Ministero dello Sviluppo Economico

Small Business Act

Support initiatives for micro, small and medium enterprises in Italy

Report 2011

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Direzione Generale per le PMI e gli Enti Cooperativi

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Introduction

The Italian Report to monitor the initiatives adopted to implement the Small Business Act (SBA) has been cited as an example of "best practice" in the European Commission's Review Document of February 23 2011.

Under Art. 6 of the Prime Minister's Directive of May 4 2010, the SBA must be monitored on an annual basis so as to analyse the actions undertaken to re-launch small and medium-sized businesses.

For the first time, this Report is translated into English so as to allow other European Countries to understand the measures adopted by Italy to support SMEs.

The work has been organized in two parts.

The first part describes the regulatory framework and the economic and statistical context in which the SBA has been implemented. The information has been collected from European Institutions and from national sources.

The second part describes the main measures adopted in 2011 to support SMEs, according to each SBA principle, with a special emphasis on most relevant issues for Italian companies, such as *network contracts* and *venture capital*.

The Report provides an overview of the wide range of objectives and resources launched in 2010-2011 by the Ministry of Economic Development, which has the ultimate responsibility for the implementation of the SBA.

In addition to illustrating the theoretical, juridical and economic context, this Report provides an accurate insight in the regulatory and administrative measures designed and adopted to revamp the small and medium businesses, especially in view of their aggregation and internationalization.

The Ministry has analysed the strengths and weaknesses of Italian enterprises through an ad hoc organizational and operational instrument called the SME Standing Committee with representatives from both the public and private sector.

This Committee has also been entrusted with the task of gathering, comparing and evaluating all the proposals related to the on-going drafting of the 2012 SMEs Annual Bill.

A special word of gratitude to the Presidency of the Council of Ministers - Department for the Development of Local Economies – for the data and information provided on the initiatives for SMEs planned by the Italian central and local Governments.

prof. Gianluca M. Esposito
(Director General)

Part I

SBA: from its inception to its implementation in Italy and Europe

Chapter 1 SBA: theoretical, regulatory and implementation issues

1.1 Theoretical approach

The European Commission published the Small Business Act (SBA) in June 2008. The aim was to acknowledge the central role played by the SMEs in the European economy and, for the first time, to launch a very articulate business policy framework in favour of small businesses.

To this end, the SBA identifies ten guiding principles for Member States to design and implement enterprise support initiatives.

These principles are essential to promote a level playing field for SMEs, to improve the juridical and administrative framework in which they operate throughout the European Union and to encourage and support them to grow on international and national markets[1].

Italy was one of the first European Countries to have approved the SBA Directive on May 4 2010 to transpose the Small Business Act.

The Directive is the reference point for a new small business policy and is an innovative and complementary approach to the traditional Italian industrial policy.

In addition to the "industrial policy" geared to the needs of medium and large-sized companies, a "new industrial policy" has been introduced for the micro and small businesses (about 99.3% of Italian companies has less than 49 employees and micro businesses with less than 10 employees account for 94% of the total[2]). The aim is to complement the actions adopted within the framework of the industrial policy, according to the supply chain principle in the services and industry sectors[3].

The Directive recognizes the economic and social role played by micro enterprises and is designed to promote specific support initiatives for them. This suggests that the acronym SMEs is too restrictive and that it is better to use the acronym MSMEs to include micro businesses[4].

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1 The ten principles are designed to: create an environment to allow entrepreneurs and family-owned businesses to thrive and to promote entrepreneurship; enable insolvent but honest entrepreneurs to rapidly have a second chance; draft rules in line with the "think small" principle; make local and central governments aware of the needs of SME's; adjust public actions to the needs of SME's: foster their participation in public contracts and optimize state contributions; facilitate the access of SME's to credit and develop a regulatory and economic framework to obtain the on-time payment for commercial transactions; help SME's benefit from the opportunities of the single market; promote training and retraining courses for SME's and any form of innovation; allow SME's to transform environmental challenges into opportunities; encourage and support SME's to capitalize on market growth.

2 More in depth analyses of the European and Italian production scenarios will be expanded in the second chapter.

3 See: G. Capuano, "*Small Business Act*"*: una nuova politica per le micro e piccole imprese*, in Rivista economica del Mezzogiorno, SVIMEZ, 4/2010, pp. 955-974.

4 The Decree of the Ministry for Industrial Activities of April 18 2005 (Official Journal October 12 2005, n. 238), *Adjustment of the identification criteria for SME's to the European Legislation* changes the criteria to identify micro, small and medium sized companies, according to the Recommendation of the European Commission n. 2003/361/EC of May 6 2003 (E.U.O.J. May 20

As shown by numerous studies on this subject, the traditional incentive laws of the 80's and 90's had a positive and significant impact on small businesses, especially in terms of their dimensional growth (statistical and quantitative approach), but not on their productivity (qualitative-relational approach)[5].

This is the reason why the SBA Directive has given priority to the improvement of productivity of small businesses while the increase in their size is only as *second best*.

