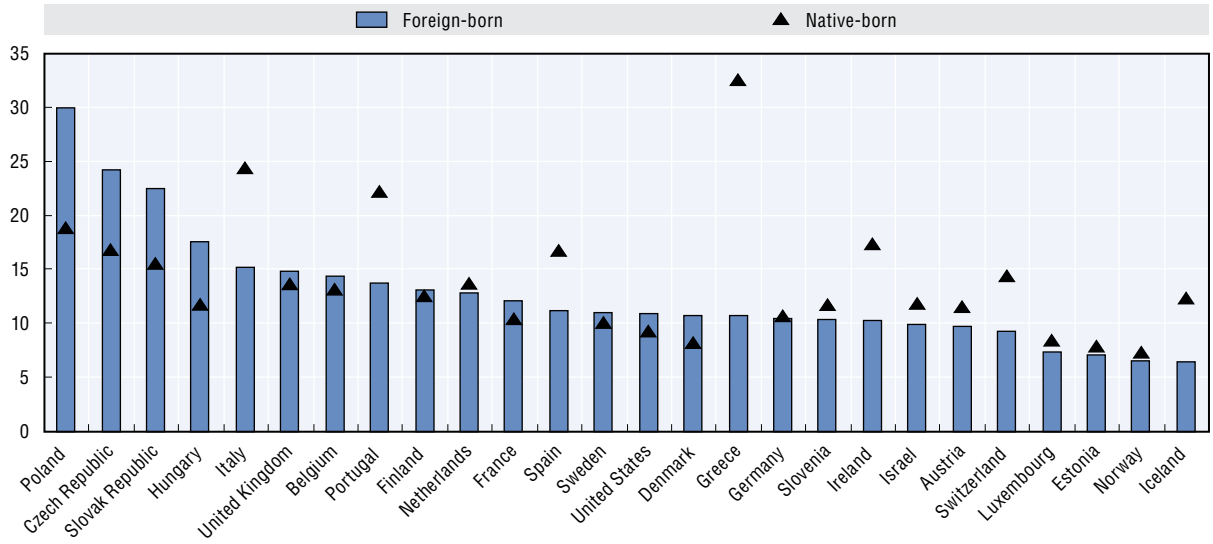
Seniors in Italy display similar patterns to youth with respect to self-employment rates and propensity to entrepreneurship (Figure 2.32 and Figure 2.33). A higher-than-average proportion of employed aged above 65 is self-employed. However, GEM data show that a lower-than-average share of adults aged between 50 and 64 years is in the process of starting a business or has started one less than three-and-a-half years ago (i.e. TEA). Furthermore, according to data from the 2009 Flash Eurobarometer on Entrepreneurship, the percentage of Italians aged 50-64 years who are thinking about starting an enterprise (2.6%) or who are currently involved in start-up activities (7.1%) is considerably lower than in other EU-countries. As with youth, there is an untapped entrepreneurial potential in the Italian senior population.

Substantial levels of immigrant entrepreneurship

Italy's self-employment rate of foreign-born people is one of the highest across OECD countries, second only to a group of Eastern European countries (Figure 2.34). Although the foreign-born self-employment rate is lower than for Italy-born residents, it has been rising rapidly, reflecting the increase in the immigrant population. Data from the company registries hosted at the chambers of commerce (Table 2.4) show that in only six years, from 2005 to 2011, the number of foreign-born business owners and co-owners increased by nearly 50%, from 296 000 to 440 000; in 2011, they represented 9.1% of all business owners legally registered in Italy, up from 5.7% in 2005. The main countries of origin are Morocco, Romania, China and Albania which have an aggregate share of approximately 42% in all ethnic entrepreneurs (Unioncamere, 2012).

Figure 2.34. **Foreign-born and native-born self-employment rates, average 2009-11**

Percentage values



Note: Given the small number of foreign-born self-employed in countries with lower immigration rates, the statistics are presented as averages of the estimates for three consecutive years (2009-2011). The main comparability issue relates to the treatment of incorporated self-employed, that are not always included in the counts of self-employed. For the United States, the data refer only to the unincorporated self-employed. Country coverage is limited by the fact the Labour Force Surveys do not always include or disseminate information on the country of birth. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2013a), *Entrepreneurship at a Glance 2013*, Paris. *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147351*

Table 2.4. **Foreign-born business owners and co-owners, 2005-11**

Absolute and percentage values

		Foreigners	Italians	Unclassified	Total
2005	Number	295 980	4 811 371	72 194	5 179 545
	Percentage	5.7	92.9	1.4	100
2009	Number	393 858	4 473 059	44 661	4 911 578
	Percentage	8	91.1	0.9	100
2011	Number	440 145	4 363 665	36 166	4 839 976
	Percentage	9.1	90.2	0.7	100

Source: Unioncamere (2012), Rapporto Unioncamere 2012: L'Economia Reale dal Punto di Osservazione delle Camere di Commercio, Rome.

StatLink http://dx.doi.org/10.1787/888933147660

On the other hand, Italian firms owned by foreign-born people are exceptionally small. Three-quarters of them are represented by own-account workers, whereas the OECD average is 65%. The impact of these firms on job creation is also modest: while each native-born entrepreneur generates between 1.7 and 2.6 jobs, each foreign-born entrepreneur creates between 1.1 and 1.4 jobs. This is possibly the consequence of their educational level, which is one of the lowest in the OECD area. As much as 40% of Italy's foreign-born entrepreneurs are low-educated, whereas the OECD average stands at 21% (OECD, 2010).

Social enterprises, co-operatives and artisanal firms

The social economy sector, including social enterprises, has a longstanding tradition in Italy. Article 45 of the 1946 Italian Constitutional Law acknowledges the role of cooperatives, which are defined on principles of mutuality and non-profit goals, and new legal forms of social enterprises have more recently been recognised (Box 2.1.).

Increased importance of social enterprises

Census data from ISTAT census shows a total number of social enterprises of approximately 300 000 in 2011, which is an increase of 28% compared to 2001 (Table 2.5). Table 2.6 shows numbers of social enterprises and employment on the ISTAT broad measure by region. It shows that social enterprises are numerous in all four major regions. However, social enterprises in the South are on average smaller than elsewhere; southern Italy hosts 26.3% of social enterprises but only 18.5% of the workforce in the social enterprise sector. Furthermore, the growth of the sector has been stronger in the North than the South between 2001 and 2011.

The Iris Network (2012) uses a much stricter definition of social enterprises, for which firms need either to be registered in a special section of the registry of the Chambers of Commerce (section L), whose activation is very slow, or display the term "social enterprise" in their business name (Table 2.7).[6] Data from Iris suggests that there were some 13,000 narrowly-defined social enterprises in Italy in 2011. In addition, Iris identifies some 110,000 potential social enterprises in non-profit organisations that are neither social co-operatives nor social enterprises, and in for-profit firms that operate in sectors where it is possible to produce and exchange goods and services of social utility (Law 118/2005).[7]

With respect to business size, Iris (2012) estimates that 69% of the people in the social enterprise sector are employed in firms with at least 50 employees, 24% with at least 10 employees and 7% in smaller units. The average size of the social enterprise covered by the Iris report is, therefore, significantly bigger than the one emerging from the ISTAT

Box 2.1. **Definition and characteristics of social enterprises in Italy**

The term "social enterprise" refers in Italy to various legal forms of business regulated by a range of laws implemented across time. Although it does not explicitly mention the term "social enterprise", the Law 381/1991 was the first to define and regulate social co-operatives, which are the most common form of social enterprise in Italy. Social co-operatives are classified into two main types: a) those that provide personal services, mainly but not exclusively in health care and education; b) those that carry out productive activities and provide services to help the integration of disadvantaged people in the labour market.

More recently, Law 118/2005 introduced the term "social enterprise" into the legal system for the first time as a specific new organisational structure. Although the Law does not introduce a new special legal form of business for "social enterprises", it does outline general features by which social enterprises need to abide in order to receive this status, irrespective of whether they operate on a for-profit or not-for-profit basis: i) the goal of the company should be of "general interest"; ii) the sector should be conducive to products or services of "social utility"; iii) the governance of the company should provide for the involvement of workers and beneficiaries in management decisions.

Beyond the legislative interpretation, the main theoretical and practical features of social enterprises can be sketched out based on the definition given by the European network of research centres active in the social economy (www.emes.net). The social enterprise can be characterised by: i) independence, with respect to the Public Administration or other private organisations; ii) the application of entrepreneurial criteria (continuity, sustainability and quality) to production; iii) the pursuit of goals of social nature bringing about direct benefits for an entire community or for disadvantaged people; iv) incompatibility with the concept of profit maximisation in the company; v) the presence of different kinds of stakeholders, for example volunteers and financial supporters, in the ownership and management structure of the company; vi) the embeddedness of the company into its local community of interest; vii) the use of public and private resources through market transactions and donations.

Source: OECD

Table 2.5. **Distribution of social enterprises by legal form, 2011 and 2010**

Legal Form	2001		2011		% Variation (2001-11)
	Units	Percentage	Units	Percentage	
Social cooperatives	5 674	2.4	11 264	3.7	+98,5
Recognised associations	62 231	26.5	68 349	22.7	+9.8
Foundations	3 077	1.3	6 220	2.1	+102.1
Non-recognised associations	156 133	66.4	201 004	66.7	+28.7
Other non profit institutions	8 117	3.5	14 354	4.8	+76.8
Total for social enterprises	235 232	100.0	301 191	100.0	+28.0

Source: ISTAT (2011), 9 Censimento Generale dell'Industria e dei Servizi e Censimento delle Istituzioni Non Profit, Rome. *http://www.istat.it/it/censimento-industria-e-servizi/industria-e-servizi-2011*

StatLink *http://dx.doi.org/10.1787/888933147675*

Census. With respect to the number of users and range of services offer, 5 million people benefited from social enterprises' services in 2010. The majority purchased welfare and healthcare services (60.6%), while education services were also important (15.5%). Finally, 53.4% of the social enterprise organisations that were economically active in 2010 had a turnover of less than EUR 250 000, 18.4% between EUR 250 000 and EUR 500 000, and only 12.5% above EUR 1 million.

Table 2.6. **Distribution of social enterprises (all legal forms) by macro region, 2001-11**

Absolute and percentage values

	Enterprises				
	2001		2011		% variation (2001-11)
	Units	%	Units	%	
Geographical Areas					
North West	62 590	26.6	82 883	27.5	+32.4
North East	58 383	24.8	74 314	24.7	+27.3
Centre	48 719	20.7	64 677	21.5	+32.8
South + islands	65 540	27.9	79 317	26.3	+21.0
Total for social enterprises	235 232	100	301 191	100	+28.0
	Employees				
	2001		2011		% variation (2001-11)
	Units	%	Units	%	
Geographical Areas					
North West	166 653	34.1	245 862	36.1	+47.5
North East	103 468	21.2	161 408	23.7	+56.0
Centre	111 671	22.9	147 456	21.7	+32.0
South + islands	106 731	21.8	126 085	18.5	+18.1
Total for social enterprises	488 523	100	680 811	100	+39.4

Source: ISTAT (2011), 9 Censimento Generale dell'Industria e dei Servizi e Censimento delle Istituzioni Non Profit, Rome. *http://www.istat.it/it/censimento-industria-e-servizi/industria-e-servizi-2011.*

StatLink *http://dx.doi.org/10.1787/888933147682*

Table 2.7. **Actual and potential 'social enterprises' in Italy, 2011 and 2009**

	Type	Number	Year	Source
Social enterprises	Created according to Law 118/05	365	2011	Unioncamere – Infocamere
	"social enterprise" in the business name	404	2011	Registro delle imprese (Registry of companies) – Infocamere
	Social co-operatives created according to law 381/91	11 808	2011	Unioncamere – Infocamere
Potential social enterprises	Nonprofit organisations that are not social co-operatives	22 468	2011	Repertorio Economico e Ammin. (Economic and administrative inventor, REA) - Infocamere
	Profit organisations working in sectors that are listed by law 118/05	88 445	2009	Archivo Statistico Imprese Attive (Statistical archive of active firms, ASIA) - Istat

Source: Iris Network (2012), *L'impresa Sociale in Italia. Pluralità dei Modelli e Contributo alla Ripresa*, Altreconomia Edizioni, Milan.

StatLink *http://dx.doi.org/10.1787/888933147691*

A rise in the number of co-operatives during the crisis

Social co-operatives play a key role in the Italian social enterprise sector, but are only one of the types of co-operative organisations that exist in Italy, which also includes consumer cooperatives, production and labour cooperatives and construction cooperatives. Overall, there were nearly 100 000 co-operatives in Italy in 2013, of which approximately one-tenth were social co-operatives (Table 2.8). Recent years have seen a rise in the total number of co-operatives, which is at odds with the general negative trend in business creation; between 2012 and 2013, the number of cooperatives rose by nearly 5 000 units, corresponding to a 5.2% increase on a year-to-year basis. It is difficult to speculate on the reasons behind this upsurge, but two possible reasons are, first, that the crisis has fuelled the demand for the types of products and services mostly offered by cooperatives

Table 2.8. **Total number and incidence of co-operatives by region, 2013**

Total number and percentage of co-operatives over the total number of businesses

		Number	Incidence
Northwest			*19.4*
	Piemonte	4 588	4.6
	Valle d'Aosta	279	0.3
	Lombardia	12 483	12.6
	Liguria	1 838	1.9
Northeast			*14.3*
	Trentino-Alto Adige	1 700	1.8
	Veneto	4 431	4.7
	Friuli-Venezia Giulia	1 857	1.2
	Emilia-Romagna	6 519	6.6
Centre			*23.2*
	Toscana	5 074	5.1
	Umbria	1 134	1.1
	Marche	2 138	2.1
	Lazio	14 828	14.9
South			*26.9*
	Abruzzi	1 973	2
	Molise	568	0.6
	Campania	9 961	10
	Puglia	9 312	9.4
	Basilicata	1 558	1.6
	Calabria	3 295	3.3
Islands			*16.2*
	Sicilia	12 317	12.4
	Sardegna	3 791	3.8
Total		99 413	100

Source: Italian Ministry of Economic Development's database on co-operative companies

StatLink http://dx.doi.org/10.1787/888933147708

(e.g. social services) and, second, that entrepreneurs have become more interested in new forms of business venturing at a time when the crisis has squeezed profits in traditional for-profit firms.

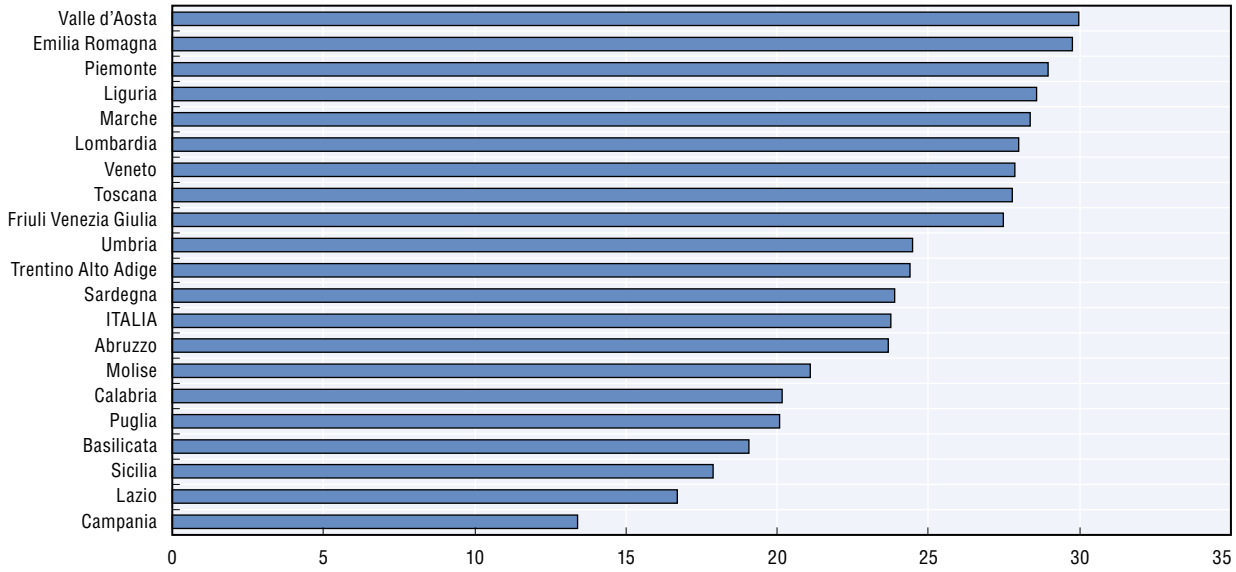
Although the origins of the cooperative movement in Italy lie in the North, today their incidence is stronger in the South and in the Centre, where they account for around one-quarter of the total number of firms. Their presence is, nonetheless, relevant also in the Northwest, where they account for one enterprise in five.

A large stock of artisanal firms

Artisanal firms in Italy are a legal form of business whose primary goal is the production of goods (including intermediate inputs) or the supply of services, insofar as they are not exclusively of trading nature, in which the business owner needs to work personally and primarily. These operations represent a significant part of the economy, encompassing a range of common trades such as hairdressers, bakeries, car repairers and even taxi drivers. There are business size limits that a firm cannot exceed if it is to be considered artisanal, which varies depending on the type of production but which is never above 40 employees. Data from the Ministry of Economic Development show that artisanal firms represent nearly one-quarter of the total number of businesses in the country, and that their share of enterprises is significantly higher in the North than in the South (Figure 2.35).

Figure 2.35. **Incidence of artisanal firms by region, 2012**

Percentage values



Source: Data supplied by the Ministry of Economic Development based on elaborations from data from the local chambers of commerce.

StatLink http://dx.doi.org/10.1787/888933147361

Conclusions and recommendations

The SME sector plays a more important role in Italy than in most other OECD countries as measured by numbers of firms and their employment and value-added. However, the Italian SME sector is dominated by a very high proportion of micro-enterprises and small firms. This poses a productivity problem in that productivity levels are much lower in micro and small firms, especially in the services sector. Business start-up rates are also relatively low in Italy, with important untapped entrepreneurial potential among women, youth and seniors and potential to increase the quality of Italy's ethnic-minority entrepreneurship.

On the other hand, the Italian SME sector also has clear points of strength. Medium-sized manufacturing companies have higher productivity than their peers in other large EU economies, and Italy needs more of these companies to raise its aggregate productivity levels across the SME sector. Italian SMEs have a good export performance and engage significantly in innovation activities, especially of a non-technological nature. Large numbers of SMEs relative to the size of the population and high self-employment rates also bear witness to an entrepreneurial society.

The following recommendations are offered to address the issues concerning the structure and performance of the SME and entrepreneurship sector in Italy:

- Develop policies to increase the business start-up rate, the rate of high-impact entrepreneurship, and growth of the high-productivity medium-sized firm sector in Italy.
- Implement reforms to reduce the scale of informal economy activity.
- Ensure that people who are disadvantaged in the labour market (youth, women, seniors and migrants) are adequately represented among the recipients of mainstream government-funded entrepreneurship and SME support programmes, or develop bespoke programmes for these groups.

Notes

1. The estimates from this academic work need to be taken with caution because the econometric model developed by the authors rests on strong assumptions.
2. The OECD defines high-growth firms as firms with average annualised growth greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period. Gazelles are high-growth firms born five years or less before the end of the three-year observation periods. The rates of HGFs and gazelles are both calculated as a percentage of the population of enterprises with ten or more employees and can be measured either in terms of turnover or employment.
3. BRICS is a successful acronym which gathers key emerging economies such as Brazil, Russian Federation, India, China and South Africa.
4. The female self-employment rate is the share of women who are self-employed over the total number of employed women. It is based on the national population surveys.
5. Unioncamere – which is the association that federates the local chambers of commerce – defines a business as women-owned if the ownership or participation in the management board prevalently belongs to women (at least 50%).
6. Iris Network is the Italian association of research institutes specialised on the analysis of social enterprises in Italy.
7. The law 118/2005 identifies not only social services (e.g. childcare, healthcare, etc.) but also culture, arts, training and tourism.

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Chapter 3

Business environment and framework conditions in Italy

This chapter examines the business environment and framework conditions influencing entrepreneurship and SME development in Italy. The focus is on: macro-economic conditions; product market conditions; business regulations (i.e. ease of doing business); human resources; access to finance; taxation and social security; transparency and the rule of law; innovation; exporting; and foreign direct investment. Improvements have been made in several areas, particularly in simplifying business regulations and supporting SME access to loans, but there is still room for increasing competition, improving skills, developing equity finance and strengthening the innovation system.

Macroeconomic conditions

The major macroeconomic influence on SMEs and entrepreneurship in Italy in recent years has been the global economic crisis of 2008 and the sovereign debt crisis of 2011, which resulted in a double-dip recession in Italy that downsized the national economy and brought it back to output levels lower than 10 years ago (Figure 3.1). In particular, private consumption contracted considerably in 2012 and 2013, -3.2% and -1.1% respectively, and demand from the government sector weakened following fiscal austerity measures taken in response to rising public debt, which exceeded 130% of national GDP in early 2013, the second-highest level in the EU (Figure 3.2).

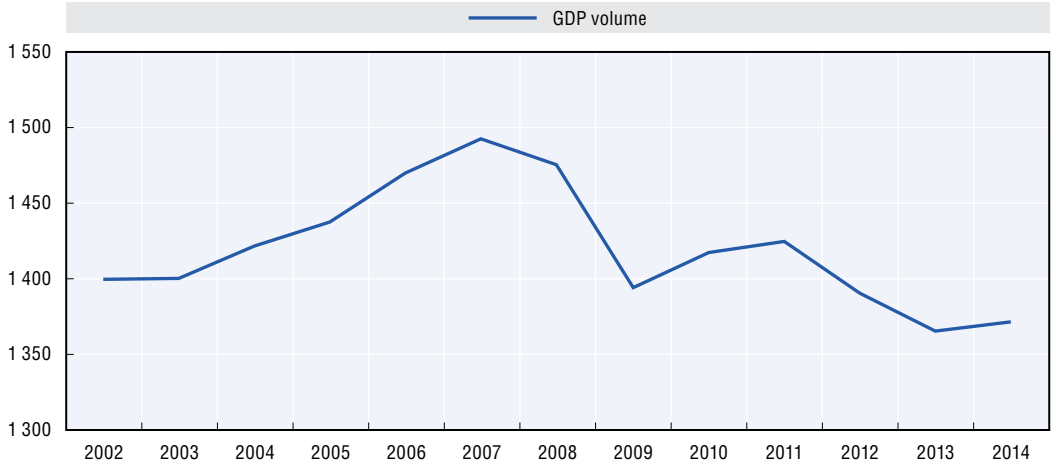
Faced with severe conditions, the Italian government has made considerable efforts to set its accounts back to order. Public spending has been curbed (e.g. pension reform), taxes have been raised (e.g. VAT), and campaigns have been launched to crack down on tax evasion. Thanks to these reforms mainly enforced over the period 2011-13, the "deficit/GDP" ratio has been brought back within the Maastricht 3% limit and "primary surplus" (i.e. public deficit net of interests payments) has been reached.

High public debt also had a negative bearing on the interest rates paid on government bonds (Figure 3.3), which climbed to 7% in 2012, falling back to under 4% in early 2014, causing a widening in the interest rate spread differential between Italian and German bonds, which reached a peak of 500 basis points in mid-2012, descending to below 200 basis points in early 2014.

These developments led to a very difficult medium-term macroeconomic scenario for SMEs and entrepreneurs, which have been affected by heavier taxation and lower public spending, and a squeeze in lending. Negative recent macroeconomic conditions are the

Figure 3.1. **Italian GDP volume, 2002-2014**

Market prices, EUR billions



Source: OECD Economic Outlook database.

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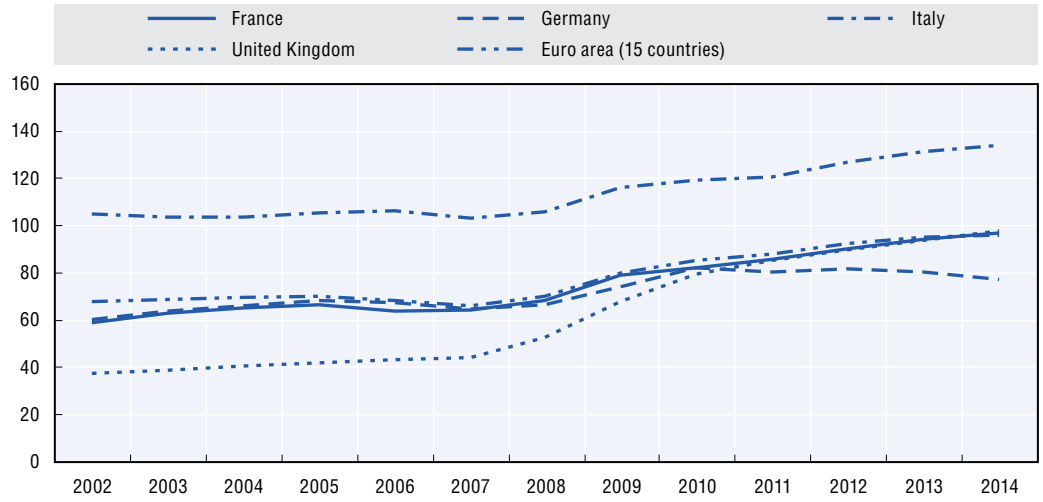
Figure 3.2. **Public debt in large EU economies, 2002-2014**

Percentage of GDP



Source: OECD Economic Outlook database.

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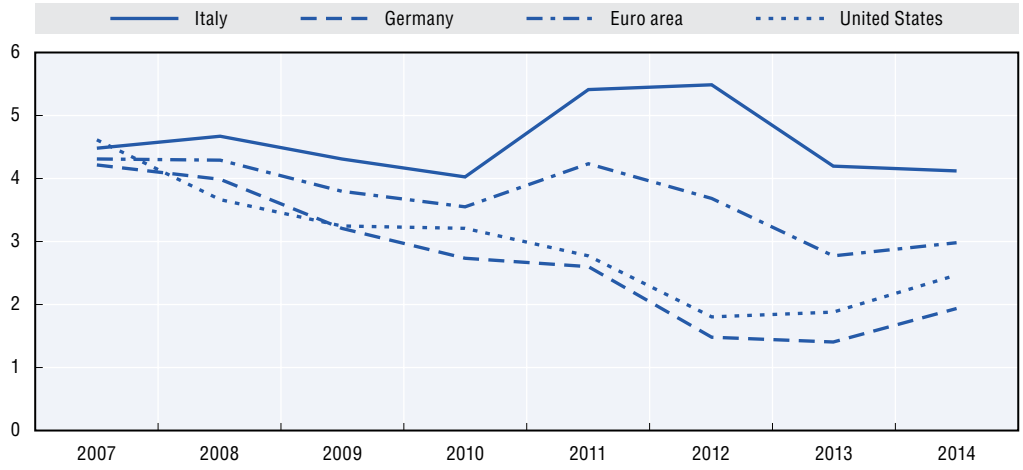
Figure 3.3. **Long-term interest rates on government bonds, 2007-14**



Source: OECD Economic Outlook database.

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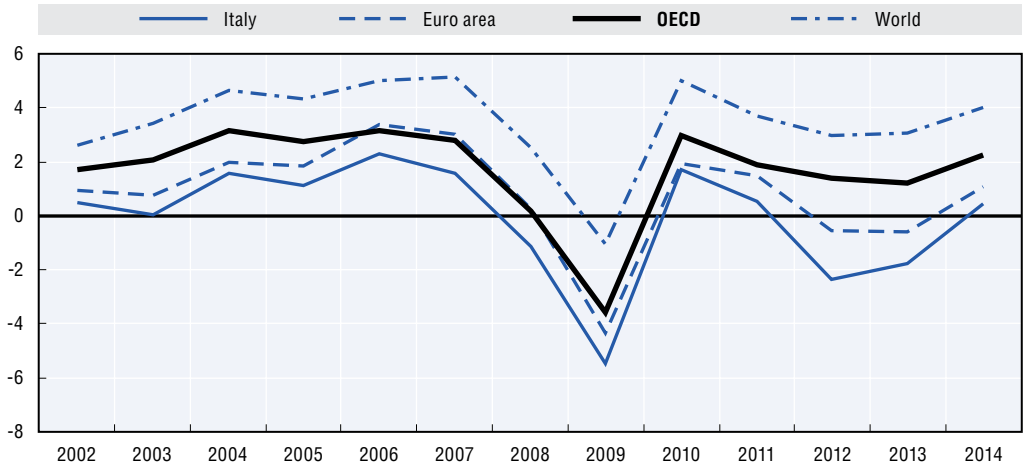
main cause of the recent decline in the stock of SMEs. Italy's macroeconomic difficulties cannot, however, only be ascribed to the recent crises. Italy has displayed annual growth rates lower than the Euro-area and OECD averages for the whole of the last decade (Figure 3.4), which signals the existence of structural and demand-side problems affecting entrepreneurship and SME development.

In these conditions the challenge for the government is to keep SME finance flowing, stabilise the fiscal impacts on SMEs and undertake structural reform that will promote longer term economic growth. In this respect, there are a number of macroeconomic indicators providing grounds for some cautious optimism about a future recovery in which SMEs can play a role. In Italy, savings propensity is high, household indebtedness is low, and there has not been any major bubble in the property market. These features strengthen personal assets that can be used for investment or collateral in enterprise development.

Figure 3.4. **GDP growth rates, 2002-2014**

Year-on-year growth rates



Source: OECD Economic Outlook database.

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Unlike other EU countries, Italy has not been forced to bail out major private banks, which points to a relatively solid banking system that should in principle be poised to support the SME sector (although the credit crunch has also hit Italy). Finally, since 2012, Italy's balance of trade has moved back into surplus following trade deficits for most of the period 2008-2011.

Product market conditions

Competitive product markets are crucial to entrepreneurship and SME development. An economy in which the state presence is too strong or in which incumbent firms are unduly protected will discourage entrepreneurs from entering the market, dampening the productivity-enhancing role of entrepreneurship. The OECD Product Market Regulation (PMR) index measures the degree to which government policies promote or inhibit competition in product markets by assessing state regulations in three domains: size and scope of state-ownership in the economy, legal and administrative barriers to entrepreneurship, and barriers to international trade and investment.

Italy performs fairly well in the PMR composite index, in line with other large EU economies, only 0.4 points away from the top performer of the group (the Netherlands) (Figure 3.5). It has progressed considerably over the period 1998-2013, with the PMR index dropping by one point, from 2.4 to 1.3.

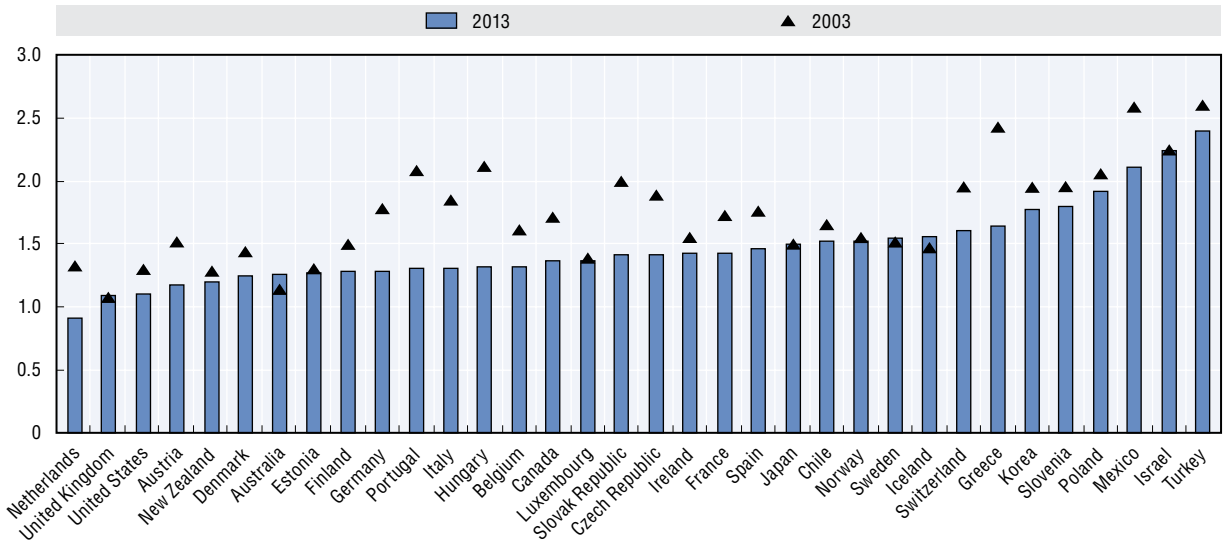
An initial disaggregated analysis shows that "state control of the economy" and "barriers to entrepreneurship" were the two areas in need of biggest improvement at the beginning of the observation period (1998), as well as the two where greatest strides have been made during the last 15 years (Figure 3.6). Nonetheless, in 2013, the category "state control of the economy" still exhibited a relatively high score by OECD standards, suggesting that additional reforms could be undertaken to lessen the size and scope of state-owned companies.[1] There are still approximately 4 000 state-owned enterprises that employ nearly 700 000 workers in Italy, corresponding to 0.5% of active firms and 7.2% of the labour force; these enterprises are mainly found in network services such as water supply, waste treatment, and gas and electricity.

A further disaggregation shows that, as far as entrepreneurship is concerned, the biggest headway during the last 10 years (2003-13) has been made in easing administrative burdens for small firms (i.e. sole proprietors) and simplifying rules and procedures. By contrast, there is still room for increasing competition in services and network sectors (Figure 3.7). For example, there are trades where business entry is still capped and regulated by the payment of often expensive licences; pharmacies and taxi drivers being the most notable examples. Administrative burdens on new firms are also relatively high by OECD standards, although this has more to do with the costs of setting up a business (especially notary fees) than the number of days to register a new firm, an area where Italy has advanced significantly.

The Italian government has embarked on a series of liberalisation programmes in recent years, which however have had only marginal impacts on the privatisation of public utilities. Further liberalisation and privatisation reforms have potential to trigger growth in the long-term, including more competition in public transport and the further simplification of administrative procedures for start-ups (OECD, 2013a).

Figure 3.5. **Product market regulations in OECD countries, 2003-2013**

Scale from 0 (least restrictive) to 6 (most restrictive)



Note: The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. They measure the economy-wide regulatory and market environments in 34 OECD countries in (or around) 1998, 2003, 2008 and 2013. They are consistent across time and countries. Users of the data must be aware that they may no longer fully reflect the current situation in fast reforming countries. The indicators cover formal regulations in the following areas: state control of business enterprises; legal and administrative barriers to entrepreneurship; barriers to international trade and investment. Not all data are available for all countries for all years. The values in dots for Chile, Estonia and Slovenia refer to 2008 because PMR indicators were not calculated for these countries in 2003. The column of the United States refers to 2008 because the final composite value for 2013 of the United States is not yet available. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law

Source: OECD Product Market Regulation database.

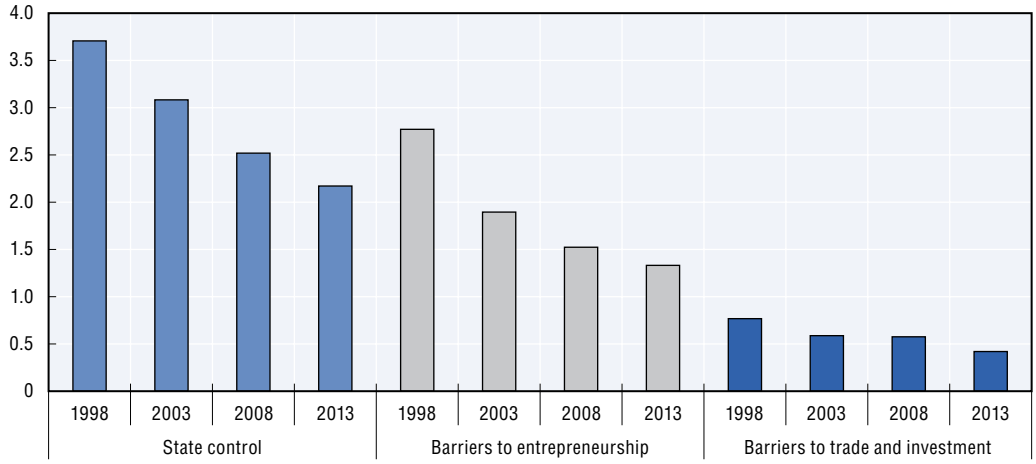
StatLink http://dx.doi.org/10.1787/888933147410

Business regulation

A high-quality regulatory framework allows businesses to enter the market without spending too much time and financial resources on administration. During the last decade, most OECD countries have succeeded in reducing the number of days needed to start a

Figure 3.6. **Product market regulations in Italy by macro policy area, 2003-2013**

Scale from 0 (least restrictive) to 6 (most restrictive)



Note: "State control" includes the extent of public ownership in the economy (e.g. state involvement in network sectors) and of state involvement in business operations (e.g. price controls). Barriers to entrepreneurship refer to the complexity of regulatory procedures (e.g. licenses and permits system), administrative burdens on start-ups (e.g. barriers to corporate and sole proprietor start-ups), and protection of incumbents (e.g. legal barriers to entry). Barriers to trade and investment include both explicit (e.g. tariffs) and implicit barriers (e.g. obstacles to trade facilitation).

Source: OECD Product Market Regulation database.

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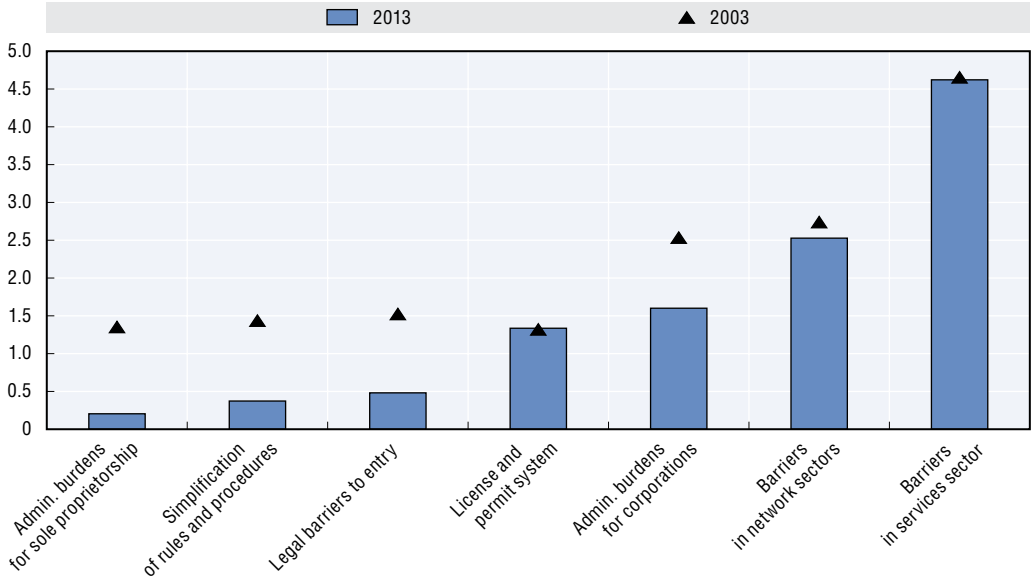
Figure 3.7. **Barriers to entrepreneurship in Italy (detailed indicators), 2003-2013**

Scale from 0 (least restrictive) to 6 (most restrictive)



Note: The OECD PMR "Barriers to entrepreneurship" indicators cover administrative burdens on sole proprietors and corporations, communication and simplification of rules and procedures, licenses and permits system, barriers in network sectors and services sector, and legal barriers to entry.

Source: OECD Product Market Regulation database.

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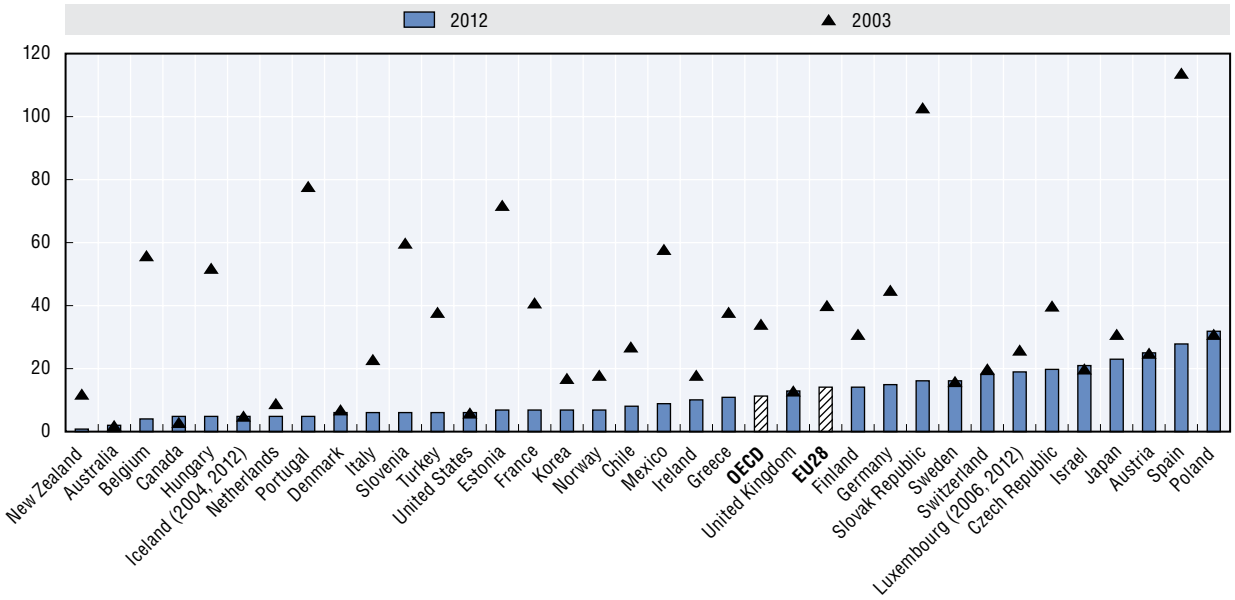
business. Italy has become one of the countries with the shortest time needed to start a business, i.e. 6 days in 2010, down from 23 in 2003 (Figure 3.8). This is a better performance than the average of 14 days in the OECD area, down from 34 in 2003. However, the cost in taxes and fees of starting a limited company is 14.2% of the average income per capita in Italy, while the OECD average is only 3.6% (Figure 3.9).

A business-friendly regulatory environment needs to ensure that entrepreneurs are not only able to start, but also to grow. In this respect, there are two areas that act as major impediments to business growth in Italy: tax payment (i.e. the number of mandatory payments, the time it takes to prepare tax payments, and the total tax rate) and contract enforcement (i.e. the time, cost and procedural complexity of resolving a commercial lawsuit between two domestic businesses). The World Bank's 2013 Doing Business survey ranks Italy 131st with respect to paying taxes and estimates that Italian firms spend on average 269 hours per year to deal with tax-related documents compared with an average in high income countries of 176 hours. With respect to enforcing contracts, the World Bank database ranks Italy 160th out of a total of 185 economies. It estimates that the enforcement of a commercial contract requires more than 40 months and 41 procedures, while the OECD average is 17 months and 31 procedures (Figure 3.10).

Streamlining of the commercial justice system is therefore an important priority in Italy. Although many measures have been taken in the last few years to accelerate civil trials, their effectiveness is still to be proven. For example, in 2011 the government introduced a law which reduced the maximum acceptable duration of civil trials and compensated litigants when this maximum length was exceeded. This measure, however, has so far mainly resulted in an upsurge in the number of actions in the appeal courts to claim the compensation. In February 2012, to incentivise out-of-court settlements and

Figure 3.8. **Number of days to open a business, 2012 and 2003**



Note: Time required to open a business is the number of calendar days needed to complete the procedures to operate a business legally. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: World Bank Doing Business database.

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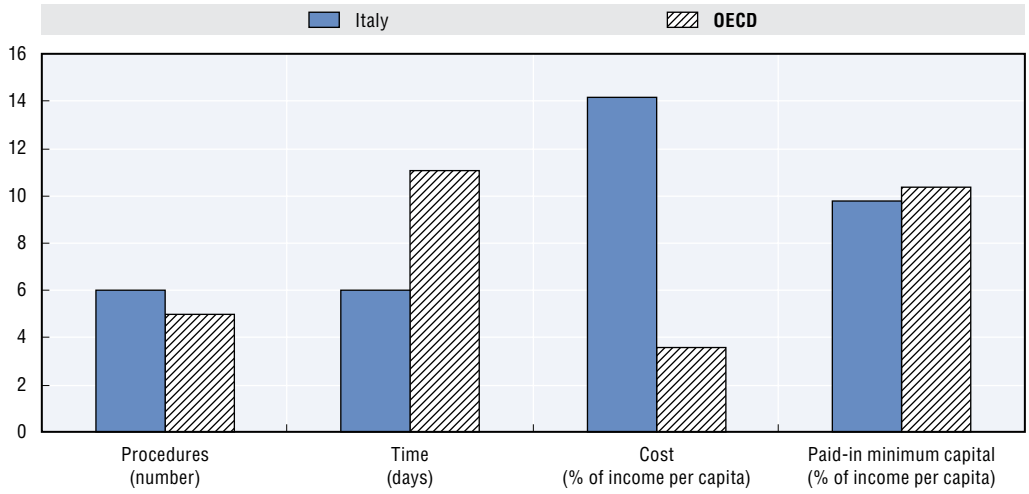
Figure 3.9. **Number of Procedures, time and cost to open a business in Italy and in the OECD, 2014**



Note: Procedures are defined as the total number of procedures required to register a firm. Time is the total number of days required to register a firm. Cost is recorded as a percentage of the economy's income per capita and includes all official fees and fees for legal or professional services if such services are required by law. Paid-in minimum capital is the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation and is recorded as a percentage of the economy's income per capita.
Source: World Bank Doing Business database.

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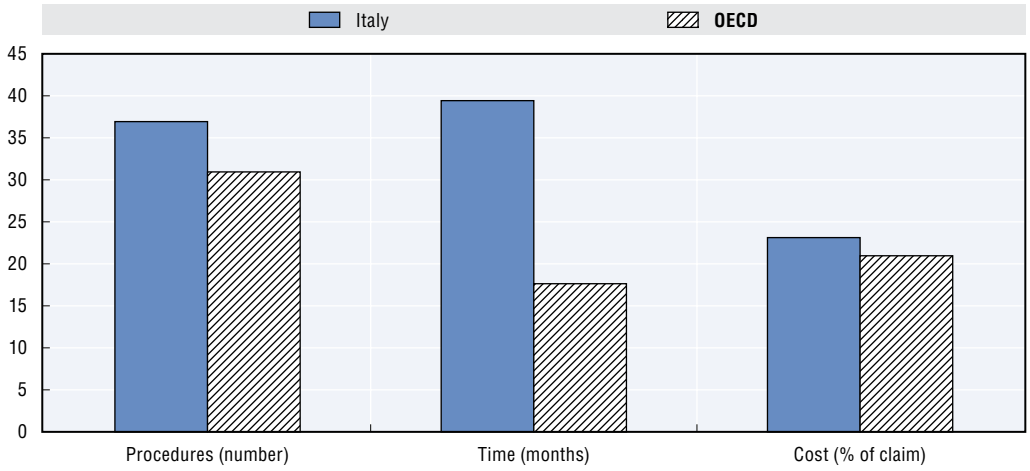
Figure 3.10. **Number of procedures, time and cost to enforce contracts in Italy and in the OECD, 2014**

Number, months and cost



Note: Procedures are the average number of procedures to enforce a contract. Time is the time to resolve a dispute, counted from the moment the plaintiff files the lawsuit in court until payment. Cost is the cost in court fees and attorney fees, where the use of attorneys is mandatory or common, expressed as a percentage of the debt value.
Source: World Bank Doing Business database.

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avoid the negative consequence of an increase in court cases, the government increased the cost of access to courts for civil matters. Other measures currently under consideration to improve the legal system include an increase in the average size of courts with the proposed closure of over 900 courts of different types; an effort to improve the specialisation of courts and judges to make the handling of complex cases more efficient; and incentives

for court managers and presidents to enhance the efficiency of case management such as the requirement of annual plans and the inclusion of novel efficiency measures in their professional evaluations (Ministry of Finance, 2008; OECD, 2013a).

In the specific area of intellectual property regulation, a new Italian Intellectual Property code was introduced in 2005. This reform included several measures to improve the quality of patents and trademarks and the capacity of firms to defend them in courts, including creating special sections in courts for intellectual property litigation. It also introduced a new system of fees, proportional to the claims, intended to improve the balance between protection and disclosure. However, the reform is principally focused on formal intellectual property such as patents and does not do enough to support SMEs using semi-formal protection methods (i.e. contracts) and 'soft strategies' such as secrecy, confidentiality agreements, lead-time, complexity of design, etc. For this type of small business a more useful type of intellectual property protection is likely to be alternative commercial dispute mechanisms, such as administrative procedures to arbitrate disputes and decentralised mediation mechanisms, as have been introduced in Denmark, for example. The Italian government should consider introducing alternative, fast-track, arbitration mechanisms which bypass the conventional court system in this respect.

More generally, Italy has undertaken a number of reforms to simplify its regulatory system at national level. The 2005 *Taglia Leggi* ("Law Cutting") decree has led to the elimination or rationalisation of over 200 000 pre-1970 laws, producing greater legal certainty and cost savings in the range of EUR 21 billion, over 1% of GDP (OECD, 2013a). This was followed in 2012 by a *Taglia Oneri* ("Burden Cutting") programme, run by the Ministry of Public Administration, to enhance the simplification of the structure of legislation and its efficiency. In 2013, the "Simplify Italy" decree was adopted to further streamline rules and regulations, for example abolishing minimum fees for professional services and favouring an increase in the number of notaries and pharmacies in the country. Recently, the Stability Act of 2014 (i.e. the national financial bill) introduced the requirement of a Regulatory Impact Assessment (RIA) for any new legislation having a potential major impact on business enterprises. Another important improvement is the creation of a government website in which the text of any law is now accessible for free in a friendlier format than before. These reforms are all welcome. Further priorities are training of the government officers in charge of RIA, reductions of the tax and fee costs of business start-up regulations, reductions of tax complexities and burdens on growing enterprises.

Measures have also been undertaken to reduce the size of Italy's informal economy using a mix of temporary fiscal incentives and stronger law enforcement through labour inspection (e.g. Law 383/2001). One of the most important measures is the so-called "Sector Studies" (*Studi di Settore*), which set expected revenues for entrepreneurs based on a number of criteria such as their industry, the location where they operate, the number of people they employ, etc. If the income declared by an entrepreneur falls under a certain percentage of expected revenues, the entrepreneur becomes eligible for an individual assessment by tax authorities. This system allows the authorities to pursue those entrepreneurs who are the most likely to be involved in tax evasion. However, it is far from being optimal both for the state and business owners. On the one hand, it does not guarantee the correct declaration of revenues above the upper limit set by the Sector Study. On the other hand, in the case of revenues legitimately lower than expected, it forces entrepreneurs rather than the state to meet the burden of proof, adding an additional layer of administrative costs.

In December 2011 the Italian government introduced a comprehensive pension and labour market reform, i.e. the *Fornero* reform after the name of the then Minister of Labour. One of its main objectives was to reduce the dualism of the Italian labour market that has opposed protected insiders (generally senior and public-sector work workers) and unprotected outsiders (e.g. youth). With respect to labour market entry, the reform has made apprenticeship the mainstream type of contract to support youth employment. At the same time, the reform aims to make standard employment contracts (open-end contracts) pay for enterprises in the long term by increasing the cost of alternative forms of contract (e.g. fixed-term and collaboration contracts). This reduces the incentive for companies to use fixed-term and "fictitious" self-employment contracts to save on labour costs. Another of its major points has been the abolition of the obligation for an employer to re-integrate dismissed workers even in the case of layoffs caused by downturns in the business cycle. The decision on re-integration is now left to the judge of the labour court, who has an important discretional power on this matter. However, severance payments remain high by OECD standards (up to a maximum of 24 months of salary). This has an impact on labour costs, which is compounded by high employer contributions to the national redundancy fund (the *Cassa Integrazione Guadagni*).[2]

The reform addresses some of the longstanding problems of the Italian labour market and should be implemented without hesitation. At the same time, without a reduction of non-wage labour costs, which for Italy are among the highest in the OECD area, the reform may encourage SMEs to shift part of their production into the informal economy.

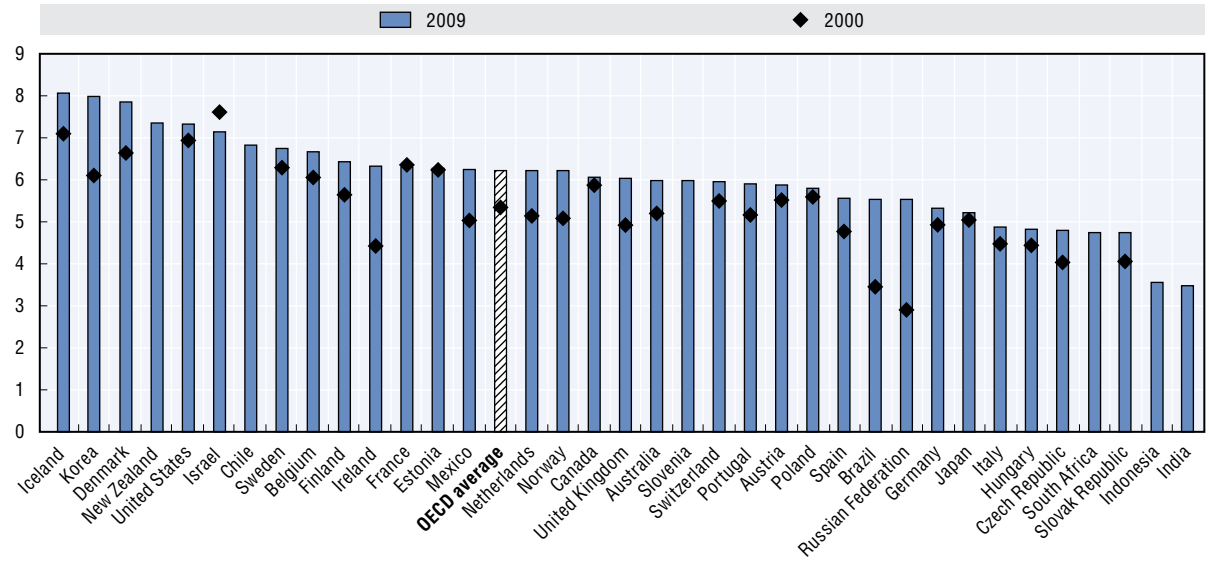
Human resources

SMEs in OECD countries typically face constraints in their workforce skill levels, reflecting barriers both in recruitment and in training. In Italy, one of the underlying problems is that the share of public spending on formal education is below the OECD average, and has increased only marginally during the last 10 years (Figure 3.11). Furthermore, tertiary education attracts only 40% of total education spending in Italy, compared with an OECD average share of 52.5% (Figure 3.12). This is associated with a situation in which less than half of university students complete their degree, and only about a quarter of them finish it in line with the official duration of the degree programme in which they have enrolled.

Vocational training is also relatively weak in Italy. Italian SMEs do not have a strong tradition of offering continuous vocational training and have often resorted to more informal and unplanned training activities such as internal team discussions and autodidactic learning. As shown in Table 3.1, in 2005 only 32% of Italian enterprises with more than ten employees offered training activities which had been planned and at least partly financed by the enterprises themselves, compared with an average of 60% in the EU27. The rate of training planned and financed by employers in Italy was the third lowest in the EU countries. However, by 2010 there had been a strong increase in the participation of Italian SMEs in vocational training, to a level of 56%. Much of this increase is the result of the introduction of Industry Training Funds, discussed in Chapter 5. On the other hand, although more SMEs are involved in continuous vocational training, the courses they provide for their employees now seem to involve considerably fewer hours per participant (-27%) and lower expenditures per participant (-28%), reflecting a new group of SME trainers that train at relatively low intensity. Furthermore, only 5% of employees of Italian micro-enterprises attended training courses in 2011, compared with 11% at EU level (European Commission, 2012).

Figure 3.11. **Government expenditure on educational institutions, 2009 and 2000**

Percentage of GDP



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD based on OECD (2012a), *Education at a Glance 2012: Highlights*, Paris. *http://dx.doi.org/10.1787/eag_highlights-2012-en.*

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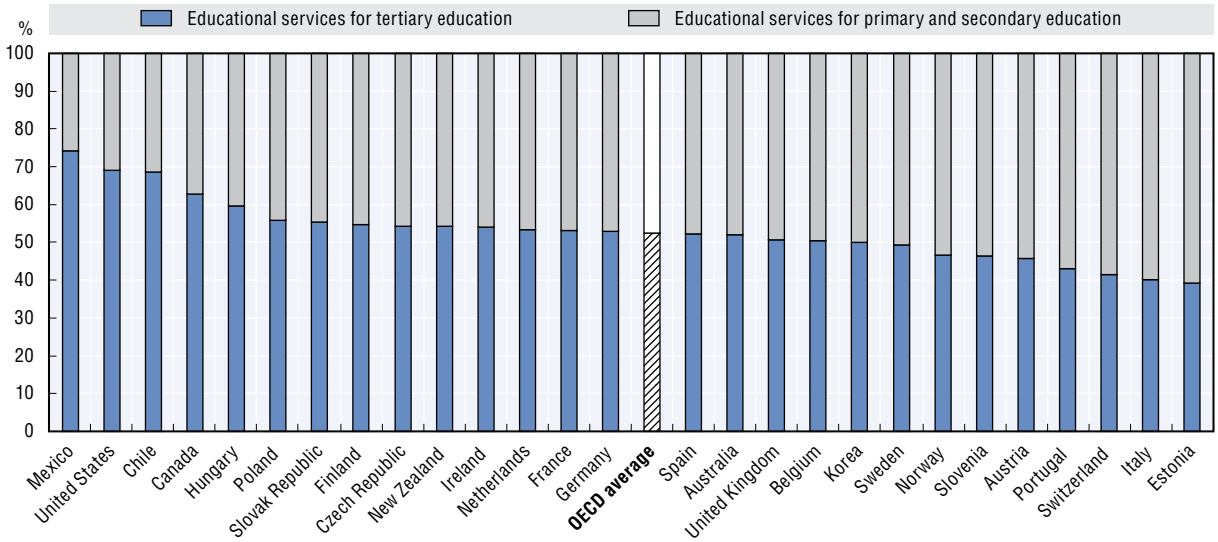
Figure 3.12. **Distribution of government expenditure on core educational services, 2009**

Percentage of total spending on educational services



Note: Core educational services for tertiary education do not include public spending for university R&D.

Source: OECD based on OECD (2012a), *Education at a Glance 2012: Highlights*, Paris. *http://dx.doi.org/10.1787/eag_highlights-2012-en.*

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There are also barriers in the skills demand of SMEs. Thus, ISTAT survey data show that SMEs are reluctant to hire graduates (ISTAT, 2013), while the 2013 Excelsior survey from the Italian chambers of commerce shows that private sector employers anticipated only 11.4% of new jobs being taken by graduates. There is some degree of mismatch in the

Table 3.1. **Proportion of enterprises offering training, 2010 and 2005 Percentage values**

Employment size class	Italy		EU27	
	2005	2010	2005	2010
10-49	29	53	55	63
50-249	58	77	78	81
> 250	86	91	91	93
Total	**32**	**56**	**60**	**66**

Source: Eurostat, Education and Training database.

StatLink http://dx.doi.org/10.1787/888933147719

graduate labour market, with tertiary graduates aged 25-34 more likely to be unemployed than those with only upper secondary education, in contrast to most OECD countries.

In response to these issues, it is important to support more proactively the engagement of employers in the design and use of vocational education, and to improve the tertiary education system by incentivising higher and faster graduation rates, rationalising the offer of courses and favouring those courses that provide skills in demand in the labour market.

Access to finance

Debt finance

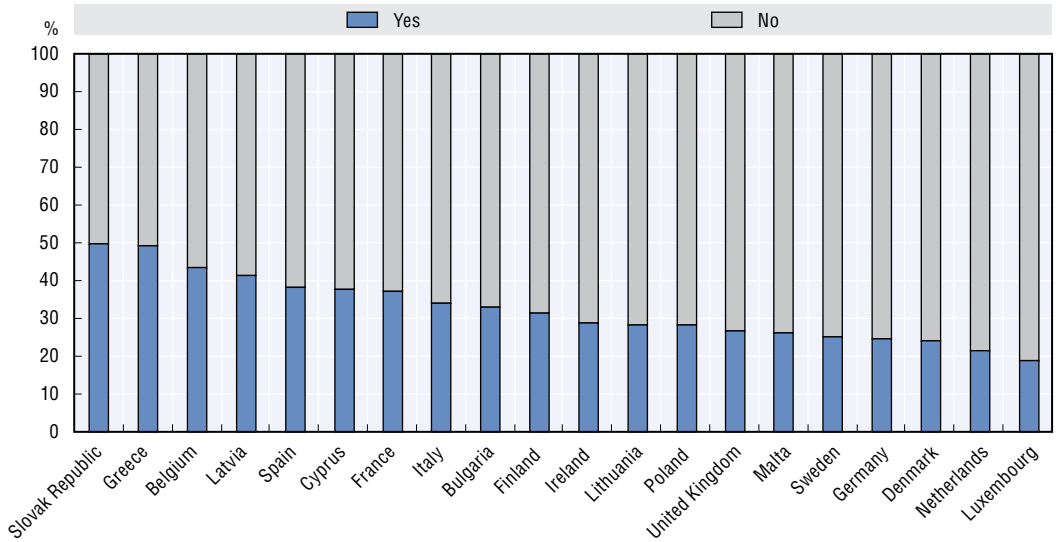
Bank loans and overdrafts are the most-used sources of external finance by Italian entrepreneurs, and, as shown in Figure 3.13, Italian SMEs have a relatively strong demand for loan finance compared with SMEs in many other OECD countries. Furthermore, obtaining bank loans appears to be very difficult for SMEs in Italy, as highlighted by the World Economic Forum's executive opinion survey (Figure 3.14) and the low proportion of SME loans out of total lending in the economy (Figure 3.15). These problems may lead to undercapitalisation of Italian SMEs, increasing their vulnerability to short term risks such as a downturn in revenues.

The 2011 sovereign debt crisis has exacerbated the problems. Growth rates in SME loans turned negative in autumn 2011 and credit conditions (e.g. interest rates and collateral requirements) deteriorated disproportionally for SMEs. At the end of 2011, for example, the average SME interest rate was 5%, 1.7 percentage points higher than the one applied to large firms (OECD, 2013b). Banks in Italy, as in many other countries, are taking drastic steps to reduce their exposure to risky and poor-performing loans and improve the quality of their loan books. Consequently, they are less willing to lend to SMEs and entrepreneurs. At the same time, the recession has reduced the ability of SMEs to service their loans, which has lowered average loan quality and further restricted bank willingness to lend. This is very problematic for Italian SMEs, as typically they are more reliant on bank credit than most of their counterparts in Europe.

Overall, of the major Eurozone economies, only Spanish SMEs report greater problems than Italian SMEs with access to finance (Table 3.2). Moreover, the European Central Bank's Survey on Access to Finance for SMEs shows that conditions in Italy have improved only marginally for micro firms since 2009, and not at all for small and medium firms, while SMEs as a group reported higher bank loan rejection rates in the second half of 2011(19%) than in the second half of 2010 (8%).

Figure 3.13. **Proportion of firms seeking loan finance, 2010**

Percentage values



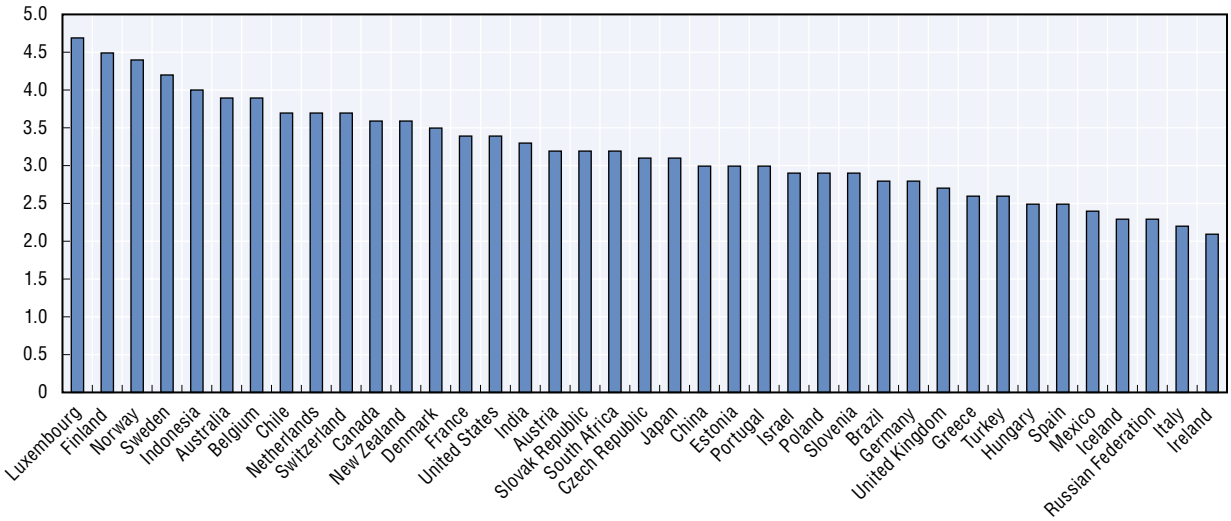
Note: Loan finance includes loans from banks and other financial institutions (subsidiaries of banks and finance houses), owners or directors; other employees of the business; family, friends and other individuals outside the business.

Source: Eurostat, Structural Business Statistics, Access to finance.

StatLink http://dx.doi.org/10.1787/888933147494

Figure 3.14. **Ease of access to loans, 2009-2010**

Scale from 1 to 7 from hardest to easiest, weighted averages



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

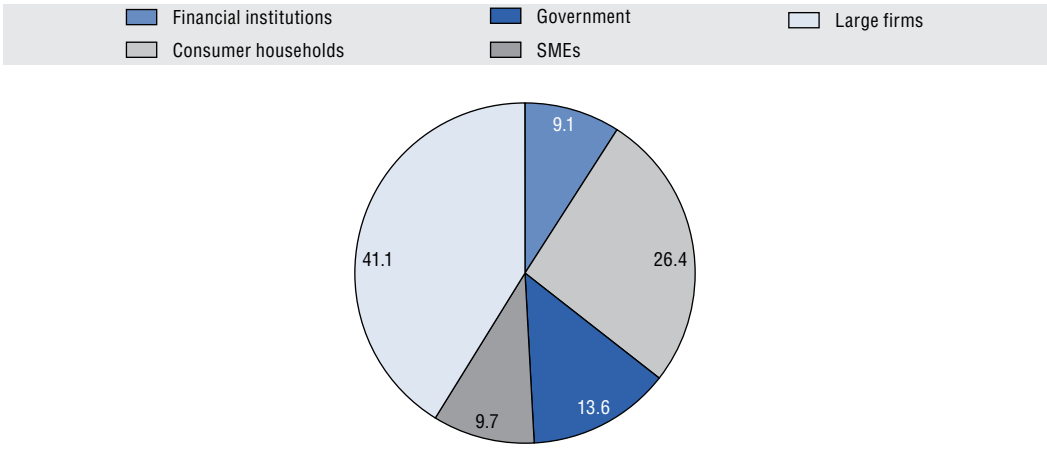
Source: World Economic Forum (2011), *The Global Competitiveness Report 2010-2011*, Geneva.

StatLink http://dx.doi.org/10.1787/888933147506

Small firms find it increasingly difficult to access credit for working capital and expansion (Costa et al., 2013). Consistent with a 'flight to quality' in bank lending, Italian small business lenders seem to be restricting credit only to the most creditworthy borrowers. This puts new and small firms, which generally lack collateral or a business track record,

Figure 3.15. **Distribution of total bank lending in Italy, 2011**

Percentage values



Source: OECD (2013b), *Financing SMEs and Entrepreneurs: An OECD Scoreboard 2013*, OECD Publishing, Paris. *http://dx.doi.org/10.1787/fin_sme_ent-2013-en.*

StatLink http://dx.doi.org/10.1787/888933147516

Table 3.2. **SMEs reporting access to finance as most pressing problem, 2009 and 2012-13**

Percentage values

	2009				2012-13			
	SMEs	Micro	Small	Medium	SMEs	Micro	Small	Medium
Italy	**20**	20	22	20	**18**	17	22	20
France	**12**	11	14	11	**13**	15	12	12
Germany	**18**	23	16	16	**8**	11	7	7
Spain	**34**	31	40	35	**25**	24	27	26

Source: European Central Bank (2013), *Survey on the Access to Finance of Small and Medium-sized Enterprises in the Euro area* (EU13), April 2013, Frankfurt.

StatLink http://dx.doi.org/10.1787/888933147721

at a particular disadvantage, especially at a time of worsening trading conditions for many of these firms.

There is also some evidence of particular difficulties for foreign-born entrepreneurs in Italy. Using evidence from the use of bank overdraft facilities in Italy, Albareto and Mistrulli (2011) show that foreign-born entrepreneurs pay interest rates almost 70 basis points higher than those paid by Italian entrepreneurs after controlling for firm-specific and market-specific characteristics, although the length of the lending relationship positively affects credit conditions, and second-generation migrants also experience better credit conditions than the average migrant entrepreneur.

Equity finance

Italy has a relatively weak equity market for SMEs and entrepreneurship in terms both of formal and informal equity finance, yet these markets are particularly important for growth-oriented medium-sized enterprises and high-impact entrepreneurship.

Venture capital is the part of the equity market that involves formal equity finance. In the case of venture capital investment, closed-end funds select, monitor, provide finance and add value to portfolios of entrepreneurial ventures, making returns for investors in the fund, entrepreneurs and the venture capitalists managing the portfolios. Even in countries

like the United States and Israel where venture capital is the most common, it is received by only a very small percentage of entrepreneurs. Nevertheless, it is an essential ingredient in the creation of dynamic, successful firms in high-tech sectors such as biotechnology and information technology, and is associated with the rapid growth of nascent ventures which eventually become the large firms of the future.

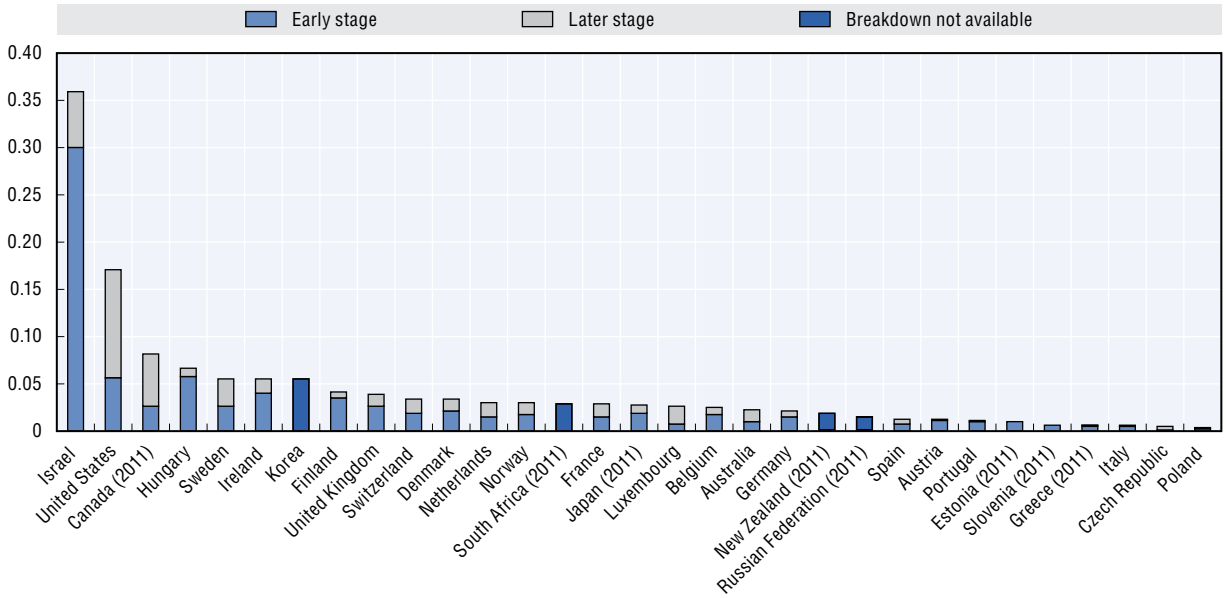
As shown in Figure 3.16, venture capital is very limited in Italy. In 2012, Italy had the lowest venture capital investments as a percentage of GDP of any major economy in Europe, amounting to just 0.003%. Reflecting this small scale, the Italian Venture Capital and Private Equity Association's indicates that only 51 early-stage deals worth a total of EUR 41 million took place in the first half of 2010. This was slightly higher than for the same period in 2009, but the overall amount of venture capital (i.e. including late-stage as well as early-stage deals) in the first half of 2010 dropped by nearly 50% relative to the same period in 2009, to EUR 552 million.

Informal equity finance, in contrast, is often associated with business angels, who are high net worth individuals, often cashed-out entrepreneurs or investors, who either alone or in conjunction with other angels invest their own funds in small numbers of ventures. Business angels tend to make much smaller investments in start-ups than venture capitalists, but also have a substantial impact on entrepreneurship and SME development in many countries.

Italy was a late starter in the business angel market, establishing the Italian Business Angel Network (IBAN) in 1999. Unlike standard practice elsewhere, statistics from IBAN do not make a clear distinction between friends and family and external investors. Nor

Figure 3.16. **Venture capital investment, 2012**

Percentage of GDP



Note: Data correspond to the aggregation of investment data according to the location of the portfolio companies (i.e. the investee companies), regardless of the location of the private equity firms. Exceptions are Australia, Korea and Japan for which data refer to the location of the investing venture capital firms. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2013c), *Entrepreneurship at a Glance 2013*, Paris, *http://dx.doi.org/10.1787/entrepreneur_aag-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933147524*

do they provide a comprehensive overview of angel investment activity in Italy. Bearing these caveats in mind, the data from IBAN surveys suggest that the total number of business angels in Italy is around 450-600, 65-75% of which represent the visible (e.g. members of IBAN) part of the market. The total value of the measured market in 2010 was EUR 33 million, a fraction of the size of the market in other European Union countries. It has been estimated that business angels created only about 160 start-up and innovative firms in Italy in 2010.

One of the difficulties in building the Italian equity market is that the Italian SME sector comprises relatively few medium-sized, growth-oriented enterprises, which are more likely to attract external investors. This can be seen as both a cause and a consequence of limited venture capital. Where government can act more directly to stimulate the equity market for SMEs is in improving the ability of the legal system to efficiently and fairly uphold and enforce contracts. External equity investors need to know that they can get their money out of their investments easily, close down failing entrepreneurial projects quickly, and obtain speedy redress if they are in danger of being expropriated by entrepreneurs. In short, contract enforcement needs to be efficient, fast and transparent (Lerner, 2009). The relatively poor legal framework in Italy for supporting the enforcement of commercial contracts is not conducive to venture capital.

To improve legal conditions for equity investment, reforms should be considered to radically speed up hearings of commercial legal disputes and clear a huge backlog of outstanding cases. Decriminalising minor offenses, curtailing appellants' recourse to costly and protracted legal appeals, and reducing the number of judicial offices are three steps which are urgently needed to achieve these goals. Alternatively, the introduction of a separate 'fast track' dispute resolution procedures for equity investors could be considered to remove these cases from the regular court system.

The government response to the financial crisis

The Italian government has taken important counter-cyclical measures to inject liquidity into small firms faced with cash-flow problems during the global financial and economic crisis. Firstly, the Central Guarantee Fund (CGF) has been considerably expanded. While over the entire 2000-09 period the Credit Guarantee Fund had provided total guarantees worth EUR 8.1 billion, the total climbed to EUR 2.7 billion on an annual basis in 2009 (the first year of the crisis) and to EUR 4.3 billion in 2013. Applications for the CGF also rose substantially; from 24 500 in 2009 to 50 076 in 2010, 55 209 in 2011 and over 62 000 in 2012, while the rate of successful applications rose by 75% between 2008 and 2013 (OECD, 2013a). Overall, between 2009 and 2012 nearly 250 000 SME loans were backed by public guarantees accounting for a total loan volume of EUR 41.5 billion. Micro and small enterprises have been the main beneficiaries of this policy. With the 2013 Stability Law, the budget of the Central Guarantee Fund has been augmented by another EUR 1.8 billion for the period 2014-2016, which in the forecasts of the Italian government should allow EUR 27 billion of additional loans. The expansion of the CGF in Italy is a logical response to the financial crisis, which has helped compensate for more restrictive loan criteria introduced by banks during the crisis.

Second, a series of debt moratoria for SMEs called "New Measures for SME Credit" have been agreed annually since 2009 by the Italian Banking Association (ABI) and *Confindustria* (the association of large corporations). These agreements allow SMEs to request debt moratoria for loans and leasing, enabling them to postpone the repayment of the loan

principal for up to a year, with some restrictions. For example, already impaired loans are ineligible, and businesses that receive moratoriums have to make additional interest payments to cover the suspension period. By 2013, the moratoria had allowed over 52 000 SMEs to suspend their interest rate payments for an outstanding total loan amount of EUR 17.3 billion, generating extra liquidity of about EUR 2.5 billion.[3]

Third, on late payments, the Italian government made two decrees in 2013 authorising the payment of tranches of EUR 20 billion and EUR 7.2 billion to cover commercial arrears the government owed to private-sector firms. An additional payment of EUR 20 billion has also been planned for 2014 for the same purpose. According to estimates by the Bank of Italy, Italy's local and central governments owe around EUR 70 billion in arrears to the private sector. By law the state should pay its suppliers within 180 days, but in practice some companies still await payments for 2008 invoices. By way of comparison, credit-management services company Intrum Justitia, estimates that Germany's public administration pays in 36 days on average and France's in 65 days. In January 2013, a European directive stipulated a 30-day limit for most state payments, which Italy has already endorsed. These repayments will add to Italy's budget deficit. However, they should help many SMEs to survive the crisis and hence maintain productive capacity and potential output.

In addition, the Italian government has provided soft loans to SMEs by enhancing the ability of Italian banks to lend to SMEs by leveraging the assets of the *Cassa Depositi e Prestiti* (CDP). CDP is a joint stock company, part private and part public, owned by the Ministry of Finance and Italian banking foundations. Its principal source of funds is post office savings deposits. The government is the majority shareholder, but CDP is not part of the government from an accounting perspective. CDP can be considered a development bank, which holds equity stakes in public and private companies. Since 2009 it has provided EUR 18 billion to SMEs for investment and working capital. Loans funds from CDP are channelled through private sector banks and are made available at interest rates priced below market levels (i.e. 'soft loans'). CDP's first tranche of EUR 8 billion provided loans to 53 000 SMEs, averaging around EUR 150 000 each in size. Its second tranche of lending, worth a total of EUR 10 billion, was underway in 2013. The impact of CDP soft loans to SMEs is non-trivial; by the end of the second tranche of lending, it is possible that as many as 3% of SMEs could benefit from these loans. Mobilising savings deposits to fund SMEs selected on regular commercial lending criteria at a time of credit crunch represents an appropriate policy without any obvious incentive problems.

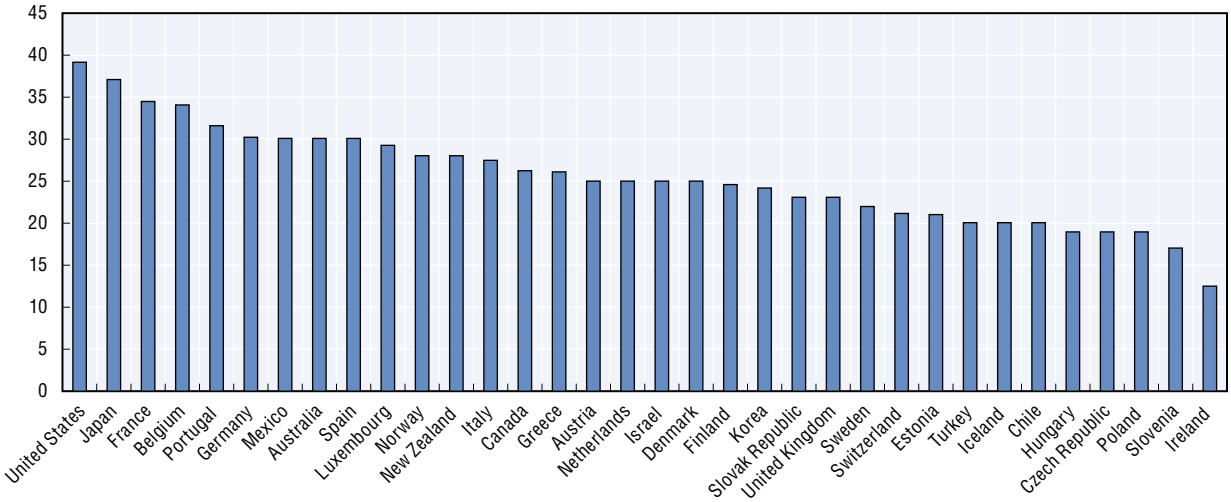
Taken together, these liquidity injections constitute an impressive intervention in boosting SME liquidity during the crisis that has helped protect the vulnerable SME sector from further contraction and it seems appropriate to extend the duration of these interventions for the duration of the recession. However, it is important for the government to acknowledge the temporary nature of the emergency liquidity measures and to phase out the measures as the crisis recedes so as to reduce distortions of the finance market and the propping up of unviable firms. In addition, it is important to maintain the quality of the supported loans, because without adequate safeguards, the loan guarantee funds and the CDP will be vulnerable to mass defaults, which could pose a large financial risk to the public administration.

Taxation and social security affecting new and small enterprises

Italy's corporate tax rate is towards the average for OECD countries (Figure 3.17). However, the social contributions paid by employers are very high, at 24.3% compared with an OECD average of 14% and an EU21 average of 18.2%. This increases the total tax

Figure 3.17. **Corporate income tax rate, 2013**

Percentage values



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD Tax database.

StatLink http://dx.doi.org/10.1787/888933147537

burden on SMEs and reduces the incentive for SMEs to take on employees. In addition, it is necessary to take into account local taxes, which can be very high in some localities (e.g. in Bologna and Rome). CNA, a small business association, has recently estimated that, taking into account all taxes, the total tax burden may reach 77% in some cases. High taxation hampers investment and competitiveness in Italian SMEs.

Transparency and the rule of law

It is difficult to obtain objective cross-country evidence on transparency and the rule of law. However, opinion surveys on the scale and scope of corruption tend to give a gloomy picture of Italy (Figure 3.18). A report by the Ministry of Public Administration's High Commission for Anti-Corruption has described the presence of corruption in the public administration, which is sees as being mainly the result of perverse mechanisms in recruitment and promotion schemes, as well as the diffusion of bribes in public procurement (Ministry of Public Administration, 2008).

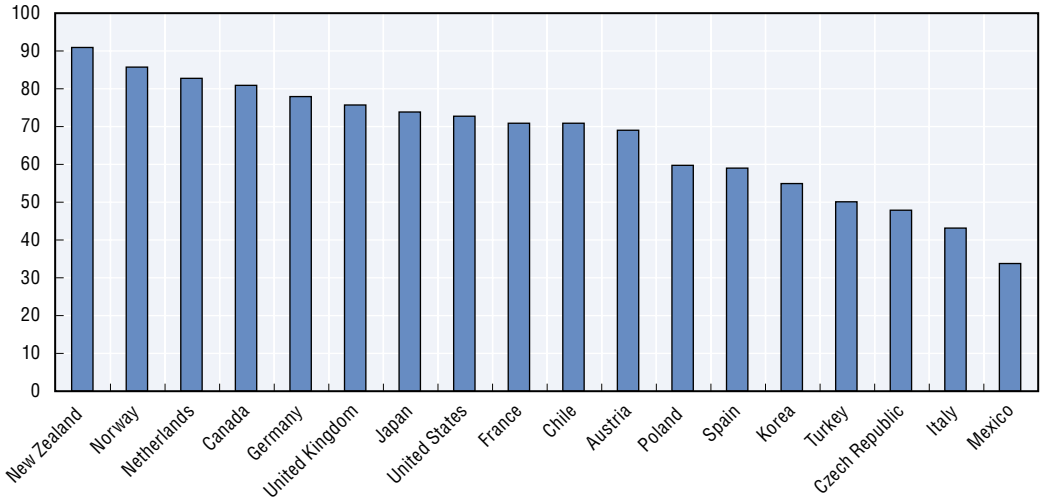
The government has been addressing these issues through the approval of a new anti-corruption law in 2012, which has made activities such as "trading in influence" a criminal offence, with a sanction of 1 to 3 years of prison, and set provision for the protection of whistle-blowers (OECD, 2013a). On the other hand, the functions of the former High Commissioner have been assumed by the Anti-Corruption and Transparency Service of the Ministry of Public Administration, a change which has raised some concerns about whether there is the necessary degree of independence from the government to perform such a role effectively.

The innovation system

The innovation system in Italy is likely to have important impacts on the development of high-impact entrepreneurship and the growth of medium-sized enterprises through influencing the opportunities for knowledge-intensive spin-out companies from public

Figure 3.18. **The corruption perception index, 2013**

Scale from 100 (the least corrupt) to 0 (the most corrupt)



Source: Transparency International (2013), *The Corruption Perceptions Index 2013*, Transparency International.

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and corporate sources and the ability of SMEs to access knowledge for innovation from partners.

However, evidence on R&D expenditures suggests that the innovation performance of Italy is not as strong as could be expected. In 2012, Italy's R&D gross expenditure was 1.3% of GDP, about one-half of the OECD average, although it had grown by an average of 2.7% per year during the second half of the last decade. Business R&D, which tends to have the stronger impact on national productivity, was 0.7% of GDP, significantly behind the OECD median value of 1.1% (OECD, 2012b).

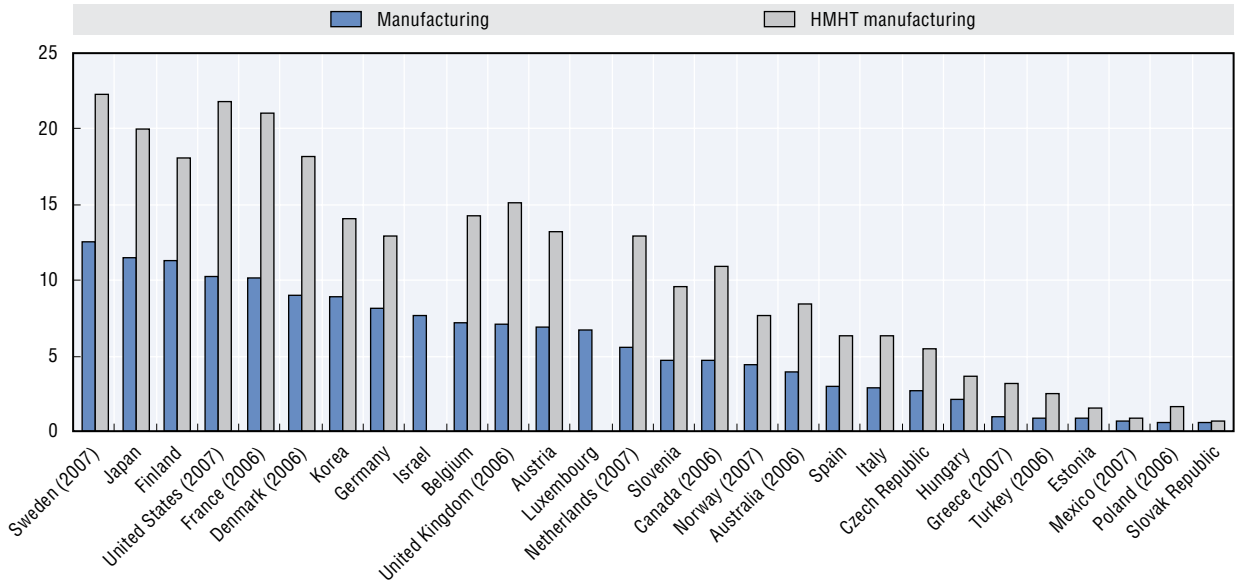
Figure 3.19 focuses in on R&D intensity (i.e. R&D expenditure as a percentage of value added) in manufacturing and in high-tech and medium-high tech manufacturing, since R&D belongs more to the domain of manufacturing than services. It confirms that Italian manufacturing firms invest approximately three times less than American, French and German firms in R&D. Italy's R&D performance in high- and medium-high-tech manufacturing is better than in manufacturing as a whole but still behind many OECD economies.

Furthermore, according to the European Union's Seventh Community Innovation Survey, which was undertaken in 2012, the proportion of industry and services enterprises that reported undertaking innovation activity between 2008 and 2010 was 56.3% in Italy, just above the EU27 average (Figure 3.20), while, at 12.1%, the percentage of Italian businesses involved in some form of co-operative innovation activity was considerably below the overall EU27 average of 26.5%. Surprisingly, therefore, collaboration in innovation is not a widespread feature in a country where other forms of inter-firm co-operation are common. This is especially true for small businesses; less than 10% of them are involved in innovation-related co-operation. With respect to barriers to innovation for SMEs, the most commonly reported barrier is lack of finance, followed by market domination by larger or established businesses and lack of qualified personnel.

In addition, university-industry collaboration needs to be improved, as shown by the very low share of industry-financed public R&D (0.01% of GDP), one of the lowest across OECD countries. There are several major barriers. One is of a cultural nature, whereby

Figure 3.19. **R&D intensity in manufacturing and high- and medium-high-tech manufacturing, 2008 or latest available year**

R&D spending as a share of value-added



Note: This indicator is not easily available for recent years due to the difference in coverage between R&D and value added data by country. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OEDC based on OECD Structural Analysis (STAN) databases.

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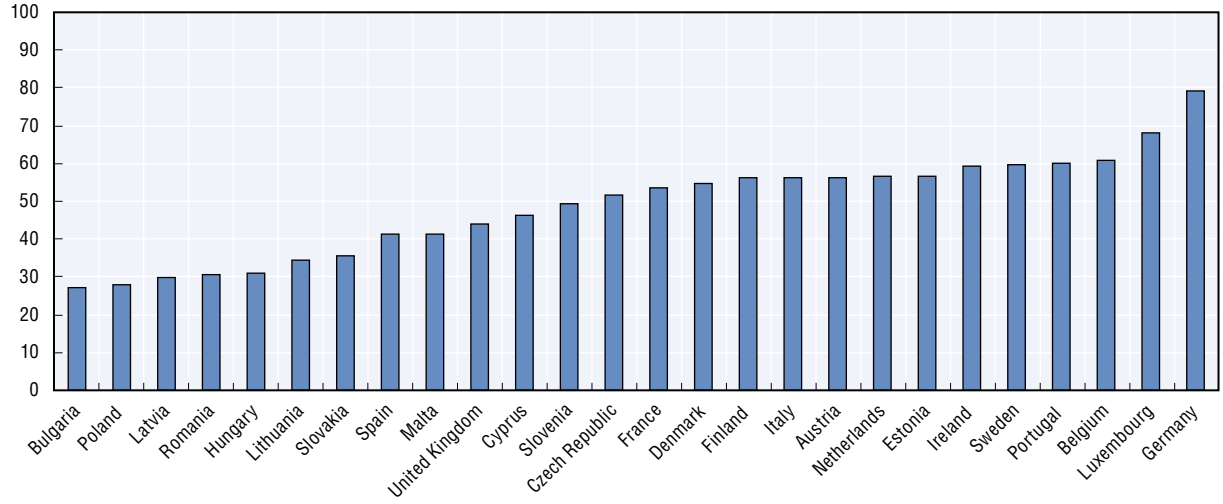
Figure 3.20. **Proportion of enterprises with innovation activity, 2008-2010**

Percentage values (of all enterprises)



Note: The 2012 Community Innovation Survey covered innovation activity in EU enterprises over the period 2008-2010.

Source: EUROSTAT Community Innovation Survey database.

StatLink http://dx.doi.org/10.1787/888933147563

faculty and administrators in universities reward publications and traditional academic career paths but not commercialisation activities. A second barrier derives from the very small scale of most Italian businesses and their reliance on traditional manufacturing activities. These attributes make it difficult for entrepreneurs and SME owners, especially those lacking advanced formal education, to connect and collaborate with university researchers, many of whom possess expertise in advanced technologies with only limited applicability to these businesses. A third barrier is a "brain drain" whereby numerous active researchers and highly skilled workers are leaving Italy, perhaps never to return. A fourth barrier is a lack of seed funding for early-stage commercialisation.

A possible approach to tackling these problems is to tie the allocation of national science and engineering funding for universities to their performance in making commercialisation efforts and delivering concrete outcomes. For instance, the UK's Higher Education Innovation Fund (HEIF) does this by selectively directing funds through a formula allocation to those higher education institutions which work with business, public sector bodies and third sector partners. The HEIF has succeeded in transferring knowledge from the university to the commercial space and has thereby improved products, goods and services.

Other key measures that could respond include encouraging universities to articulate and follow clear, well-defined strategies for the formation and management of spinoffs which do not focus on short-term cash maximization and which encourage risk-taking; directing university resources towards intellectual property protection; and encouraging university principals to change social norms and reward structures in universities and give explicit approval for university entrepreneurship (as at the Massachusetts Institute of Technology, for example) (Siegel, 2007).

Foreign Direct Investment

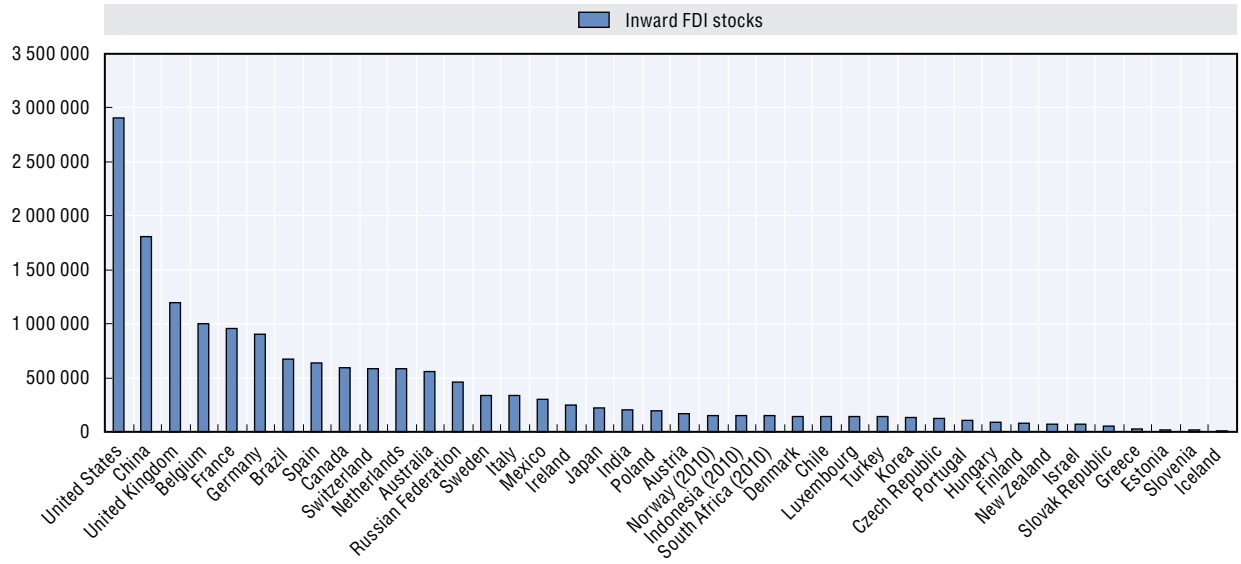
Foreign direct investment (FDI) can be a significant vector for SME development by encouraging the transfer of international best practice technologies and know-how to host economy suppliers, enabling them to promote their products more widely in international markets, and offering a vital source of investment for firms struggling to raise finance from their domestic financial institutions. The attraction of new FDI operations and the development of domestic supplier contracts with them provide a particularly visible stimulus to the economy, but acquisitions by inward investors of Italian SMEs also offer a potential source of finance and synergies for Italian SMEs ready to internationalise, despite the potential disadvantage of some loss of control.

However, the potential of the FDI lever for SME productivity upgrading is limited in Italy by relatively small stocks of inward FDI, despite the fact that the country enjoys several compelling economic advantages, including a large domestic market and a skilled labour force. Over the period 2006-11 FDI inflows to Italy have been consistently low compared with the other four major EU economies (i.e. Germany, UK, France and Spain) (Figure 3.21 and Figure 3.22).[4]

There are several reasons for inward FDI in Italy being so limited, which include onerous bureaucracy, a slow and uncertain justice system, high taxation (especially on labour), a labour market still perceived as rigid in spite of recent reforms, high energy costs, and infrastructure gaps.

Figure 3.21. **Inward FDI stocks, 2011**

Million US dollars



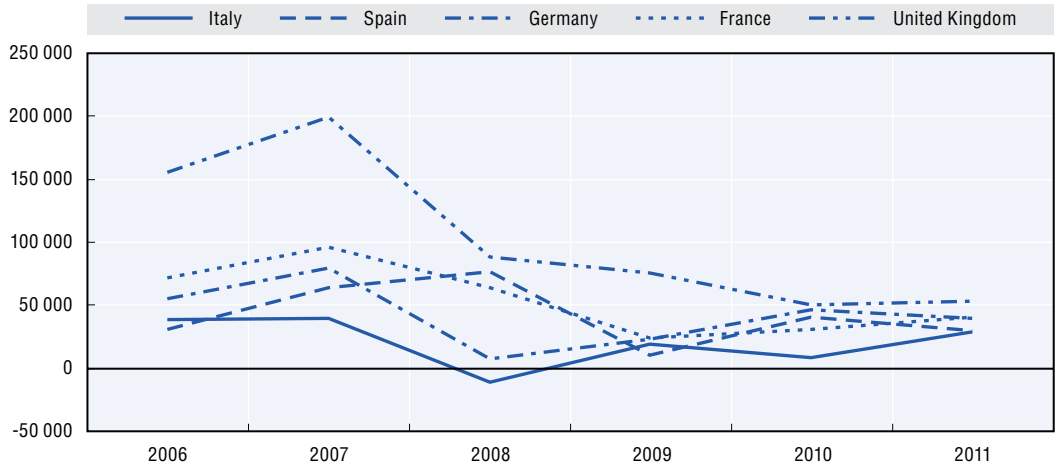
Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD (2011), *OECD Factbook 2011-2012*, OECD Publishing, Paris. *http://dx.doi.org/10.1787/factbook-2011-en*.

StatLink *http://dx.doi.org/10.1787/888933147577*

Figure 3.22. **Inflows of FDI in selected OECD economies, 2006-2011**

Million US dollars



Source: OECD (2011), OECD Factbook 2011-2012, OECD Publishing, Paris. *http://dx.doi.org/10.1787/factbook-2011-en*.

StatLink *http://dx.doi.org/10.1787/888933147580*

Past measures to attract FDI have been judged insufficient (Mutinelli and Piscitello, 2011), but the government has recently launched a new initiative in this field called *Destinazione Italia*. As of the end of 2013, this was primarily a set of proposed reforms which if fully implemented would be likely to attract more FDI in the country. Proposed measures encompass the possibility for large FDI companies to sign special tax agreements with the government and labour agreements with the unions, as well as streamlined procedures to obtain permits and licenses and settle labour disputes.

There is also support for FDI attraction through *Invitalia*, the National Agency for Investment Attraction and Business Development, which offers foreign investors a service kit which includes up-to-date information about the domestic business environment and investment opportunities in specific sectors including logistics, ICT, life sciences, renewable energy sources, and tourism. It also offers free, tailor-made business advisory services spanning pre-investment information through to business set-up support and post-start-up attention. An Italian Desk has been established to give dedicated professional support to international investors and to simplify their interactions with the Italian public administration.

In addition, improvements have been made in the tax treatment of inward investors. An information desk has been created at the national Tax Agency (*Agenzia delle Entrate*), which provides information and clarifications about national tax rules and tax rates. Every large investor should also be assigned a tutor in the future who will assist in all relationships and transactions with the Public Administration. Moreover, new regulations in 2010 allow EU firms establishing operations in Italy to pay taxes according to fiscal legislation in their home country.

Italy possesses many attributes that are attractive to FDI including skilled labour and high quality domestic technologies and brands. But to attract more FDI and hence to exploit its potential to act as a driver of SME development, attention needs to be paid to improving contract enforcement protection for foreign investors and cutting red tape for foreign firms operating in Italy. Once these measures are in place, the Italian government would be well placed to launch an aggressive international marketing campaign, pointing at the changes that have been made and advertising a new and genuine openness in the country to foreign investment.

Conclusions and recommendations

Macro-economic conditions are currently difficult for SMEs and entrepreneurs, although a number of macroeconomic indicators provide grounds for some cautious optimism about a future recovery. In seeking to help SMEs weather the crisis and be ready for recovery, the government took important actions to maintain their financing channels open through an expanded central loan guarantee fund, negotiation of SME debt moratoria with banks and accelerated payment of government debts to SMEs. However, a structural financing problem now needs to be addressed with respect to reducing the predominant debt finance culture among SMEs and nurturing the Italian equity market.

Business regulations in the area of start-ups have improved considerably during the last 10 years, and business start-up procedures are now relatively simple in Italy compared to other OECD countries. However, existing SMEs still face relatively high tax costs of business operation and high costs and delays in contract enforcement, calling for continued efforts in regulatory reforms. Further labour market reforms have made inroads into problems affecting the size of the informal economy, but need to be complemented by a reduction of non-wage labour costs to have their full effect. Competition regulation has also been strengthened, but so far too little has been done to reduce SME operating costs by reducing state involvement in utilities provision and the number of trades where entry is regulated by the grant of expensive licenses.

Human resource constraints are affecting SMEs with respect to both recruitment and training of skilled workers. Actions are needed in particular to strengthen the involvement of SMEs in the vocational education and training system and to improve the tertiary

education system. Weaknesses in the Italian innovation system are also being addressed in certain areas, such as incentives for university-industry innovation collaborations, but much more could be done, while the role of FDI as a potential driver of SME innovation should also be recognised, requiring further action to support the attraction and embedding of foreign ventures in the Italian economy.

The following recommendations are offered to improve Italy's business environment and framework conditions for SME and entrepreneurship development:

- Phase out anti-crisis financial support to small businesses (e.g. the expanded Central Loan Guarantee Fund) when the economy is back on the path of full recovery, but do not allow late payments to accumulate.
- Introduce additional liberalisation and privatisation reforms, for example by reducing the size and scope of state-owned enterprises, including in public utilities, and the number of trades where entry is regulated by the grant of expensive licenses.
- Implement ongoing reforms aimed at streamlining the civil justice system in order to reduce contract enforcement costs and delays and simplify business taxation procedures, including alternative dispute resolution mechanisms for informal intellectual property protection.
- Reduce the tax wedge on labour and carry forward current labour market reforms to reduce the scale of informal business activity and ensure that self-employment is not used by employers to avoid a higher tax wedge on wage employment.
- Expand the SME equity market through tax concessions to equity investors and to firms that open themselves to external co-ownership and improving the legal system for resolving commercial conflicts involving external investors.
- Strengthen the link between formal education and the labour market by increasing employer engagement in the national vocational training system and improving the tertiary education offer for the skills most in demand by employers.
- Strengthen the incentives of universities to stimulate start-up enterprises and support SME innovation.
- Improve the attractiveness of Italy to FDI through special agreements and administrative "fast-track" lanes, such as those foreseen in the *Destinazione Italia* initiative, and measures to improve the transparency and speed of contract enforcement and to cut red tape for foreign firms operating in Italy.

Notes

1. On the other hand, barriers to trade and investment have been low for more than a decade thanks to the market integration process which has involved all EU member countries.
2. The reform has also introduced a new universal unemployment benefit (called ASPI) and a more integrated approach to the provision of social shock absorbers and active labour market programmes.
3. Data are from the online portal of the European Association of Mutual Guarantee Societies (AECM): "Italian Banking Association and sectoral Business associations reach agreement on prolongation of SME Debt moratorium", *www.aecm.eu/en/Italian-banking-association-and-sectoral-business-associations-reach-agreement-on-prolongation-of-sme-debt-moratorium.html?IDC=39&IDD=1703#*
4. The only exception was 2009, when FDI flows towards Italy were higher than those towards Spain.

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Chapter 4

The strategic framework and policy delivery system in Italy

This chapter examines the strategic framework for the formulation of SME and entrepreneurship policy in Italy, including the Statute of Enterprises, the national SME Envoy and the Annual SME Law. It then turns to the roles and responsibilities of different public sector organisations and initiatives in delivering policy, including questions of policy coherence and accessibility to SMEs and entrepreneurs. The chapter highlights the importance of implementing the Annual SME Law and its proposed policy actions in practice, extending the reach of business support services to nascent entrepreneurs and entrepreneurs from under-represented and disadvantaged groups, and strengthening the policy coordination role of the SME Envoy.

The strategic framework for policy formulation

Italy is making use of the Small Business Act for Europe to develop a more strategic approach

Until recently, the Italian approach to formulating SME and entrepreneurship policy was rather fragmented. Each measure required the voting of a specific law and the subsequent allocation of a specific budget, and there was no concerted effort to develop a comprehensive, coherent and integrated set of actions. However, Italy is taking the opportunity of the adoption by the European Union (EU) of the Small Business Act for Europe (SBA) in 2008 as a starting point for the design of a more comprehensive policy approach, including a prioritisation of required measures and development of specific proposals for action across those policy fields corresponding to the scope of the SBA.

The SBA contains ten common principles for SME policy across the EU Member States, which each Member State should put into practice in the appropriate manner for their own contexts. The principles are aimed at two types of objectives:

1. To apply the "Think Small First" principle with respect to business regulation and the coordination of government policies affecting SMEs and entrepreneurship.
2. To address the market failures faced by SMEs, such as in access to finance, awareness of the opportunities of sustainable products and processes, and access to international markets.

Whilst the Statute does not provide a complete strategic framework for SME and entrepreneurship policy in itself, in that there may be national priorities that fall outside of the scope of the SBA, it can nevertheless provide the basis for more comprehensive and co-ordinated policy design because the ten SBA principles cover most of the territory that an SME or entrepreneurship policy should deal with.

By approving a directive as early as May 2010, Italy was one of the first countries to formally incorporate the SBA into national legislation (MISE, 2013a). One of its first steps to put the SBA into practice was the preparation of a Statute of Enterprises in 2011; a Law which recognises the importance of SMEs and entrepreneurship to the Italian economy and society, promotes SMEs and entrepreneur-friendly business regulation and identifies government priorities for implementing market failures affecting SMEs and entrepreneurs in Italy.

At the same time, the Italian government appointed a national SME Envoy (MISE, 2013b), following the suggestion of the European Commission. The SME Envoy plays an important role in the policy design process by gathering policy intelligence from Italian SMEs and entrepreneurs. The Envoy also helps apply the Think Small First principle by defending SMEs in government and helps secure the effective implementation of SME and entrepreneurship programmes by maintaining close relationships with national business associations and chambers of commerce tasked with delivering and promoting programmes.

The final piece of Italy's strategic policy design function for SMEs and entrepreneurship is not yet fully in place; it concerns a proposed Annual SME Law that should identify specific policy actions that the government will implement each year in order to meet its SBA priorities.

The Statute of Enterprises is a significant but partial strategic policy document

The "Statute of Enterprises" was unanimously approved by the Italian parliament in November 2011 (Law n.180/2011, "Norms for the protection of the freedom of business activity"). It serves to set down the principles for dealing with small enterprises in regulation, identify priorities for government policy actions to support SMEs and entrepreneurs and promote better relations between the government and representatives of SMEs and entrepreneurs. It also establishes two mechanisms for the implementation of the SBA, which are discussed in more detail below, the Annual SME Law and the appointment of an SME Envoy.

With respect to regulation, the Statute introduces the principles of competition and freedom of economic initiative and red tape simplification (Unioncamere, 2012). One of its articles requires regulatory impact assessments to be undertaken on any proposed new government regulation that may affect SMEs or entrepreneurs. Governments and public bodies at national, regional and local levels must assess the need for the new regulation, its expected impact on small businesses, and the alternative options available. Any new burdens on business must take into account company size, number of employees and business sector. The Statute also simplifies administration for SMEs by allowing them to substitute certificates granted by professional and accredited bodies for checks carried out by the public administration. It also promises legislation on procurement within 12 months to protect the interests of micro and small firm suppliers with respect to large firm and public contracts, and proposes changes to the way in which public sector contracts are packaged to make them more accessible to smaller enterprises.

In terms of prioritising policy actions, the Statute highlights supporting the innovation potential of SMEs (e.g. with increased co-operation between universities and SMEs and reinforced formal networks among firms), improving access to finance (e.g. through greater transparency in the relationship between enterprises and credit institutions), and creating new start-ups, in particular by young people and women, as critical areas for future policy intervention.

The Statute also places an important emphasis on the role of SME and entrepreneur associations in policy. For example, it states that central, local and regional government must consult the major business associations before approving a new law, regulation or administrative provision. Entrepreneurial associations are also assigned a proactive role in the promotion of public policy actions among their members. In addition, the Statute recognises the important role of entrepreneurial associations in supporting innovative entrepreneurial activity through knowledge brokering and by facilitating the development of informal network relationships between small firms (Unioncamere, 2012; Pittaway et al., 2004; Spillman, 2012). Box 4.1 highlights the example of the SBA Lombardy Lab, which is an arrangement whereby local business associations and chambers of commerce collaborate with the regional government in designing policy approaches to help implement the SBA in the Lombardy region. This type of collaborative policy design approach can usefully be rolled out to other regions of Italy.

Box 4.1. **Italian good practice: The SBA Lombardy Lab**

SBA Lombardy Lab is an institutional partnership between Lombardy's Association of Chambers of Commerce (*Unioncamere Lombardia*) and the regional government, supported by the European Commission and the Italian Ministry of Economic Development. All business associations and chambers of commerce in the region participate in the initiative in order to help develop tailored SME policies in the region that are, at the same time, co-ordinated with national and EU initiatives.

In order to assess policy needs, the Lab has developed a 'Dashboard' of indicators, the first mechanism in Europe aimed at monitoring the implementation of the EU Small Business Act at the regional level. It also seeks to engage local SMEs proactively, for example by organising six regular focus groups in which firms can voice their concerns and provide suggestions on policy development. The Lab also emphasises the role of the media in the diffusion of good policy practices. It has an Internet website which regularly reports the conclusions of all the local focus groups, a dedicated social network (Lombardybusiness.net) with over 2 200 subscribing firms in the first five months, and a Twitter account which offers a live-tweeting covering each regional and local initiative.

SBA Lombardy Lab is a good example of how institutional partnerships might be leveraged to engage SMEs in a dialogue aimed at sharing ideas on policy development. For example, in 2012 it conducted a survey on knowledge of the SBA among SMEs in Lombardy and undertook an assessment of existing SME policies in the region, which generated a position paper with a package of policy proposals in support of SMEs in the region.

Source: www.sbalombardia.it.

Another provision, envisages setting up a micro enterprises and SME authority within the Ministry of Economic Development. This authority would have a strong monitoring and reporting function on policy impacts on SMEs and would be tasked with the creation of a standing committee involving the most representative SME associations.

The Statute of Enterprises is an important step forward for Italian SME and entrepreneurship policy. It provides a stimulus for more business-friendly regulation, for the identification of priority policy measures and for hearing the voice of SMEs and entrepreneurs in Italian policy. However, it also has some weaknesses in its current form:

- Much of its content is based on a translation of the EU-wide SBA into the Italian context, whereas a true national strategy would start by identifying the most important actions needed to address the specific challenges of Italy.
- There is only limited information on the objectives, rationales and expected outcomes of the specific policy interventions identified.
- The implementation arrangements for the proposed initiatives are not specified. However, timely implementation must be ensured to translate the policy suggestions into action on the ground and maintain the confidence of the business community in government policies in this area. There is also a danger that the bureaucracy of SME and entrepreneurship programmes will increase if implementation arrangements are not considered at the same time as the identification of policy measures.
- The full implementation of all the measures in the Statute could clash with the concurrent objective of policy simplification.

- The Statute introduces new responsibilities for government officers and civil servants with regard to SME and entrepreneurship that will require some specific skills and a more pro-business attitude. However, it is not clear how the capacities of these professionals will be developed.

A number of responses can be taken to address these weaknesses. First, a full national strategy could be developed to take on further the strategy for SMEs and entrepreneurship started in the Statute of Enterprises. This strategy would consider other areas for action that are not stressed by the SBA, set out the objectives, rationale and expected outcomes of all suggested policy measures, and identify the implementation mechanisms and associated budget arrangements for the actions. Second, the introduction of any new legislation could be linked to the removal of an existing legislative requirement, in order to control the total number of legislative acts and regulations. Third, a training programme could be introduced for public officials with new SME and entrepreneurship responsibilities covering technical issues such as regulatory impact assessment methods as well as the public sector equivalent of customer care. For example, a traditional role for inspectors dealing with issues such as health and safety or food hygiene would be policing to ensure that businesses are fully compliant with the legislation, whereas a more enlightened approach would involve inspectors offering some advice and giving businesses time to make appropriate changes in order to meet the requirements of the legislation.

The SME Envoy is the advocate of small business within the government

In common with other EU Member States, the Italian government has appointed an SME Envoy to promote the implementation of the SBA and make the case for SMEs and entrepreneurs within government. The SME Envoy has the following formal responsibilities: i) to monitor the implementation of the SBA in Italy; ii) to analyse – ex-ante and ex-post – the impact of any new regulation targeting the SME sector; iii) to elaborate new proposals aimed at further developing the SME sector; iv) to inform the Parliament, the Presidency of the Council of Ministers, the Ministers and local governments of cases in which new legislation, regulation, or administrative acts may increase the financial or administrative burden for SMEs in a relevant way; v) to deliver to the Prime Minister, before the 28th of February each year, a detailed report of his or her activity with an assessment of national policies for the SME sector and recommendations for additional measures; vi) to monitor the impacts of regional laws on SMEs and facilitate the diffusion of best practices across regions; and vii) to co-ordinate a network of regional SME Envoys and collaborate with national SME Envoys from other EU Member countries.

Consultation between the SME Envoy and the small business sector has been facilitated by the creation of the regional network of SME Envoys, who can feed up the views of SMEs to the national level, and the creation of a permanent roundtable, chaired by the SME Envoy, involving an institutional partnership between national and local governments and the most representative business associations. Further support for the work of the SME Envoy has been put in place with a new set of SME monitoring tools, including a national observatory of SME activities at regional level and an annual in-depth survey on the impact of new policy measures on SMEs and entrepreneurship.

One of the difficulties the SME Envoy is likely to face involves dealing with micro enterprises at the same time as larger SMEs because the issues affecting micro enterprises are often different in important respects to those affecting larger SMEs and because it can be more difficult to engage with micro firms in gathering views, promoting public support

and furnishing regulatory information. The latter reflects the large numbers of micro enterprises, their reluctance to engage in associational activity, and attitudinal issues that make micro enterprise managers more inward looking and less willing to take time away from production than those of larger firms. If the SME Envoy is to take an important role in supporting micro enterprises then it is important that he or she has adequate resources and administrative support for this role.

The Annual SME Law should support these strategic tools

The Statute of Enterprises requires the Government to submit a proposed Law for the Micro and SME Sector (SME Law) to the Italian Parliament every year by the 30th of June, following consultations with the SME Envoy and business associations. The Statute clarifies that the Law is to include four sections:

- Norms for immediate application to reduce red tape and improve the relationship between SMEs and the state administration.
- One or more mandates to the Government to produce – within 120 days from the approval of the Law – all the decrees necessary to realise a proposed package of policy interventions for the following year.
- All the necessary regulatory authorisations to facilitate the implementation of the package.
- Integrative or corrective norms to simplify the existing body of legislation.

In addition, the Statute requires the Government to include, as part of its proposal, a report that specifies: i) how far the current state of the art of national legislation is in compliance of the EU Small Business Act; ii) how previous Annual SME Laws have been applied and their effects; iii) how the proposed Annual Law is expected to impact on the SME sector; and iv) how the proposed packages of interventions target the development of SMEs in underdeveloped regions.

The Annual SME Law could be very important in increasing policy coherence and prioritisation and in ensuring that actions are implemented over time to improve regulation and address market failures. However, there have been delays in the implementation of the Law, which has not yet been passed in a first edition. It is important that the Law is implemented in practice. It is also important that a mechanism is put in place to allocate the budgets required to deliver the actions proposed in the Law.

A public SME agency or financial institution should be considered to promote medium-sized enterprises and high-impact entrepreneurship

One of the main requirements for strengthening the SME and entrepreneurship activity in Italy is stimulation of more high-impact entrepreneurship and high-productivity medium-sized firms. However, unlike several other OECD countries, Italy does not have a public bank or SME agency that is tasked with addressing the needs of these types of enterprises, and it is not clear that the current arrangements will give them enough attention. Consideration should therefore be given to creation of an appropriate public financial institution, modelled for example on the new British Business Bank or BPI France, or SME agency, modelled for example on the lines of the US Small Business Administration, Japanese SME Agency or Mexican Institute of the Entrepreneur. Such a body would be able to design and deliver targeted innovation support and better co-ordination of existing

policy measures for growth-oriented SMEs in Italy, in full respect of state aid guidelines on public investment in SMEs.

The policy delivery system

Chambers of commerce and business associations are important delivery agents

Policy delivery refers to the process of implementing policies and programmes on the ground, which involves not only making SMEs and entrepreneurs aware of relevant policies and programmes, but also ensuring that they have access to business development support. The key actors in the Italian SME and entrepreneurship policy delivery system are the representative business associations and the network of local chambers of commerce, the latter being semi-public institutions in Italy.

The business associations and chambers of commerce are active in publicising available fiscal incentives to SMEs and entrepreneurs and guiding them through the regulatory regime. They are also among the most important third party organisations involved in delivering public programmes, such as business consulting and management training, on behalf of the government.

A model which involves delivery of business development programmes through chambers of commerce and business associations has both advantages and disadvantages. The advantages are that the members of these organisations would typically look to them anyway as the first port of call to find out about business support. They are also likely to have reasonable reputation because of their longevity and established position in the economic infrastructure and are likely to introduce private sector methods, networks and attitudes to service delivery. However, there are also disadvantages. For example, there is typically considerable geographic variation in the effectiveness of these agencies. Because they are serving membership, these institutions are weaker in regions and localities where entrepreneurship and SME activity is less dynamic, which is arguably where it is most important to have strong local support agencies. Further disadvantages may be associated with a tendency for these organisations to promote services which are in some way in their interest, and perhaps be less active in instances which are not. In addition, there may be a significant gap in co-ordination of programmes across the different organisations involved in delivery.

There is scope for introduction of more competition in the delivery of publicly-funded business support services, through encouraging new organisations to participate in tenders for services. This should help to keep the delivery organisations on track in meeting public objectives and keep efficiency high. Mechanisms for co-ordinating programmes can also be strengthened to reduce duplication and fill gaps. The SME Envoy can play an important role in this respect. In addition, co-operative co-ordination arrangements, such as those outlined in Box 4.2, can be introduced among ministries, business associations and chambers of commerce.

More outreach is needed to start-ups and entrepreneurs from under-represented groups

The model of delivering business support services through third-party intermediaries appears to work well overall in delivering standardised services to typical SMEs in Italy that are members of chambers of commerce and business associations and regular users

Box 4.2. **Italian good practice: The National Control Room for Enterprise Internationalisation**

The National Control Room for Enterprise Internationalisation (*Cabina di regia per l'internazionalizzazione*), chaired by the Minister of Economic Development and the Minister of Foreign Affairs, has been established as a partnership between institutional actors (ministries, technical agencies, chambers of commerce and regional governments) and private actors (business associations) to increase co-ordination in the country's support for business internationalisation, for example by avoiding the duplication of effort, making the deployment of resources for business internationalisation more effective, and leveraging scale and synergy benefits. It is assisted by a "Junior Control Room" consisting of government officers and technical staff and charged with the implementation of the guidelines set by the senior political body.

One of the outputs of the National Control Room has been the "Regional Plan for the Internationalisation of the SME Sector", which was approved in October 2012. The Plan identifies a set of actions for joint working by regional governments and chambers of commerce in the areas of: i) technical and information support; ii) training; iii) territorial marketing to attract foreign investments; iv) development of dedicated export-oriented financial products; v) promotional and commercial initiatives in Italy and abroad; and vi) better use of the EU Structural Funds to promote the internationalisation of southern regions.

As of June 2013, the Plan had brought about the following tangible results: i) the creation of common foreign trade missions by regional governments and Chambers of Commerce; ii) the development of specific guidelines to support the SME sector in the South of Italy during the EU's 2014-20 Programming Period; and iii) the activation of local Internationalisation Help Desks by chambers of commerce at provincial level, in collaboration with the already-existing regional Help Desks hosted by the regional governments.

Source: OECD

of their services. However, there are certain gaps in the outreach of support to important targets of policy.

One of the major challenges for Italy's SME and entrepreneurship policy is to increase the rate of business start-up activity, and in particular the rate of high-impact entrepreneurship. However, the chambers of commerce and business associations typically have much stronger involvement with existing SMEs than with nascent entrepreneurs and have a programme offer that is weighted to existing rather than new business support. In addition, SME and entrepreneurship policy in Italy needs to place greater emphasis on social groups that are under-represented in successful entrepreneurship activities, including women, members of ethnic minorities and young people. Again, it is difficult to reach these groups fully through mainstream chambers of commerce and business association programmes because of differences in the types of support that they require, for example the proportion of young people pointing to lack of skills and finance is much higher than that of other entrepreneurs (OECD/European Commission, 2012), and because the mainstream bodies have relatively poor connections with the target groups in terms of membership, networks and operating procedures.

Special initiatives are likely to be needed in parallel to the chambers of commerce and business associations to target nascent entrepreneurs and entrepreneurs and business owners from under-represented social groups. This suggests the need for the

government to offer contracts to deliver target group programmes to new organisations or existing community organisations that specifically work with each of these communities. An alternative would be to introduce contracts that require the mainstream business associations and chambers of commerce to employ advisors that are experienced in working with the target groups and to use an outreach that is focused on the channels of communication that people from the target groups are most likely to engage in. Many micro entrepreneurs can also slip under the radar of the business associations and chambers of commerce and efforts should be made to reach them.

Conclusions and recommendations

The Italian government is using its adoption of the European SBA to take a more strategic approach to the formulation of SME and entrepreneurship policies and programmes in the country. In a package of SBA-related measures, the government has introduced new monitoring processes and consultations with the business sector to gather better intelligence on policy needs, as co-ordinated by the SME Envoy; it has introduced a prioritisation of the main measures needed to address the problems faced, in the form of the Statute of Enterprises; and it has planned an annual exercise to identify specific policy actions that should be undertaken, in the form of the proposed Annual Law for the Micro and SME Sector. This represents a considerable strengthening of the strategic policy framework as compared with the previous approach that consisted of developing a new Law and budget for each proposed public intervention.

Yet further steps are needed to make the most of these developments. In particular, the proposed Annual SME Law should be passed without delay each year and in parallel the appropriate budgets and implementation schemes should be put in place. This is required to ensure that policy intentions are put into action and that the momentum is maintained and the business sector kept on board. In addition, consideration should be given to what policy actions, if any, are needed to run alongside those foreseen for the implementation of the 10 pillars of the SBA, i.e. whether there are any specific priority areas for Italy that are not addressed through the SBA. Finally, an important complement to the intelligence gathering for policy making purposes is the introduction of more programme impact evaluation studies.

As concerns the delivery of public programmes to SMEs and entrepreneurs, the main actors are Italy's extensive network of business associations and chambers of commerce. These bodies, working locally and nationally, play a critical role in informing SMEs and entrepreneurs about regulations, incentives and programme availability and in delivering key government support services such as advice and consultancy direct to beneficiary firms. The system largely works well, and is kept efficient and effective through appropriate contracting and performance requirements imposed by central government funders.

At the same time, delivery through the existing mainstream network needs to be complemented or adapted for certain important policy target groups, since the chambers of commerce and business associations have better connections with existing SMEs and businesses from the mainstream population than with nascent entrepreneurs and micro entrepreneurs, especially where they come from under-represented and disadvantaged social groups such as women, youth and ethnic minorities. To ensure that existing business services reach out to new and under-represented entrepreneurs the existing providers will need to adapt their approaches, for example by bringing in new advisors from the targeted populations and using the communication channels that these populations

access. Alternatively, the appropriate business services could be delivered by contracting with new organisations that specialise in start-up support or support of under-represented groups. A few tailored programmes could also be considered. Finally, there is scope to increase policy co-ordination across the various actors involved in the delivery of SME and entrepreneurship policies and programmes. A key step would be the reinforcement of the orchestration role provided by the national SME Envoy.

The following specific recommendations are offered to improve Italy's strategic framework for the design and delivery of SME and entrepreneurship policies and programmes:

- Ensure that the proposed Annual SME Law is instituted and introduce a parallel budget allocation process to fund the implementation of policy actions proposed in the Annual SME Law and the Statute of Enterprises.
- Strengthen the evaluation of SME and entrepreneurship policies and programmes as an input into policy formulation.
- Consider the establishment of an SME agency or public financial institution responsible for co-ordinating investment and innovation support for medium-sized SMEs and high-impact entrepreneurship.
- Reach out to nascent entrepreneurs and entrepreneurs from under-represented populations, including firms of very small size and entrepreneurs that are not members of any specific business association, by communicating through appropriate channels on regulations and available programme support and by developing accessible programmes tailored to these groups.
- Develop a training programme to support public officials charged with implementation of foreseen regulatory simplification measures for SMEs.
- Strengthen co-ordination in the delivery of SME and entrepreneurship policy, drawing on the institutional role of the SME Envoy.
- Increase competition in the delivery of business support services by encouraging new suppliers to bid for contracts to deliver public programmes.

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Chapter 5

National programmes for SMEs and entrepreneurship in italy

This chapter assesses national SME and entrepreneurship programmes for financing, innovation, internationalisation, entrepreneurial culture and skills, workforce development, business management, public procurement, social target groups, social enterprises, and corporate social responsibility. There are important programme interventions in all of these areas, including a well-developed credit guarantee system, support for SME exports, Industry Training Funds promoting SME training, business management and consultancy support and female entrepreneurship schemes. However, there are also several areas where programme support could be strengthened. Priorities include scaling up of equity finance programmes, increasing attention to FDI attraction and embedding as potential levers for SME upgrading, rolling out entrepreneurship education into schools and universities, supporting SME access to public procurement and developing finance and mentoring programmes for immigrant and social entrepreneurs. Attention should also be paid to increasing the proportions of enterprises able to access training and business management support, including smaller firms.

Financing

Italy has a well-established national Credit Guarantee Fund

As in many OECD countries, Italy has a national Credit Guarantee Fund (CGF) aimed at overcoming reluctance by banks to lend to SMEs, which is related to gaps in credit risk information and limited collateral for the SME sector, by covering a proportion of SME loan defaults in return for certain fee and interest rate charges (OECD, 2013a). The Italian programme offers guarantees for short, medium and long-term loans of up to EUR 1.5 million. These guarantees are available both to SMEs and start-ups, but are mainly used for loans to established SMEs looking to expand or invest in new projects. Some of the funding is reserved for SME support in the EU Convergence Regions (Sicily, Calabria, Apulia and Campania).

The major operational parameters of Italy's CGF are similar to other loan guarantee programmes in the OECD area. However, there are two distinguishing features. First, the Italian CGF channels a relatively high proportion of its funding through counter-guarantees to local mutual guarantee associations (*Confidi*) as opposed to direct guarantees to banks for their SME loan portfolios, and the counter guarantee proportion has increased since the crisis. In other words, the CGF often acts as a lender of last resort to local guarantee associations. This has the advantages of exploiting additional screening of loan applicants by the *Confidi* and of strengthening the capital base of the *Confidi*. On the other hand, there is a potential moral hazard issue for some financially vulnerable *Confidi*, which know that they can rely on a public bailout if they become insolvent. Second, the Italian scheme is relatively sophisticated in providing different guarantee rates tailored to the risk profiles of the borrowers and the types of loans. This is a positive feature of the CGF, since it enables risk to be priced more precisely for each loan application. There are also plans to create special sections of the CGF dedicated to the internationalisation of SMEs, women entrepreneurs and innovative start-ups, somewhat akin to the different programmes within the US Small Business Administration's loan guarantee scheme. This development is to be welcomed, as it will target resources on businesses that generate particular social or economic value.

In the future, increased attention should be paid to ensuring value for money from the CGF, encouraging private involvement in the market, and increasing the extent to which new high-impact start-ups and high-productivity medium-sized firms benefit. The UK's new Enterprise Finance Guarantee Scheme offers a potential model in some respects (see Box 5.1), including a limit on government exposure to default, an intention to target highly additional activity, the possibility for entrepreneurs to contribute to the guarantee, and eligibility criteria that permit larger firms to participate in the scheme. The Italian government should also review whether to continue with the policy of injecting more funds into counter-guarantees for the *Confidi* at the expense of fewer direct guarantees, or whether this is introducing potentially important moral hazard problems and vulnerabilities into the national system.

Box 5.1. **International inspiring practice: Enterprise Finance Guarantee Scheme, United Kingdom**

Description of the approach

The Enterprise Finance Guarantee (EFG) scheme was introduced in January 2009 to replace the Small Firms Loan Guarantee (SFLG) scheme, which was created in 1981. Both schemes aim to encourage banks to lend to SMEs and entrepreneurs who lack collateral and track records in business, and the basic features of the two schemes are similar. However, the EFG also has certain new features such as guarantees to convert overdrafts into loans and invoice finance facilities as well as straight loan guarantees. The range of businesses that are supported has also been expanded. Loans of up to EUR 1.2 million can now be guaranteed, compared to only EUR 300 000 for the SFLG. Businesses with turnover of up to EUR 48 million can now be supported, compared to only EUR 6.6 million under SFLG.

EFG is a targeted measure to be used by lenders on a discretionary basis and is not meant to be a replacement for commercial lending. Decision-making on individual loans is fully delegated to participating lenders and integrated with their commercial lending criteria. The UK government plays no role in the application or decision making process and there is no automatic entitlement to receive a guaranteed loan. The government guarantees 75% of the loans of lenders, although total government exposure to defaults is capped at 9.75% of the scheme value, so that banks are exposed to all of the remaining bad debts after this limit is reached. A borrower pays a commercial interest rate plus a premium equivalent to 2% of the annual outstanding loan amount to the government for the lifetime of the loan, which ranges from 3 months to 10 years.

EFG currently covers around 1% to 2% of total bank term lending to United Kingdom SMEs, although it reached 3% during the credit crunch of 2009. By October 2012, EFG had generated 19 527 loan offers (for EUR 2.4 billion), of which 17 092 (EUR 2.0 billion) were drawn upon. The EFG has a sunset clause. It will continue until 2014-15, providing up to EUR 700 million of additional lending to around 6 000 SMEs each year.

Factors for success

There have been three important improvements in the design of the new scheme compared with the previous initiative. First, there is a cap on government default payments to lenders, which gives greater incentives for lenders to carefully screen participating businesses. Second, borrowers can make personal guarantees, thus sharing the risk with banks and government, making the funds go further and increasing confidence in viability. Third, more inclusive and expansive eligibility criteria, allowing larger loan sizes and admitting larger firms into the scheme, will help meet the finance needs of medium-sized firms for innovation, internationalisation and expansion. These features have helped reduce EFG default rates below those of the previous SFLG scheme, despite economic conditions being significantly worse than when previous SFLG evaluations were undertaken.

Obstacles and responses

The initial turnover ceiling on eligible participant firms was set at EUR 30 million. However, take up proved to be lower than expected, prompting the EFG to raise the ceiling to EUR 48 million in 2012. This step has broadened participation in the scheme, helping more businesses survive through the crisis. On the other hand, banks seem to have responded to the change by favouring the selection of larger and safer companies, possibly at the expense of smaller and riskier ones, although it is too early to be sure whether a substitution effect of this sort has really taken place. Moreover, when the EFG started, many borrowers had to wait for one month and more for loan approval under the scheme. This problem seems now to have been resolved.

Box 5.1. **International inspiring practice: Enterprise Finance Guarantee Scheme, United Kingdom** *(cont.)*

A recent evaluation study (BIS, 2013) supports the notion that the EFG scheme is well designed and is operating successfully. The evaluation estimated the net economic impact of the scheme to be large, with economic benefits amounting to EUR 1.3 billion after taking into account the economic costs of operating the scheme. The benefit-to-cost ratio for society was estimated to be 7:1.

Relevance for Italy

The Italian government is concerned to maximise the efficiency of its public investments. In this respect, the decision to gauge the scale of the EFG scheme so as to target only that part of the sector that cannot otherwise find finance, the cap on government exposure to defaults, the possibility for entrepreneurs to contribute personal securities to the guarantee, and the decision to enable larger firms to participate (which reduces the risk of the overall lending portfolio) all help to increase the efficiency of the scheme, limit the public costs and reduce the government's risk exposure.

Sources for further information

BIS (2013), *Economic Evaluation of the Enterprise Finance Guarantee (EFG) Scheme*, Department for Business Innovation and Skills, London, England.

It would also be timely and appropriate for the Italian government to commission an independent evaluation of the CGF in order to assess its impact and provide information to help improve its operating performance, including on financial and project additionality. This should take the experience of other good practice evaluations into account, such as Zecchini and Ventura (2009) and Graham (2004). For example, a large sample should be established of at least 3 000 SMEs that have expressed interest in the CGF. From this sample, three groups could be identified: those that receive the guarantee, those rejected for the guarantee and those randomly excluded. If the guarantee is effective then the recipients of the guarantee should perform significantly better than those in either of the other two groups. It is also relevant to assess whether alternative approaches to stimulating the SME credit market could work more effectively than the provision of guarantees at least in certain areas.

A network of local mutual loan guarantee funds also facilitates debt finance

In Italy there is an important network of local mutual loan guarantee schemes called *Confidi*, which make an important contribution to SME access to finance. Nearly one-quarter (almost 1 million) of Italian SMEs are members of *Confidi*, and their guarantees account for 41% of all guarantees issued by European loan guarantee funds and amount to about 1.4% of Italian GDP (OECD, 2013a). Box 5.2 provides further details on how these local schemes operate.

The *Confidi* have played a very important role in supporting SME access to debt finance in Italy over many years, but the system today faces certain fragilities resulting from global economic and financial crisis. During the crisis, the local schemes extended lines of credit to SMEs that would not otherwise have obtained finance, which increased the proportion of riskier firms being guaranteed (Bartoli et al., 2013). Furthermore, the number of bankruptcies in the economy nearly doubled between 2007 and 2011 (OECD, 2013a) and increased by a further 2.2% over 2011-12 to reach a total of 104 000 in 2012

Box 5.2. **Italian good practice: The *Confidi***

Italy has a highly-developed system of local mutual guarantee schemes (MGSs) known as *Confidi,* which typically operate among groups of interconnected SMEs in particular sector or value-chain clusters. The schemes resemble financial co-operatives in which SMEs participate as members and shareholders and are both eligible to apply for loan guarantees and responsible for contributing to the capital put up for the guarantees. The member firms elect a management board that takes decisions about which bank loans to guarantee, while delegating everyday management tasks to a business association that sponsors the *Confidi*. One of the important features of the mutual guarantee schemes is that the member firms undertake screening of the loan guarantee applications, using superior access to sector and local company information on risks together with social ties and peer pressure to reduce their exposure to loan defaults.

The first scheme of this kind in Italy was created spontaneously by entrepreneurs in the late 1950s as a means to increase their bargaining power with banks and improve their access to finance. Despite major reorganisations and mergers over the last 50 years, the *Confidi* have maintained their mutuality character. More than 200 local institutions now exist, which are grouped into 7 aggregate national Italian Federations, according to their sector of operation: *Fedart Fidi*, *FederConfidi*, *Fincredit*, *FederAscomFidi*, *FederFidi*, *CreditAgri*, and *Asscooperfidi*. These federations provide the link between the guarantee institutions themselves and the business associations which promote them.

There are two layers to the *Confidi* system. The first layer is the local one, which allows for strong ties to the territory and to affiliated SMEs. At this level, credit risk assessment is performed, exploiting detailed knowledge of local members. The second layer generally operates with a regional scope, involving second-tier MGSs set up by groups of local guarantee associations. This second level provides counter-guarantees to the local associations, allowing for a broader sharing of risk across schemes. Counter-guarantees are also offered at this level by entities funded by the regional government and by the Italian Central Guarantee Fund.

A major advantage of the *Confidi* system is the exploitation of detailed local and sector knowledge on loan applicants, which mitigates the asymmetric information problem that makes many banks reluctant to lend to small businesses. By backing SMEs with their own resources, the *Confidi* send a credible signal to banks, which can be used to access finance from banks on favourable terms. The *Confidi* have a strong incentive to remain solvent as they are owned by their members: it is this that imparts credibility to their selection of guaranteed loan applicants.

It may be difficult to replicate the success of the *Confidi* in other countries that do not have the same tradition of local clusters and strong sectoral and local ties between firms. However, local or national governments elsewhere could seek to emulate the system in some regions or sectors where there are numerous interconnected SMEs.

Sources: Zecchini, S. and M. Ventura (2009) and IECD (2013a)

(Cerved, 2013). This has exposed many *Confidi* to losses, and some to considerable financial fragility. Thus in 2011, fully one-half of the *Confidi* registered losses (Schena, 2012). If these losses continue they could endanger the sustainability of the system and the regional and national institutions providing counter guarantees.

Measures should therefore be envisaged to reduce the risks being taken and to strengthen the financial viability of the *Confidi* in the medium and longer-term. First, the scale and scope of *Confidi* portfolios could be increased. Most *Confidi* serve only a limited

range of firms in terms of sector and geography, and might therefore be exposed to some degree of covariant risk. In addition, their operational costs tend to be high, reflecting their retail service business model and small scale of operations. These issues could be addressed by the merger of some smaller *Confidi* or by the formation of some consortia of *Confidi*, the latter approach offering the advantage of retaining local rootedness at the same time as obtaining scale and scope economies. Second, moves to improve risk management will make important demands on the organisational and technical competencies of the local mutual guarantee scheme managers. The government could play a role in upgrading these competencies by stimulating more rigorous training in financial and general management for the *Confidi* and by providing central guidelines and supporting best practice exchange on operational mechanisms. These two sets of measures – scaling up the *Confidi* and improving management and operational competencies – could also address problems of uneven implementation of guarantee activities across the country and weak performance of some of the regional funds.

Mini-bonds have recently been introduced to broaden financing options

Corporate bonds offer a potential alternative to traditional loan financing for SMEs, but as in other countries SMEs have tended to make little use of this instrument because of the large amounts of finance that tend to be involved and the greater amount of administrative and management resources that need to be committed. For the business sector as a whole, bonds have been quite important. For example, in 2012, the Italian bond market accounted for 10% of the total external finance used by Italian firms (EUR 30 billion). However, only 30 companies issued bonds during the period 2008-13, typically very large ones (Calugi and Paglietti, 2013). To open up this finance channel to SMEs, the Italian government launched a new policy instrument called a mini-bond in 2012, which offers SMEs the possibility to issue of special "simplified" bonds with lower reporting requirements.

In principle, the creation of mini-bonds is a step in the right direction towards tackling the over-reliance of SMEs on bank loans, countering their undercapitalisation, and strengthening Italy's fledging corporate bond market. For the moment, however, only 20 new issues of mini-bonds have been completed in the dedicated new segment of the bond market (Extra-MOT PRO). Furthermore, only 8 of the 20 issues have been for below EUR 50 million while the yields have averaged between 7% and 9%. These features suggest that mini-bonds have until now mainly been used by larger firms, since SMEs are unlikely to float bonds for over EUR 50 million and afford the payment of high-interest coupons (Calugi and Paglietti, 2013).

Two steps could be taken to increase the take up of mini-bonds by SMEs. First, the Extra-MOT PRO market, which is currently open only to professional investors, could be opened up to a wider range of investors in order to increase demand and liquidity and reduce yields. Second, more generous tax breaks might have to be offered to encourage investors to move away from traditional sovereign and corporate bonds into mini-bonds, given the higher risk associated with smaller firms and lower reporting requirements.

Equity finance programmes lack scale

Equity finance comprises formal venture capital, provided by professional investment funds, and informal business angel finance, provided by private individuals. It is particularly suited to innovative SME and risky start-ups because it offers investors a share of potential high returns and growth in the longer run and offers entrepreneurs inputs of knowledge

and networks for building their businesses. The equity market is still at an incipient stage in Italy but a number of recent measures have been introduced to boost its importance for SME finance.

Among them is the launch of three initiatives for SMEs by the Italian Stock Market. First, a junior stock market for micro and "small cap" (small market capitalisation) was established in 2009 for Italian firms seeking equity finance called AIM Italia. This junior market follows the model of the UK Alternative Investment Market (AIM) in terms of more flexible regulation and faster listing than the main Italian stock market. Second, a "Star Segment" has been introduced on the Italian Stock Market for small and medium caps (EUR 40 million to EUR 1 billion). Third, an "Elite programme" has been introduced to actively prepare high-growth companies for future Initial Public Offerings (IPOs). Eligible companies must have minimum revenues of EUR 10 million, a minimum margin of 5%, an acceptable debt position, and a focus on exporting. Elite gives participating companies a public profile and visibility to the international investor community. Companies are tutored in management skills and information systems, reporting systems, governance, and auditing of financial statements. Participant companies have on average 3-5 years to learn how to behave like a public company before they are ready for an IPO launch. These initiatives are admirable, although their impact has so far been blunted by the ongoing fragility of the financial markets and reduced investment activity.

The Ministry of Economy and Finance also took an important step in 2010 through the creation of the Italian Investment Fund (*Fondo Italiano*) capitalised with EUR 1.2 billion. It is operated by an asset management company comprising several banks, business associations and the Ministry itself and all its investment decisions are guided by private sector expertise. The Fund invests both directly by acquiring equity stakes in selected firms and indirectly by acting as a "fund of funds" which can take up to 50% of the financial commitments of funds with relevant objectives. By April 2013, the Fund's approved investments totalled EUR 660 million, distributed approximately equally between direct acquisition of minority holdings in company capital (EUR 310 million) and indirect participation in other private equity funds (EUR 350 million). However, the investments have been geared towards medium and large businesses and very few growth-oriented small companies or start-up entrepreneurs have been supported. More than one-half of the direct acquisitions have been absorbed by companies with a turnover exceeding EUR 50 million, the average size of each investment has been EUR 10.4 million, and every recipient firm has had a turnover of at least EUR 10 million.

These initiatives to encourage more venture capital provision in Italy would usefully be complemented by an initiative to encourage the formation of dedicated small-cap funds. A model that might be followed is that of the UK's Venture Capital Trusts (VCTs). VCTs are tax-efficient, closed-end managed funds that make seed, start-up and early growth investments in small expanding companies, attracting investments from private individuals through tax relief offered by the government. The VCTs are publicly-traded private equities which are listed on the London Stock Exchange, thus providing investors with liquidity. They may invest up to EUR 1.2 million in a qualifying company but each individual investment cannot make up more than 15% of VCT assets. For already-traded shares, investors are exempt from income tax on dividends on ordinary shares as well as from capital gains tax on share disposal. New share issues attract additional upfront income tax relief of 30%, on up to EUR 240 000 invested per tax year if the shares are retained for five years. Between 1995 and 2011, VCTs invested EUR 5.5 billion in United Kingdom SMEs.

They supported more than 1 500 companies employing more than 32,000 people between 1998 and 2011. An independent evaluation found that investments made under the VCT scheme were associated with modest increases in fixed asset formation, employment and sales among recipient firms (Cowling et al., 2008).

Box 5.3 suggests another type of approach to address the equity gap for smaller-scale SMEs in Italy, namely Finland's Vigo accelerator programme.

There has also been an attempt to build informal equity finance alongside formal venture capital investment through a measure introduced in 2008 that provides tax relief for business angel investments (Magliocco and Ricotti, 2013). The measure gives private investors who invest directly in start-ups a tax exemption for capital gains on the sale of a start-up's undertakings under certain conditions, including that the start-up is less than 7 years old, that the investor holds the shares for at least 3 years, and that the capital gains are to be reinvested in other start-ups in the next 2 years. The impact of this scheme is hard to assess because it was introduced during the financial crisis and at a time of adverse equity investing conditions. However, the conditions for obtaining the tax relief are quite restrictive and presumably limit the volume of investments stimulated. In particular, in contrast to stock market investors, few angel investors are serial investors, and the commitment to reinvest capital gains in other start-ups will naturally limit the appeal of the scheme to many investors. Consideration should therefore be given to relaxing some of these criteria to boost business angel investment in start-ups.

Furthermore, despite the introduction of several new programmes for equity financing in recent years, there is a problem of limited scale of the interventions for SMEs. For example, the Italian Investment Fund and Italian Stock Market programmes are focused more on larger firms than on SMEs and the strict eligibility criteria for tax relief for business angel investments in start-ups will limit the numbers of investors attracted. Additional measures should be considered targeted closely at high-growth potential start-ups and smaller SMEs, such as dedicated small-cap funds or an accelerator programme.

A complementary demand-side programme should be introduced

Increasing the SME access to financing and stimulating the emergence of alternatives to debt requires change on the demand side of the finance market as well as measures to increase funding supply. A national financial training and education programme for entrepreneurs and SME managers could pay dividends in increasing their knowledge and expertise on alternative finance sources such as mini-bonds or equity, and could be delivered via mentoring and coaching of entrepreneurs and SME owners. Such an initiative would be in line with OECD International Network on Financial Education recommendations, as summarised in the High Level Principles on National Strategies for Financial Education (OECD, 2012a). An example of a relevant approach is the UK's Enterprise Investment Scheme, which provides up to 15 days of subsidised private consultant advice to SME owners, or Sweden's ALMI initiative (for further details, see *http://www.almi.se/English/*).

Box 5.3. **International inspiring practice: Finland's Vigo accelerator programme**

Description of the approach

The background to the Vigo accelerator programme is the "Finnish Paradox", whereby despite excellent innovation support infrastructure and high R&D expenditure, Finland has relatively few high-growth innovative firms and relatively few promising early-stage ventures with growth aspirations. This problem appears to be connected to the existence of an equity gap in the EUR 20 000-200 000 range, which is too small for venture capitalists to serve and which is not being filled by business angels either – perhaps because these investments are perceived as being too risky and requiring too much active, hands-on intervention to realise their growth potential.

The Vigo programme is intended to fill this gap by attracting EUR 200 million of equity funding into innovative Finnish start-ups during the intended six-year life span of the programme, which was set up by the Finnish Ministry of Employment and Economy to run from 2009-14 with the possibility of renewal. This is to be achieved by public support for a network of some 60 accelerator firms, which each builds up a portfolio of promising start-up firms that they work with by making equity investments of at least EUR 30 000 in each portfolio firm, helping bring in additional external investors if necessary, and providing hands-on managerial support from experienced entrepreneurs. The public sector selects carefully the accelerator firms that participate in the programme, pays these firms management fees, co-invests with them and has a veto power on the selection of ventures which receive funding under the scheme.

A mid-term evaluation of the programme (Autio et al., 2013) reported positive impacts. First, Vigo portfolio companies have raised more than EUR 100 million since the programme was launched, with approximately one-to-one public-private sector matching – in line with best practice recommendations (Lerner, 2009). Second, experienced accelerator teams have been attracted to the sector, and at least some of these would not have entered the field without the Vigo Programme. Third, the Vigo accelerators have started two new funds, with roughly 50% investment by foreign (i.e. non-Finnish) venture funds.

Factors for success

Important factors for success include: i) careful selection of accelerator managers through competitive calls for applications; this leads to the choice of managers who have previous experience in starting, growing, and internationalising young innovative firms or as investors in young innovative firms; ii) each accelerator is slightly different in the type of investments made, which leaves room for the sharing of good practices and mutual learning.

Obstacles and responses

According to the mid-term evaluation, the biggest challenges for the further development of the programme seem to be to identify which models and practices work best; to codify and disseminate these to all stakeholders in the programme; and to celebrate and advertise evidence of early successes. Careful monitoring and publicity is needed to achieve these goals.

Relevance for Italy

A programme like Vigo can help tackle the problem of a dearth of high-growth enterprises in Italy by addressing an equity gap for intermediate investments that exceed the loan sizes that banks typically provide, but which are also too small to interest venture capitalists. It also offers expert advice and assistance alongside finance, which is tailored to the needs of growth entrepreneurship.

Further information

Autio E. et al. (2013), *The Vigo Programme Mid-Term Evaluation*, Finnish Ministry of the Employment and the Economy, Helsinki.
Vigo programme's webpage: *www.vigo.fi/frontpage*

Innovation support

Despite an emphasis in recent years on cutting the national budget deficit, there has been a growing awareness in Italian business and government circles about the importance of introducing a new research and innovation support framework. Reflecting this consensus, Italy has developed a wide range of innovation programmes since 2009, which seek to play to the country's strengths, including its strong manufacturing and medium-technology industrial base and design creativity as epitomised by the "Made in Italy" brand.

More attention should go to the commercialisation of public research

Italy operates several national government research and innovation funds that help to support public research with commercialisation potential and commercialisation projects in firms. Two of the most significant are the Applied Research Fund, which focuses on applied research in various fields, and the Technological Innovation Fund, for downstream innovation in sectors such as electronics and automotive industries. These funds provide grants, low-interest loans and risk capital to selected innovation proposals submitted by firms. In addition, ministerial funds have been devoted to innovation projects launched by start-ups in the areas of biotechnology, ICT, materials, robotics and energy. These initiatives help to address an important gap. However, they do not go far enough in encouraging spin-off enterprises, the licensing of patents and exploitation of other intellectual property and consultancy and joint research with SMEs.

One of the main supports for spin-off enterprises and exploitation of intellectual property from public research comes from a network of technology transfer offices hosted by universities and public research organisations. Over 90% of Italian universities have access to a local technology transfer office, which had overseen some 873 university spin-offs and 243 patent applications up to 2009. There is nonetheless scope to improve the outcomes of technology transfer offices. One route is to provide incentives to technology transfer offices to hire suitably experienced technology management officers with broad-based commercial skills. This could involve a switch from standard compensation contracts to incentive compensations for technology transfer officers. In addition, the relative compensation from university spin-offs and licensing could be adjusted in order to favour start-ups, which tend to have greater domestic economic impacts.

There are also many technology parks and business incubators connecting companies, venture capitalists, universities and research centres. However, there is still an important potential role for certain complementary measures. For example, a number of universities in the USA run programmes in which business school faculty members train and mentor potential academic entrepreneurs. A national programme could be considered to support this type of activity in Italy. A dedicated seed funding programme for early-stage commercialisation of research could be considered. In addition, support could be considered for the development of co-operative research centres where staff from universities and business enterprises come together to work on applied-research problems and prototype development. Finally, a major national programme could be considered to fund joint research between universities and small collections of related SMEs, along the lines of the Magnet programme in Israel (see Box 5.4).

Box 5.4. **International inspiring practice: Magnet programme, Israel**

Magnet is a large-scale programme to support pre-competitive R&D in Israel. It aims to stimulate cooperation between public research and industry and favour the development of clusters of national significance and international competitiveness. "Magnet" is the acronym (in Hebrew) for "Generic, Pre-Competitive Research".

Description of the approach

The programme was initially launched by the Office of the Chief Scientist (OCS) in 1993 and has been in continuous operation since then. Even though Israel already had a thriving high-tech sector at that time, the programme was introduced in order to respond to two issues:

- The fragmentation of the industrial landscape, with many companies too small to fund the development of new technologies in cutting edge fields.
- The relative isolation of Israel's world-class research universities.

The programme supports the formation of consortia of industrial firms and academic institutions for the development of generic pre-competitive technologies. Grants amount to up to 66% of the budget for industry and 80% of the budget for academia, over a period of 3-5 years. Average funding per consortium is USD 5-6 million. Most consortia are limited to a three year programme, but this can be extended for another three years if deemed sufficiently promising.

Over a period of time, two further parts of the programme have been developed:

- "Magneton" works in the same way as the main programme but on a smaller scale, involving just one company and a programme of academic research. Grants are up to 66% of an approved budget of a maximum of USD 800 000 that can run up to 24 months.
- "Nofar" supports biotechnology and nanotechnology projects in research institutes if they attract industry interest. Grants are up to 90% of an approved budget of a maximum of USD 100 000 for 12-15 months.

All parts of the programme are open to any company, but the grant funding is strictly at the pre-competitive stage, with other funds being available from OCS for commercialisation. The programme operates on a competitive basis; i.e. it is open to any number of proposals for the formation of new consortia, and it selects those with the most merit on the basis of a ranking system.

The programme operates in both a top-down and a bottom-up manner in that some of the consortia projects are based on ideas from academia or industry while others are suggested by Magnet personnel. Once Magnet personnel are convinced that there is enough interest in a new direction they issue calls to join the consortium. Members of a consortium sign an agreement, part of which promises all parties the rights to the intellectual property created by the consortium, and create a legal entity. This legal entity makes an application for funding for three years, including a budget framework.

The project application goes to the Magnet Committee, which decides whether or not to approve funding. The Magnet Committee is comprised of the Chief Scientist, the Chief Scientist's deputy, the head of the Magnet Authority, the OCS chief accountant, a representative of the Finance Ministry and four members of the public with experience in R&D. Its funding decisions take into account an annual work plan and budget recommendation submitted by technical evaluators. Criteria used for the selection of target research areas include: whether the technology is generic and innovative; whether the firms involved are capable of undertaking the project; the advantages to the local economy; and the size of the market. Criteria for the selection of eligible proposals within a target area include: economic benefits to the local economy; level of innovation; level of cooperation between industry and academia; and the degree of contribution of academia to industry.

Box 5.4. **International inspiring practice: Magnet programme, Israel** *(cont.)*

Funded consortia have to submit a joint work plan yearly with milestones and deliverables, and are monitored financially and technically by ministry evaluators. After three years, a consortium can apply for up to three additional years. After the end of the entire research period, the consortium is dissolved, even though some obligations remain in force after the dissolution.

More than 120 companies have participated in projects within more than 40 clusters, with many firms involved in more than one project. Over the last five years, 95% of all the clusters had achieved their intended activities in the foreseen time frame.

Factors for success

Important factors for success include:

- Simplicity of management and a competitive approach. The system of identifying important areas for future pre-commercial research and calling for proposals for joint development of projects, followed by a decision made by a relatively compact authority means that actions can be taken quickly and the whole process is transparent. This also helps in engaging a wider range of companies.
- Emphasis on cooperation. This is one of the key selection criteria and is seen as being the significant added value which the programme brings. The value of cooperation is emphasised in all promotion of the scheme and in its detailed eligibility criteria.

Obstacles and responses

The original focus of Magnet was on supporting new R&D by research consortia, but the OCS felt that certain specific needs were not being fully addressed through this approach. It therefore added the Magneton sub-programme to fund the commercialisation of an existing technology from a research organisation to a single company and the Nofar sub-programme to involve university technology transfer companies at an early stage of commercialisation of nanotechnology and biotechnology – two industries viewed as critically important for the Israeli economy but in which industry had not been able to exploit academic research.

Relevance for Italy

- Research and commercialisation cooperation between universities and industry needs to be strengthened in Italy, and Magnet is a relatively simple way of doing this.
- The programme predominantly involves small companies, whose innovation performance needs to be upgraded in Italy.
- The approach favours research consortia stemming from local clusters of enterprises, which are an important feature of the industrial landscape in Italy.

Sources for further information

ERAWATCH: Platform on Research and Innovation Policies and Systems; *http://erawatch.jrc.ec.europa.eu/erawatch/opencms/information/country_pages/il/supportmeasure/support_mig_0011*
www.magnet.org.il/article.aspx?id=847.

More can be done for intellectual property exploitation

The National Fund for Innovation (NFI) was introduced by the Ministry of Economic Development in December 2009 to support entrepreneurs and SMEs in developing innovations based on the exploitation of intellectual property. The Fund is endowed with EUR 60 million to be used for guarantees to banks to cover their initial losses on business loans for innovative projects based on the use of patents. It also has a closed-end fund of EUR 20 million buttressed with about EUR 21 million of private institutional money, to make venture capital available to companies aiming to exploit their intellectual property rights. It is an imaginative initiative that supports SMEs to value their intellectual property

and use it as collateral for loans and an incentive for equity investments. However, it is focused on patents, whereas only a small minority of entrepreneurs and SMEs ever resort to patents to defend their intellectual property. Consideration should therefore be given to whether the NFI can be expanded to include other, more informal, types of intellectual property protection.

Further national programme measures should also be considered in the area of intellectual property exploitation by SMEs. Notably, SMEs have imperfect information about the costs and benefits of intellectual property protection, which the government could counter by raising awareness among SMEs and entrepreneurs about the value of intellectual property rights and competencies in exploiting them. For instance, information dissemination, education and training programmes could be used to raise awareness about the benefits of "pro-active" usage of intellectual property rights for value creation and the government could collate best industry practices and standards relating to intellectual property protection and distribute them to SMEs through the Internet and chambers of commerce. More comprehensive information could also be provided to SMEs about intellectual property systems in foreign countries, including legal protection mechanisms in order to support Italian SMEs seeking to leverage their intellectual assets through internationalisation. Finally, the government should include the promotion of the creation and protection of intellectual assets in general entrepreneurship education and training programmes, such as higher education courses in science, engineering, design and the creative arts.

Network contracts are a promising policy development

Italy has a long-established tradition of informal collaborations between firms in its local enterprise clusters. However, owing to changes in global supply chains, which have attenuated the traditional advantages of geographical proximity and forced clusters to move up the value chain, it has become widely acknowledged that more needs to be done to promote innovation linkages among Italian SMEs. Accordingly in April 2009, the Italian government introduced into law the new instrument of "network contracts", which provides a legal form and tax credits for innovation collaborations among SMEs.

Network contracts are formal multilateral agreements whereby two or more independent businesses undertake to perform some economic activities in their core line of business consistent with the aims of promoting competitiveness and innovation. By engaging in network contracts, the participant firms become eligible for tax credits, cheaper bank credit and simplified administrative procedures. An agreement, or contract, must be presented in writing and filed with the Register of Enterprises where the participants have their headquarters. Participating firms have considerable leeway in how they write and structure a network contract. However, all participants are required to establish and make contributions to a common fund established for the purpose of achieving their common goal.

The advantages of the instrument are that it can diffuse innovations among the contract participants and mutually increase their innovative capacity and competitiveness, while greater scale through collaboration can enable some SMEs to initiate more ambitious industrial projects. It can also protect supply chains connecting larger firms with SMEs. It is well suited to SMEs that lack the scale to innovate or internationalise on their own but wish to preserve their operational independence.

The number of network contracts has increased rapidly since the measure was first introduced in 2009. At the end of 2013, there were almost 1 000 network contracts involving more than 5 000 firms. These contracts are more common in the regions of the north where there is a longstanding tradition of business co-operation thanks to the historical presence of industrial districts; indeed 61% of the firms involved in network contracts were from Lombardy, Emilia-Romagna, Tuscany or Veneto. Monitoring evidence shows that firms that have joined networks have performed better than a control group of similar firms in several domains (Banca Intesa-San Paolo, 2013), although a direct relation between the policy and the performance of participant firms cannot be established without more rigorous evaluation. "Networked" firms displayed annual turnover growth of 9.6% in 2013 compared to only 4.6% for control group firms. As many as 16.5% of firms in networks owned a trademark and 16.2% had applied for at least one patent, whereas the figures were 8.4% and 7.2% respectively for the control group. Finally, 50% of networked firms were engaged in export activities, as against only 31% of control group firms.

Network contracts are an interesting and promising policy development, although some important questions can be posed. For example, do the benefits flowing from network contracts more than cover the public cost of the scheme? And are network contracts "additional", in the sense of promoting collaborations which would not have taken place without the promise of tax credits? According to a recent study by the Bank of Italy (Bentivogli et al., 2013), network contracts have primarily been signed by larger and profitable growing firms that had pre-existing partnerships or were already embedded in local clusters. The example of RIBES is consistent with this view (see Box 5.5), casting some doubt on the need for tax credits to promote collaboration within network contracts. A rigorous evaluation study of network contracts should be taken to estimate the economic impact of the tax breaks and other costs associated with this instrument, with a view to realizing greater efficiencies in its delivery.

In addition, legal changes to network contracts were made in 2012, which have helped protect the assets of participating firms by making only the network's own fund liable to claims by creditors (Mastellone and Pailli, 2012). While this development has doubtlessly increased the attractiveness of network contracts for potential participants fearing joint liability claims, it might also reduce the willingness of banks to offer finance to firms in network contracts, especially if the joint "network contract" fund is meagre. This suggests a need to monitor banks' lending practices to SMEs involved in network contracts to make sure that the 2012 legal changes do not have adverse impacts on finance availability.

The innovative start-up legislation should reward innovation outputs and non-technological innovation

In acknowledgement of the importance of start-ups for the promotion of growth, employment, innovation and investment in the Italian economy, the Ministry of Economic Development recently established a Task Force charged with identifying the barriers to innovative start-up activity and making recommendations on how to overcome them. The Task Force's report, entitled *Restart, Italia!* (MISE, 2012), led the government to pass new legislation in December 2012 focused on overcoming financial constraints for innovative start-ups.

The legislation authorised tax exemptions to be given to young (less than 4 years old) and small (turnover of no more than EUR 5 million) Italian firms whose core business consists of producing innovative goods and services with a strong technological component. Corporation tax and value added tax is only levied on the *cash flow* of qualifying firms,

Box 5.5. **Network contracts in practice: the case of RIBES**

Network contracts involve voluntary agreements among groups of participating businesses to work together on projects designed to promote innovation and knowledge sharing and enhance SME productivity and value creation, often via internationalisation. They are supported by government tax credits to participating firms. A good example of a network contract in practice is RIBES (i.e. *Rete di Imprese Biomedicali*, Network of Biomedical Enterprises), organised by Esaote, which is one of the world's leading producers of medical diagnostic systems outsourcing about 85% of its production to suppliers. Under RIBES, Esaote collaborates with 14 innovative SMEs from Tuscany, Liguria, Veneto, Lombardy and Campania. These suppliers are an integral part of Esaote's supply chain, but have been adversely affected by the recent economic downturn. Including Esaote, RIBES has a turnover of about EUR 500 million. Other partners in this initiative include Confindustria Firenze (the Tuscan branch of the main Italian Industry Association) and Banca CR Firenze, which is part of the Intensa San Paolo banking group. Esaote benefits from the network contract by protecting its valuable skilled supply chain, which would be threatened by the disappearance of its specialised suppliers. The SMEs benefit by leveraging the scale of Esaote in several ways, including: a common purchasing platform to increase SMEs' bargaining power with their own suppliers; a more favourable credit rating owing to the presence of Esaote in the network; joint certification programmes, shared research facilities and research programmes; and shared infrastructure for technology development. Another advantage enjoyed by RIBES was the direct involvement of Banca CR Firenze at the design phase of the contract, which offered helpful support and advisory services. Another notable feature of this network contract is that it goes beyond the usual intra-district co-operation by including SMEs from several regions and industry sectors.

Sources: Bentivogli et al (2013), "Network contracts", *Occasional Paper* No. 152, Bank of Italy; Ferrari, C. (2010), "The Italian Network Contract", *Columbia Journal of European Law Online*, 16, 77-83; *www.retedimpresa.com/?page_id=188*.

which represents a favourable tax treatment that maximises the liquidity of start-ups in their early, vulnerable years. In addition, qualifying firms are exempt from paying payroll tax on workers they employ, and are eligible for lighter taxation on stock options if they select this type of worker compensation.

The legislation also introduced tax incentives for 2013, 2014 and 2015 for corporate and private investments in innovative start-ups. The tax concessions are greater for start-ups with a social goal or those operating in the energy sector. Some charges for entry in the Commercial Register have also been waived for innovative start-ups as well as exemption from the annual fee (worth about EUR 500 each year); some constraints on statutory obligations in relation to recapitalisation after losses have been eliminated; and flexibility in the classes of shares that can be issued by such companies has been introduced.

Furthermore, the legislation gives start-ups some flexibility by permitting them to hire personnel through fixed term fix-time contracts lasting for between 6 and 36 months. After 36 months, contracts can be extended for another 12 months at the most, beyond which employees have the right to an open-ended contract. This provision of the legislation is intended to give innovative firms greater labour market flexibility, which is often badly needed in their early years. Employees, team members and other contractors of an eligible company can also receive stock options rather than wages, attracting advantageous tax treatment. A new "fail fast" procedure was included in the legislation as well, to enable entrepreneurs to avoid lengthy and costly liquidation procedures and get back into business quickly.

These measures are all intended to increase the attractiveness of innovative start-ups in Italy, and to introduce greater flexibility into their operation, both in terms of employment law and remuneration. An important aspect of the legislation is that it restricts support to "innovative" start-ups. The rationale is that this type of entrepreneurship is more valuable than the more common "imitative" ("me-too") type of entrepreneurship. Under the legislation, a start-up qualifies as "innovative" if any of the following criteria apply: 20% of its costs are related to R&D; at least one-third of its team members hold a PhD, are doctoral researchers or have conducted research for at least three years; or the firm owns a patent or is a patent licensor.

However, these three criteria used for defining eligible firms can be questioned on several grounds. First, they are all input measures of innovation rather than output measures. While these inputs might give some idea of innovative potential, they do not necessarily map into innovative outputs. Second, relatively few start-ups – even innovative ones – can afford to spend appreciable sums on R&D, or to hire people with doctorates. Very few of them ever issue a patent, either. Lacking deep pockets to defend patents, most innovative small firms prefer to conceal their intellectual property informally within the firm, rather than publicising it in the form of a patent. Third, what qualifies as 'innovation expenditure' on which tax exemptions can be given is fairly narrowly defined. In particular, it excludes non-technological service sector innovations, such as marketing and organisational innovations. This places many service sector firms at a disadvantage to manufacturing firms.

In order to increase the impact of the scheme, the criteria for eligibility should be adjusted to focus on defining measures of actual innovation outputs rather than merely the use of innovation inputs, and to extend support to other innovative firms that do not meet the strict, technology-based criteria currently in place. The change would involve removing upfront tax benefits for innovation inputs and replacing them with tax benefits for established innovation outputs. The disadvantaged is that this will hit cash-strapped new ventures at the time when they are most short of finance, but the advantage would consist in incentivising innovative outcomes rather than intentions (which may never be realised as outcomes). Furthermore, a broader range of innovations could be encouraged by a system based on output criteria – including service innovations and 'garage start-ups' in the digital sector. To operationalise this approach, for instance, a panel of independent experts could assess a wide, but carefully specified, range of admissible innovative outcomes after those outcomes were demonstrated. An alternative, and no doubt administratively less disruptive, option could be to add a fourth criterion to the three existing ones, for example by recognising service sector innovations as well. Another possibility is to subsidise consultancy for service innovations rather than further extending the range of tax exemptions for such companies.

SME aggregation and technology upgrading are being encouraged in the renewable energies sector

Because Italy is a country that strongly depends on energy imports, the promotion of renewable energies has become an attractive avenue to the reduction of energy dependence and energy costs. The government has therefore committed to the target of generating 17% of its energy from renewable sources by 2020, in line with the European Climate and Energy Package. In 2011, 11.5% of energy consumption already stemmed from renewable sources, above the agreed target of 8.6% for that year. The achievement of the EU 2020 target has

required the creation of an adequate institutional framework that is of support to Italy's renewable energy sector. The management of this support framework has been granted to a special authority called the Management Authority for Energy Services (*Gestore dei Servizi Energetici*), which runs, among other things, an interesting initiative called *Corrente* favouring business aggregation, market internationalisation and technology upgrading in the Italian renewable energy sector (Box 5.6).

Box 5.6. **Italian good practice: The Management Authority of Energy Services and its *Corrente* project**

In 2010, the Management Authority for Energy Services and the Ministry of Economic Development launched a project called *Corrente* (an Italian word for electricity), which aims to develop renewable energies and energy efficiency by stimulating collaboration and aggregation among firms in the sector, supporting co-operation between firms and universities, and providing visibility at both national and international level to the whole sector supply chain. The main goal of *Corrente* is to help SMEs that lack critical mass and are adversely affected by information asymmetries to access investment opportunities in the area of renewable energies and energy efficiency through the provision of information, specialised knowledge, and different forms of business aggregation including network contracts.

The project today has nearly 2 000 member companies, most of which are of small size but which also include some of the major players in the national supply chain of renewable energies and energy efficiency. It offers a wide range of services to its members: a website supplies relevant information in the form of field studies, product research, and publication of news; information days are organised with a focus on existing financing opportunities from development banks and other sources; administrative support is given to member companies participating in EU calls for tender; working groups are formed among SMEs interested in the same foreign market; assistance is provided in finding technological and commercial partners abroad; and member firms' technologies are advertised abroad, for example through a catalogue of Italian technologies promoting national excellence in the sector.

Most activities are in collaboration with other government and non-government bodies such as the Ministry of Economic Development, the Ministry of Foreign Affairs, the Italian Trade Agency (ICE), the network of Italian Chambers of Commerce Abroad (CCIEs), and business associations (e.g. Confindustria). Since its establishment, the *Corrente* project has organised over 2 000 bilateral business-to-business meetings, 80 dedicated events, and 25 international missions. In 2013, for example, two big events were organised in New Delhi and Dubai, together with ICE, to offer dedicated support to member companies which were part of the country working groups and were interested in entering into the Indian and Emirates markets.

Source: OECD.

Internationalisation support

Comprehensive support is offered for SME exporting

Given limited economic growth in Italy over the last decade, there has been growing interest in encouraging domestic firms to improve their export performance. Stronger exports hold out the promise of enabling Italian firms to grow against a backdrop of stagnant domestic demand and to keep up with foreign rivals that might otherwise capture

market share, including by realising economies of scale and benefiting from specialisation. However, there are some important challenges for small firms to take the first steps towards penetrating new foreign markets or to diversify their export markets. Public policy can make a difference by helping to address the barriers that these firms face including financial costs and lack of access to credit, missing or imperfect market knowledge and language skills, insufficient resources and expertise to carry out market research in the target country and identify adequate business partners, and technical communication problems.

The Italian government has put in place a comprehensive range of fairly conventional tools for export promotion involving several agencies and delivery actors. A major player is the Italian Foreign Trade Institute (the *Istituto Commercio Estero* – ICE), which promotes the internationalisation of Italian companies via exporting and direct investment as well as Italy as a destination for foreign investment. Its three main roles are to organise promotional events, provide customised information and tailored trade support such as training, and co-ordinate a range of suppliers of business advice, coaching and matchmaking services for exporting. Its most basic services (e.g. foreign market guidelines) are offered free of charge, while tailored products (e.g. market surveys, matchmaking with foreign companies, etc.) are charged at a non-market price.

With regard to promotional events, ICE receives funding from national government and regional authorities to organise collective events such as trade missions, trade shows, forums, seminars and exhibitions. In 2012, 8 000 companies were assisted in these areas. A customer satisfaction survey showed an average score of 4.33 out of 5 among the entrepreneurs that used the services. The second stream of work concerns tailored support to companies and intermediary agencies in Italy and abroad. For this, ICE draws on a network of 79 branch offices in 65 countries around the world. In 2012, ICE trained 1 300 managers and practitioners on foreign trade and foreign investment issues and issued about 10 000 news releases. This allows small firms which would not have otherwise such an opportunity to be exposed to international markets (Saladini, 2013). ICE exercises its co-ordination role through the National Control Room for Enterprise Internationalisation (*Cabina di regia per l'internazionalizzazione*). This is a government body chaired by the Minister of Economic Development and the Minister of Foreign Affairs, which is charged with co-ordinating the adoption of the national guidelines for business internationalisation.

The Ministry of Economic Development (MISE) also has an important role to play. Alongside some soft loans, its major export promotion tool is the provision of grants to SMEs that form 'internationalisation consortia', i.e. voluntary alliances of firms whose objective is to enhance their export performance through joint actions. SMEs that have signed network contracts are also eligible. The internationalisation grants are worth around EUR 2-3 million per annum and are received by over 1 600 companies in 110 consortia. The funds are mainly used to finance workshops, visits abroad, and advertising. According to the MISE guidelines, internationalisation consortia must comprise a minimum of eight SMEs (five for consortia operating in Southern Italy and four for consortia of craft companies). Grants are made annually and based on expenses incurred in the previous year. Up to 40% of annual promotional expenses (60% for export consortia based in Southern Italy) are eligible for funding in this way. The Italian Federation of Internationalisation Consortia (Federexport) represents the 110 consortia and provides tax and legal advice, and arranges its own trade delegations, conferences and market surveys. Federexport has also negotiated

credit lines with major banks to finance export efforts of its members to Central Europe, Mediterranean countries and Latin America.

The approach of providing internationalisation grants to consortia rather than to individual SMEs holds the promise of a leverage effect, whereby the benefits of financing are spread over several firms and lasting synergies can be created among them. The aggregation of micro- and small-sized in networks and collaborations can be important to enabling them to develop the scale needed to internationalise and compete overseas, and works along the same lines as the "Network Contracts, which can also support internationalisation projects. Ideally, the recipients of these grants are motivated by a desire to genuinely improve inter-firm cooperation rather than simply seeking a subsidy. However, there is a paucity of evidence about the effectiveness of these grant disbursements in generating additional activities and creating lasting partnerships. This should be addressed through a dedicated programme evaluation. The initiative is also currently small in size, and only modest sums of assistance are made available. An evaluation might provide evidence to justify the up-scaling of the support.

Box 5.7 provides the example of another approach to supporting networking, namely the business-to-business matchmaking offered by an Italian entrepreneurs association called the *Compagnia delle Opere* for the purposes of assisting small firms to increase their sales nationally and abroad. This type of initiative could be relevant for other countries.

Two other important actors in export support for SMEs are the *Servizi Assicurativi del Commercio Estero* (SACE), which mainly provides export-related insurance services, and the *Società Italiana per le Imprese all'Estero* (SIMEST), which is charged more generally with supporting Italian firms that operate in foreign markets. They are both owned by the *Cassa Depositi e Prestiti* (CDP), a joint private-public stock company owned by the Ministry of Finance and Italian banking foundations. The mission of SACE is to support the internationalisation of the Italian economy by providing domestic and foreign enterprises with insurance, reinsurance and guarantee services against a wide range of risks (political, catastrophic, economic, commercial, and exchange rate) to which businesses are directly or indirectly exposed via their export activities. SIMEST finances pre-feasibility and feasibility studies, technical assistance, and programmes helping SMEs to break into foreign markets. It also provides 'interest rate support' to Italian companies internationalising outside the EU. Specifically, it works with banks to reduce the interest rates paid by Italian firms seeking to finance equity stakes in non-EU foreign companies in which the agency itself also invests. Finally, SIMEST can make limited-term cash infusions by purchasing minority stakes in export-based companies with the aim of increasing the international presence of Italian firms (157 firms are currently in the SIMEST portfolio) and by acquiring shares in foreign companies for a maximum value of 49% of their capital stock.

The Italian chambers of commerce also provide support for SME export promotion, particularly through the network of Italian chambers of commerce abroad (*Camere di Commercio Italiane all'Estero* – CCIEs). CCIEs work in close collaboration with Italian embassies and have an annual plan that is approved by the Ministry of Economic Development and is aligned with the government business internationalisation plan. In 2013, CCIEs organised approximately 2 000 initiatives, mainly business missions and business-to-business meetings aimed at the launch of partnerships and collaborations between Italian firms and foreign partners. These initiatives led to 300 000 business contacts involving over 70 000 firms. What is perhaps most interesting about CCIEs is that they are in large part private-sector-funded; only 15% of their annual budget (approximately EUR 50 million) is

Box 5.7. **Italian good practice: Business-to-business matchmaking**

Matching is an innovative business-to-business (B2B) initiative, which is organised annually by the *Compagnia delle Opere* (CDO), an Italian entrepreneurial association with over 34 000 corporate members, mostly small firms, and supported by the Ministry of Economic Development, the national Association of Chambers of Commerce, and the Lombardy regional government. Its main purpose is to foster the creation of networks of firms, with particular emphasis on the utilisation of network contracts and collaboration between SMEs and large firms.

The cornerstone of *Matching* is a national 3-day event held in Milan every year involving on average over 2 000 firms, institutions and supporting bodies, and generating over 50 000 B2B appointments. During this national event, over 100 thematic workshops take place, supported by a network of experts in a variety of fields (exporting, innovation, etc.). The event has two critical success factors. First, there is an online matching mechanism which allows participants to develop an agenda of pre-matched B2B appointments before the event. Local CDO advisors regularly incentivise firms to prepare their online virtual showrooms, scan the list of other participants and send appointment requests. Second, all local advisors meet regularly during the preparation period and actively filter the agenda, cross-checking each participant's list of appointments to increase its potential effectiveness and offering suggestions for additional synergies. An analysis of the 2011 edition suggests that firms conducted an average of 41 business meetings during the three days, out of which around 11 were judged as useful and 4 led very quickly to new commercial or partnership exchanges (Giudici, 2013).

The national event is complemented by a network of smaller replica events organised by the 40 CDO local branches. These local events typically involve between 150 and 300 participants and aim to facilitate continuous interactions among participants during the year. Building on a network of foreign branches in 17 countries, CDO has also started to organise mini-Matching events based on the same formula in countries such as Brazil, China, Qatar, Russia, and Spain, with the objective of supporting the internationalisation of its SME members.

Source: www.e-matching.it.

financed by the government through the Ministry of Economic Development, while the bulk of funding comes from fees applied to their services and other private sources such as sponsorships.

In February 2013, the Union of Chambers of Commerce and the Ministry of Economic Development introduced a new initiative to create one-stop shops for internationalisation in the form of the "World Pass" network. This should help the smallest SMEs to obtain information about opportunities in foreign markets, international legislation, import-export regulations and export insurance services. World Pass offices will be hosted at the 105 chambers of commerce across the country and will be the entry point into the export support system for firms at local level. They have been budgeted with EUR 10 million and will build on existing "foreign market offices" at local chambers of commerce. In addition to providing information and advice, the chambers of commerce could do more to showcase and spread the experience of successful exporters through seminars and on-site visits.

At the strategic level, the Italian government has launched a new National Export Plan for the period 2013-15, which sets out the actions that it intends to promote in this area. The Plan calls for the consolidation and enhancement of public resources for trade promotion

(including trade fairs, missions and workshops), tax incentives for the recruitment of skilled and experienced export staff (e.g. export managers and e-commerce managers) and for the cover of entertainment expenses abroad, the diffusion of e-commerce, strengthening of the financial instruments offered by SACE and SIMEST, increased efforts to protect trademarks and tackle counterfeiting, the creation of a new Export Bank, and support to encourage greater exporting by firms in Southern Italy and in strategic high-tech sectors. The Plan also proposes more coordination among the different actors and measures to make government programmes more accessible and understandable to SME managers and entrepreneurs.

The increased co-ordination that the National Export Plan intends to bring is important because at present there are numerous poorly co-ordinated interventions for exporting and a fragmented system of support that is potentially confusing for the user firms. In response, a comprehensive review of all the export support measures which are currently in place should be undertaken and used to inform a process of prioritisation and co-ordination of actions. The review should include an assessment of the awareness and take-up of each initiative among SMEs, the effectiveness of each measure and the areas of overlap. Once a streamlined policy set is agreed upon, it needs to be better publicised, implemented and embedded in a stable, consistent way for several years to come, in order to maximise the chances of successful implementation as well as of recognition and take-up by the businesses targeted by the intervention.

SME export programme budgets should be protected and SME networks for exporting should be encouraged

The various interventions in place and the new actions proposed in the National Export Plan represent a comprehensive set of support for SME exporting. However, two key issues should be addressed in the future. First, in several cases the budgeted resources do not seem to match the announced ambitions. For example, ICE's budget was more than halved in 2012, from an annual average of EUR 80 million in the period 2008-10 to EUR 30 million in 2012, although it continues to operate a wide range of services. Other programmes, such as the internationalisation grants, have nearly symbolic budget outlays. Second, what seems to be missing is a more aggressive focus on emerging markets, and a link between the fiscal instruments that promote business agglomeration (internationalisation consortia and network contracts) and the network of chambers of commerce abroad. An initiative similar to Germany's Company Pool programme could help in bridging this gap (see Box 5.8). Company Pools combine the principles of aggregating several SMEs to obtain critical mass with that of coordinated support programmes both at home and in foreign countries where the internationalisation takes place. A pilot project of this kind could be introduced in Italy, hosted for example by Italy's CCIEs and prioritising the emerging markets that are of greatest strategic importance to Italy.

Another possible avenue for government to engage small firms in internationalisation could involve encouraging prominent Italian banks to use their knowledge of foreign markets as well as their cross-border branch networks to assist suitable SMEs with promising export opportunities. An example could be the provision of free or low-cost consultancy and advice to help them identify and exploit export opportunities.

These programmes could be buttressed by infrastructure programmes to improve e-commerce. In 2011, only 4% of Italian SMEs sold online, compared to an average of 13% in the EU27; and only 17% of Italian SMEs used the Internet for purchasing activities as

Box 5.8. **International inspiring practice: Germany's IHK Company Pool Programme**

Description of the approach

The Company Pool Programme ("*IHK-Firmenpools*") offers valuable and cost-effective coaching, market intelligence and deal brokering support to groups of SMEs aiming to export to selected target countries through local Chambers of Commerce and Industry (IHKs) in Germany. There are currently 31 company pools operated by various local chambers. Each of the company pools focuses on market entry in a particular country or set of countries. The first company pool, "IHK-Firmenpool Ukraine", was established in 1994 and has served as a model for those established subsequently. The pools mostly target emerging economies in Asia, Eastern Europe, the Middle East, Northern and Southern Africa, and South America.

A company pool usually consists of up to 15 German SMEs that normally do not directly compete against each other (e.g. they often work in different economic sectors) and that intend to enter the same target market. The companies benefit from comprehensive services provided by a joint representative office in the host country. This office is managed by an experienced business expert, appointed by the chamber of commerce. The standard service package includes preparatory and accompanying services in Germany, such as assistance in developing a strategy for market entry and the organisation of regular meetings of all participating SMEs in order to exchange information and experiences. In the host country, the representative office professionally handles business correspondence and translations, and carries out information and market research on behalf of the SMEs. The business expert also selects and initiates contacts with potential business partners and holds preparatory negotiations on behalf of the German pool companies. The expert also prepares SMEs' participation in fairs, accompanies their business trips to the target country and reports regularly on current economic and political developments in the host country.

Factors for success

Important factors for success include:

- Permanent accessibility and presence in the target country
- Use of an already existing business network in the target country
- Staff of representative offices having a special sense for the market and the business mentality of the target country
- Synergies through co-operation and exchange of experiences with other company pool members.

Obstacles and responses

Costs for joining an IHK-Company Pool vary according to the specific target country and the scope of services used, but they normally range between EUR 5 000 and EUR15 000 per annum. This can be a large sum of money for the smallest companies. To address this problem, the foreign trade support programmes of several German Federal States offer financial assistance to cover part of the costs. Partly reflecting this, participants in company pools are usually slightly larger SME manufacturing firms which are "new entrants" to the target country. SMEs usually participate for two or three years in the company pool, i.e. until they are able to cope on their own and continue their business activities independently. The success of the measure can be illustrated by the fact that for example in the case of the Company Pool focused on Ukraine, approximately 80% of former participants maintained (independent) business relations with Ukraine after leaving the company pool.

Other obstacles to the success of Company Pools include the costs of setting up the program if a large scale intervention is contemplated; potential duplication of some existing functions performed by ICE and other government agencies in Italy (though this problem could be reduced by careful integration of the policy in relation to the existing policy set); and the need to monitor closely the effectiveness and sustainability of the program coupled with the political will to encourage the state to withdraw once Company Pools become self-sustaining.

Box 5.8. **International inspiring practice: Germany's IHK Company Pool Programme** *(Cont.)*

Relevance for Italy

The programme has relevance to Italy in the following areas:

- Like German SMEs, Italian firms have achieved impressive export performance, based on a strategy of competing on quality rather than price; and the concept of aggregating across SMEs is a familiar one to Italian firms. Provided the policy is implemented on a sufficiently large scale, it can be expected to record similar success to that witnessed in Germany.
- A major advantage of the Company Pool framework is that it brings together private and public bodies which co-operate to provide support for internationalization efforts. This could be attractive to Italy where there is a need for greater co-ordination among the multiple actors in the export support system.
- The Company Pool system offers training and specialized advice that participants largely pay for themselves. This limits the cost of the program, which is another attractive feature for the Italian government in times of budgetary discipline, though it probably rules out the participation of the most cash-flow-constrained SMEs and entrepreneurs.
- Assistance provided by the program is intended to be temporary, equipping SMEs with the contacts, skills and knowledge they need to succeed independently in international business. This further reduces the budgetary cost of the Company Pool instrument.

Source of further information

OECD and *http://www.dihk.de/en/segments/international*.

opposed to 28% of their peers in the EU27 (European Commission, 2012a). The response could include infrastructure measures to improve broadband connectivity, and awareness-raising and training of Italian SMEs on e-commerce and online sales. For example, many Italian SMEs lag best practice in terms of developing internationally appealing websites which enable foreign as well as domestic customers to purchase goods online.

Entrepreneurship education

An entrepreneurial culture fosters people's ability to identify, activate and realise opportunities as business starters, employees who contribute to SME innovation, and in other areas of life. Entrepreneurship teaching and support across all levels of education has a key role to play in providing young people with entrepreneurial mind sets, skills and knowledge.

The role of entrepreneurship education has not yet been fully recognised

Policy in Italy has not yet fully recognised the importance of a comprehensive entrepreneurship education system for national growth and innovation. For example, in a recent survey, only 40% of young people reported that their school education had helped them to develop an entrepreneurial attitude compared to an EU27 average of 53% (which was the second lowest rate in the EU27), and only 17% of Italians reported that they had taken part in a course or activity about entrepreneurship compared to an EU27 average of 23% (European Commission, 2012b). Furthermore, only 26% of young people felt that school had made them interested in becoming an entrepreneur compared to an EU average of 28% (Table 5.1).

Table 5.1. **School education aroused an interest in becoming an entrepreneur, percentage of adult respondents who totally agree, EU27, 2012**

Country	%	Country	%
Portugal	65	Belgium	30
Romania	59	Sweden	30
Bulgaria	43	Slovenia	29
Lithuania	38	Greece	28
Luxembourg	37	Austria	28
Latvia	37	EU27	28
Finland	35	Czech Republic	28
Cyprus	34	Ireland	27
Spain	34	Italy	26
Hungary	33	France	16
Poland	33	Estonia	22
Slovakia	32	Netherlands	21
Malta	31	Germany	17
Denmark	30	UK	17

Source: European Commission (2012b), *Entrepreneurship in the EU and Beyond*, Flash Eurobarometer n. 354, Brussels.

StatLink http://dx.doi.org/10.1787/888933147731

As in many other countries, the Italian way of entrepreneurship teaching still tends to reward passive learning instead of creativity and (short-term) memorisation of facts instead of (long-term) skills for problem solving. While dynamic and committed teachers are critical to the success of entrepreneurship education in schools, one-half of the teaching staff is over 50 years old and often not familiar with teaching contents related to entrepreneurship. Links to the business world, such as visits by entrepreneurs to schools, are also underdeveloped. Italy has not yet formalised objectives for entrepreneurship education in a national strategy; neither has it developed specific implementation guidelines, although entrepreneurship education is recognised as a cross-curricular objective in education across all of Europe (EACEA/Eurydice, 2012).

An important decision has nonetheless been made to incorporate entrepreneurship education into the national vocational training curriculum, and this has played an important role in anchoring entrepreneurship education in technical and vocational training. However, in contrast to most other EU countries, the Italian government has not yet integrated entrepreneurship education in the curricula of general secondary education institutions, and although some universities have introduced their own programmes, entrepreneurship education is still not widespread at tertiary level. As a result, young people largely receive entrepreneurship education through ad-hoc initiatives. For example, the *Impresa Formativa Simulata* (Training Firm Network) initiative promotes learning-by-doing through virtual firms in a simulated laboratory situation. It is implemented by the National Agency for the Development of School Autonomy on behalf of the Ministry of University Education and Research. The Ministry also runs the *Alternanza Scuola Lavoro* initiative, which supports schools in alternating classroom activities with different forms of work activities in enterprises. The programme has reached significant scale, with a total of 2 365 schools and 189 457 students participating in the school year 2011/12.

In addition, the Italian branch of the non-profit organisation Junior Achievement offers its well-known mini-company scheme (*Impresa in Azione*) in Italy as well as several other entrepreneurship projects for young people between 6 and 19 years of age. In addition, the national chambers of commerce organisation, *Unioncamere,* runs an annual "School, Creativity

and Innovation" competition, discussed in Box 5.9, and has created an online and physical network called Polaris with helpdesks at 84 local chambers of commerce to provide support and advice to young entrepreneurs. These are promising initiatives, but their outreach is limited and mainly focused on primary and secondary education. A more comprehensive approach from the Italian government to entrepreneurship education at all levels could do much to promote entrepreneurship skills and attitudes among young people.

Box 5.9. **Italian good practice: *Unioncamere*'s 'School, Creativity and Innovation' Award**

The Association of Italian Chambers of Commerce (*Unioncamere*) runs an annual award competition called "School, Creativity and Innovation", which aims to promote creativity, innovation and group work among young people and their schools. The prize is awarded in three different sections, i.e. for the development of innovative new products, new services or new patterns of design. All submitted projects must refer to one of three thematic topics (currently: energy and environment; cultural goods; and health and safety). Participating groups of at least three students are coached by one teacher and are strongly encouraged to co-operate and exchange ideas with regional enterprises, universities or business chambers in order to experience the benefits which arise when people from different backgrounds come together and create something new. The online "Innovation Social Club" also fosters cooperation and exchange between the participating groups. The competition is held in three stages. First, groups develop a 3-minute elevator pitch video. The best 50 groups are then invited to create a 5-minute video which presents the newly invented product/service/design to a potential investor. A high-ranking jury from business, universities, R&D and ministries accompanies the competition and selects the 20 winners to whom prize monies between 2 500 and 7 000 EUR are awarded. In the most recent edition, 2 150 students (43% females) were coached by 400 tutors and submitted a total of 320 innovative projects.

Source: www.premioscuola.unioncamere.it

In order to introduce a more comprehensive approach to entrepreneurship education in Italy, a firm government commitment should be made to entrepreneurship at all levels of formal education (schools, vocational training, and higher education). This commitment should be made in the form of a clear strategy, which sets out objectives, indicators, incentives and rewards for institutions and teachers as well as an investment in the infrastructure and skills required at education institutions. The strategy could include a mechanism for knowledge exchange between educational establishments, online portals to provide information on all relevant support measures, and a facility to gather, store and disseminate teaching resources. To ensure close collaboration of all relevant policy actors and to start the strategy work, a permanent working group on entrepreneurship education should be established involving representatives from government ministries, schools, teachers, teacher training institutions, business associations, etc.

The national strategy should be accompanied by an action plan, detailing specific initiatives and actors involved in the practical implementation of these initiatives. Actions required relate to the development of teaching material, training of teachers in entrepreneurship pedagogy and start-up support activities, adapting curricula and, particularly relevant for universities, involving external stakeholders (alumni, entrepreneurs) in teaching. An initial step could involve awareness-raising activities (e.g. information buses visiting the region's schools and colleges).

In order to ease implementation of support policies, schools, vocational training colleges and universities should nominate an entrepreneurship champion, who acts as focal point for all external contacts regarding entrepreneurship and relationships with the business sector and who promotes and co-ordinates entrepreneurship initiatives within the educational establishment. Training of teachers in teaching entrepreneurship should also be incorporated in the training programmes of prospective teachers, as in Finland (see Box 5.10), while already active teachers could be offered training courses on the basis of blended learning. Those teachers who invest much time and energy into providing their students with entrepreneurial skills and knowledge (often in addition to their regular teaching obligations) should be given special signs of recognition in the form of financial or immaterial benefits (e.g. prioritised promotion, certificates, and awards).

Box 5.10. **International inspiring practice: Virtual learning for entrepreneurship education teachers, Finland**

The virtual learning environment (YVI) initiative supports the training of teachers in offering entrepreneurship education based on collecting and developing a central source of teaching and learning materials through a comprehensive public-private partnership and making them available to a large number of educators and teachers in schools and vocational training institutions.

Description of the approach

The attitudes of the Finnish population towards entrepreneurship have become more positive over the years, encouraged by long-term systematic actions to foster entrepreneurship education. The Ministry of Education publishes a five-year development plan for education and research and guidelines for entrepreneurship education, and entrepreneurship education is explicitly recognised as a compulsory cross-curricular theme in the national core curriculum. From the beginning, training teachers in entrepreneurship education methods was regarded as critical to success. The YVI initiative was therefore developed as a nationwide project led by the Teacher Training School of Turku University and involving thirty different partner institutions, including universities, teacher training schools, vocational schools, research institutes as well as business associations and national and regional authorities. The project has been funded by the European Social Fund, with co-financing from the Finnish National Board of Education and several other Finnish institutions.

The objective of YVI is to support the integration of entrepreneurship education into Finnish teacher training for primary, secondary and vocational schools. To achieve this, YVI has created a central virtual learning environment for entrepreneurship teachers. The online platform provides practical tools and models for entrepreneurship education as well as learning materials to be used in different levels of education. An interactive tool, the YVI-engine involves students in the collaborative generation of ideas. Additional features are an online blog and discussion forum for everyone interested in developing entrepreneurship education, practical examples of innovative networks in entrepreneurship education and a news and events section. For businesses, instructions are provided on how to start cooperation with educational institutions. YVI also designs strategies and curricula for entrepreneurship education, develops pedagogy for entrepreneurship education and strengthens network cooperation in entrepreneurship education. Proactive communication and marketing activities include newsletters, articles and presentation of the site in seminars, conferences and training events.

In mid-2013, approximately 16 000 teachers were using the tool out of a total of approximately 75 000.

Factors for success

The YVI-site has been created, developed and tested by the large network of YVI-partners, and based on initial research on teacher perceptions and wishes. The combination of expert knowledge and experiences from various educational, business and academic perspectives was decisive to ensure a high quality,

Box 5.10. **International inspiring practice: Virtual learning for entrepreneurship education teachers, Finland** *(cont.)*

usability and usage of the site. It also proved to be very useful in terms of marketing, financing and technical maintenance of the project. Discussions and cooperation within a large network also helped to reach a more thorough overall understanding of entrepreneurship education and its implementation.

ESF-financing for the YVI-project will end in January 2014, but development and maintenance of the site continue within the network created during the project. New parties are invited and welcome to join. The purpose is to continue as a relatively open network into which everyone can bring in their expertise and interests. YVI is also interested in supporting the development of similar platforms in other EU-countries.

Obstacles and responses

Entrepreneurship education is compulsory for all school types in Finland but is not taught as a separate school subject. Instead, all teachers are asked to offer entrepreneurship education as part of their general teaching. This individualistic approach led to the problem of a lack of central teaching and learning materials that teachers can access. In response, YVI needed to produce some new material of its own as well as to collect existing material.

It was also challenging to take into account the interests of all parties involved when developing a national site that could serve everyone's needs in entrepreneurship education. It was therefore decided that a certain policy of openness should be adopted and the site was made public from its first phases of development – even with an unfinished structure and few contents. The developers had to explain the unfinished nature of the site on many occasions, but participation in its creation helped to maximise its usefulness to users.

Relevance for Italy

The YVI-platform demonstrates a low cost and extensive approach to upgrading teacher competencies in entrepreneurship education that could accompany the introduction of a national strategy for entrepreneurship education in Italy.

Further information

YVI Project "Developing entrepreneurship education in Finnish teacher education" website: *http://www.yvi.fi/intro-English* and *http://www.yvi.fi/images/YVI_results_2010-14.pdf*

Entrepreneurship education should also stress contacts with the business world. Efforts should be made to encourage companies, including SMEs, to become more involved in entrepreneurship education activities in schools and colleges and in offering placements and work experience. By demonstrating how learning contents from school lessons can be applied to business and production activities and by highlighting the large variety of interesting (and often unknown) professions, companies can assist young people in making better and more targeted education and job choices.

With respect to higher education in particular, the OECD and the European Commission have developed a guiding framework for the entrepreneurial university, which can be consulted at *www.heinnovate.eu*, which offers information on good practices on entrepreneurship support, implementation notes, model action plans and case studies of entrepreneurial universities. Italian university stakeholders could consult this tool in order to gain inspiration on potential improvements. Aalto University in Finland offers one such good practice example stressing a coordinated and comprehensive approach, covering different aspects of entrepreneurship education, support and organizational structures required for an entrepreneurial university (Box 5.11).

Box 5.11. **International inspiring practice: Aalto, Finland – an entrepreneurial university in the making**

Aalto University was established through the merger of three universities (Helsinki University of Technology, Helsinki School of Economics and Helsinki University of Arts and Design) in 2010. From its inception the goal was to develop a new "innovation university", which included promoting a new entrepreneurial spirit and entrepreneurship activities within the university. The idea for the merger was first introduced by a former rector, Mr Yrjö Sotarauta of the Helsinki University of Arts and Design in 2005, and the idea was supported by both Government and industry.

Activities

While entrepreneurship is supported throughout Aalto University, a number of specific structures and programmes were created to facilitate the development of entrepreneurship activities:

- The Aalto Centre for Entrepreneurship (ACE) aims to create new businesses from university research and "work as a catalyst for elevating high ambition entrepreneurship from Finland and throughout the Baltic region". It offers innovation, commercialisation, and start-up services for Aalto University researchers, students and other stakeholders. ACE also co-ordinates Aalto's activities related to technology transfer, intellectual property rights, start-up firms and teaching and research of growth entrepreneurship.
- The Aalto Ventures Programme (AVP) offers education on business ventures and conducts research on growth entrepreneurship. It is situated in the Department of Industrial Engineering and Management at Aalto University School of Science and works collaboratively with other departments and schools, the ACE, and the Aalto Entrepreneurship Society. The programme drives high-growth entrepreneurship in the curricula, including graduate level programmes, and supports faculty development. It is also involved in offering a wide variety of extracurricular activities in collaboration with Aaltoes.
- Aaltoes (Aalto Entrepreneurship Society) is a society for entrepreneurship-minded students interested in learning about and promoting entrepreneurship. It was established in 2009 by a student who was inspired by a visit to MIT and its creation was instrumental in launching the new university. Aaltoes "encourages high-tech, high-growth, scalable entrepreneurship and builds a leading start-up ecosystem in Finland and Northern Europe". The society's goal is that "Finland will be the start-up hub of Europe and Russia by 2017". It organises approximately 50 events annually, including the Summer of Startups (an accelerator programme for early stage business ideas), Aaltoes Build It (48- hour business creation events), Startup Crawls (visits and trips to local start-ups), pitching sessions and networking and matchmaking events.
- Startup Sauna One was originally developed by Aaltoes but is now run by its own foundation. It offers internships for aspiring entrepreneurs to work at high-growth companies in Helsinki and Silicon Valley (United States), and an accelerator programme for early-stage start-ups from Northern Europe and Russia. Companies in the accelerator receive one month of intensive coaching from experienced serial entrepreneurs and investors in Helsinki, and the "Slush conference", which brings together the early-stage start-up ecosystem in the region to meet top-tier venture capitalists and media from around the world.

Resources

ACE, AVP and entrepreneurship teaching are all funded by Aalto University. ACE currently operates with approximately 12 experts working in the areas of technology transfer, innovation and start-up services. Aaltoes is a student-run association and largely relies on the unpaid work of the students. However, it receives some financial support from event sponsors, as well as some funding from Aalto University, the Federation of Finnish Technology Industries, the Tekes (the Finnish government funding agency for technology and innovation), and other foundations. Startup Sauna is run by its own foundation and funded by Aalto University, the Federation of Finnish Technology Industries, Sitra (the Finnish Innovation Fund) and Tekes among others. Each programme requires between EUR 150 000 and EUR 200 000.

Box 5.11. **International inspiring practice: Aalto, Finland – an entrepreneurial university in the making** *(cont.)*

Results

10 companies were started by Aalto faculty members and students in 2012 and the ACE made 215 invention disclosures and transferred 14 innovations to 4 companies. Aaltoes held 45 events in 2011, involving more than 9 000 participants. The Startup Sauna internship programme has placed more than 60 interns in companies. Some 90 companies have graduated from the Startup Sauna accelerator programme and raised more than USD 25 million of funding. The Slush Conference has also proven to be successful. In 2012, it gathered more than 3 500 attendees, 550 companies and 250 investors and journalists for two days in Helsinki.

Success factors

The combined effort of the university, the student community and experienced partners has been behind the success of Aalto's entrepreneurship activities. Student associations have traditionally played a central role in Finnish universities and it was critical to harness their support for entrepreneurship. It was also important to connect the Aalto entrepreneurship activities to a network of experienced, serial entrepreneurs and investors who mentor and assist start-ups. There are more than 100 mentors available to students at Aalto, which sets the university apart from other university programmes. Comprehensive support for entrepreneurship throughout the university has also been an important factor in reaching a high number of students and staff and in building linkages with the community.

Challenges

There are a number of on-going challenges for entrepreneurship support at Aalto. First, although Aalto University receives significant financial support, the ecosystem is still heavily based on voluntary, unpaid work of the students. It is not clear if this is sustainable, particularly with the increasing pressure on universities to shorten graduation times. Universities will be rewarded for students who complete at least 55 ECTS annually and this will be difficult for students who are heavily involved in extra-curricular activities. A second challenge is coordinating all of the entrepreneurship structures and activities, particularly since each university had different organisations and activities prior to the merger that created Aalto University.

Source: OECD (2013e), *Stimulating Entrepreneurial Mind-sets and Behaviours in East German Higher Education: State of Play and Inspiring Practices*, *http://www.oecd.org/site/cfecpr/OECD_Booklet_EN-Web.pdf*.

More generally, recent research clearly demonstrates the importance of role models for encouraging entrepreneurial venturing as well as the influence of cultural responses to failure, specifically the risk of social stigma ascribed to business failure (Nanda and Sørensen, 2010; Landier, 2004). Given this, a pilot policy initiative could be tested in Italy to strengthen entrepreneurial culture along the lines of Singapore's annual Phoenix Award, which rewards a tenacious entrepreneur who overcame an initial failure.

Workforce training

SME innovation and competitiveness in Italy would receive a significant boost from increased recruitment, development and exploitation of skilled employees. The two main existing areas of policy intervention regarding SME skills are support for apprenticeships and support for continuous vocational education, but both could be strengthened.

Apprenticeship training needs to be expanded and revamped

The Italian system of initial vocational education and training (IVET) involves two major approaches. The predominant approach is the school-based "traineeships", which are offered within vocational upper-secondary education (International Standard Classification of Education - ISCED level 3), post-secondary (non-tertiary) education (ISCED level 4) and initial vocational training. They usually combine theoretical learning with practical training periods in enterprises (to which up to 30% of total training hours are dedicated). In the school year 2008-09, some 1.6 million young Italians participated in one of the school-based schemes (European Commission, 2012c). However, the school-based approach has two significant drawbacks. First, the training is relatively distant from the labour market, which is reflected in more difficulties for graduates of school-based schemes in making the transition into regular employment. Second, it does not feature a formal contractual relationship between the trainee and the participating enterprise, which means that trainees do not receive a salary for the practical work they do and implies both a disincentive to participation by trainees and an incentive to employers to misuse trainees as cheap labour.

The second major approach is generally more successful, namely company-based apprenticeship schemes ("apprenticeships"). However, these involved only one-half million young people in 2011, one-third of the numbers participating in traineeships. More investment is needed in the company-based apprenticeship approach, particularly given the critically high levels of youth unemployment now being experienced in Italy.

Company-based apprenticeships are offered in three different forms. Quantitatively, by far the most important is the occupation-oriented apprenticeship (*apprendistato professionalizzante e di mestiere*). This is designed for young people aged 18-29 years and is chosen by up to 95% of all apprentices. It usually lasts for a maximum of three years (five years for artisans). The type of training is to be established in collective and inter-sectoral agreements between the social partners. The apprenticeship involves mainly work-based training on the job in a training company. It is supplemented by a maximum of 120 hours of theoretical training provided by a (private) training agency and spread throughout the entire training period. The other (less frequently used) types of apprenticeship training target young people aged 15-25 years who want to complete the compulsory general school education through a work-based experience (*apprendistato per la qualifica e il diploma*) and individuals aged 18-29 years who are involved in higher education and research (*apprendistato di alta formazione e ricerca*).

In 2011, a total of 505 000 young people participated in apprenticeship training. This represents a 22% decline since 2008, reflecting the temporary effect of the economic crisis and its impact on inclination of companies to offer apprenticeship places. Two peculiarities stand out in an international comparison. First, there is an unusually large share of older apprentices aged 25 years or more, who accounted for 40% of all apprentices. Second, the prior education level of the majority of apprentices is relatively low: in 2010, almost one-half (49.5%) had no educational qualification; another 35.4% held only a lower secondary level diploma (ISCED 3); 8.3% held a vocational qualification and 6.9% held a university degree (D'Agostino, 2011). These data indicate that apprenticeship training is not (yet) an attractive choice for most young people with normal or high levels of formal school achievements.

The limited appeal of apprenticeship training for normal and high achievers is partly a result of the past tendency of many Italian firms to use apprenticeship training as a simple and "flexible" way of recruiting cheap labour, where the training element was mostly of only marginal importance to them (Tiraboschi, 2011; ETUC, 2012). Thus, it is estimated that only one-quarter of apprentices actually received noteworthy training (Italia Lavoro, 2012). The widespread abuse of apprenticeship training in this way has been strongly facilitated by a lack of national standards regarding the contents and quality of training and by an insufficient system of monitoring, supervision and quality controls. Through the Fornero reform, the national government has therefore recently imposed some quantitative standards with regard to the minimum (six months) and maximum duration of training, the maximum number of apprentices per company and requirements concerning retention of apprenticeship graduates. While this is an important reform, the quality of apprenticeships needs to be improved further to render them more attractive for young people and businesses alike.

Further reform aimed at increasing the attractiveness of company-based apprenticeships should pay particular attention to further development of high quality national standards regarding contents and methods of apprenticeship training, arrangements for the examination and authorisation of training companies and tutors, the establishment of institutions for monitoring and supervising apprenticeship training at regional level, and the central organisation of apprentices' final examinations. It should also increase the availability and quality of occupational orientation and vocational counselling during the final years of general school education so as to better direct young Italians towards occupations in demand in the labour market, and seek to change deeply-rooted cultural beliefs that hamper the integration of theoretical learning and practical (salaried) job-experiences ("who studies does not work" and vice versa) and lifelong learning (a normal working life is seen as "study-work-pension").

Certain aspects of the German dual apprenticeship system offer potential inspiration for the further development of the Italian system, as described in Box 5.12. In particular, lessons can be learned from its binding national quality standards and quality assurance mechanisms (e.g. monitoring and supervision by entrusted institutions, examination and authorisation of training companies and tutors, centrally organised final examinations of apprentices) and from the contributions made by host companies to the payment of cost-efficient training allowances to their apprentices. At the same time, the Italian government may need to promote the general value put onto vocational training, compared to other forms of education, in order to increase the use of apprenticeship programmes by trainees and employers.

Workforce training programmes have been reformed

The introduction of a number of government reforms and funding schemes since the 1990s has gone some way to addressing the low exposure to vocational training activities of SME employees, although there is still room for improvement.

Law 53/2000 has played an important role by giving individual workers the right to participate in continuous training through the institution of a specific right to leave. To support the measure, the Ministry of Labour allocates some EUR 15 million annually to regional and provincial authorities to provide individual workers with grants or vouchers in order to access targeted training measures offered by public or private training institutions. Interested participants are requested to submit applications which specify the envisaged

Box 5.12. **International inspiring practice: The dual apprenticeship training system, Germany**

The German system of dual apprenticeship training represents an interesting model to make vocational training more responsive to labour market needs and to guarantee a high nationwide standard of training with proper quality assurance mechanisms, thus playing an important part in supplying SMEs with skilled employees.

Description of the approach

Germany's highly skilled labour force is one of its fundamental economic strengths, and is underpinned by an extensive dual apprenticeship system with origins that can be traced back to the 19th century. The system is implemented by a broad consensus-oriented public-private partnership. High-quality vocational training, usually lasting 2-3 years, is provided for some 350 officially-recognised training occupations across all economic sectors. For each training occupation, a special training directive has been enacted by the social partners (business associations and trade unions, under the guidance of state actors) which stipulates in binding terms and nationwide the exact (minimum) content of training. After passing an interim exam and the centrally-organised final examination, successful graduates receive a Germany-wide recognised training certificate.

A strong orientation to labour market needs and the fine-tuned combination of company-based practical training on the job (usually 3-4 days per week) and theoretical training in vocational schools (1 or 2 days per week) guarantee high transition rates from vocational training into permanent full-time employment and thus ensure that the economy's demand for skilled labour is being met. Companies are free to engage in apprenticeship training and to conclude a training contract with suitable young people who they select in a prior recruitment process. The training competencies of these companies must however be examined and certified by business chambers.

In general, the company-based element of the dual training is completely financed by the training enterprises themselves. Monthly (gross) training allowances are fixed by the social partners in collective wage agreements and vary between EUR 300 and 1 000 according to the specific training profession and other considerations. The school-based element is financed by the respective Federal State ("Land") and local municipalities. The total spending of the German vocational training system is approximately EUR 30 billion, of which approximately one-quarter is contributed by the public sector, and three-quarters comes from the training enterprises. At the same time, enterprises benefit from revenues generated by the productive work carried out by their apprentices to the order of EUR 18 billion, leaving them with net training costs of some EUR 6 billion EUR, which can be seen as the costs to them of recruiting skilled employees who are already familiar with firm-specific work tasks.

Every year, some 750 000 young people newly start vocational training (approximately 85% in the dual system), thus exceeding the number of approx. 530 000 new university starters. The success of the dual training system is dependent upon a wide-spread participation from companies. Approximately 60% of all German establishments (local units) have acquired authorisation to engage in apprenticeship training. Every year, more than half of them do employ at least one apprentice. Depending on the availability of sufficient (time and financial) capacities, companies (especially micro firms) might not continuously participate in apprenticeship training. Nevertheless, every year an impressive number of approx. 500 000 establishments do participate in apprenticeship training; more than half of them (54%) are micro establishments with one to nine employees. Moreover, participation of small training companies which are not able to teach all segments of the required training content is further facilitated by possible cooperation with inter-company vocational training centres or with other companies.

Factors for success

A key strength of the German dual training system is its proximity to labour market needs. Business associations and companies have a fundamental influence on the exact content of the training, which

Box 5.12. **International inspiring practice: The dual apprenticeship training system, Germany** *(cont.)*

is specified in binding training directives that enterprises and their associations help negotiate. Such a market-based system has a clear edge over schemes that are centrally administered by public authorities, which are not in a position to assess developments and necessities for change as effectively as companies themselves. The companies benefit from recruits who are familiar with the practices of their enterprise, while the apprentices benefit from work experiences and skills that strongly increase their employability and facilitate transition into regular employment either in their training company or in other companies in the same or related sectors. Graduate trainees often move between companies. This is facilitated by the standardised content of training, which enables potential new employers to know exactly which skills apprentices have acquired during their training.

In Germany, middle management and production units are mostly staffed by skilled employees who have completed dual apprenticeship training and have often acquired further continuous training qualifications. This enables them to interact and co-operate more easily with the company's technical and research experts. The combination of practical skills and technical knowledge acquired during dual training is especially valuable for incremental innovations, i.e. when it comes to identifying ways to further improve existing products and production processes or to implement new processes. As innovation-related knowledge and capacities to develop it further are not centralised at upper management levels, companies find it easier to broadly diffuse and fine-tune their innovation activities. Dual apprenticeship training is therefore important not only with regard to access to skilled labour and lowering youth unemployment but also in terms of promoting innovation.

Another success factor relates to the implementation of the dual system. Business chambers (in cooperation with trade unions) are entrusted with administering and supervising apprenticeship training. The chambers are aware of the needs and problems of their member enterprises and therefore have an interest in keeping training-related administrative burdens to a tolerable minimum. In addition, the principle of dual training has been successfully transferred to dual study programmes, which combine in-company vocational training with theoretical studies at institutions of tertiary education.

Obstacles and responses

The key role played by enterprises in offering vocational training comes with the disadvantage that the number of training positions offered by the business sector varies with overall economic conditions and tends to decrease in recessions. Therefore, the private supply of places was not always sufficient to offer every youth access to a dual training place. In the past, public authorities had to increase the supply of purely school-based training places in recessions in order to compensate for the insufficient supply of training positions in the dual system. However, with a decline in the numbers of young people in Germany this restriction may become less important in the future.

Similarly, in a primarily market-based system, youths with disabilities or social disadvantages generally face more difficulties in acquiring a company training place, although a decline in numbers of young people coming into the labour market has induced many companies to recruit less talented young people if they are considered to have proper motivation and sufficient social skills. Other public measures are also in place to encourage training of disadvantaged youth, including a National Pact for Training and Junior Skilled Workers, which commits to securing a sufficient supply of training places for all young people willing and capable of undergoing vocational training, and a wide range of public support measures which directly target and support young people who have social or other disadvantages.

Box 5.12. **International inspiring practice: The dual apprenticeship training system, Germany** *(cont.)*

Relevance for Italy

With a youth unemployment rate of more than 35%, Italy faces substantial economic and social pressures to create vocational training and job opportunities for its young generation. The current school- and university-based vocational education and training does not seem to sufficiently reflect labour market needs and has only weak links with the world of work. Moreover, work-based apprenticeship schemes suffer from past abuses as a source of cheap labour and are not attractive for most young school graduates. The Italian VET-system might therefore benefit from integrating several components of a dual training system; both in the sphere of traditional apprenticeship training and possibly also in the field of dual (tertiary) studies.

Further information

German Federal Ministry of Education and Research website: *http://www.bmbf.de/en/544.php*
German Federal Ministry of Education and Research (undated), *Dual Training at a Glance*, *http://www.bmbf.de/en/544.php*.

training measure, which is either chosen by the worker or arranged by the company. Public support covers a maximum of 80% of reimbursable costs.

In addition, Law 236/1993 finances in-company training, training of trainers, system actions, sectoral and territorial training plans promoted by the social partners and training on the request of individual workers who apply to regional authorities. The Ministry of Labour made available some EUR 75 million to support this initiative in 2012, which is administered by the regions. Further funding comes from the European Social Fund (ESF), which finances a range of firm-level training activities in Italy. The funds, worth some EUR 400 million in 2012, are dispersed by the regions to companies (single firms or groups of enterprises) and to public and private training institutions through a tender procedure. A difficulty with this approach, however, is that very comprehensive reporting requirements often deter smaller firms from applying for ESF funds.

Italian Chambers of Commerce are major policy actors in supplying training in this domain, and tend to offer a large variety of training courses either directly by their local branches or through their specialized training agencies. Box 5.13 presents the example of FORMAPER, the specialised training agency of the Milan Chamber of Commerce.

Box 5.13. **Italian good practice: Milan Chamber of Commerce's FORMAPER training agency**

FORMAPER is the training agency of the Milan Chamber of Commerce, Industry, Craft and Agriculture, which caters to the training demands of the 325 000 enterprises that are registered with it. It assists start-up entrepreneurs with training for business planning, financial services, ICT and marketing and existing SMEs with training needs assessments and innovative training programmes for owners and managers. FORMAPER also provides training of trainers courses. Through its Corporate Social Responsibility (CSR) Desk (the first in Italy specifically dedicated to SMEs) it carries out studies and provides training and consultancy on CSR issues both to business support organisations and enterprises. FORMAPER also provides adult learning and labour market attachment services including the promotion of self-employment and entrepreneurship through counselling and training to employed and unemployed adults.

Source: OECD and FORMAPER website: *http://www.formaper.it/index.phtml?Id_VMenu=360*.

However, despite the availability of training suppliers and funding for SMEs, there is a general lack of awareness among SMEs of the public support for workforce training available to them, reflected in relatively low participation rates among SMEs and a tendency for SMEs to concentrate on the most well-known rather than the most innovative and customised programmes. Measures are therefore needed to increase the awareness of SMEs of available training programmes. In addition, consideration should be given to making increased use of training vouchers for SMEs, either within existing training programmes or in a separate measure. A more pronounced use of vouchers would encourage the use of continuous training, help meet the demand often expressed by smaller companies for more individualised training and allow for a more flexible implementation of training activities.

Industry Training Funds have made an important contribution to training in SMEs

Industry Training Funds (ITFs) (*fondi paritetici interprofessionali*) were introduced in 2004 by an agreement concluded by the national government and the social partners in order to increase training by Italian companies. There are currently 21 ITFs, which are jointly managed by the social partners and have been authorised and recognised by the Ministry of Labour. Though some funds focus strongly on specific sectors (e.g. banking), they are usually accessible to enterprises in any sector. In 2012, the ITFs allocated some EUR 450 million, of which some 79% went to training at company level, 12% to training at individual level, 7% to training at sector level and 2% to training at territorial level (ISFOL, 2012). Companies may join one of the funds. In doing so, the National Institute for Social Security (INPS) will allocate a part of their compulsory social security contributions (worth 0.3% of the total payroll) to the ITF they have joined, which in turn uses this money for the implementation of training measures. The contributions of firms that do not join an ITF remain with the INPS and are allocated to the Ministry of Labour's continuous vocational training support measures. In either case, the financial means available for training measures have increased since 2004 as the 0.3% contribution was originally designed as compulsory insurance against unemployment.

ITFs have had a significant impact on the participation of Italian companies in continuous vocational training. In 2012, ITFs had a membership of more than 746 000 private companies covering 8.3 million employees, i.e. approximately 72% of private sector employment (ISFOL, 2012). From January 2011 to June 2012, they approved 29 700 training plans (covering some 166 500 training projects) which foresaw the participation of more than 2.3 million employees from 61 200 enterprises. Before the introduction of the funds, training often represented a marginal element in the strategies of companies and the social partners and the ITFs have been successful in increasing the involvement of Italian SMEs in workforce training. Box 5.13 provides further information on how the ITFs operate, focusing on the two different mechanisms used to collect and distribute financing for training activities.

The ITF system has nonetheless been more effective in stimulating training in larger firms than in SMEs. This can be seen in the fact that in 2012, 28.5% of all companies supported by the ITFs had more than 250 employees although they represented only 0.5% of all Fund members, while in contrast micro enterprises with less than 10 employees represented 83% of ITF member firms but only 25.7% of supported enterprises (ISFOL, 2012). One of the difficulties for SMEs is that they tend to have more limited organisational capacity and experience to design and submit the formalised training plans required for the award of company-specific training accounts. In particular, small business owners

Box 5.14. **Italian good practice: Industry Training Funds**

Industry Training Funds (ITFs) in Italy allocate employer social security payments to training schemes designed by the social partners with the participation of companies that chose to become members of an ITF. There are two main methods through which ITFs fund enterprise training:

(1) The company-specific training account (*conto formazione*):

- The accounts accumulate approximately 70% of the individual company's social security contributions over time.
- The collected resources are fully available for the company's individual training activities (to be approved by the social partners and the fund).
- Additional self-financing is required in the range of one-third of training costs incurred (e.g. by continuation of wage payments of trainees whilst on training).

(2) The system training account (*conto sistema*):

- This is a joint account financed by the remaining contributions (approximately 30%) of all fund members (minus a fund administration fee).
- The resources are used to finance training plans (developed by single firms or by groups of several companies) which are selected and approved by the ITFs through a tender procedure.
- Self-financing is usually required from the companies of up to 50% of the training investment.

Source: OECD

have more difficulties in assessing and specifying the concrete training needs of their employees and tend to be discouraged more easily by the need to invest resources into the application process without knowing whether their application will be successful or not. Another difficulty is that small firms tend to have relatively small accrued savings in the company-specific training accounts, which may not be enough to meet the fixed costs of providing a training scheme for their firm. The system account was devised in order to help address this difficulty, by promoting training in networks of SMEs, but the awareness of SMEs of this approach is still limited. These problems for SMEs are not exclusive to the ITFs, but also affect other government programmes for workforce training.

Further measures should therefore be developed to increase the relatively low rates of participation of SMEs, especially micro firms, in ITFs. In particular, a simplified application process should be introduced for company-based training accounts. This simplified application process for SMEs should make clear at the outset the eligibility criteria for support, and should request firms simply to briefly describe their training needs and the expected impact that training would have on their business development, rather than having to design and describe a detailed training plan. The detailed training needs analysis and specification of the training contents could then be assigned to specialised trainers, who would take this burden away from the SME. In addition, awareness should be raised among SMEs of the opportunities to participate in the system account training courses for networks of SMEs.

Recruitment of graduates by SMEs should be encouraged

Action should also be taken to overcome the reluctance of smaller firms to recruit university graduates, which deprives the sector of the possible stimulus to innovation of new, highly-educated staff. A mechanism that can be used to increase the propensity of smaller firms to recruit university graduates is to promote relatively informal relations between SMEs and universities on a regional basis, thus increasing the knowledge of SMEs and university students on what the other has to offer. For example, business chambers or university institutions responsible for technology transfer could arrange specific goal-oriented internships of advanced qualified university students at smaller firms. Schemes could also be set up whereby companies define certain management challenges that they currently face and ask groups of university students to develop ideas and suggestions for solutions in cooperation with the firm (such as developing a plan and a stand for a company's first-time participation in a foreign trade fair), possibly within the framework of a recognised thesis or official university project work counting for credits towards their degree. As well as exposing students to positive experiences in working with SMEs, the participant firms could also benefit from fresh external impulses and access to new academic knowledge at relatively low costs, and develop more positive attitudes towards working with universities in general. Box 5.15 and Box 5.16 describe programmes in other countries that could provide inspiration for Italy.

Box 5.15. **International inspiring practice: The UK Shell Technology Enterprise Programme (STEP)**

Description of the approach

STEP is a highly selective 8-week internship programme for undergraduate students (mainly from the second and third years) in SMEs, which has been operating for approximately 20 years in the United Kingdom. The aim is twofold: first, to let undergraduate students obtain exposure to relevant business projects and thereby increase their employability; second, to enable SMEs to discover the benefits of a skilled labour force for business productivity and, in doing so, convince them of the value of hiring university graduates in the future.

Results

Approximately 1 000 students are recruited into the programme each year, and since its inception STEP has delivered more than 21 000 projects in small businesses across the country. The programme is very competitive, with only 1 in 8 students admitted. The programme is targeted to SMEs, although it has more recently been opened to community-based organisations and non-government organisations working in the international development field. The success of the scheme is shown by the very high number of applicants every year, but also by the fact that nearly all participating firms (94%) would be willing to participate in the scheme again in the future.

Success factors of the scheme

The main success factors lie in the simplicity of the programme and in the fact that it is beneficial to both students, who acquire workplace skills and strengthen their employability, and SMEs, who learn how to use graduates in their business operations. Another key success factor is the sponsorship of the Shell company, which launched this programme as part of its corporate social responsibility (CSR) strategy.

Box 5.15. **International inspiring practice: The UK Shell Technology Enterprise Programme (STEP)** *(cont.)*

Obstacles and responses

Three-quarters of firms participating in STEP have already employed graduates in the past, implying that the success of the programme in exposing more SMEs to the benefits of hiring new graduates has been only partial. More might be done to seek to involve new firms in the programme, while seeking to keep the quality of the placements high.

Relevance to Italy

Many Italian graduates experience difficulties in finding a job while Italian SMEs display a certain reluctance to hire graduates. A programme along the lines of STEP would help deal with this mismatch at the same time as helping to address high youth unemployment and low SME productivity in the country. The programme could also be linked to specific innovation or internationalisation projects that applicant SMEs would propose to programme managers and on which selected students would eventually work.

Further information

http://www.step.org.uk/

Box 5.16. **International inspiring practice: Industrial PhD Programme, Denmark**

Description of the approach

The Danish Industrial PhD Programme offers Danish private companies (or Danish-based subsidiaries of foreign companies) the opportunity to develop a subsidised R&D project at PhD-level in close collaboration with approved universities, with funding from the Danish Agency for Science, Technology and innovation (DASTI). An average of 111 PhD projects have been funded every year since 2007, focused on a variety of topics in the areas of high-tech, natural and social sciences, health research, etc.

The official aims of the programme are: i) to educate Ph.D. students about industrially-focused research and innovation; ii) to spur growth in the Danish business sector through research collaborations between universities and private sector Danish companies; and iii) to facilitate knowledge transfer and networking between Danish companies and researchers at universities in Denmark and abroad.

The company is the formal applicant and has the responsibility to hire the student as a full time employee over the three-year course of the Industrial PhD. Each application is assessed by the Industrial PhD Programme Committee, composed of research professionals from the private sector and public research institutions. Strict criteria are in place with respect to the characteristics of the company, of the project and of the quality of prospective students. Two formal supervisors – one from the company and one from the university – must be appointed and their responsibilities clearly defined in the agreement.

Once selected, the student is formally enrolled in a participating university, which can be either from Denmark or abroad. However, in the second case a Danish university must be part of the agreement as a third party. The student's working hours are equally divided between the company and the university. The student is paid a salary by the company which must be at least equivalent to the one paid to traditional PhD students in the Danish system. The company receives a subsidy from DASTI, which covers up to half of the salary,

Box 5.16. **International inspiring practice: Industrial PhD Programme, Denmark** *(cont.)*

in addition to other PhD-related expenses. DASTI also covers the university's expenses related to the supervision of the student and the training and facilities required for the PhD from a minimum of DKK 252 000 for projects in social sciences and humanities to DKK 360 000 in the fields of natural, technical, agricultural, veterinary and health sciences.

Finally, all Industrial PhD students are required to take a special business course organised by DASTI and to present a formal business report at the end of the PhD covering the commercial aspects of the research in a theoretical and company-relevant context.

Results

The latest comprehensive assessment of the Industrial PhD Programme available from DASTI, covering the 2004-10 timeframe, suggests very encouraging results from the Industrial PhD Programme. Key points are: i) the rate of employment of graduates of Industrial PhDs ranged between 95 and 99 % in the period; ii) Industrial PhDs enjoy a high-income – approximately 6-7% more than conventional PhDs – after the completion of their research project; iii) around 80% of Industrial PhDs are employed in the private sector versus just 50% of conventional PhDs; iv) industrial PhDs tend to become specialised experts within private companies, with just 8% holding management position in the considered timeframe; v) over 90% of Industrial PhDs remain working in Denmark, and around 45% of Industrial PhDs are employed by SMEs; vi) the Industrial PhD is most favoured by students with, on average, at least 4 years of professional experience; it may thus represent a positive route for continuous learning within each industry domain.

The Danish Industrial PhD programme was extended in 2013 to also cover projects in the public sector. It has also served as inspiration for the European Commission's introduction in 2012 of a pilot European Industrial Doctorate. Whereas the European Industrial Doctorate requires the private organisation and the university to be in different EU countries, the Danish Programme has a predominantly national focus.

Success factors

It is important to highlight a number of critical success factors of the Danish experience. First, the Industrial PhD Programme is user-driven. Each participating company is the owner of the project that it proposes, retains the intellectual property and has the opportunity to reduce the cost of the development of specialised human capital should the graduate be retained at the end of the project. Second, while the firm is free to select its university of choice, the university retains full responsibility for the substantive quality of the research project, which must be similar to that of a conventional PhD programme. Third, prospective students are high-calibre and highly-motivated individuals who can effectively strengthen their career development path with the benefit of a PhD degree while deepening their industry experience. Finally, the Industrial PhD Programme has a limited administrative burden for firms, which keeps them on board even in high-velocity environments.

Obstacles and responses

The Danish Industrial PhD Programme was launched in 1970 and has continuously been refined since then. The current challenges are primarily related to the availability of suitable supervisors within Danish universities for specific projects and the still limited number of companies applying for the Programme every year.

Box 5.16. **International inspiring practice: Industrial PhD Programme, Denmark** *(cont.)*

Relevance for Italy

An Industrial PhD programme could be an interesting solution to some of Italy's longstanding challenges in strengthening the R&D investments of SMEs and their linkages with universities. Particularly promising is the opportunity to use Industrial PhD students to develop the marketing, digital and innovation capabilities of SMEs, while offering them an attractive career option and reducing the current substantial levels of brain drain.

Further information

DASTI (2013), "The Effects of the Industrial PhD Programme on Employment and Income", *'Innovation: Analysis and Assessment' Series*, Copenhagen.

The Danish Industrial PhD Programme's webpage: *http://fivu.dk/en/research-and-innovation/funding-programmes-for-research-and-innovation/find-danish-funding-programmes/postgraduates-in-the-private-sector/industrial-phd*.

Consulting, business services and management training

Chambers of commerce are the main source of management support

The major source of public support for advice, consultancy and mentoring to SMEs and entrepreneurs is offered by the Italian Chambers of Commerce, which have a long tradition in providing management support. Empirical evidence collected from business surveys shows that Italian SMEs appreciate the management support they receive from Chambers of Commerce, particularly in the form of coaching and mentoring, which are regarded as very useful and effective (AFI-IPL Arbeitsförderinstitut, 2008). This support includes a number of very innovative and effective direct SME support programmes.

However, a weakness of the management support system is its lack of accessibility to all SMEs. The types of programmes being offered are frequently expensive to provide and, given limited public funding, are therefore restricted to a narrowly-defined group of beneficiaries such as young, innovative and growth-oriented firms or (in the case of peer-to-peer support) to special target groups such as women or ethnic minority entrepreneurs. At the same time, there is often a reluctant attitude by small and micro business owners to ask for assistance. The result is a polarisation of support, with subsets of enterprises receiving very high quality support while many SMEs lack any management support offer at all.

A priority should therefore be to expand the share of SMEs with access to consultancy, business services and management training. This should include potential high-impact entrepreneurs and innovative medium-sized firms but also extend to the bulk of low productivity, traditional SMEs, especially those in need of advice as to how to weather the crisis. Particular attention should be paid to actions to upgrade SME management skills and competencies with regard to supply chain and operations management, export opportunities, technological competences and quality systems to increase the international competitiveness of Italian SMEs. A number of actions can be taken:

First, the Italian government could introduce a comprehensive system of "enterprise diagnostics", offering free and quick checks of the strategies and operating practices of SMEs with a view to highlighting potential areas for management improvements. Such an "enterprise diagnostics" system could be made available as an online tool and in print version, enabling individual SMEs to undertake self-assessments of their performance in the most important management areas. The results of the self-assessments could also be

used to signpost firms to relevant sources of public or private sector consultancy, advice and mentoring that could help them address their problems, as well as to online guidance.

Existing one-on-one support should be complemented with new, more cost-effective approaches to increase the outreach of business consulting programmes, particularly given the current public finance conditions. One promising approach would be to make greater use of the expertise of retired professionals as senior experts. In particular, a stronger and more systematic use of the knowledge, experiences and networks of retired professionals could create a fruitful win-win-situation for both SMEs and seniors. Many senior experts would certainly appreciate occasional opportunities to remain in contact with their work field, participate in business life and experience recognition for their contribution to younger generations (see Box 5.17).

Box 5.17. **Italian good practice: Senior Expert Services, Turin**

In Italy, senior expert services are already well-established at regional level and focus mostly (but not entirely) on assistance for companies and governments abroad. Senior experts are retired managers or former business owners wanting to let others benefit from their working experiences. In Turin, a group of senior experts has created a project called Youngsters – Work Experiences Abroad, which brings together senior experts with long-standing business experience and know-how and young university graduates with up-to-date academic knowledge and new ideas around projects to support SMEs to export. Within the project, up to 40 young graduates from Turin universities are prepared and trained in a 20-hour course, visit several Piedmont companies and then accompany senior experts on their missions abroad in support of these companies.

Source : Senior Expert Services website, *www.isestorino.it*.

Another promising approach would be personalised peer-to-peer learning (see Box 5.18). The government, together with business associations, could set up a national company visit programme in Italy. Within such a scheme, successful and innovative enterprises of various sizes could open their company doors for one day and invite interested

Box 5.18. **International inspiring practice: Insights to Excellence (i2e), Australia**

The Australian "Insights to Excellence" (i2e) initiative, established in 2006, fosters and promotes an awareness of manufacturing excellence and best practice within the business community. It pairs exemplary host firms with aspiring enterprises looking for information to help them improve. Typically, between 20 and 60 enterprise managers meet for three to four hours at a host company to explore their application of a best practice. The host firm delivers a presentation on their company's vision and best practice followed by a "warts and all" presentation of the particular tool, system or practice. A tour of the facility to see the best practice in operation is concluded with a formal learning debrief, where i2e programme facilitators discuss their first impressions, provide feedback to the host firm, and discuss key learnings and take-aways to consolidate the learning experience for each participant. From its original focus on innovation, i2e has now expanded to embrace additional issues such as supply chains, services, design and sustainability. i2e is now widely acknowledged as an "Ideas Factory", a place where participants learn from the best and share experiences in a supportive community pursuing better practice. So far, i2e has organised more than 500 Insight events, which have attracted more than 8 000 participants.

Box 5.18. **International inspiring practice: Insights to Excellence (i2e), Australia** *(cont.)*

I2e is interesting because it demonstrates an easy-to-follow set-up for knowledge exchange between businesses, thus fostering mutual learning and providing a seedbed for additional joint activities (e.g. training).

Source: Insights to Excellence website, *https://www.i2e.org.au/*.

SMEs to visit them and exchange experiences and information (e.g. regarding their good practices in the fields of training, innovation, internationalisation etc.). Facilitators and clear guidelines would be required to make such a scheme a success for both sides.

It is also important to increase the visibility and transparency of advice, consultancy and management support measures to small enterprises. This can be achieved by creating an online portal assembling links to all measures at different levels of government and public institutions, together with tailored search facilities which allow SMEs to easily identify appropriate support across different stages of the life-cycle of a company.

Public procurement

According to a broad estimate, the total expenditure of Italian public sector and utility service providers on public works, goods and services amounted to some EUR 252 billion in 2011, representing a share of 15.9% in total GDP (on a narrower definition, public spending on goods and services was in the range of approximately EUR 160 billion). This involves not just national organisations – in fact, in Italy, less than 20% of the total contract volume is handled by central government, the second lowest rate in the EU27 – but also regional and local governments and utilities (European Commission, 2012a). In this context, an important policy objective of the Italian government is to facilitate the participation of SMEs in this vast domestic market in order to foster their growth and innovation potential and to guarantee sufficient competition for public contracts (as expressed in article 13 of the revised *Statuto delle Imprese*).

SMEs find it difficult to obtain public procurement contracts

During 2006-08, Italian SMEs had a share of 35% in the total value of larger-sized public contracts, somewhat less than the EU15 average of 38% (GHK, 2010). This nonetheless represents a significant gap with the potential of the SME sector given the relative importance of SMEs in the Italian economy: the share of SMEs in the volume of public procurement is 33 percentage points lower than their share in total annual sales of the Italian economy. This seems to indicate that Italian SMEs face specific barriers in their access to public purchasing. In the entire EU15, the gap between SME participation in public procurement and in total sales is greater in only Spain and Portugal (GHK, 2010).

A possible reason for the underrepresentation of Italian SMEs in public procurement could be the size of contract award notices (CANs). It is often argued that SMEs' participation starts to diminish substantially above a contract value of approximately EUR 300 000. With an estimated average of 786 000 EUR, Italy showed the second highest CAN value in the EU15 (where the average value was EUR 504 000) in 2008. Thus, access of SMEs to public procurement contracts might be increased by a reduction in the average size of CANs. On the other hand, the average size of individual (subdivided) lots amounted to only EUR 240 000, which is below the EU15 average of EUR 259 000.

Another issue affecting the ability of SMEs to participate in public procurement is a common lack of visibility of contracting opportunities and the rather confusing landscape of local and regional online portals. The Italian government has responded by developing an easily-accessible electronic marketplace (e-procurement) called MEPA (see Box 5.19). However, although the MEPA system appears to have made a valuable contribution to facilitating SMEs' access to the public procurement market, MEPA's transactions account for less than 0.15% of the broadly defined total volume of public procurement in Italy of EUR 252 billion, suggesting that further actions are called for. One such positive measure already taken is to allow aggregations of smaller firms (cooperating on the basis of the newly-established "network contracts") to participate in public procurement.

Box 5.19. **Italian good practice: Public Administration eMarketplace (MEPA)**

MEPA is a widely recognised online tool which facilitates SMEs' access to public procurement contracts below the sector-specific EU threshold levels. The dynamic e-procurement platform, in full operation since 2004, was developed and is managed by Consip SpA, a company that is fully owned by the Ministry of Economy and Finance.

MEPA is an entirely virtual marketplace where purchasing authorities and potential suppliers meet and negotiate and finalise legally-valid contracts (using the electronic signature). The main advantages of the tool include a reduction of the time and costs required for public procurement (both for public authorities and for SMEs), greater efficiency and transparency of procedures and the expansion of the market to new suppliers (especially SMEs). The stimulus to SME participation has come from the greater visibility of public contracts, greater transparency of procurement procedures and a greater perception among SMEs that they can participate in and win public contracts. Furthermore, by rendering the use of MEPA compulsory in public procurement, many SMEs have been encouraged to become more acquainted with the use of ICT and electronic tools. SMEs' usage of the MEPA-system is greatly facilitated by a nationwide network of 190 training desks (*Sportelli in rete*), run by local business associations with technical support by Consip, which train local enterprises free of charge in the use of electronic procurement tools.

In 2012, out of almost 7 200 suppliers registered with MEPA, 99% were SMEs (81% were micro enterprises). In the same year, more than 104 000 transactions with a total transaction volume of EUR 360 million were carried out via the MEPA-system; SMEs having a share of approximately 95% of the total transaction volume. Almost one-half of SMEs using the system sell outside of their own region, indicating the success of MEPA in opening up new, more distant, markets for SMEs.

Source: OECD

Considering the relatively small share of Italian SMEs in larger-sized public procurement contracts, the government should consider further options to provide more subcontracting opportunities for SMEs. One option is to increase the subdivision of contracts into lots in order to increase access of SMEs to these markets. The visibility of public procurement possibilities for SMEs should also be increased. For example, an online tool could be developed that assists companies in finding information about public sector contracting opportunities with national and regional government departments and their executive agencies. The tool could include pipeline notices, which describe potential opportunities that might be offered by public sector organisations in the next few years. These can help SMEs to plan ahead, build up additional capacity or form partnerships that could make them better placed to compete. Ideally, the tool would also help SMEs to

identify subcontracting opportunities by providing information on prime contractors that have won large scale public sector contracts.

In addition, policy could respond to the greater difficulties that SMEs tend to have in understanding complex procurement processes with guidance or training in bidding for and winning public sector contracts, for example through a step-by-step online training course offered free of charge. Informal (pre-market) meetings could also be set up to bring together public purchasing authorities and SMEs at an early stage of the procurement process. The public authorities would present their future product and service needs and SMEs could present innovative solutions that they have already developed or could seek to develop in the future to meet the needs. Box 5.20 provides an example of such an approach in New Zealand; another example is the US SBIR programme, which fosters procurement of innovative products and services from SMEs.

Box 5.20. **International inspiring practice: "Meet the Buyer" events, New Zealand**

The objective of the "Meet the Buyer" events, organised by the New Zealand Ministry of Business, Innovation and Employment, is to help SMEs "get a foot in the door" with some of the country's largest public procurement agencies. A typical one-day event is organised as a series of speed datings between representatives from businesses and approximately 20 government agencies. About 600-800 meetings, each lasting for 15 minutes, are hosted throughout the day and are offered free of charge. SMEs have the opportunity to make a short sales pitch, find out about contractors' current/future needs and "qualify" their interest in any projects coming up.

Before the event, the organisers pre-arrange the meetings based on mutual interests. Each of the invited agencies defines their interests in advance – some are broad, others are specific; some have immediate needs, others are simply checking out the market for new suppliers to meet future needs. The agencies' interests and needs are consolidated into one document made available to all interested companies. Businesses that believe they could meet those needs and that are interested in meeting one or more of the agencies complete a simple online application (an "elevator pitch"). Each participating agency then identifies the enterprises they would like to meet with. Successful applicants are asked to book a time with the agencies they have been matched with. An exhibition area gives businesses the opportunity to interact with the exhibitors (i.e. public agencies) and adds to the value of the day. In addition, throughout the day, approximately 24 presentations (10 minutes plus 5 minutes question and answer time) are conducted by experts from both business and government sectors.

Source: "Meet the Buyer" programme website, *www.business.govt.nz/procurement/procurement-reform/meet-the-buyer.*

The government has taken steps to tackle late payments by the public sector

As well as seeking to increase the access of SMEs to public procurement, the Italian government has also placed recent attention on reducing late payments that have often been associated with public contracts, as a way of improving the working capital of SMEs. Until recently, the Italian public sector figured as one of the worst for late payments in the EU. At the beginning of 2013, it was taking the Italian public sector on average 170 days to pay a bill after the firms' entitlement to payment had arisen, which is more than double the time taken in all other EU countries apart from Greece, Spain and Portugal (Intrum Justitia, 2013). Furthermore, as well as having the longest delays in settling its bills, the Italian

public sector had also fixed the second longest payment terms in the original contracts. Besides harming the financial positions of SMEs that participate in public contracts, this could also dissuade many smaller-sized firms from actually applying for public contracts in the first place. In order to help address the problem, the Italian government transformed EU Directive 2011/7 into national law (decree 192/2012), with the result that since January 2013, public authorities normally have to pay within 30 days for the goods and services they procure. Furthermore, the government has also made arrangements to accelerate the payment of nearly EUR 50 billion in public payment arrears to private suppliers. Attention should be paid to the full implementation of these measures.

Policies for specific social target groups

There is substantial under-exploited potential for enterprise creation and, above all, enterprise growth among population groups who are not in the mainstream of entrepreneurship – such as women, youth, ethnic minorities, and seniors – if the special barriers these groups face are addressed. However, the public entrepreneurship support system in many OECD countries has not been good at offering these target groups easy access to entrepreneurship policy measures or providing tailored solutions to their needs. Promoting "inclusive entrepreneurship" has become an increasing priority in recent years, in Italy as in many other countries (OECD, 2013c). Yet, whilst Italy is a forerunner in promoting women's entrepreneurship, support for senior, youth and ethnic minority entrepreneurship still needs to be boosted.

Italy is a leader in policy support for women entrepreneurs

Compared with most other OECD countries, Italy has a long tradition of tailored programmes at national and regional levels that explicitly target female entrepreneurs. This reflects a long-standing concern to increase the country's female labour market participation rate using female self-employment as one potential lever.

As early as 1992, the Ministry of Productive Activities enacted a special law targeted at "Positive Action in Favour of Female Entrepreneurship" (215/1992). For many years, it represented the key legislation for the promotion of female entrepreneurship in Italy and demonstrated the government's commitment to this policy field. In addition to raising awareness of female entrepreneurship, the main aim of the law was to promote specific measures for training and access to finance for women entrepreneurs and foster the creation of women-owned enterprises in innovative industrial sectors. Financial assistance was provided to women-owned businesses and support services though six different calls for proposals, both at national and regional levels. The measure was discontinued in 2006, but some regions still issue annual calls for tender in the frame of the Law and finance them with EU funding. A recent evaluation by the Bank of Italy on the impact of the law argues that supported women-owned enterprises showed higher survival rates than a control group for an initial period of five years from their establishment (Gennari and Lotti, 2013).

Access to bank loans has been identified as a particularly pressing problem for Italian women-owned enterprises, which might reflect structural dissimilarities between female- and male-owned enterprises (e.g. with regard to company age and size, growth potential, economic sector and amount of available collateral) or more limited experience and confidence of women when it comes to negotiating loans and the terms of financing with their bank (Cesaroni, Lotti and Mistrulli, 2013). In recognition of these women-specific barriers, in March 2013, the Italian government reserved a special section of the Central Guarantee Fund worth EUR 20 million to assist women-owned start-ups and enterprises

in securing bank loans expected to be worth some EUR 300 million. In the same month, the Ministry of Economic Development reached an agreement with the Confederation of Women Entrepreneur Associations (*Coordinamento Donne d'Impresa*) to establish a permanent round table to discuss issues related to the access of women entrepreneurs to credit and tax breaks. Furthermore, in April 2013, a public information campaign ("Microcredit for Women") was launched in cooperation with the Ministry of Economic Development in order to raise awareness and facilitate women's access to microcredit. Another significant measure is the network of 31 regional Women Entrepreneurship Ambassadors established in the framework of an EU programme. Most of the Ambassadors also participate in a mentoring project called BE-WIN (co-financed by the EU), which brings together 32 experienced female entrepreneurs and 64 young female enterprise starters (mentees).

In addition, regions implement their own policies in favour of female entrepreneurship. They are supported in this effort by a nationwide network of "Committees for the Promotion of Women Entrepreneurship" (see Box 5.21).

Box 5.21. **Italian good practice: Committees for the Promotion of Women's Entrepreneurship**

Based on an agreement concluded in 1999 between the Ministry of Productive Activities and the national association of chambers of commerce (*Unioncamere*), 105 Committees for the Promotion of Women Entrepreneurship (CIFs) have been established at local chambers, covering all 20 Italian regions. CIFs are staffed with more than 1 000 female experts who have been delegated by local business associations and trade unions (thus reflecting a broad variety of local stakeholders).

The Committees act as intermediaries listening to the needs of female entrepreneurs, aiming to integrate them into the decision-making processes of the chambers, promote women-specific support measures and increase co-operation with other public and private stakeholders committed to the promotion of female entrepreneurship. CIFs deal with all topics related to female entrepreneurship, such as awareness raising, access to finance, training and mentoring, and innovation. The main instruments used to achieve these goals are seminars, meetings, conferences and working groups. In addition, surveys are carried out to analyse the economic situation and needs of women-owned enterprises in their locality. An important communication tool is the nationwide website which provides comprehensive information on new policy measures and on economic conditions affecting women entrepreneurship (*www.imprenditoriafemminile.camcom.it*). For more localised information, the website directs users to the websites of the individual CIFs.

Over the years, the CIFs have developed several innovative initiatives in favour of female entrepreneurship. One example is the "*Giro d'Italia* of women entrepreneurs", an itinerant information and awareness campaign carried out in the form of one-day events organised in cooperation with local stakeholders and successful female entrepreneurs. The *Giro* has operated for five years in nine different cities. Each year it promotes a specific theme or motto (enterprise transfer, entrepreneurship education, internationalisation etc.) using round table discussions, testimonials from role models and theme-specific workshops. The CIFs also co-operate in collecting and sharing examples of good practice, for example in April 2013 it profiled local projects facilitating women entrepreneurs' access to finance. The national government renewed its commitment to support women entrepreneurship through the CIF network in February 2013 by assigning *Unioncamere* the task of creating 20 regional units for the coordination of the 105 local CIFs.

Source: OECD

Another interesting feature of Italian programmes for female entrepreneurship is the "National Observatory for Women Entrepreneurship", which is co-financed by *Unioncamere* and the Ministry of Economic Development. The Observatory publishes quarterly statistical data on Italian women-owned enterprises registered by law with chambers of commerce together with more qualitative information on conditions for women entrepreneurs (e.g. on business climate, payment delays, capacity utilisation and access to finance), as generated by *Unioncamere's* trimestral surveys. In addition, *Unioncamere* was recently assigned the task of producing a comprehensive national report on female entrepreneurship every three years (similar to the ones produced in 2005 and 2011). The Observatory therefore plays a key role in providing information for tailoring and evaluating policy measures, whereas in most other OECD countries it is hard to find such detailed data on the development of women entrepreneurship and the challenges faced.

Despite all these positive initiatives, it is suggested that the institutional emphasis on women's entrepreneurship be renewed. The Law 215/92 could be reshaped, placing a stronger accent on business training and coaching in addition to financial support.

Support for immigrant and ethnic minority entrepreneurship is rare

National government in Italy has not designed special measures to encourage business creation by ethnic minorities or recent immigrants or to improve the quality of the enterprises they own. Those programmes that do exist are rare and of small-scale, often carried out at local level. However, immigrants and ethnic minorities often have some special needs in terms of entrepreneurship support and often use different channels to access public programmes (OECD, 2014a). This suggests either the need for some separate programmes directly aimed at ethnic minorities or some tailoring and outreach activities to adapt existing mainstream programmes.

The role of microcredit is particularly relevant given that ethnic minority enterprises often tend to be undercapitalised. The main national programme in place in Italy for microcredit policy involves the allocation of a portion of the Central Guarantee Fund to micro loans. The degree of take up of these loans by ethnic minority entrepreneurs should be monitored over time to ensure that immigrants and ethnic minorities are fairly represented compared to their incidence in the population of entrepreneurs. In addition, the finance offer should be accompanied by skills-enhancement initiatives (e.g. business coaching and entrepreneurship training), particularly because of relatively low average educational levels of Italy's immigrant and ethnic minority entrepreneurs. In particular, efforts are needed to support immigrants and people from ethnic minority groups to shift their proposed or existing entrepreneurship initiatives from more traditional (often less growth- and innovation-oriented) economic sectors to sectors with opportunities for higher levels of income generation and growth, including through training measures that focus on entrepreneurial creativity and the development and sharpening of innovative new – yet sustainable – business ideas.

A few pilot projects could be developed and tested by business chambers and other policy actors in order to see what approaches will work best in Italy and what might merit scaling up into national initiatives. Two existing examples are provided in Box 5.22.

Youth entrepreneurship is a priority for the government

In summer 2013, Italy's coalition government launched an employment agenda with the principal goal of addressing high youth unemployment. The Plan is budgeted with EUR 1 billion, half of which will be dedicated to tax concessions for employers hiring workers

Box 5.22. **Selected projects in support of immigrant and ethnic minority entrepreneurship, Italy**

(1) CNA World Dedalo project, Turin:

- Established in 2000 by the Turin office of the National Confederation of Crafts and SMEs (CNA) with support from the Turin Chamber of Commerce and the Intesa San Paolo Bank.
- Offers free-of-charge counselling and support services and a training programme specifically designed for immigrant and ethnic minority entrepreneurs who are starting-up or are already established in business.
- Approximately 120 start-ups are supported per year (with an average two-year survival rate of 85%).
- The project has inspired 25 similar initiatives throughout Italy.

(2) Start It Up:

- A one-year pilot project co-ordinated by *Unioncamere* and conducted in 2012 by chambers of commerce in ten major Italian cities.
- The programme offers structured immigrant and ethnic minority-specific counselling and training in preparation of business start-up.
- It has supported 434 non-EU origin participants, of whom 12 have entered self-employment.

Source: Al Shawwa H. (2012), Italy's New Immigrant Entrepreneurship: The Paths of Development of this New Phenomenon, PhD Thesis, Università degli Studi di Ferrara.

aged less than 30 years old. As much as EUR 100 million will be spent on re-financing the main policy measure for youth entrepreneurship ("*auto-imprenditorialità*"), which targets aspiring entrepreneurs aged between 18 and 35 years through a combination of grants and loans and had run out of resources in early 2013. In addition, in early 2012 (Decree Law 1 of 24 January 2012, converted by Law 27/2012), the Italian government introduced a new form of limited liability company with simplified administrative procedures, which is intended to facilitate start-up by young entrepreneurs by reducing the cost of administrative compliance, although the initial age limit of 35 years to benefit from this legal form has subsequently been lifted. An interesting national platform has also been established (We4Italy: *Innovatori d'Impresa*) to stimulate youth entrepreneurship by presenting 100 young role models of successful company starters who describe how they found their way into self-employment and share valuable "inside" knowledge.

There are also a few programmes that specifically target young (potential) entrepreneurs at local level. One example is the *Bollenti Spiriti* project (Boiling Spirits) in Puglia. It provides non-repayable grants of up to EUR 25 000 to young people between 18 and 32 years if they start businesses in specified strategic policy fields (e.g. knowledge economy, social inclusion). In addition to the financing, the project supports networking and co-operation among the young entrepreneurs.

The programme measures which have been undertaken to date are important in helping to address the youth unemployment challenge. However, their accent is on addressing the financial side of the problem, whereas potential youth entrepreneurs face a number of other important challenges, notably lack of entrepreneurship skills and networks. Financial support should therefore be coupled with business advice, coaching and mentoring, hands-on entrepreneurship training, and network development to help

young entrepreneurs to be prepared to manage a business (OECD, 2012b). A potential model for a nationwide programme of this kind is the Think Big programme in the UK, which inspires young people to launch community projects (Box 5.23.)

Box 5.23. **International inspiring practice: Think Big programme, UK**

Think Big is a programme to provide young people with opportunities to launch community projects that make a positive impact on themselves and their community. The programme aims to benefit young people who lead projects or actively take part in them by (1) increasing aspirations, hope and confidence, (2) providing new experiences, and acquiring new skills, (3) improving employability and entrepreneurial skills and (4) developing their leadership potential. Moreover, it engages with adults, through campaigns, to think differently about the positive role young people can and do play in their communities.

The project targets people from 13 to 25 years old and is socially inclusive in its design, with a target of at least 50% of participants having low education levels, disabilities or belonging to an ethnic minority group. Think Big has been running since March 2010. The programme currently has two levels: Level I projects (Think Big) are awarded GBP 300 in funding to young people with good ideas about how to make a contribution to their community and also offer information, training and support on how to do the project along the way. Level II projects (Think Bigger) receive more funding (GBP 2 500), and it is expected that they are larger in terms of scope, reach and ambition. These projects are accompanied by more in-depth training together with some further incentives to get involved and stay committed. Participants must complete a successful level I project before applying for a level II project. There are plans to develop a third level for even larger projects which could pave the way for the development of social enterprises.

The programme is delivered and supported by a variety of organisations and individuals: more than 50 national and regional partner organisations help to recruit and support young people doing projects. Employee volunteers (Big Thinkers) provide support and expertise for young participants. Community stakeholders – both individuals and organisations – encourage young people to apply and give support to the projects. Finally, Think Big alumni are successful participants in the programme who give their time to support others who join it and promote their successes more widely. Funding is provided by a range of individuals and organisations including contributions from O2 Telefónica and three charities – the National Youth Agency, Conservation Foundation and UK Youth.

A recent evaluation showed that 3 535 applications for level I projects had been submitted by the end of December 2011, of which 1 708 were awarded grants, and young people developed concepts for 120 level II projects, of which 70 were approved. Across the programme as a whole, 3 400 young people have been involved in leadership roles and another 29 890 youths have benefitted as participants. Think Big was found to make an important social contribution by helping young people to build their resilience and make better choices when opportunities come their way. The programme is now being rolled out across six European countries.

Source: Think Big programme website, *www.o2thinkbig.co.uk*

Another potentially promising area for youth entrepreneurship policy involves support for intergenerational business succession. This could involve identifying the scale, sectors and locations of closing enterprises (often run by senior entrepreneurs approaching retirement) that are still viable and the extent to which there is efficient business transfer to successors. Interventions could be designed to support take-over of these enterprises by young entrepreneurs, for example involving financing solutions to enable the retiring owners to obtain the value of their equity and mentoring solutions to support the young entrepreneur to succeed in operating and renewing the business. In this respect it is relevant to ensure that existing policies that foster new venture creation also permit support for business take-overs where this could promote business succession and survival. In addition, collaboration could be developed between the national government authorities and chambers of commerce and

business associations to create a formalised online marketplace for business take-over, where potential buyers and those searching for successors can meet.

There is little awareness of the potential of senior entrepreneurship

Italy is one of the fastest-ageing societies in the OECD area, reflected in a ratio of only 3.2 people of working age (15-64 years) per person of retirement age (65 years and over). There is clear potential for seniors to contribute to entrepreneurship by engaging directly in starting a business or indirectly, by investing in or mentoring a business starter (Kautonen, Down and South, 2008; OECD, 2014b). However, existing support measures targeting potential senior entrepreneurs are still rare in Italy and mostly of small scale. Examples are the national "Lavoro over 40" (*www.lavoro-over40.it*) project, which assists unemployed people in re-entering the labour market through self-employment or other means, and the "Over 50" project developed by the Committee for the Promotion of Women Entrepreneurship in Verona, which targets female business starters aged 50 years old or more. It would be useful to develop more programmes of this kind, with the aim of increasing the awareness of entrepreneurship as a labour market option for seniors and helping them acquire the skills, networks and ideas that they can use in business. Policy options include raising awareness about the benefits of entrepreneurship among seniors; encouraging the indirect involvement of seniors in entrepreneurship in the role of business mentors or business angels; and reviewing the national social security system so that it does not present disincentives for seniors to engage directly or indirectly in entrepreneurship (OECD, 2012c). Inspiration can be drawn from international initiatives in this area, such as the "Senior Enterprise" initiative, described in Box 5.24. It would also be appropriate to review the national social security system to assess whether there are major disincentives that hinder seniors from engaging in entrepreneurial activities.

Social enterprises

Support measures for social enterprises are limited

Social enterprises and co-operatives are a distinct, important and rapidly-growing sector of the Italian economy that helps provide new products and services and new methods of supplying them with a primarily social rather than profit-making goal. One of the measures undertaken to promote social enterprises in Italy has been the introduction of Law 118/2005, which enabled the creation of social enterprises using any possible legal status, including corporations, under the condition that they comply with strict requirements concerning the social goal of the activity and the non-distribution constraint (no distribution or partial distribution of profits to shareholders and managers). However, the procedures have proven relatively complex for non-profit organisations to attain the social enterprise label, while it has not been backed up by concrete benefits, such as fiscal incentives. Indeed, the level of programme support to social enterprises has been relatively limited, although there are several examples of useful actions.

For instance, the Start-Up for Social Entrepreneurship programme is supported by *Unioncamere* via the regional chambers of commerce with the goal of encouraging new social enterprise start-ups through the provision of free assistance services for the development of the entrepreneurial idea and for the start-up itself. In addition, several regional public programmes support social enterprises to make social use of real estate confiscated from organised crime, while the *Fondazione con il Sud* is a private foundation that achieves the same objective by mobilising bank foundations, together with Italian social enterprise and

Box 5.24. **International inspiring practice: Senior Enterprise**

In accordance with its motto "experience never ages", Senior Enterprise is an EU-supported transnational initiative operating in Ireland, France and the UK, which aims to promote senior entrepreneurship and tap and support the entrepreneurial potential of people aged 50 years and over.

Description of the approach

Senior Enterprise is specifically designed to encourage a greater involvement with enterprise by those aged over 50. Its main objective is to raise awareness of the various ways in which people aged 50+ can engage with enterprise and the many benefits that can flow from such activities, while also supporting and facilitating them. The project has four "work packages" comprising: (1) awareness raising, (2) starting a new business alone or with others, (3) acquiring or investing in a business started by someone else, and (4) advising an entrepreneur or supporting innovation within a business owned by another person.

The programme began in October 2010, led by the Mid-East Regional Authority in Ireland, with partners in France and the UK and nine observer institutions across North-Western Europe. The budget for the project, which runs until mid-2014, amounts to EUR 1.8 million. One-half of the funding is provided though the INTERREG IVB NEW, a financial instrument of the EU's transnational cohesion policy, while the other one-half comes from the three partners' own resources.

The initial task after the launch was to raise awareness about the project among its target audiences and other key influencers, e.g. people aged 50+, politicians and policy makers, enterprise development agencies, financial institutions, agencies working with older people, business chambers and young entrepreneurs. The Senior Enterprise partners rolled out an active media campaign featuring older entrepreneurs as role models.

Senior Enterprise has also designed and carried out special 50+ "Start Your Own Business" training courses covering all the relevant aspects of setting up a business, including market research, marketing, human resources, financial and legal issues and succession planning. For a fee of EUR 100, participants attend group training over a period of 10-12 weeks (involving one half-day meeting per week). Many groups continue afterwards and become self-sustaining thanks to voluntary mentors who step forward. So far, more than 600 people aged over 50 have participated in the training programmes; approximately two-thirds of them having started a business. The businesses started have relatively small size and limited growth ambitions compared with businesses in general, but nevertheless provide opportunities for older people to be active. They operate mostly in various service sectors such as health care, tourism, software, crafts, web-based services or B2B/B2C-services.

Factors for success

The project recognises that the over-50s are not a homogeneous group and has thus developed a diverse menu of supported activities that appeals to a large number of different individuals. In this way, Senior Enterprise harnesses the specific resources of its target group (skills, experience, well-established networks, time, and greater financial independence) and brings about a range of economic, social and personal benefits to all those concerned and their wider communities.

Further success factors include the holistic approach of the initiative, the involvement of role models and ambassadors, the excellent working relationships between the partner organisations and the support received from local observers and other stakeholders. The communication strategy has also been central in raising awareness about the initiative and in drawing the attention of the media and influential individuals and organisations to support its aims and objectives.

Box 5.24. **International inspiring practice: Senior Enterprise** *(cont.)*

Obstacles and responses

In general, "Start Your Own Business" training programmes are very popular and often over-subscribed. However, people belonging to the targeted 50+ age group often do not naturally consider business start-up and entrepreneurship as viable professional options. Therefore, the challenge was first to find and develop good marketing channels in order to create general awareness and interest in this topic. In this context, the presentation of credible and interesting role models as well as testimonies from past participants proved to be very influential. The initiative's website now features inspiring one-page presentations of 62 role models who operate in a wide variety of economic sectors. The experiences from role models and successful participants illustrate the many ways how people aged 50+ can start a successful business and highlight the personal and economic benefits accruing from these activities.

Relevance for Italy

Considering that Italy is experiencing declining birth rates and population ageing, it is important to support and develop activity among older people. Entrepreneurship is one means of doing so. However, the Labour Force Survey indicates that Italy's self-employment rate for the age group "55-64 years" fell below 10% in 2009 and is now lower than most other EU-countries. The Senior Enterprise initiative can provide useful insights in how to activate more senior people through entrepreneurship. Of primary importance seem to be initial awareness raising activities among the targeted age group, and also among policy makers and business institutions, followed by specifically tailored training programmes.

Further information

Source: Senior Enterprise Ireland's website *www.seniorenterprise.ie*

volunteer organisations. Progress is also being made in making social enterprises eligible for generic business development support. For instance, the Smart&Start subsidy available to new innovative firms in southern Italy has been opened up to social enterprises.

Further measures of this kind are needed to enable the social enterprise sector to strengthen in scale and performance, including by stimulating increased social enterprise start-ups and consolidating existing social enterprises. These measures should seek to respond to the main obstacles that social enterprises face, which are commonly linked to poorly adapted legal and regulatory frameworks (particularly with regard to fiscal matters), insufficient opportunities to access tailored financial resources and markets, and the lack of tailored business support and development structures.

An initial step would be to increase awareness and understanding of the role and operation of the social enterprises sector. Second, consideration should be given to adaptation of fiscal regimes to provide suitable incentives to social enterprise activity. Third, actions are needed to provide sustainable finance to the social enterprises sector through a number of measures and tools, including fiscal incentives to attract investors and policy measures that co-invest with the private sector and seek social returns as well as financial ones. Fourth, the business development services offer to social enterprises should be strengthened by developing a "braided" system of support, i.e. one that both facilitates the access of social enterprises to generic business development support – for example by marketing public programmes to social enterprises and ensuring that public programme officers are keen and capable to support the sector – and that offers certain specialist

services targeted to specific features of social enterprises, such as training and mentoring services by and for social entrepreneurs. Social enterprises incubators are beginning to emerge and should be supported as potentially important tools for the development of the sector. In a related area, as well as opening up general SME business development services to social enterprises, public procurement contracts should be made more open to the social enterprise sector through a better use of social clauses.

Finally, it should be recognised that there are a number of relevant European Union initiatives, including the European Parliament Resolution on the Social Economy (2009) and the Social Business Initiative, which offer a means of supporting new policy actions for social enterprises with matching European funds already assigned by the European Commission to social enterprises and microcredit activities. Indeed the preparatory study for the Italian partnership agreement with the European Commission concerning the 2014-2020 Structural Funds programmes of the European Union stresses the importance of a platform for promoting social inclusion and the fight against poverty. A number of specific actions for social entrepreneurship can therefore be envisaged in the 2014-20 European Union Structural Funds programming cycle.

Corporate social responsibility

Italy has a well-developed policy framework for Corporate Social Responsibility

The Italian policy framework for corporate social responsibility (CSR) involves implementation of three main instruments: the OECD Guidelines for Multinational Enterprises on responsible business conduct (OECD, 2011); the EU Communication on CSR (European Commission, 2011); and the United Nations global compact agreement. The principles of these international agreements are put into practice through the Italian National Action Plan on CSR 2012-14 (MISE and MLPS, 2012), which is the main strategic document for CSR policies and offers a set of policy tools covering the following pillars:

- Awareness-raising, education and training initiatives about CSR amongst enterprises and individuals;
- Support to CSR-adopting firms, especially through preferential access to public funding such as tax incentives, grants and soft loans;
- Market rewards for CSR through green and socially-aware public procurement funding of the social enterprise sector and microcredit initiatives;
- Dissemination of CSR practices to social enterprises and social cooperatives;
- Support to disclosure of company information not only of an economic and financial nature but also of a social and environmental nature.

One of the strengths of the Italian approach is that it explicitly includes and supports SMEs in their CSR engagements, as well as large and multinational enterprises. In particular, the strategy includes a set of actions that can promote a strategic and integrated approach to doing business in SMEs, particularly those that are involved in international supply chains (indeed it can sometimes be critical for SMEs to adopt CSR principles in order to participate in the supply chains of larger and multinational enterprises that have adopted CSR in their whole network).

The Italian CSR approach addresses the problem that SMEs frequently do not have the necessary knowledge or resources to put CSR principles into practice. In response a set of actions are promoted by national and regional governments including information,

sources of finance, and direct incentives for CSR activities. These actions aim to spread the CSR culture as a "core" and strategic approach at firm level, using the public sector's market leverage by promoting public procurement with social and environmental considerations, fostering international activities in line with EU and OECD agreements, and sustaining CSR disclosure and reporting by enterprises. Many of the initiatives are at the regional level and include workshops to showcase the benefits of CSR (Emiglia Romana); cooperation between the regional administration and the Chamber of Commerce (Piemonte); promotion of equal opportunities (Puglia); extra credits in public procurement exercises for enterprises with CSR certification (Toscana); and assistance in self-evaluation of CSR (Veneto). They are commonly implemented in the context of business networks, clusters and global supply chains, and recognise the proportionally higher costs for SMEs of adopting CSR principles.

It is important that these different initiatives are evaluated and that the most effective practices are spread across the country, as the National Action Plan provides a framework in which they can be further developed.

Conclusions and recommendations

There is a comprehensive range of national programmes in place to support SMEs and entrepreneurs in Italy, although there are some gaps and areas in which existing approaches can be improved.

The programmes include several large-scale interventions to improve the supply of SME and entrepreneurship financing, including the Central Guarantee Fund (CGF) which supports access to loans. It is nonetheless important to shore up the local mutual guarantee fund system and expand initiatives to support SME and entrepreneurship financing from the demand size, such as through better financial education, advice and consultancy. Stimulating the development of equity finance markets for high-impact entrepreneurship and expanding medium-sized SMEs is also a priority. Some modest efforts have been made along these lines to date, but so far the outcomes are very limited in scale.

The Italian government has also recently tried to encourage innovation, for example by strengthening the patent system and giving tax incentives to entrepreneurs who use innovative inputs. While these efforts are commendable, the emphasis on patents seems wide of the mark as very few entrepreneurs or SMEs use them. Innovation incentives tailored to the real needs of SMEs and entrepreneurs would be more appropriate. At the same time, the government could do more to improve the transfer of technologies to SMEs and entrepreneurs for commercial exploitation. There is also important support for SME exporting, but efforts are nonetheless somewhat undermined by the existence of numerous poorly co-ordinated interventions, leading to a fragmented and potentially confusing system of support.

The entrepreneurial culture in Italy is still underdeveloped with respect to business start-up and growth, despite the large numbers of small enterprises, and entrepreneurship education in schools, colleges and universities is in its infancy. The vocational training system can also be strengthened to increase the match of supply with the demands and relative scarcities of the labour market and encourage increased use of formal continuous vocational training. Links between education institutions and the world of work and occupational orientation could also be strengthened. A particular concern is that many SMEs, especially micro firms, have a low level of training participation and a lack of awareness of and participation in consultancy and management training.

There is also an ageing of entrepreneurs in Italy, and closure of their enterprises would represent a loss to the economy if the business is transferable and viable and has intangible assets such as networks and knowledge that would be lost if the firms are closed. Orientating youth, especially unemployed youth, towards the possibility of entrepreneurship, including takeover, is one possible avenue for policy in this regard. To date, transfer of businesses has largely been organised informally. It would be helpful to build a market and mechanisms for information flows about investors and companies for sale.

Despite many promising local activities and policies for specific social target groups, there is a shortage of target-group specific policy measures for ethnic minority, youth and senior entrepreneurs as well as for social enterprises. On the other hand, Italy is one of the pioneers in promoting women's entrepreneurship, based on a clear political commitment, specialised institutions and a comprehensive database. Female entrepreneurs nonetheless still face substantial difficulties in accessing external finance at affordable cost, despite useful micro credit schemes that have been set up by the Italian government.

Rigorous evaluations help governments to establish the impact of policies and programmes, thus facilitating informed decisions about the allocation of funds. They also assist governments in achieving continued improvements in the design and administration of programmes as well as in allowing them to tailor their policies and programmes to the needs of their customers. There is scope to increase evaluation of SME and entrepreneurship policy in Italy, which tends to focus on evaluations of EU-funded programmes. Guidance on programme evaluation to programme managers would be an important step forward, and could follow the lines of the guide produced by the Impact Evaluation Working Group in the Netherlands (Impact Evaluation Working Group, 2012).

The following recommendations are offered to improve Italy's national SME and entrepreneurship programmes:

- Increase value for money from the Credit Guarantee Fund by capping lender default payments, allowing borrowers to post personal guarantees, and permitting larger firms to participate in the scheme. Set limits to the total volume of counter-guarantees to local mutual guarantee associations to reduce potential moral hazard and systemic risk problems.
- Strengthen the viability of the *Confidi* by encouraging mergers and the creation of consortia and offering training and good practice exchange to increase management capabilities.
- Broaden the financial instruments for high-impact entrepreneurship and medium-sized firms by opening up the mini-bond market to non-professional investors, expanding tax breaks for mini-bond and business angel investors, supporting a dedicated small caps or accelerator programme, considering an initiative to facilitate indirect investment by informal investors in SME equity on the Italian stock market through managed funds, and offering financial education programmes for entrepreneurs and SME managers.
- Introduce new initiatives to favour collaboration between universities, SMEs and entrepreneurs, for example through mentoring of potential academic entrepreneurs, dedicated seed funding for early-stage commercialisation of research, funding for co-operative research centres for staff of universities and enterprises and a major national programme for joint research between universities and small collections of related SMEs.

- Develop information, education and training programmes to support entrepreneurs and SME owners to manage their intellectual assets, and extend current innovation policy support to encourage other types of intellectual property in addition to patenting.
- Amend the criteria for obtaining tax breaks under the "innovative start-up legislation" to reward firms generating innovation outputs, rather than using technology inputs (R&D, PhD staff and patents), and including non-technological innovation.
- Streamline and prioritise the system of support for SME exports based on a comprehensive review of existing initiatives, ensuring that adequate resources are provided to the most effective actions. Favour the development of networks of SMEs for the purposes of collaboration on exporting to new markets. Offer advice and training to SME managers and workers aimed at better exploiting export opportunities in areas such as foreign language skills and supply chain and operations management, including by encouraging banks to play a more proactive role in assisting entrepreneurs and SMEs with exports. Develop infrastructure, awareness and training programmes to promote e-commerce among SMEs.
- Develop a national strategy and action plan to promote entrepreneurship education at all levels (schools, vocational training, and higher education institutions) and to incentivise education institutions to offer entrepreneurship support. Accompany this with a promotional campaign to create awareness towards entrepreneurship and new business creation in the general population.
- Integrate components of a dual apprenticeship system into vocational education. This includes industry- and nation-wide standards for training, formal labour contracts with apprentices, formal centralised examinations, and proper quality assurance mechanisms.
- Expand company-based apprenticeship training schemes by increasing their quality, and hence their attractiveness to businesses and young people, by further development of national standards on the contents and methods of training and improved arrangements for authorisation of training companies and tutors, monitoring and supervising the training, and central organisation of apprentices' final examinations.
- Revamp existing workforce training measures, including the Industry Training Funds, so that they can better respond to the relatively limited organisational capabilities and budgets of SMEs with respect to training by increasing SME awareness of available public training programmes, introducing a simplified procedure for SME applications to ITF courses, encouraging training for networks of SMEs, and making more use of training vouchers for SMEs.
- Introduce a national programme to encourage the recruitment of graduates by SMEs, such as through specific goal-oriented internships for university students in SMEs supervised by university teachers and researchers as part of their degrees, which may lead to subsequent hiring at the same time as promoting SME innovation directly.
- Expand the reach of public management support to more SMEs by developing low cost solutions including a comprehensive system of enterprise diagnostic self-assessment health checks, the use of retired professionals as mentors and advisors, and peer-to-peer learning activities such as a national company visit programme to discuss best management practices.

- Create an online portal providing signposting to all public management support measures available at different levels of government and across different public institutions, together with tailored search facilities which allow SMEs to easily identify appropriate support across different stages of the life-cycle of a company.
- Increase the participation of SMEs in public procurement contracts by increasing the subdivision of contracts into lots, increasing the visibility of public contracts to SMEs, for example with an online search tool, offering basic online guidance and training to SMEs in winning contracts, and organising "meet the buyer" events to match SMEs with public agencies with potential contracts.
- Pilot test and scale up promising new initiatives for female, youth, ethnic minority and senior entrepreneurship. Broaden the support by placing a stronger accent on business training and coaching in addition to offering financing, encourage programme participants to develop more growth and innovation-oriented business projects, and facilitate and support intergenerational business succession.
- Increase programme support for social enterprises by increasing awareness of the economic and social contribution of the sector, adapting the fiscal regime to provide suitable incentives to social enterprise activity, developing new measures for social enterprise finance, such as fiscal incentives for investors, adapting existing business development services to facilitate access by social enterprises to regular support and offer certain tailored services such as training, mentoring and social enterprise incubators, and making public procurement contracts more open to social enterprises through better use of social clauses.
- Set up a comprehensive evaluation framework for regular and rigorous evaluations of SME and entrepreneurship support programmes to determine their effectiveness and ways they can be improved, including guidance on the regularity, scope and methods of evaluation to be used.

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Chapter 6

The local dimension to SME and entrepreneurship policy in Italy

Italy exhibits strong regional disparities, especially between the economically advanced North and the less developed South, and a decentralised governance structure, where most economic development competences are shared by the national and regional governments. The co-ordination of policy between national and regional authorities and the responsiveness of national programmes to differing local conditions are therefore very important in Italy. The State-Region Conference has proven to be a useful tool to coordinate national and regional programmes co-financed by the EU. However, there needs to be greater coordination among national and regional initiatives which aim at the same groups of enterprises. Some national programmes are also unequally distributed across regions, calling for mechanisms to distribute resources in better proportion to the target firm base. Regional authorities also have important responsibilities for business regulation, and the best strategies for administrative simplification should be rolled out at this level.

Regional differences

Strong and persistent economic disparities between the North and the South

Italy is a very heterogeneous country from an economic point of view. This is not only related to the underdevelopment of the South, but also to differences in economic structure and performance among the regions in the North. While there are common issues across all these regions related to support of SMEs and entrepreneurship (for example because basic laws and regulations are common to the whole territory), some of the detailed opportunities, barriers, and support needs vary and SME and entrepreneurship policies and programmes may therefore need to be tailored on a local or regional basis.

One of the most conspicuous features of the Italian economy is its long-standing North-South divide. Regions in the South (the *Mezzogiorno*) have levels of GDP per capita only slightly more than one-half of those of the most prosperous northern regions, with GDP ranging from less than 70% of the national average in the southern regions of Campania, Calabria, Puglia and Sicily, to more than 120% of the national average in the northern regions of Valle d'Aosta, Lombardy, Trentino-Alto Adige and Emilia-Romagna (Figure 6.1). As a result, Italy is one of the OECD countries with the highest income inequality, twice as high as other countries with comparable GDP per capita (e.g. Spain, Germany, Japan and the UK) (Iuzzolino et al., 2011).

This split between North and South is also evident in figures related to employment. Participation rates are much lower in the South, whilst rates of unemployment, and particularly youth unemployment, are much higher (Figure 6.2).

There are also significant differences in industry composition (Figure 6.3). For example, agriculture accounts for 4.9% of employment in the country as a whole, but more than 10% in three regions of the South (Apulia, Calabria and Basilicata). Manufacturing accounts for 22.7% of employment overall, varying between 7.1% (Calabria in the South) and 32.3% (Veneto in the North), although below average figures are to be found not only in the South, but also in northern regions including Trentino-Alto Adige (16.5%) and Liguria (13.6%). Service employment averages 47.3% with the highest percentages in Lazio (61.8%), Val D'Aosta (56.9%), Liguria (55.3%) and Campania (53.1%), while the lowest figure is for Marche (39.5%). In addition, companies in the South are much less open to international markets, with a difference relative to the North and Centre consistently around 15% measured as an export to GDP ratio, tend to be of smaller size, and are more likely to be engaged in traditional sectors (Bronzini et al., 2013; Montanari, 2011). Access to credit also varies geographically, with credit rationing much more pronounced in southern regions (Costa et al., 2013).

Regional disparities have been persistent in Italy for several decades, and although there has been some convergence in the past, it has largely come to a halt during the last 20 years. Between 1991 and 2007, GDP per capita in the South as a share of that in the North rose by a mere 2 percentage points, from 59.6% to 61.6%, whilst the overall contribution of

Figure 6.1. **GDP per capita by region, 2012**

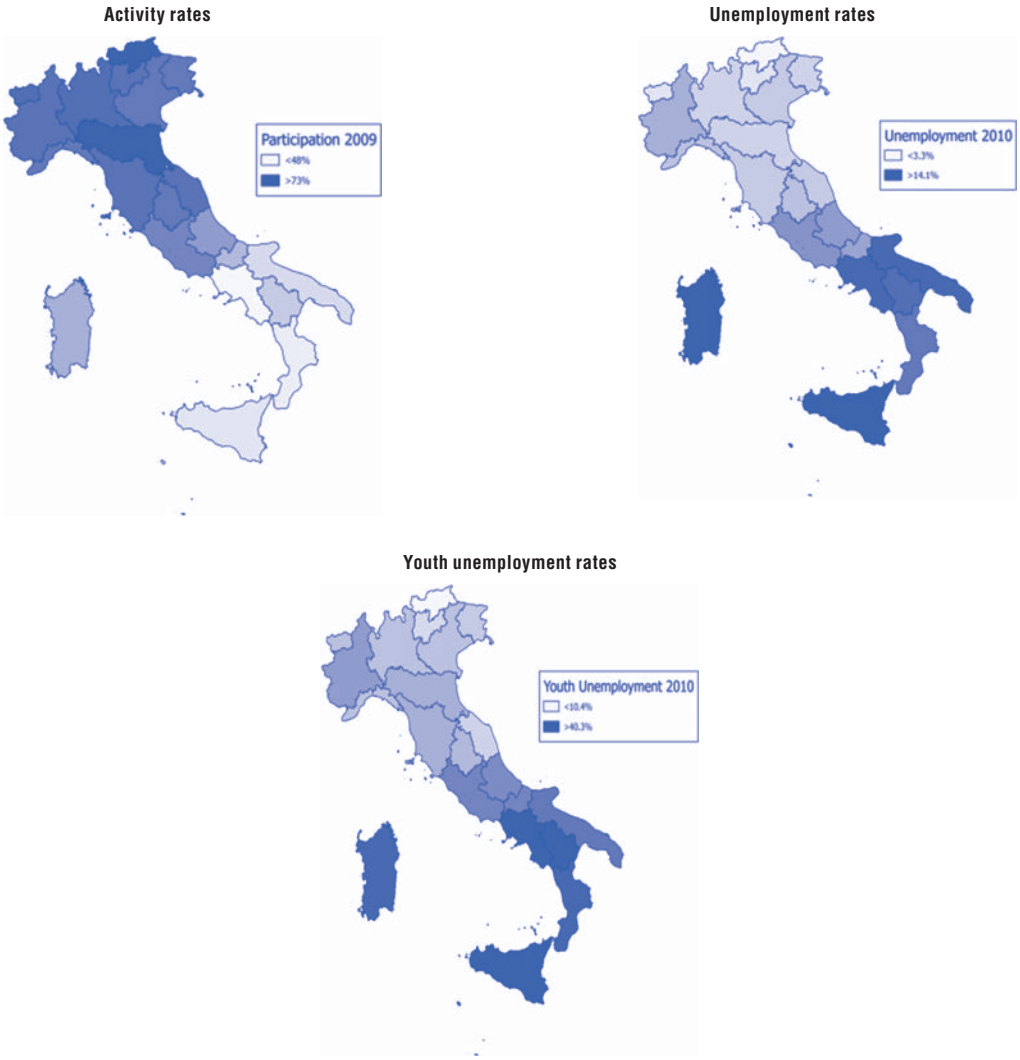
Percentage of national average (Italy-100)

Source: OECD based on ISTAT National Accounts database

StatLink http://dx.doi.org/10.1787/888933147597

Figure 6.2. **Key regional labour market indicators, 2009 and 2010**

Percentage values



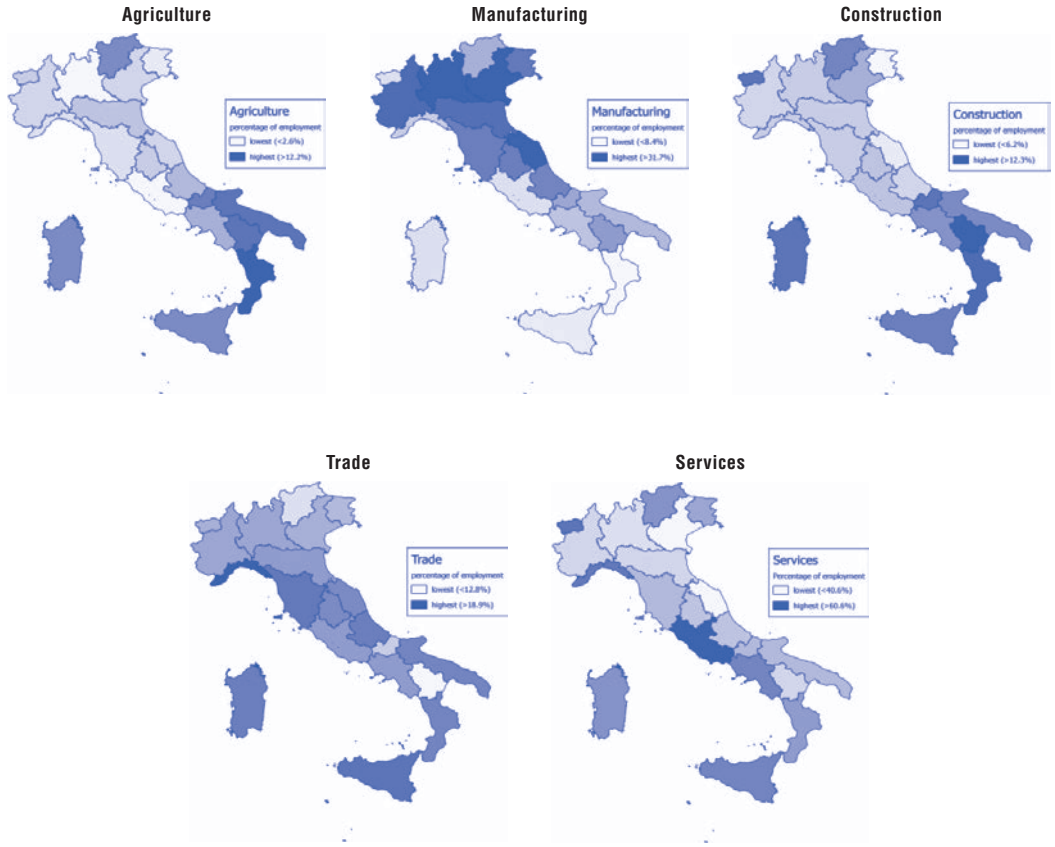
Note: Figures for youth unemployment for Bolzano and Liguria relate to 2009

Source: OECD based on OECD Regional Labour Statistics database

StatLink http://dx.doi.org/10.1787/888933147600

Figure 6.3. **Employment rates by sector and by region in Italy, 2012**

Percentage values



Source: OECD based on ISTAT National Accounts Statistics database

StatLink http://dx.doi.org/10.1787/888933147618

the South to national GDP fell by 1 percentage point, from 33.8% to 32.7%. In the same period, the number of full-time equivalent workers in the South fell from 40.2% to 36.6% of the national total, and unemployment rates increased more rapidly than elsewhere. Southern Italy has also lost ground in international comparative terms; its per capita output was 79% of that in the EU27 in 1995, but only 70% in 2008. The recent economic crisis exacerbated the divide. Between 2007 and 2011, value added contracted by 6.8% in the South compared with 3.8% in the North and manufacturing employment dropped by 11.1% compared with 5.1%. The credit crunch following the sovereign debt crisis also disproportionally impacted on southern firms.

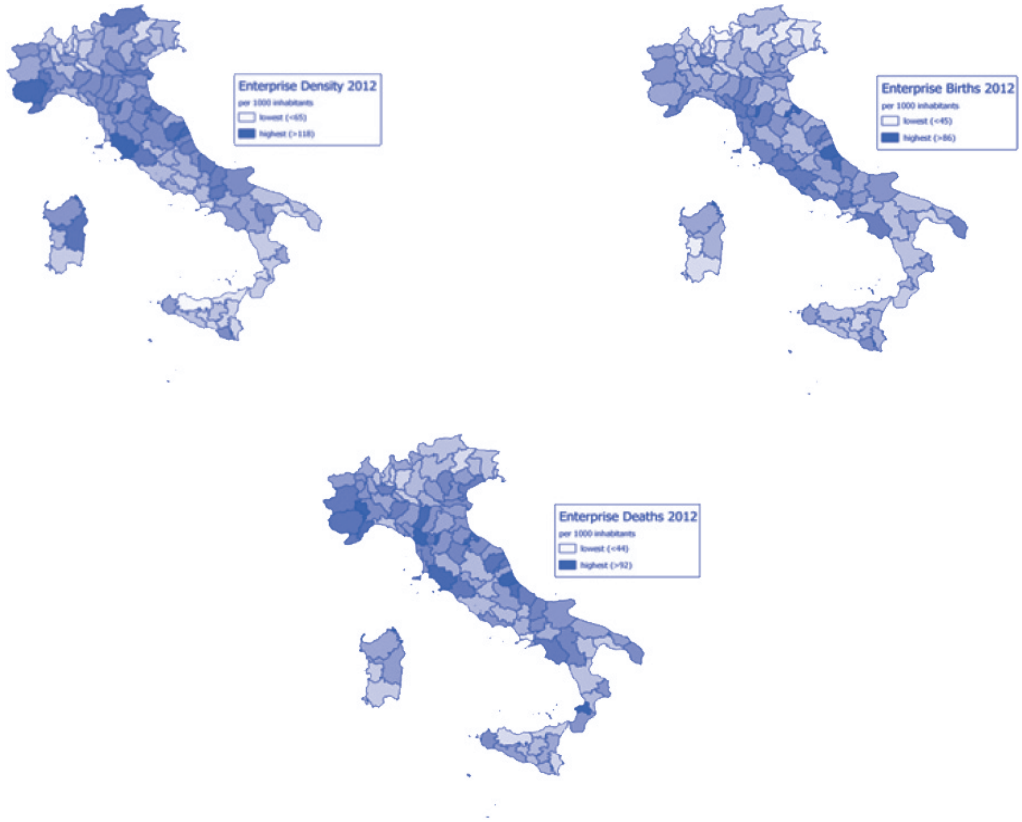
Significant local variations in SME and entrepreneurship performance

As might be expected in this context, there are also significant geographical differences in SME and entrepreneurship activities. In particular, many of the lowest SME densities are in the southern provinces, which also tend to have lower business churn rates (Figure 6.4). This illustrates a relative lack of entrepreneurial dynamism in the South that needs to be addressed if regional disparities are to be reduced and national growth potential increased.

Nonetheless, there are also areas of excellence in the South, such as the export-oriented industrial clusters in the regions of Apulia and Campania (Intesa San Paolo, 2013).

Figure 6.4. **Enterprise densities, birth rates and death rates by province, 2012**

Per thousand inhabitants



Note: For births, Prato shows a much higher rate than anywhere else and therefore the range is shown on the other provinces. For deaths, Prato and Vibo-Valentia are outliers and again the range is shown for the other provinces.
Source: OECD based on Uniocamere's Movimprese database and ISTAT (2011), 9 Censimento Generale dell'Industria e dei Servizi e Censimento delle Istituzioni Non Profit, Rome

StatLink http://dx.doi.org/10.1787/888933147629

SME and entrepreneurship development has been under-emphasised in the strategy for the South

The economic development of southern Italy has been a priority of all Italian governments for several decades, but SME and entrepreneurship development has not traditionally been at the top of the Italian convergence policy agenda. For 40 years in the post-war period (1951-92) responsibility for economic development support in the South laid with the Southern Italy Development Fund (the *Cassa per il Mezzogiorno*). During this time, the policy targeted infrastructure and industry development, where the latter focused on investments by state-owned plants and fiscal incentives for large industrial groups of the North to invest in the South rather than the development of new start-ups or existing SMEs.

Since the early 1990s, and under the impulsion of European funding, the design of interventions for the South has become more decentralised to regional authorities and there has been a shift in the nature of the actions pursued towards supporting the environment for business competitiveness. The current policy focus is set out in the government's main strategy document for southern regions, the annual National Plan for the South, which is linked to EU Structural Fund support. The Plan makes a distinction between strategic priorities for economic development (infrastructure and environment; education and

competences; innovation, research and competitiveness) and strategic priorities for the improvement of contextual factors (security and legality; rule of law; public administration; local financing system; targeted and streamlined business support). However, while the contextual factors can be seen as key enablers of entrepreneurship and SME development, they are unlikely to do much to address the key structural weaknesses of southern SMEs in the short run (e.g. smaller size, lower profitability, lower exposure to innovation and internationalisation and low domestic demand). Substantial direct support for building the capability of southern enterprises is also needed.

The Plan has a number of instruments at its disposal in this respect. Tax credits for innovation, research and competitiveness are one of the key instruments. Experience from the US federal R&D tax credits suggests that this type of approach can be effective: the US programme has succeeded in making firms more R&D-oriented than before, not only in the short- but also in the long-term, especially in the case of new and small firms (Rao, 2013). At the same time, the Italian tax credits should be properly designed. If they are too automatic and generous they may quickly run out of resources. Law 388/2000 is an example of the problem, in that it awarded tax credits for investment in the South irrespective of nature, sector, or size (Viesti, 2011). On the other hand, if the credits are too complex and difficult to access they may discourage applications, and thus investments, because of high intermediation costs and uncertainty among SMEs about the final outcome of the application process. Unfortunately, there have been many changes in the rules for tax incentives for businesses in the South. Attention should therefore be paid to ensuring that the tax credits have clear and consistent rules and are of sufficient duration to enable a long-term change in the investment decisions of firms towards the objectives of policy makers.

There is also a range of other traditional business incentives available to support enterprise development in the South. One of the strengths of the Plan is that it is now bringing about a rationalisation and simplification of the incentive system, including a stated intention to cross out 30 of over 100 different types of business incentives currently existing at national level.[1] It is also planned to set up a common support framework through which automatic vouchers will become the main entry point for entrepreneurs seeking public support. The main merit of vouchers consists in their automatic nature and simplicity of use, which reduce market distortions and make them easily accessible to SMEs. On the other hand, given their small value, they may not be sufficient to change the long-term behaviour of firms.

Rather than a lack of available financial instruments for enterprise development, the obstacle is a relative lack of spending on these types of supports compared to the needs, or to building the framework for business activity more generally. Thus, information on the recent programming of EU funds shows that the two most relevant headings with respect to SMEs and entrepreneurship have received relatively little funding in Italy in comparison with other larger countries in Western Europe (Table 6.1). In addition, there have been operational constraints at the regional level in spending the European and national resources available for local development, which affects SME and entrepreneurship support as well as other programme areas. In the 8 regions of southern Italy only 38% of available national resources (EUR 16 billion) and 7% of European resources for the 2007-13 programming period had been spent at the end of 2011, which raises a concern about the effective capacity of local policy makers in the South to make use of the available resources in time.

In addition, national programmes which are distributed on the basis of the demand expressed by eligible companies do not appear to have clear visions of regional focus. For example the Central Guarantee Fund established under Law 662/96 is disproportionately concentrated on a few regions. More than 20% of operations and value are in Piemonte, which represents around 7% of the population, while less than 2% by number and value are in Lazio, which represents 9% of the population (Mistrulli and Vacca, 2011). Spending on the national Network Contracts and Innovative Start-Up programmes is also relatively weighted to the North, partly reflecting the way the programmes are designed to support the most innovative companies, which tend to be more present in the most prosperous regions. There is scope for greater targeting of such resources on the basis of national spatial development objectives through monitoring and adjusting spending and re-designing programmes to increase take up in the South.

Table 6.1. **Share of EU Structural Fund spending on entrepreneurship related activity in selected countries, 2007-2013**

Percentage values

	United Kingdom	Germany	France	Spain	Italy
Research and technological development, innovation and entrepreneurship (% of European Regional Development Fund allocation)	58.0	46.9	36.9	30.1	29.5
Increasing the adaptability of workers and firms, enterprises and entrepreneurs (% of European Social Fund allocation)	30.0	16.4	17.6	21.5	15.2

Source: OECD based on European Commission (2008), Cohesion Policy 2007-13: National Strategic Reference Frameworks, Brussels.

StatLink http://dx.doi.org/10.1787/888933147747

Further emphasis could be placed on direct support to southern enterprises for increasing their efficiency and innovation by increasing the draw-down of national and European resources that can be directed to SME and entrepreneurship development. This could include initiatives for entrepreneurial finance, such as equity investment support, mentoring and consultancy support for business innovation and internationalisation and support for regional innovation networks, for example by establishing regional centres of excellence in research and research commercialisation in the South based on an analysis of industry and academic strengths and proximity to the major university centres. Box 6.1 outlines a potential model programme from Germany that was designed to support the development of innovation networks in lagging regions with a weak base of SME innovation.

Notwithstanding the relative lack of direct support for enterprise development in the South, the activities for research and innovation are well thought-out in general. Spending is appropriately directed towards a few technologies (ICT, nanotechnologies, biotechnologies and materials science) that are relevant to the future industrial development of the South and permit both the development of critical mass in 'centres of excellence' and the cross-over of knowledge into related sectors.

At the same time, the Plan for the Development of the South contains a proposal for developing a new Bank for the South in order to ease constraints in local SME credit markets. The main goals of this new institution will be: i) developing medium and long-term credit for SMEs by partnering with cooperative banks and savings banks at local level; ii) strengthening the credit guarantee system by acting as a guarantor bank and by encouraging aggregations in the system of *Confidi* (local mutual guarantee associations);

Box 6.1. **International inspiring practice: Regional innovation support through InnoRegio, Germany**

Description of the Approach

The East German economy has lagged behind the rest of the country since reunification. At the end of the 1990s, its business and research landscape was marked by a predominance of SMEs, low innovation capacity, a dearth of employment and training positions and the out-migration of young people to the rest of the country. In this context, it would be difficult for East Germany to access and benefit from traditional national innovation policies that pre-suppose a high innovation capacity. The Federal government therefore introduced the InnoRegion programme in 1999 aimed specifically at building up new innovation capacities in the regions of East Germany by stimulating the emergence of local innovation networks involving SMEs, training and research establishments based on some specific local competences that could be directed to new and growing markets.

The programme was set up as a broad, open-themed competition that would provide support over and above existing innovation financing for research and innovation in winning projects, which were to create potentially sustainable innovation networks with long-term competitive ability. A national jury selected 23 networks for support from a total of 444 applications from alliances of companies, educational and research institutions encompassing greatly varying industries and with a diverse array of focuses. It ran from 2000-2006.

An evaluation of the programme led by the German Institute for Economic Research (DIW) in Berlin showed that during 2000-04 the number of employees in InnoRegio companies rose by 11%. Some 44% of the participating companies applied for patents and 40% introduced entirely new products as a result of the support (BMBF, 2005). A later evaluation (Brenner et al, 2013) showed continuing effects after the programme finished in 2006, suggesting that the ambition of self-sustaining networks has been realised to some degree.

Factors for success

The programme focused resources on developing what were judged to be the most promising innovation networks in the targeted regions rather than fragmenting funding and actions over a wide range of projects. This was achieved through a competitive approach that offered flexibility in the selection of networks for funding. To achieve this, the competition guidelines were left very wide: there were no stipulations regarding the composition of the groups of applicants or the size and organisation of the localities from which they were drawn. Localities were not defined on an administrative basis and entire regional states (*Länder)* were specifically *not* recognised as localities from the point of view of the competition.

Obstacles and responses

Despite the fact that this was a new competition, most networks developed from old relationships and there was therefore some danger of exclusion and inertia. The fact that the competition was very open and dependent on the interpretation of the jury increased fears that the usual beneficiaries would receive support. It was therefore important that the jury making the decisions had credibility and that the programme was monitored and evaluated appropriately.

Box 6.1. **International inspiring practice: Regional innovation support through InnoRegio, Germany** *(cont.)*

Relevance to Italy

The need to stimulate innovation in the South of Italy is a longstanding challenge, but successive approaches have met with limited success. This model shows another way of working, through stimulating new networks by a competitive bid, which has been used successfully not only in Germany but also copied in different ways in a number of other countries (for example *Vinnväxt* in Sweden).

Further information

BMBF (2005), *Das BMBF-Förderprogramm InnoRegio – Ergebnisse der Begleitforschung, BMFB*

Brenner T. et al (2013), "Regional Effects of a Cluster-oriented Policy Measure - The Case of the InnoRegio program in Germany", *University of Marburg Working Papers on Innovation and Space*, 2013-05.

InnoRegio programme website: *www.unternehmen-region.de/en/159.php*

and iii) offering advice and support to SMEs interested in the use of business incentives. Although the new Bank would help address an important problem, its proposed functions resemble more those of a support agency than those of a real bank. Two of its three objectives concern advice and mentoring to partner banks and business enterprises, while the third could involve overlapping with the task of Central Guarantee Fund. In addition, the proposed focus is too strongly weighted to debt finance as opposed to equity finance, which is likely to accentuate the prevailing loan culture in the region. It may be more advisable to include a range of relevant activities for SME and entrepreneurship finance support in the South within the remit of a new national agency or financial institution for SME and entrepreneurship development in Italy, both to secure a diversity of support approaches and to improve policy co-ordination within the country as a whole.

Policy co-ordination

A decentralised governance system

Italy is a relatively decentralised country (ISMERI, 2010), which raises issues of ensuring that policies and programmes are co-ordinated across the national and regional levels and among the regional governments. The country is divided into 20 regions, of varying sizes, consisting of 15 "ordinary" regions and 5 autonomous regions (all of the latter being on the periphery). Autonomous regions can keep a proportion of tax revenues (from 60-100%), while ordinary regions have more limited control over their budgets. All regions have their own economic development strategies, can establish their own economic development programmes and can raise some of their own funds to support their interventions (depending on their level of autonomy). European Union funding is an important component of support for SME and entrepreneurship development in the regions, with funds largely spent through regional operational programmes. Both types of regions are also able to enact local regulations affecting economic development.

Article 117 of the Constitution defines the competences of regions and the national government. Some items are the exclusive competence of the national government (for example state taxation) whilst a number of areas are stated to be "concurring competences", where the competence resides with the region, but the State is responsible for producing guiding principles. Such areas include: scientific and technological research and innovation

support for productive sectors; enhancement of cultural and environmental properties, including the promotion and organisation of cultural activities; savings banks, rural banks, regional credit institutions. Areas outside those specifically defined can be seen as joint competences with both parties able to create legislation and policies.

Italy has two further administrative subdivisions; provinces and municipalities. In practice, however, economic development policy is elaborated at the regional level, although the provinces have responsibility for vocational education and local planning, and a number of business organisations (specifically the Chambers of Commerce) are organised at the provincial level. There have been a number of proposals to abolish provinces and this is already agreed in some regions (for example Sicily).

As part of a process of policy decentralisation to the regions that has been underway over the past 20 years, a statutory body has been formed to co-ordinate relations between the State and the Regions called the State-Regional Conference (*Conferenza Stato Regioni*) (Ruggiu, 2013). The Conference has been used effectively, for example, in programming EU funds. The National Strategic Reference Framework for 2007-13 was proposed by the State (in consultation with stakeholders) and then agreed by the State-Region Conference resulting in guidelines for the regions in producing regional strategies and operational programmes. The same approach is being adopted for the current financing period (2014-20), where the coordinating document is now called the Partnership Contract. This appears to be an effective way of co-ordinating policy. However, it has been limited to the framework in which EU funds operate and therefore has not included programmes which are not co-financed by the EU, policies which relate to tax incentives, and inter-regional cooperation (except where this relates to sectoral operational programmes funded by the EU, although all of these are in the South).

The regions (and the two autonomous provinces) have established a second voluntary body (the *Conferenza delle Regioni e delle Province Autonome*) which seeks to reinforce inter-regional co-ordination of policy. This conference attempts to find common positions for the regions, to represent their views to central government, and to act as a discussion forum for common issues and inter-regional problems. However, since it does not have a statutory nature, it has mainly acted as a forum for discussions, with the power remaining with the regions themselves. As a result there is no possibility to come to decisions binding on all regions unless there is consensus.

An array of heterogeneous regional and local SME and entrepreneurship initiatives

Many SME and entrepreneurship programmes in Italy are designed, funded and implemented purely at a regional or local level. These include policy actions organised and funded by regional governments and local governments (for example through provinces and municipalities) as well as those supported by organisations outside the public sector, for example chambers of commerce (generally organised at the provincial level), independent development organisations (innovation centres etc.), and those organised around clusters, which are a responsibility of the regions.

The result is a very diverse picture of SME and entrepreneurship policy actions at regional and local level with the following characteristics:

- A wide variety of different incentives, typically direct financial subsidies, which often depend on specific eligibility criteria related to sector or location. Even in Lombardy, which has a reputation for being well organised and has a specific organisation

(SBALombardiaLAB) aimed at improving the business environment and animating the current debate on policies to support SMEs, an OECD analysis concludes that: "There are many agencies and associations representing different regional interests. The rationale for this number of organisations is historical and while such tradition has strength and community of interest spirit, there is a need to promote a more unified economic development platform and framework." (OECD, 2012)

- A lack of coherence across adjoining regions both in terms of incentives and support structures (for example innovation networks, support through private consultants). For example, different regions have taken different approaches to supporting innovation: Aster in Emilia-Romagna assists enterprises to find the best support from a variety of existing sources, while Vega in Veneto has sought to create centres of excellence and deliver support itself.
- A tendency towards direct support rather than improvement of the business environment, owing to the nature of regional powers and funding.
- Poor consistency with national initiatives, for example in defining specific target groups for support (e.g. definition of high growth companies and sectors).

A few national actions have been taken to assist local co-ordination through place-based national policy and to encourage neighbouring localities to co-operate. Specifically such actions include:

- *Territorial Pacts*. These are development plans agreed between local governments and representatives of civil society (mainly entrepreneurs and trade unions) from a number of neighbouring municipalities, which are subsequently endorsed by the central government. The agreements detail a series of co-ordinated private and public investments for the territories involved.
- *Planning Contracts (Contratti di Programma)*. These are intended to stimulate industrialisation in lagging areas. Planning Contracts involve an agreement between the central government and private firms (SMEs and large firms) for investments in plants and employment in target localities. Public money follows the approval of a full-fledged industrial plan for the area.

Unfortunately evaluations of both of these actions suggest that they have had limited impact – see Accenturo et al (2011), Gastaldi (2003), Andini and De Blasio (2013). On the other hand, the variety of approaches at local level does not appear to significantly impede the delivery of appropriate SME and entrepreneurship development support. More important issues appear to be to increase national-regional and inter-regional co-operation.

Policy coordination between national and regional levels is a challenge

In the current stage of decentralisation, while some aspects of SME and entrepreneurship policy (for example tax) are defined to be the competence of either the national or the regional level of government, the majority of significant policy areas are ones of concurrent or joint competence under Article 117 of the constitution, meaning that policy actions can take place at the national or regional level or both. Joint scope for action is common across OECD countries under a range of different governance systems and it is typical to have some combination of highly-specific regional programmes together with a set of programmes that are national and seek to ensure a common standard of support across the whole country. However, there needs to be clarity in the strategy for division of competences, even if the detail can be negotiated.

The growing role of EU programmes in funding regional development policies, including for the convergence of European lagging regions such as the South of Italy, also raises issues of policy co-ordination. The majority of EU Structural Fund programmes in Italy are designed and implemented at regional level through a decentralised and participative approach involving regional governments, local authorities and social partners. This enables strong tailoring of approaches to differing regional needs, but does open up the possibility of a lack of co-ordination among projects in different regions and limited control by the central government on their strategic impact.

In practice, in the areas where EU funds are decisive, the current system of coordination (notably the planning system for EU funding and the statutory position of the State-Regional Conference) appears to be effective and to create programmes which are coherent and consistent and fit into both regional and national frameworks (though it should be noted that this does not necessarily extend to coordination of implementation). The existing system is no doubt generally adequate for the new EU funding round and new Structural Funds procedures.

Outside the necessary coordination imposed by the EU funding regime (where public co-financing is defined in the planning documents), there does not appear to be a clear vision of how the system of support for SME and entrepreneurship development should operate. Some actions are national, some national programmes are open to competition for access from regional organisations, and some actions are purely regional or local. To a large extent, national and regional programmes are funded separately, perhaps exacerbated by the fact that a number of national programmes are related to tax incentives rather than direct funding. Thus beyond EU programmes, the overlapping of economic development responsibilities between national and regional governments has led to a number of co-ordination problems and the lack of an overall framework for SME and entrepreneurship development.

Firstly, there needs to be a clear mechanism for implementation of national actions which seeks to provide a minimum level of business development services in all regions. The recent introduction of a one-stop-shop approach in Italy has demonstrated the possibilities but could be taken much further. At the same time, the implementation of national business support measures at the regional level through a unified national system should not entail the elimination of regional specialisation and funding. The Canada Business Network (see Box 6.2) is an example of how national government can ensure that certain national services are delivered in all regions while coordinating with other decentralised business support activities and decentralised governance to ensure flexibility of services in meeting local needs. A similar action could be introduced in Italy, based on an extension of the functions of the one-stop shops to include regional as well as national business development services. It would, however, require the upgrading of the digital network connecting chambers of commerce among each other and with the national and regional public administration, and adequate training of the staff employed in the revamped one-stop shops.

Secondly, there should be better coordination of regionally-funded initiatives (possibly co-financed by EU Structural Funds) with national incentives policies (such as tax breaks). For example, there are policies and actions to support high-growth firms at both national and regional levels but owing to lack of a common definition and coordination it is not clear that they are in fact targeting the same companies and therefore some impact may well be lost.

Box 6.2. **International inspiring practice: Canada Business Network's co-ordination of national and local initiatives**

This model demonstrates how a national network of business development support services can effectively be co-ordinated with regional business support structures through a process of negotiation and co-financing.

Description of the approach

Canada Business Service Centres (CBSCs) were first established in 1995 as "one-stop shops" to improve services to new entrepreneurs and small businesses and make it easier for them to access information about government programmes and services. They are now referred to as Canada Business Centres and managed as part of the federal government's Canada Business Initiative under the Ministry of Industry. There are 13 Canada Business Centres, one in every province and territory, and upwards of 500 Regional Access Partners (e.g. provincial and municipal governments, business associations, Chambers of Commerce, community economic development organisations) which increase accessibility to the services across Canada.

Staff working in the Centres provide information on government services, programmes and regulations, answer questions about starting a business or improving an existing one, including in areas of business planning and market research, and make referrals to other support organisations and services. The Centres act as the main point of entry to a dense network of government departments, agencies and non-governmental organisations offering advisory services to SMEs, and refer clients to various network members depending on their needs.

The Canada Business Initiative is a co-operative arrangement among federal business departments, provincial and territorial governments, and in some cases, the private sector, business associations and the academic and research communities. Collaborative agreements with these partners ensure provision of information for entrepreneurs and SMEs and co-operation in meeting their needs. Cost-sharing and co-location arrangements are in place with the provincial governments.

The Canada Business National Secretariat, housed in the Ministry of Industry, is responsible for developing policies, standards and practices to promote a consistent national network operation across the Centres, and for maintaining the technical network, information databases and products and the national website. The regional development agencies are accountable for federal management of Centres located in the provinces within their jurisdictions and are required to report annually to Parliament through their departmental Reports on Plans and Priorities and Departmental Performance Reports.

These lead agencies co-ordinate their activities nationally through the Canada Business Managing Partner Committee composed of senior officials from each organisation and from the Ministry of Industry (Industry Canada). This Committee is instrumental in developing consensus on major operational decisions as well as in defining core services, new services and products, and national standards.

The network makes use of a Client Tracking System to collect meaningful data on clients that helps the network better target its messages and improve service offerings. The majority of Canada Business clients are potential and new entrepreneurs in the start-up and new business phases. Over time, the Centres have attempted to improve their appeal to existing SMEs by marketing value-added services, such as seminars and mentorship/advisor programmes. A further innovation in Centres' offerings is BizPal, a web-based platform for identifying all of the permits and licenses required when starting or operating businesses of different types. Development of new products and services and improvements in service standards are based on client satisfaction studies and research.

Box 6.2. **International inspiring practice: Canada Business Network's co-ordination of national and local initiatives** *(cont.)*

The Canada Business Network has been funded federally since 1994 at an average rate of CDN 15 million per year. Cost-sharing arrangements with different provincial and territorial governments vary across the country and contribute to funding at the local level. Core services are offered free of charge, although some centres charge for supplementary services.

Factors for success

The success of the Canada Business Centres network is accounted for by the commitment to federal partnerships with provincial and territorial governments (co-location, shared services, co-funding), the outreach to other regional SME support organisations (i.e. Regional Access Partners), training and on-going professional development of Centre staff, innovations in the use of information technology platforms to amass a variety of business-related government databases and disseminate information and services, and responsiveness to the needs of entrepreneurs and SMEs as identified in client usage and satisfaction surveys.

Obstacles and responses

One of the initial challenges of the federal government was convincing some of the provincial governments to partner with them on the initiative, especially in cost-sharing arrangements. In these cases of reticence, the federal government moved ahead anyway and eventually, all provincial and territorial governments realised the benefits of co-operation.

Since Canada Business is a network with considerable regional variation in funding and service priorities, it faces a continual challenge to maintain a cohesive and consistent level of service. To achieve this, considerable investment is made to facilitate communications through a variety of committees and communities of practice. This contributes to a shared vision and sense of purpose and allows the network to share good practices and exploit efficiencies.

In addition, there is a need to ensure that Centre staff is knowledgeable about all information products and services and competent to assist clients. For this purpose, the regional managers deliver staff training and professional development opportunities on a continuous basis.

Relevance to Italy

This programme shows an effective partnership between national and regional levels of government to create a unified service across the whole country in the presence of existing business development services at regional level and strong regional decentralisation of economic development powers. It is a possible solution to some of the issues related to national-regional coordination of SME and entrepreneurship support in Italy.

Further information

"Canada Business Network Operations Service Delivery and Partnerships" website: *http://canadabusiness.ca*

Thirdly, there is insufficient coordination of regional business support with national policies for innovation and cluster development. In the area of innovation, there are important national policies but a large proportion of interactions between research and business occur at regional or local level, implying the need for local elements to the policy approach, which should be worked out through co-operation between national and regional

governments. By contrast, clusters have traditionally been identified and supported at regional level but increasingly operate across more than one region, requiring some form of complementary national strategy to guide them which is currently lacking. For example, recent work by the Ministry of Education, Universities and Research (Decreto Direttoriale 14 dicembre 2012 n. 18) has resulted in the identification of 8 national clusters as a priority for pre-competitive research, but there does not appear to be co-ordination between this initiative and more general support for clusters at the regional level.

EU Smart Specialisation Strategies require stronger inter-regional co-operation

While there are good examples of economic development coordination among regions, they are generally based on *ad hoc* co-operation rather than systemic approaches. For example friendeurope.it is a consortium of organisations from three regions (Veneto, Friuli-Venezia Giula and Trentino-Alto Adige) set up to deliver actions under the Enterprise Europe Network, but this appears to have been developed for a single specific purpose and does not form a model or framework onto which other co-operation can be built. More could be done to increase inter-regional co-operation in the design of policies in this field.

In particular, although the system for programming EU funds allows for inter-regional operational programmes, for the period 2007-13, the only ones which were created related to the regions in the South where there was in any case a degree of unity in co-financing arrangements. This situation comes with some dangers of fragmentation and lack of coordination of actions which should logically span several regions, particularly with respect to support for innovation and clusters under the "smart specialisation" approach to be promoted in the 2014-20 EU Structural Fund programming period.

Smart specialisation is a strategic approach to economic development through targeted support to research and innovation at regional level. It will be the basis for Structural Fund investments as part of the future Cohesion Policy's contribution to the Europe 2020 jobs and growth agenda. Smart specialisation involves a process of developing a vision, identifying competitive advantage, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of any region, strong or weak, high-tech or low-tech (European Commission, 2012). The increased emphasis on this type of approach to business development support in the new programming period gives rise to the danger that with the current co-operation structures in place in Italy, possible synergies that might be achieved where a cluster or a sectoral supply chain covers several regions (e.g. in the automotive industry) will not be realised, while many regions may choose the same generic specialisations and effectively enter into competition with each other.

In order to mitigate these problems, a national approach should be developed to co-ordinate smart specialisation strategies in order to gain the most for inter-regional supply chains, and avoid competition between regions with the same apparent specialism. The Finnish OSKE programme offers a possible model for co-ordinating cluster development policies across regions (see Box 6.3).

Box 6.3. **International inspiring practice: Centres of Expertise Programme (OSKE), Finland**

This programme offers a model for how to co-ordinate regional innovation support structures and programmes with the development of clusters of national significance.

Description of the approach

The Centre of Expertise Programme forms part of the Finnish national innovation strategy. It promotes joint innovation projects between business and research that are relevant to the development of internationally-competitive clusters and based on the exploitation of specialised regional innovation infrastructures. The programme co-ordinates and networks the activities of regional, national and international innovation actors around projects to develop nationally-important clusters. It brings to bear research and training infrastructures and funding from bodies such as Centres for Economic Development, Transport and the Environment (ELY-centres), Strategic Centres of Expertise (SHOK) and TEKES programmes.

The programme directs resources to a set of overlapping Centres of Expertise and Competence Clusters. The principle is that there should be one Centre of Expertise in each region, based on regional strengths defined on the basis of sector, technology, expertise or application. Each Competence Cluster should be supported by at least two Centres of Expertise situated in different regions, thus drawing on a broad range of expertise and promoting interregional collaboration.

The programme currently consists of 21 regional Centres of Expertise which support 13 national Competence Clusters. A Centre of Expertise is an innovation hub of national significance in a field of expertise relevant to one or more of the clusters and may contain several fields of expertise belonging to different clusters. Most of the Centres of Expertise are situated on Science Parks. They bring together a network of regional operators and cluster actors including regional businesses, higher education institutions, research institutes and technology centres and pursue innovation measures that they define collectively on behalf of the region and the national cluster.

Competence Clusters do not comprise entire industry sectors, but innovation-intensive sub-areas of more functional clusters, or promising new cluster sub-areas with the potential to develop the competitiveness and business activity of the cluster as a whole.

The Centres of Expertise and Competence Clusters were initially selected and funded through a competitive bidding process. Although there is a bias towards high technology, some are in other areas such as tourism and culture. The programme has been running in different phases since 1994 and has been positively evaluated on a number of occasions.

Factors for success

Important factors for success include:

- The programme provides a long-term framework that combines national innovation support and regional specialisation.
- A wide range of stakeholders have been involved at all levels and the programme works on the basis of partnership. This has allowed the definition of clusters and the nature of the participation by Centres of Expertise to be largely consensual across research, government, and the private sector.
- The approach of defining Centres and Clusters by a process of competitive applications has allowed structures and ways of working to be built from the bottom up even within a nationally-defined framework and objectives.

Obstacles and responses

There are some inherent contradictions between national innovation policy (which implies a concentration on national priorities and competences and the location of actions where there is the biggest concentration of expertise, often Helsinki) and regional policy (which stresses support for lagging regions to catch up with the leading ones). This tension has not been eliminated by the programme, although the approach

Box 6.3. **International inspiring practice: Centres of Expertise Programme (OSKE), Finland** *(Cont.)*

does offer a forum where the issues can be discussed. Overall, the programme has been more successful at supporting innovation than supporting lagging regions, particularly because some of the regions do not have strong expertise on a national level. As a result there has been some suggestion that instruments for regional development and for innovation should be more clearly divided.

The emphasis on regional centres has to some degree caused the programme to become inward looking, although effective innovation requires internationalisation. In the latest phase, each cluster has a single coordinator who is specifically responsible not only for creating shared aims within the cluster, but also for stimulating cooperation outside it, including with other countries. Clusters were chosen with internationalisation potential as one of the criteria.

Relevance for Italy

The programme is relevant to the problems of regional–national coordination in Italy and in particular the difficulties of coordinating regional innovation strategies when clusters and supply chains fall across several regions. An Italian adaptation of the programme would not necessarily be as costly as the Finnish example (where long term funding for the Centres of Expertise is provided by central government) since centres of innovation already exist in most Italian regions, although they are organised in a variety of ways. A particular emphasis could be put on supporting centres of excellence in the South (as part of the Plan for the South).

This is also an example of a national programme constructed by competitive applications in order to favour bottom-up approaches within a national framework. The competitive bidding approach has not been used extensively in Italy, but could be used to enhance effective cooperation between regional and national levels.

Further information

Ministry of Employment and the Economy [of Finland] (2009), *Evaluation of the Finnish National Innovation System*, Helsinki.

Ministry of Employment and the Economy [of Finland] (2010), Osaamiskeskusohjelman (2007-2013) väliarviointi [Centres of Expertise Mid-term Review], Chapter 4.2 "The OSKE Programme in International Perspective".

The Research and Innovation Council of Finland (2010), *Research and Innovation Policy Guidelines for 2011–2015*, Helsinki.

Centre of Expertise Programme Website: *www.oske.net*

Local business regulation

Administrative complexity varies by region

There is significant geographical differentiation in the government regulation of new and small businesses in Italy, reflecting the responsibilities that regions have in regulating business registrations, dealing with construction permits, registering property and enforcing contracts. As indicated in Table 6.2, there are a considerable number of regional laws and regulations which businesses have to abide by, despite a national effort at administrative simplification, and it is important that the effort to reduce the burden of regulation is also rolled out at regional level. The number of regional laws and regulations affecting business varies significantly by region. For example, whereas Lombardy has only 632 regional laws affecting business regulation, Abruzzi has more than 2 700.

The number of laws and regulations at regional level is not the only issue, however. The impact on SMEs and entrepreneurs also relates to the coherence of laws and regulations and the way in which they are implemented. When examining the actual impacts of regulation on businesses some clear differences emerge across regions. For example, whereas in Milan

Table 6.2. **Number of regional laws and regulations, 2008**

Region	Number of region-specific laws	Number of region-specific regulations
Abruzzo	2737	160
Basilicata	640	92
Calabria	761	46
Campania	1212	N/A
Emilia-Romagna	929	41
Friuli-Venezia-Giulia	1043	N/A
Lazio	2170*	156*
Liguria	815	61
Lombardy	632	102
Marche	799	52
Molise	995	54
Piedmont	942	154
Apulia	886	186
Sardinia	2104*	N/A
Sicily	2935*	N/A
Tuscany	968	134
Umbria	992	105
Valle d'Aosta	927	66
Veneto	782	38
Prov. Bolzano	1320*	N/A
Prov. Trento	701	367

Note: * These data refer to the provisions issued and not to those now in force, because no data is available on the ones repealed.
Source: Ministry of Economic Development (2011), *Small Business Act: Support Initiatives for Micro, Small and Medium Enterprises in Italy – Report 2011*, Rome.

StatLink http://dx.doi.org/10.1787/888933147755

and Rome it takes 6 days on average to start a business, it takes 13 in Naples. Similarly, it takes an average of 316 days to obtain a construction permit in Palermo, compared with 151 days in Milan and 164 days in Bologna (World Bank, 2013).

Overall, data on the performance of 13 larger cities across Italy from the World Bank Doing Business report (World Bank, 2013) and rankings from a survey undertaken in 2008-09 to estimate the effects of the "Single Communication Act" simplifying business start-up (Bianco and Bripi, 2010), reveal that:

- Although there is a general tendency for regions in the South to perform relatively poorly, this is by no means always the case. For example, the longest periods required for dealing with the administrative procedures for enforcing contracts were in the cities of Milan, Bologna, Padua, and Bari, the first three of which are in the North.
- The cost of a construction permit relative to per capita income is almost twice as much in the North East and North West macro-regions as in the other three macro-regions. On the other hand, the average time to obtain a construction permit is approximately twice as long in the Islands macro-region as in the other four.[2]
- Rankings in different domains are not consistent, suggesting that there are different bottlenecks in different regions.
- The best-performing regions have administrative efficiency comparable with the best European regions; for example, starting a business in Milan, Padua or Rome is as fast as in Denmark and in the United States (World Bank, 2013).

Three main areas of policy improvements can be implemented at regional level to reduce the burden of regulation. First, there is room to consolidate regional laws and regulations and to simplify them to make them more consistent and comprehensible. Lombardy is an example of good practice in this respect and shows how far this can be done with relatively limited resources (Box 6.4). Second, better information can be provided to SMEs and entrepreneurs and single points of contact can be instituted. Third, adoption

Box 6.4. **Italian good practice: Administrative simplification in Lombardy**

Description

This initiative aims to unify all regional legislative provisions relevant to a specific issue in one consolidated, clear and organised set of rules. The process does not necessarily alter the regulations, but rather makes them more understandable and easier both to administer and to adhere to.

The consolidation approach involves the following process:

- Upon its entry into force, each consolidated law explicitly repeals other provisions related to the same business regulation issue that are either superseded by the new text or dropped.
- Any provisions in force covering the same area or sector that have not been repealed by the consolidated law continue to apply in their own right but are explicitly mentioned in the consolidated law.
- Future repeals or amendments must be incorporated directly in the consolidated law.
- Subsequent measures concerning the area or sector covered by the consolidated text can only be introduced via amendments or additions to the consolidated law itself.

The drafting of consolidated laws is entrusted to an *ad hoc* body made up – in equal numbers – of technical experts from the regional government and the regional council.

This process was introduced by regional law 7/2006 (regarding the simplification process). By 2010, ten consolidated laws had been adopted, repealing 270 previous laws and regulations. This was a pilot for a new regional initiative for the period 2011-15 called "Simplifying Lombardy: Minimising bureaucracy, improving institutions" (Agenda Lombardia Semplice), which is an integrated approach towards administrative simplification, aiming at redefining procedures and organisational models. The initiative will gradually extend to address all regional legislation.

Key Factors for Success

The approach has been successful due to a number of factors:

- A clear strategic framework.
- A system which by its nature simplifies the system (consolidating laws and ensuring that they are consistent makes it easier for enterprises to follow them, even if the content remains unchanged).
- A long term commitment to make comprehensive changes.
- Significant involvement of stakeholders even though the process is clearly directed by the regional government.

There are no evident barriers to using this approach in other Italian regions.

Further information

Lombardy's regional government website: *www.semplificazione.regione.lombardia.it*

of e-government would make dealing with administration quicker and easier for firms, for example by allowing direct applications for permits etc. There have been a number of local initiatives in this respect in Italy. A more comprehensive approach has been taken in Barcelona, which suggests some potential areas for improvements (Box 6.5). Sharing best practices among regional authorities on steps taken in each of these areas would help them in designing and implementing new approaches.

Box 6.5. **International inspiring practice: E-Government, Barcelona, Spain**

Description of the approach

E-Tramits is an electronic service platform operating through a web portal, which was introduced by Barcelona City Council with a view to becoming its main communication channel addressing citizens and businesses. The service facilitates access to over 1,000 municipal and other government office procedures, while allowing Barcelona-based citizens and companies to complete online, through a digital certificate, about 90 administrative procedures, i.e. 80% of the volume of procedures handled by the Council.

The e-governance portal is aimed at a wide range of stakeholders (businesses, self-employed professionals, residents and non-residents). However, a key element of the system is that it offers customised services to each group, based on their specific needs. For that purpose, different folders have been created within the portal to facilitate transactions with citizens and with companies or entities. The system combines user friendliness with strong accessibility elements, including among other things: an online call centre support service; several secure payment options; use of electronic signatures; a database of electronic documents; and a registration service.

The project also includes a large restructuring effort addressing internal processes. This has involved linking the web portal with the back office and simplifying and streamlining procedures to facilitate electronic processing, as well as training municipal staff and implementing a communication plan. The initiative is part of a multi-channel public access strategy that also includes Citizen Attention Offices for face-to-face transactions and a telephone centre.

E-Tramits has quickly achieved wide recognition among the target groups, with the portal receiving over 100 000 requests concerning administrative procedures on a monthly basis, by both citizens and businesses. In 2007, there were about 15 million annual visitors to the web portal with 39 million web accesses serving 1.2 million online procedures through 362 million page visits. These figures show that a substantial part of the administrative workload has been shifted towards electronic transactions. Indeed, in 2007 more procedures and searches were processed through the Internet than in person or by telephone. The system has reduced the time required to process administrative applications; the average time for granting building licenses, for example, has dropped by 52%, to 38 days (from 79 days), while other planning permissions, which previously required months to be issued, now need only a few minutes.

Factors for success

The successful implementation of this e-government programme required considerable restructuring of back-office procedures and institutions and a long term commitment to the approach.

Box 6.5. **International inspiring practice: E-Government, Barcelona, Spain** *(cont.)*

Obstacles and responses

It was clear that the greatest benefits would come from a comprehensive change, including not only online access to services but also a comprehensive change to back-office functions. This required considerable expenditures over some period of time before the benefits became evident. Fortunately at the time of implementation, the regional government was able to fund this.

Relevance to Italy

It is clear that there is scope for administrative simplification at a regional level in Italy and e-government could be part of this process, provided that there are adequate funds to implement a comprehensive system and appetite for a substantial change in ways of working.

Further information

Practice E-Services Platform of the Barcelona City Council: *www.epractice.eu/en/cases/etramits*

Conclusions and recommendations

There are continued wide disparities in regional economic performance between the North and South of Italy, which include weaker performance in the South with respect to entrepreneurship and SME development. There are long-standing national policy efforts to support development in the South, but they have not been fully effective given an emphasis on traditional subsidies for investment and infrastructure development rather than new instruments for building the capabilities for SMEs and start-ups such as initiatives for entrepreneurial finance, regional innovation networks, and mentoring and consultancy for business growth. Furthermore, within the current system of coordination of regional operational programmes funded in collaboration with the EU, there has been relatively little emphasis on actions that include innovation, entrepreneurship and adaptability of enterprises. However, these funds offer an important opportunity for improving entrepreneurship and SME competitiveness and productivity at regional level. There is also evidence of insufficient capacities at regional level to develop programmes that will draw down available EU funding into SME and entrepreneurship development programmes and that some flagship national government initiatives such as network contracts and innovative start-ups have largely been taken up by firms in the North, because their design is less suited to the productive structure of the South.

Given Italy's decentralised economic development system, it is important to achieve coherence between national and regional SME and entrepreneurship programmes and among the initiatives of the various regions where there is room for synergies and spillovers. Italy's programme level coordination of European Union Structural Funds has been effective, and there is a clear framework within which plans are made and policies developed at national and regional levels with good linkages between them. However, there are no similarly effective coordination mechanisms for other SME and entrepreneurship policy actions that are designed and funded by national and regional governments outside of the EU funding regime and the State-Region Conference that supports it in Italy. There is no framework document showing the division of responsibilities between national and regional governments, nor key principles which can be used as the basis of coordination. In particular, there is a danger that if cluster policy is developed only at the regional level, then opportunities to link together actions for clusters of national importance may be lost.

Finally, there is an important administrative burden on SMEs and entrepreneurs at the regional level. A number of regions have started to take actions to reduce this burden including in reducing the number of regional laws and regulations and increasing the ease of firms to interact with regional governments such as through e-governance platforms and one-stop shops. There is scope to share best practice across regions to help roll out the administrative simplification effort in the country.

The following recommendations are offered to strengthen the local dimension of Italy's SME and entrepreneurship policies and programmes:

- Increase the emphasis on developing the innovative and competitive capabilities of SMEs and entrepreneurs in the strategy for development of the South of Italy, including increasing the draw-down of EU funds and the share of spending of EU funds on such initiatives.
- Increase the emphasis on SME and entrepreneurship programmes in the annual National Plan for the Development of the South and the use of 2014-20 EU Structural Fund resources for regional development, by reweighting support towards programmes for training, consultancy, finance and innovation in SMEs and start-ups, and building local capacities to manage programme actions for SMEs and entrepreneurship.
- Introduce tailoring and monitoring mechanisms for key national SME and entrepreneurship programmes in order to ensure that southern SMEs are proportionally represented among recipients and that they are effective for supporting economic development in the South as well as the North.
- Ensure that the rules of business incentives for the South are clear and consistent over time.
- Strengthen coordination between national and regional government programmes where they target the same types of company, including a written agreement stating clearly how competences are divided and co-funding organised between national and regional levels with regard to entrepreneurship and SME policy.
- Widen the remit of the national one-stop shops network to include business development services offered by the regional level as well as national government, perhaps through individual agreements with the regions and co-financing to ensure that there is a base level of service across the whole country.
- Identify clusters of national importance and establish a mechanism for support when the clusters operate in multiple regions, considering the use of national competitions as a way of targeting resources.
- Consolidate regional business laws and regulations and provide better information and contact points, including through e-government platforms at regional level. Support regional administrative simplification through formulation of a set of national guiding principles, publication of comparisons of administrative efficiency between regions, evaluation of the impact of various regional administrative simplification initiatives, and exchange of information on good practices.

Notes

1. There remain, however, approximately 1 400 different forms of business incentives at regional level, which also need to be reduced and streamlined to make the rationalisation of the business support framework effective.
2. The five macro regions are: North West, North East, Centre, South and Islands.

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Chapter 7

Local industrial clusters in Italy

Industrial clusters have traditionally played an important role in Italy's economic development, especially in the central and northern parts of the country, and today account for 30% of manufacturing exports. However, since the 1970s, they have been undergoing major transformations as a result of globalisation and growing competitive pressure from emerging economies. Some clusters (e.g. machine tools) have adjusted to these pressures better than others (e.g. textiles), principally by diversifying towards higher value-added market niches whilst building on their traditional competences (i.e. related-variety diversification). Rather than tying incentives to local networks, cluster policies should respond to the changing context by supporting product upgrading and sector diversification and international connections. Individual strategies should be developed tailored to the context of each cluster, recognising the differences among the various types of cluster actors.

Italian clusters today

A traditional strength of the Italian economy is local clusters of SMEs interacting in the same sectors

Italy's production system is characterised by the predominance of micro and small firms. However, looking at the production system of Italy only through the lens of business size classes can be misleading because it overlooks the key role of inter-firm collaboration. Industrial clusters are the most notable example of business collaboration.[1]

Local clusters are a widespread phenomenon in Italy, especially in the centre and north of the country. Since the 1970s, they have frequently been cited as success stories in the academic debate and in public policy practices (e.g. Piore and Sabel, 1984; OECD, 2007). Clusters, also known as industrial districts (*distretti industriali*), are local concentrations of SMEs that adopt different specialisations within the various production phases of a particular industry. One of the features associated with their success has been intensive interactions among their constituent SMEs in areas including supply, marketing, innovation and labour use, supported by shared values and norms and local proximity.

In Italy, the most common definition of clusters, or more precisely industrial districts, is provided by the National Statistical Office, ISTAT.[2] This classifies a local labour market area as a cluster for purposes of national policy support if it satisfies three requirements: there should be a higher percentage of employees in manufacturing than workers in agriculture; there should be a specialisation in one particular manufacturing industry; and there should be a high concentration of workers in firms with less than 250 employees – all compared to the national average (ISTAT, 1997). Regional governments may choose to adopt other definitions of a cluster for their own support programmes, and the two sets of definitions now co-exist.

ISTAT currently identifies 156 clusters in the country, which tend to be concentrated in the economically-stronger regions: 42 are in the North East, 39 in the North West, 49 in the Centre, and 26 in the South. These clusters have been traditionally important contributors to Italy's international trade performance. In 2011, the exports of Italian cluster firms accounted for approximately 30% of total national manufacturing exports (Intesa Sanpaolo, 2013). Some clusters hold significant shares of world markets, as for example Sassuolo with 27% of world exports in ceramic tiles, Prato with 4% of the textile world market, and Arezzo with 3.5% of world jewellery sales (Fortis and Carminati, 2009). The main markets are in Europe, with Germany remaining the key destination. However, emerging economies, mainly China, Russia and Brazil, are increasingly important trade partners, absorbing 35% of the total cluster exports in 2012, compared to 26% in 2002 (Intesa Sanpaolo, 2013).

The number of clusters has fallen somewhat since 1991, when some 199 clusters were counted. Some vanished because the number of local labour markets, which underlie the definition of clusters, was reduced by ISTAT in order to increase their size. Others have died out because they no longer met the ISTAT classification criteria. In Padua (mechanical industry) and Udine (furniture), the weight of local business services increased due to the

growing importance of outsourcing from manufacturing firms to local service firms. These clusters no longer met the criteria of having a focus on manufacturing. In other clusters, the size of firms increased and thus the criterion of small firm predominance was no longer satisfied. Examples are Sassuolo (tiles) in Emilia Romagna, Florence (leather), Carrara and Pietrasanta (ornamental stones) in Tuscany, Castel Goffredo in Lombardy (tights), and Treviso in Veneto (textile and garments).

There has also been a more recent reduction in the number of firms, total employment and manufacturing employment in Italian clusters in the wake of the global economic crisis. From 2008 to 2010 (Table 7.1), the rate of growth in employment was -4.8% in industrial clusters and -3.2% in Italy as a whole, while for manufacturing employment the decrease was of -9.1% and -8.8% respectively.

Table 7.1. **Key figures for Italian clusters, 1991-2010**

Absolute and percentage values

	1991		2001		2008		2010	
	199 clusters	Italy	156 clusters	Italy	156 clusters	Italy	156 clusters	Italy
Number of firms	996,461 (25.7)*	3,872,441	1,180,042 (24.8)	4,755,636	1,205,957 (24.6)	4,908,312	1,186,439 (24.6)	4,828,686
Number of employees	5,213,090 (29.0)	17.976.421	4.929.721 (25.4)	19,410,556	4,672,417 (26.1)	17,875,280	4,448,047 (25.9)	17,305,734
Number of manufacturing employees	2,222,244 (42.5)	5,227,549	1,928,602 (39.3)	4,906,315	1,734,403 (39.5)	4,393,024	1,576,045 (39.3)	4,007,701
Resident population	13,719,657 (24.2)	56,778,031	12,591,475 (22.1)	56,995,764	13,393,260 (22.5)	59,619,290	13,723,235 (22.7)	60,340,328

* In parenthesis % over Italy

Source: OECD based on ISTAT (2012, 2013) Censuses of Industry and Services and Osservatorio Nazionale Distretti Italiani (2012), Terzo Rapporto Nazionale dell'Osservatorio sui Distretti, Federazione dei Distretti Italiani, Venice.

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More recent data, however, suggest that recovery is underway in Italian clusters, especially if export performance is taken as a benchmark. In 2012, the exports of Italian clusters increased by 2.1% on a yearly basis, while in the second quarter of 2013 the increase was by 3.9%, leading to a total volume of exports that for the first time exceeded the pre-crisis levels. The trade surplus generated by industrial clusters reached a new record of EUR 54.3 billion in 2013.

The "cluster effect" appears to be fading

A number of studies on industrial clusters in Italy have indicated the existence of a "cluster effect", whereby access to knowledge, technology, skilled labour and specialised suppliers enable cluster firms to outperform non-cluster firms on measures such as returns on investment and equity, value added per worker, and propensity to product and process innovation (Fabiani et al., 2000; Cainelli and De Liso, 2005). More recent studies, however, suggest that the cluster-effect may be vanishing; there seems no longer to be a given significant difference between cluster and non-cluster firms in similar sectors and in similar geographical areas (Iuzzolino, 2008; Foresti et al., 2008).

Iuzzolino and Menon (2011) confirm the fading of the cluster effect for the period 1993-2008. Their analysis distinguishes between an agglomeration effect in terms of quality of infrastructures, business services and human capital, which is transversal to all firms in a cluster, and a specialisation effect in terms of knowledge spillovers, specialised labour pool, and high quality inputs, which are available to firms in the main sector of specialisation of the cluster. They find that the specialisation effect is negative over the whole period,

while the agglomeration advantage is slightly positive up to 2006, and then becomes zero or slightly negative. These results are consistent with consolidated evidence that local external economies matter most during the early stages of an industry development cycle (Audretsch and Feldmann, 1996).

In order to maintain their competitiveness, Italian clusters must respond to structural changes in the economy including globalisation and accelerated innovation. As Martin and Sunley (2011) summarise, clusters "come and go; they emerge, grow, may change in complexion and orientation, may undergo reinvention and transformation, and may eventually decline and even disappear. In short, they evolve." (p. 1300). As a result, clusters that have been considered cutting edge in domestic and global competition may lose ground, whereas others may achieve continued growth thanks to the successful transformation of their incumbent firms or their networks into new organisational forms and new or extended specialisations.

While clusters have been part of the Italian economic landscape for many decades, the first national policy measure aimed at cluster development was only introduced as recently as 1997; the so-called *Legge Bersani* provided public funds matched by private sector investments for the improvement of telecommunications networks inside clusters. Alongside this programme, regional governments have offered various policy measures for networks of firms within clusters, such as consultancy support for technology development or exporting or investment in infrastructures and training programmes that are specific to the cluster needs. However, all these policies remain very locally oriented, focused on local network participants rather than external connections. It is important that these policies support the adaptation of clusters to new competitive conditions and recognise how they now function, rather than seeking to stick strictly to the original concept introduced by Becattini in the 1970s drawing from Marshall (Becattini, 1979).

Current challenges for Italian cluster policies

Policy must be flexible enough to respond to the diversity of firms within clusters

Italian cluster firms are highly heterogeneous in terms of their size and performance and capacities to adapt to competitive change (Bronzini and Piselli, 2013). Three broad company types can be distinguished; each with different policy needs.

A first group of cluster firms consists of small, less efficient enterprises (with a turnover of less than EUR 10 million), which currently seem to be more fragile and less capable of coping with competitive challenges than larger firms (Intesa Sanpaolo, 2013; Bronzini and Iachini, 2013). Many of these firms are unable to survive in the new highly-competitive global context, as is confirmed by their massive exit from the market. According to *Unioncamere* in 2012, 6 500 manufacturing companies were closed in Italy, with the North East, where many clusters are located, being the most affected area in the country (Movimprese, 2013). A recent analysis on the North Eastern clusters confirms that medium-large firms (with a turnover larger than EUR 50 million) are doing better than small firms (Iuzzolino and Menon, 2011). An illustrative example is the Montebelluna cluster (ski boots and sports shoes) where the share of sales from small firms in total cluster sales decreased from 22% to 12% in the period 1993-2008, whereas medium-sized and large companies were able to increase their share from 44% to 68%. The main emphasis of policy for these smaller firms in clusters is to rapidly increase their productivity.

The second group is that of medium-sized and large domestic firms, which have demonstrated a greater capacity to cope with competitive challenges given their dynamism, relatively strong international orientation and technological capabilities. Medium-sized firms also seem to better cope with financial bottlenecks and overcome credit limitations with other sources of financing (Accetturo et al., 2013). These firms have extended their commercial, supply and knowledge networks well beyond the cluster borders. Some have also joined business groups to grow, expand and diversify their activities (Cainelli et al. 2006, Randelli and Boschma, 2012). Others have merged with foreign multinational corporations. There is a risk that these firms progressively relocate their business activities away from the cluster. The key challenge for public policy with regard to this group is to maintain their local engagement with the cluster.

The third group involves leading cluster firms that consider the local supply chain as core to their business success. Such leading high-end local companies prefer local suppliers, because of the combination of better quality, lead times, and easy monitoring and control, which would not be guaranteed by distant suppliers (McCaffrey, 2013). To this end, leading firms invest in training and innovation and sometimes also set up training and research facilities that are accessible to their suppliers. Other common strategies for these firms are multi-year contracts and other incentives for local suppliers to follow the leading companies in their internationalisation strategies. Public policy interventions should therefore target both the leading firms and the firms in their local supply chains, supporting the knowledge flows between them, and assisting supplier firms to extend their networks outside the cluster, which is likely to enhance their performance up to final-firm level (Giunta et al., 2012).

Particular attention should be paid to promoting high-potential growth firms in clusters. This will require a process of identification of the most promising firms. The assignment of grants and incentives for innovation to high-potential cluster firms could follow a process of assessment of applications carried out by a committee of independent experts, who assign scores based on objective and measurable criteria. Box 7.1 provides an example of such an approach.

Product upgrading and sector diversification should be priorities

Since the 1990s exporting cluster firms have progressively upgraded the quality of their products, trying to avoid direct competition with products from emerging economies. In some cases, this strategy has proved successful. The Biella cluster in Piedmont is an example. After a severe crisis characterised by a large number of firm exits and the lack of (skilled) labour, several firms successfully took the lead in re-orienting their production towards very high quality, luxury fabrics (e.g. cashmere, alpaca and vicuna) and increasing their branding efforts. However, many other clusters are still under the competitive threat of emerging economy producers, especially from China, that are rapidly upgrading the quality of their exports (Giovanetti et al., 2013; Bugamelli et al., 2010). The prolonged presence of Italian firms in traditional sectors such as textiles, furniture or white goods will depend on the degree to which they can maintain their competitive edge with respect to these new market players, by specialising in high-end niche products.

As well as shifts to higher quality products, there has been a tendency for clusters to change their specialisations over time. From 1991 to 2001, 21 industrial clusters changed their industry specialisation, with one third of them moving into the mechanical engineering industry (Rabellotti et al, 2009). Examples are Schio and San Bonifacio in Veneto previously

Box 7.1. **Italian good practice: Mechanisms for awarding R&D incentives, Emilia Romagna**

Description of the approach

In 2003, the government of Emilia-Romagna implemented the "Regional Programme for Industrial Research, Innovation and Technological Transfer" (Regional Law no. 7/2002, art. 4) with the aim of sustaining firms' industrial research and pre-competitive development – i.e. the activity necessary to convert the output of research into a plan, project or design for the realisation of new products or processes or the improvement of existing ones – in the region. Through the programme, the regional government subsidises the R&D expenditures of eligible firms through grants. The grant may cover up to 50% of the costs for industrial research projects and 25% for pre-competitive development projects; the 25% limit is extended by an additional 10% if applicants are SMEs. Eligible firms – including temporary associations or consortia – are those that have an operative main office and intend to implement the project in the region.

The grants are assigned after a process of assessment of the applications carried out by a committee of independent experts appointed by the Regional Government. In the evaluation process the committee may involve independent evaluators. The committee examines the projects and assigns a score based on each of the following elements: a) technological and scientific (maximum 45 points); b) financial and economic (maximum 20 points); c) managerial (maximum 20 points); and d) regional impact (maximum 15 points). Each of these points includes a number of very specific items, which are evaluated rigorously. Only projects assessed as sufficient in each profile, and obtaining a total score equal to or more than 75 points receive the grants. For the evaluation process, both the committee and the independent evaluators must comply with the general principles for the evaluation of research specified by the Ministry of Education, University and Research of the Italian Government and the European Commission.

Factors for success and obstacles

The programme was successful in triggering additional investments only in the case of small firms, whereas it proved ineffective for large firms. It also increased probability of patenting by SMEs. These results are explained by a lack of alternative methods of innovation financing for smaller Italian firms. It may also be tied to the way in which the grants are allocated, and the extent to which the most promising projects are selected.

Source: Bronzini R. and Piselli P. (2013), "The Impact of R&D Subsidies on Firm Patenting", mimeo, Banca d'Italia, Rome; Bronzini R. and Iachini E. (2011), "Are Incentives for R&D Effective? Evidence from a Regression Discontinuity Approach", *Banca d'Italia Working Paper*, n. 791.

specialised in the textile sector and now in the production of textile machinery; Canelli located in the wine region of Piedmont, which is now a centre for production of machinery for the wine sector; and Mirandola in Emilia Romagna, which shifted from textiles to mechanical and biomedical industries.

This diversification tends to emerge in closely related activities to the cluster core (Hidalgo et al, 2007). This is because the creation of new industries is often a path-dependent process, arising from the re-use and upgrading of existing technological, knowledge, organisational and commercial capabilities and/or assets. Thus an important area that Italian policy needs to facilitate is branching of clusters into related fields in order to ensure their longer term adaptation and survival.

The development of the new battery cluster in Michigan, USA is an illustrative example of how public policy can support diversification strategies (Box 7.2). It shows how a declining automotive cluster was transformed into a cutting edge cluster specialised in new batteries through a successful orchestration of public measures targeted at promoting local high-level research, facilitating the take-up of research results by local firms, and enhancing skills development and employment creation.

External connections for innovation should be encouraged

In the past, the widely supported view in the literature was that product and process innovation in clusters was facilitated by technological externalities that occur among the local actors of the cluster itself. These externalities occurred through the diffusion of tacit knowledge, the ease of transmission and exchange of ideas and information, labour mobility between firms, intense user-supplier linkages, and the pressure exerted by a competitive-cooperative relationship among clustered firms. Learning and innovation in Italian clusters were considered to be a collective, social process involving people, who share strong social and cultural values.

However some of these assumptions have been questioned. Exploring the mechanisms of knowledge production and exchange in the Brescia mechanical cluster, Lissoni (2001) finds that knowledge circulates within a few knowledge communities that do not correspond completely to the boundaries of the cluster. Thus some key knowledge actors are external to the cluster, and not all cluster firms are party to the knowledge circulation by simple virtue of their location. Furthermore, there is evidence that when firms are too embedded in their local network, their innovative performance falters, as they become entrenched in redundant and therefore poorly innovative ties (Giuliani, 2013). Extra-cluster connections are therefore vital to the cluster competitiveness. This raises questions about differences in the capacities of cluster firms to absorb external knowledge and suggests a need for targeted support to facilitate the local absorption of external knowledge and its connection with local and mostly idiosyncratic knowledge.

Extra-cluster links typically take place through formal or informal linkages with other firms such as connections facilitated by subsidiaries of multinational companies located in the cluster and participation of cluster firms in global value chains, which may both act as a bridge between local and global knowledge. They can act as knowledge gatekeepers, who possess both local and global knowledge ties and allow small firms to access non-local knowledge (Morrison, 2008; Giuliani, 2011). Their presence can have a major effect on the innovation capacity and the nature of knowledge transfer within the cluster, avoiding the risk of lock-in and, at the same time, allowing firms to exploit proximity advantages in diffusing knowledge to a large variety of local actors. In practice, however, there seems to be a bottleneck in the ready availability of such bridging capacity.

There is limited foreign direct investment activity in Italian clusters, which could provide an additional or alternative mechanism for knowledge transfers. Inward foreign direct investments are confined to a few clusters and currently only 1.6% of all cluster firms have foreign ownership; the exception is white goods clusters with 8.5% (Intesa Sanpaolo, 2013). Furthermore, only 9% of cluster firms are involved in outward foreign direct investment, although there are notable differences amongst sectors; the proportion of cluster firms involved in FDI reaches 24% in the white goods industry, where global re-organisation of production follows the rationale of cost reduction, and 14% in the mechanical sector, where FDI mainly consists in sale and post-sale activities (Intesa Sanpaolo, 2013).

Box 7.2. **International inspiring practice: Diversification in the Michigan New Battery Cluster, USA**

Description of the approach

Once the US leading industrial area for automobile manufacturing, Michigan experienced a steep decline in its automobile industry, with approximately 800 000 jobs lost over the past decade. In reaction to this major crisis, state development officials launched a set of cluster policies aimed at nurturing industry diversification into related and promising sectors, such as that of advanced batteries (e.g. lithium-ion batteries) – considered to be "core technology of future automobiles" (Wessner and Wolff, 2012: 446).

At the time of launching the support initiative in 2006, advanced batteries were mostly manufactured in Asia. In fact: "although [US] researchers … made crucial contributions to the development of the rechargeable lithium-ion battery in the 1980s, US firms at that time declined to pursue the industry, leaving it to better established electronics companies in Japan." (Lowe et al., 2010: 6) In a bid to regain a competitive advantage in this strategic industry, the State of Michigan developed a set of policies that leveraged the locally accumulated research strengths in automobile and manufacturing and mobilised the efforts of more than 370 vehicle-related R&D and technical centres, more than 87 000 engineers, and some world-class engineering schools.

The cluster now hosts more than thirty firms working on advanced batteries. State representatives declared that Michigan "is well on its way to becoming the advanced battery capital of the world" (c.f. Wessner and Wolff, 2012: 445). Furthermore, the Michigan Economic Development Corporation (MEDC) believes that the State needs more than battery assembly plants and front-end R&D to build a competitive industry: it needs to create at the local level an entire supply chain of materials and core components. Investments made in this direction by the MEDC are expected to generate more than 60 000 Michigan direct jobs over the next several years.

Factors for success

The Michigan approach is characterised by a comprehensive strategy that includes investment in R&D, generous tax incentives, extensive training programmes for engineers and skilled production workers, and public-private partnerships bringing together university, industry, government agencies, and the US Army. Specific examples of such policies include:

- Centres of Energy Excellence (COEE): In 2008, the Michigan State established a COEE programme to promote the development, acceleration and sustainability of energy excellence sectors in the State (USD 43 million to six centres in 2008 and USD 30 million in 2009). The grants provided through the COEE programme can only be awarded to for-profit companies. The participation of at least one qualified company and at least one institution of higher education or a national lab is required to operate a COEE.
- No Worker Left Behind (NWLB) free tuition programme. To allow the retraining of local workforce and enable the diversification process, the NWLB programme provides grants of USD 10 000 to cover two years of college tuitions to any person laid off or about to be laid off.
- Anchor Credits and Technology Collaboration Tax Credits: Provision of refundable tax credits to: a) high technology businesses that attract investment to Michigan from their customers or suppliers (Anchor Credits); and b) to develop strategic partnerships between emerging technology companies and larger/established businesses (Technology Collaboration Tax Credits).

Box 7.2. **International inspiring practice: Diversification in the Michigan New Battery Cluster, USA** *(cont.)*

Relevance for Italy

- This case portrays an example of a diversification strategy and exploitation of related variety that could help renew several Italian industrial clusters that are declining and losing competitiveness.
- The retraining programme is of great interest in a situation of high and increasing unemployment characterising many Italian clusters.
- The programme for attracting FDIs from related businesses operating in the value chain could help bring leading technologies and access to global value chains to more Italian clusters.

Source: Lowe et al. (2010), *Lithium-ion Batteries for Electric Vehicles: The U.S. Value Chain*, Centre on Globalization, Governance and Competitiveness, Duke University and Wessner, C. and Wolff A. (2012) (eds.) *Rising to the Challenge: U.S. Innovation Policy for Global Economy*, The National Academy Press, Washington, DC.

Nevertheless in some clusters, the presence of multinationals has been significant to their development. Examples are the sports goods cluster in Montebelluna, with the local presence of Nike, Salomon and Rossignol, and Louis Vuitton Moët Hennessy (LVMH), a French luxury goods group, that acquired Rossi Moda, one of the flagship companies in the Brenta shoe cluster, and Loro Piana, a family-owned cashmere and fine-woollen business located in Biella, Piedmont. A recent phenomenon is inward investment by emerging market corporations, such as Jac Motors and Chang'an from China, which established product design, development and testing centres in Turin's automotive cluster (Pietrobelli et al., 2011).

The involvement of cluster firms in global value chains (GVCs) also enhances their innovation performance through the quality and product variety requirements that they will have to comply with when entering a high-value market chain. This may also involve disinvesting from and outsourcing ancillary activities, which allows GVC firms to shift resources towards core activities as illustrated by Capasso and Morrison (2013) with the Castelgoffredo textiles and shoes cluster. The number of Italian cluster firms participating in the GVCs is growing, although foreign outsourcing tends to be greater among clusters operating in low-end market segments, which are currently facing strong international competition on costs, than clusters operating in high-end market segments, which are maintaining stronger local supply relations since the advantages of quality and short lead times are often considered more important than a possible reduction of costs (Capasso et al., 2013; Amighini and Rabellotti, 2006). In both cases, however, the involvement of cluster firms in GVCs is primarily limited to individual, often medium to large, firms, rather than small firms or networks of small firms (Bronzini and Piselli, 2013; Chiarvesio et al., 2010). There is scope for policy to encourage the most dynamic local suppliers to internationalise as well as the leading firms, thus building an independent position in GVCs, while also seeking to upgrade the productivity of some of the small firms offering low-skilled services, which appear to be hit hard by the discontinuation of local subcontracting relationships and the rise of extra-cluster outsourcing (Iuzzolino and Micucci, 2010).

Local public research and technology centres can also play a core role in enhancing the access of external knowledge in the cluster. This is particularly important given the limited degree of foreign investment and GVC participation in Italian cluster firms and the

limitations of relying on knowledge transfer from these firms, which may not all be willing to play the role of a gatekeeper to their external knowledge network and may not have sufficient incentives to share knowledge and form mutual linkages with 'weaker' cluster firms (Giuliani, 2011; Morrison et al, 2013). There also appear to be some weaknesses for policy to address in this area.

The case of a textile firm in the Biella textile cluster illustrates the issue with respect to R&D centres (McCaffrey, 2013). The firm is successfully engaged in collaborative research with the US Pentagon on new fabrics. However, according to the CEO there is no research laboratory in Italy with the capacity and international credibility to certify the quality and properties of the new fabrics, which means that the Biella firm has to revert to United States research centres at higher costs. Besides this anecdotal evidence, there is growing acknowledgement in the literature that R&D centres in clusters have insufficient capacities to support firms in their innovation and internationalisation efforts (Camuffo and Grandinetti 2011; McCaffrey, 2013).

As well as building the capabilities of technology and research centres within clusters, it is also relevant to buttress connections between cluster firms and national and international universities and research laboratories as a way to enhance firms' R&D and innovation capabilities, and promote university spin-offs and technology-oriented start-ups in clusters.

CSR is a strategy for cluster firms to upgrade production capacities and increase market shares

Corporate Social Responsibility (CSR) strategies are a voluntary self-regulatory behaviour that firms undertake. The principal purpose is to follow "*an obligation to constituent groups in society other than stockholders*" (Jones, 1980: 59) in order to positively contribute to environment and society by minimising any harmful environmental and social impacts of their business operations. However, CSR strategies can at the same time support cluster firms to upgrade their production capacities and increase market shares. Policy can therefore have twin benefits when encouraging CSR efforts by cluster firms.

There are formal and informal approaches to implement CSR. The adoption of formal, or explicit CSR policies, such as participation in the United Nations Global Compact, certification initiatives (e.g. Forest Stewardship Council; ISO 26000) and reporting initiatives (e.g. Global Reporting Initiative) may imply significant financial and managerial capabilities, which can make it difficult for smaller firms to engage. Informal CSR practices, also often referred to as 'silent' or 'implicit' CSR includes a range of activities, which often are locally focused, such as community engagement activities, supply chain development, reduction of pollution or promotion of eco-efficiency measures, which are very open to SMEs (e.g. Jenkins, 2006).

CSR strategies are of particular relevance to cluster firms, which have greater community embedding than non-cluster firms, and often consider CSR as a licence to operate in their own community. Russo and Tencati (2009), based on a cross-sector analysis, find for example that especially in small and micro-sized firms, the moral values of the individual entrepreneur steer firm behaviour in a highly personalised business-community relationship. Medium-sized firms are, however, more able to orchestrate sustainability efforts in their local value chains. They engage more in community volunteering, but less in firm-specific measures, such as hiring of disadvantaged employment seekers. Local

intermediary institutions, such as trade associations, business consortia and chambers of commerce and crafts also play a crucial role in promoting CSR in small firms and cluster-wide practices (Battaglia et al., 2010).

An interesting example of how CSR also can also increase the local and international market shares of Italian clusters is the approach taken in two fashion clusters in Tuscany – Santa Croce (tanning and leather) and Empoli (clothing). These clusters were severely hit by the growing competition from low-cost countries at the end of the 1990s. Their CSR strategy implied both formal and informal CSR behaviour, such as flexi-time, extended holidays for non-EU workers, child-care facilities in the cluster as well as adhesion to the Eco-Management and Audit Schemes (EMAS), a EU-sponsored multi-stakeholder initiative (Testa et al., 2012). The strategy was successful in promoting demand for their products, which offered high ethical, environmental and quality standards, and Santa Croce is now one of the nine Italian EMAS certificated clusters.

Despite some progress being made in this area, there is still significant heterogeneity across the Italian clusters, informal CSR practices are more frequent than formal ones (including because of the costs of regular audits, etc.), and CSR is still mostly linked to personal or individual activities rather than anchored in business strategy. More can be done in these areas to support the take up of CSR among SMEs in clusters. This may include developing policies to address pressing local issues related to the cluster, such as community services for redundant employees, child care facilities, and addressing pollution and contamination problems.

In particular, there is a clear need to increase efforts with respect to social and environmental standards, not least because Italian cluster firms are competing with firms from emerging countries, which have made substantial progress in securing production linkages with large global players and in adopting their social and environmental standards (e.g. Lund-Thomsen and Nadvi, 2010). Early steps in this area have been taken by the government, for example through the adoption of the European EMAS labelling system to certificate sustainable production.[3] These efforts need to be continued on to assist firms in clusters to adopt CSR policies that, in turn, can help them to participate in global value chains.

The case of a dyeing cluster in Korea (Box 7.3) illustrates the transformation of a highly polluting textile dyeing cluster into an eco-industrial park. The approach was successful because of its long-term approach to building and maintaining a multi-stakeholder partnership seeking strategic participation of the local community. From the management of environmental challenges, new economic opportunities have arisen in the areas of alternative energy sources, waste re-use and recycling activities.

Conclusions and recommendations

During the past two decades Italian clusters have undergone profound structural change. There has been a fading away of the cluster effect and a breaking up of cluster boundaries, with adverse consequences for smaller cluster firms and new opportunities and challenges related to cluster internationalisation, diversification and innovation. There is a clear role for public policy to facilitate these structural changes in order to promote the upgrading and diversification of clusters, allowing them to evolve in line with their environment, rather than insisting on seeking to preserve their traditional local boundaries and specialisations.

Box 7.3. **International inspiring practice: Diversification of a dyeing cluster to an Eco-Industrial Park, Korea**

This case illustrates how a dyeing cluster fraught with environmental problems has managed to transform itself into an Eco-Industrial Park (EIP).

Description of the approach

Prior to the 1970s, most Korean textile dyeing plants were located in the capital city of Seoul. The concentration of these contaminating activities in a densely populated area resulted in the forced relocation in the mid-1970s of most of the activities into the more remote area of Banwol-Sihwa, which became known as the "industrial cluster of polluters." After relocation (completed in 1993) a set of negative environmental events took place in the area. First, the building of an embankment at the bay of Sihwa caused massive environmental damage over the period 1996-1999 (with a level of cadmium in an artificial lake 760 times higher than allowed). Second, over the same period some dyeing firms had illegally dumped effluent into Lake Sihwa. Third, the smell emanating from the industrial site undermined local residents' right to a decent life (e.g. children could not undertake outdoor physical activities at local schools).

The local reactions of communities, NGOs and academics played a critical role in addressing this problem, prompting the government to establish the Sihwa Regional Committee for Sustainable Development, which in turn led to a set of agreed actions that were implemented by cluster firms.

Factors for success

- The role of local business associations: local business associations with the active collaboration of local firms played a critical role in the solution of the problem of the smell stemming from the industrial site. The Government also played a role by designating two local universities as environmental technology centres, and by installing in the area a few public bodies specialised in environmental management. In 2005 the government also implemented the Odour Prevention Act to address environmental issues on a legal basis.
- Global pressures and state-level support: the Banwol-Sihwa dyeing cluster is export-oriented, with international apparel firms requiring suppliers in the cluster to meet ISO, Eco Labels, and BLUESIGN standards. To support compliance with such standards, a national-level R&D project (DYETECH21) was developed led by the Korea Institute of Industrial Technology (KITECH) with the involvement of local suppliers. In 2006 KITECK, together with other government agencies, promoted the transformation of the Banwol-Sihwa cluster into an Eco-Industrial Park (EIP). The EIP project favoured the development of a number of related activities: (i) the use of wastewater heat as a source of energy (since 2011); (ii) the exchange of textile effluent sludge between the dyeing cluster and a cement manufacturer (since 2007) and (iii) the collection and reuse of oil in the emissions of the textile dyeing mills (under implementation and validation).

Relevance for Italy

- Many environmental challenges have to be addressed in Italian clusters.
- Environmental management requires multi-stakeholder partnerships and participation.
- New economic opportunities may arise from the management of environmental challenges (e.g. alternative energy sources, waste reuse, recycling activities).

Source: Lowe E.A. (2001), *Eco-industrial Park Handbook for Asian Developing Countries*, A Report to the Asian Development Bank, Environment Department, Indigo Development, Oakland, CA; Nadvi K. and Yoon S-J. (2012), "Industrial Clusters and Industrial Ecology: Building 'Eco-Collective Efficiency' in a South Korean Cluster", paper submitted to the Conference on "Global Value Chains: Industrial Clusters and the Future of CSR in the BRIC Countries"; Taddeo R., Simboli A. and Morgante A. (2012), "Implementing Eco-Industrial Parks in Existing Clusters: Findings from a Historical Italian Chemical Site", *Journal of Cleaner Production*, 33, 22-29.

Italian cluster firms are highly heterogeneous in terms of their size, capabilities, networks and performance. They pursue different strategies and are likely to react differently to incentives. The current policy rationale of targeting networks of firms, instead of individual firms, is based on an understanding that cluster success is rooted in the capacity of firms to interact, share knowledge and be socially and productively embedded in their local context. However, firms only interact with others locally when they have an interest to do so, and in the new competitive environment, the imperative to collaborate locally has weakened. Therefore tying public subsidies to local interactions is likely to be ineffective. Furthermore, there is a risk that such an approach will constrain the most dynamic firms in the cluster, which may get dragged into unproductive local relationships, rather than investing their resources into more valuable activities.

Rather than seeking to perpetuate existing cluster networks and behaviours, policy should seek to develop a long-term strategy that will assist Italian clusters to respond to the structural challenges that they are facing. Such a strategy should identify potential development avenues for the clusters including enabling product upgrading and sector diversification, facilitating internationalisation, foreign direct investments and integration into global value chains, and enhancing environmentally and socially sustainable pathways. This will require the development of a long-term plan for each cluster and the development of a series of specific interventions that differentiate across different types of cluster firms.

The following policy recommendations are offered to help ensure that industrial clusters maintain their vital role in the Italian economy.

- Permit strong flexibility in partner selection in network support programmes, enabling firms to collaborate with capable partners outside cluster boundaries.
- Promote the diversification of clusters into related industries and high-end activities. This may be facilitated by shifting existing subsidies and incentives onto "new" activities with diversification potential, such as support for strategic research projects, innovation collaboration networks involving companies and/or researchers that belong to different sectors and/or fields of specialisation, and labour mobility between related industries.
- Strengthen the external knowledge and innovation connections of clusters by promoting inward and outward foreign direct investment in clusters, the participation of cluster firms in global value chains, including by helping them meet the necessary quality and certification requirements and identify new market opportunities, and reinforcing links between cluster firms and capable public technology and research centres.
- Tailor policy to different types of cluster firms, focusing on rapidly increasing the productivity of small inefficient enterprises, maintaining the engagement of medium-sized firms with their clusters, and supporting the knowledge gatekeeper role of leading cluster firms within their supply chains. Offer selective support targeted at those cluster firms that demonstrate the strongest potential to grow in domestic and international markets.
- Promote the competitive award of incentives for the adoption of socially and environmentally sustainable standards and certifications, and other formal corporate social responsibility policies in clusters.
- Develop long-term strategies for clusters to be supported by national and regional governments with the participation of expert working groups at the local level.

Notes

1. Enterprise groups are another common reality. Eurostat defines an enterprise group as an "association of enterprises bound together by legal and/or financial links whose main feature is that it can have more than one decision-making centre, especially for policy on production, sales and profit". According to ISTAT estimates, there are 82 000 enterprise groups in Italy, involving more than 185 000 companies and 5.6 million employees, which is one-third of the total labour force.
2. The terms "district" and "cluster" are often used interchangeably, although at times the two concepts are defined differently, with industrial districts being given a strict definition by the Italian statistical office, whereas the term clusters is often used more loosely to cover a range of agglomerations of linked firms.
3. The Eco-Management and Audit Scheme (EMAS) is a system to which public and private organisations, including businesses, can adhere in order to have their environmental performance assessed and obtain guidelines to improve this performance.

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KEY ISSUES AND POLICIES

Small and medium enterprises and entrepreneurs are the backbone of the Italian economy. However, notwithstanding their strong physical presence, the Italian SME sector is strongly weighted towards micro enterprises with relatively low productivity, while more dynamic medium-sized firms and high-impact entrepreneurship are limited in scale. For the future, it will be important to lower the barriers that prevent business expansion, including through support for equity finance, a renewed approach to workforce skills development and increased university engagement with SMEs.

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