Moreover, the SBA has been a supply-side complement of the Keynesian demand-side policies and an indispensible anti-cyclical policy to create the structural conditions for small enterprises to become stronger after the crisis, thanks to their anti-cyclical characteristics (slow but consistent growth of sales, stable employment levels, etc.).

Furthermore, recent studies have shown that there is a close correlation between the greater business propensity of an economy and its wealth and savings rates and of its GDP growth[6].

Therefore, by creating favourable conditions for the relational-qualitative growth of existing enterprises and of start-ups especially in the less developed areas in the South of Italy, it is possible to promote GDP growth and to narrow the gap between more and less developed regions, which is a major problem both in Italy and Europe.

The SBA stresses the need to design and implement different policy actions according to the "life cycle" of the enterprise. Like any other living organism, the

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2003. L 124) which replaces the recommendation of the European Commission 96/280/EC of April 3 1996. The Decree specifies how to determine the size of the enterprise for the provision of business contributions and it applies to all production sectors. Under this Decree, micro, small and medium sized enterprises (collectively known as SME's) are characterized as follows: a) less than 250 employees, b) an annual turnover not exceeding 50 million Euros or total sales in the accounts not exceeding 43 million Euros. In the SMEs' category, a small company: a) has less than 50 employees, b) has an annual turnover or an annual total income not above 10 million Euros. A micro enterprise has: a) less than 10 employees and b) an annual turnover or a total income not exceeding 2 million Euros. Another important change provided for in the new provisions issued by the Commission is the notion of independence. While in the previous one (96/280/EC) "independent enterprises are those which are not owned as to 25 % or more of the capital or the voting rights by one enterprise or jointly by several enterprises, falling outside the definition of an SME or a small enterprise, whichever may apply"; the new definition of "autonomous" enterprise does not include the category of "linked enterprise" and "partner enterprise". A 'Partner enterprise' holds, either solely or jointly with one or more linked enterprises, 25 % or more of the capital or voting rights of another enterprise; this threshold may be reached or exceeded by the investors specified in recommendation 1442, in particular by public and institutional investors, provided that those investors are not linked, either individually or jointly to the enterprise in question and do not participate in the management of this company.

5 For an in depth analysis, see: M. Bannò and L. Piscitello, *L'efficacia degli incentivi per la crescita internazionale*, in "Economia e Politica Industriale", n. 2 June 2010, Franco Angeli, Milano; G. Capuano (2003), *La valutazione di impatto delle leggi di incentivazione sulla crescita delle imprese e del territorio,* in G. Garofoli (edited by), Impresa e Territorio, Il Mulino, Bologna.

6 For a review of these studies, refer to S.C. Parker (2009), *The economics of entrepreneurship*, Cambridge University Press.

enterprise goes through a *start up* phase, then through a development/maturity phase and then through a period of transformation and/or winding up.

For example, during the *start up* phase, it is crucial for small "middle class" or "high-end"[7] businesses to use *Venture Capital* first and then *Private Equity* funds to develop.

During the development/maturity phase, it is important to adopt policies designed to foster a quantitative growth (in terms of sales and number of employees, etc.), but especially a qualitative-relational growth (in terms of access to new markets, better competitive positioning, new products, etc.). The initiatives to promote Network Contracts are in line with these recommendations. Network Contracts were created under Act 33 of April 9 2009, and then amended by Act 122/2010. They are designed to help entrepreneurs to cooperate on the basis of a common network program so as to exchange industrial, technical, and commercial information or services or to jointly implement one or more activities envisaged in their business scope. By extending the use of these contracts to universities, research centres and foreign companies and by envisaging a specific credit "rating", small enterprises may be able to grow, to operate on the international markets and to improve their credit rating.

In order to solve the problems related to the transfer/inheritance of about 300 thousand Italian enterprises in the next few years, it is necessary to adopt targeted measures so as to avoid losing the Italian business heritage both in terms of employment and knowledge. This gap may be difficult to bridge with start-ups.

Another very important feature of the SBA is its territorial dimension. Italy is characterized by regional imbalances not only between the North and the South, but also within these two macro-regions and by the very important role of industrial districts, production supply chains and local development systems[8]. This is the reason why the SBA Directive attaches a great deal of attention to regional development issues.

To this end, given the relevance of local economies in Italy and in Europe and the capillary presence of MSMEs, it is crucial to replicate the SBA in all the Italian regions, with the adoption of a "regional SBA" according to their specific characteristics[9].

Finally, the SBA design and implementation are characterized by two important moments: the approval of the SBA Review Paper on 23 February 2011 by

[7] For an insight in the concept of "Middle class small enterprises" see: G. Capuano (2006), *Verso la definizione e l'individuazione di un nucleo di imprese: aspetti teorici e evidenze empiriche della "Middle class" di impresa (Mci)*, in Rivista di Economia e Statistica del Territorio, n. 1, January-April 2006.

[8] Among the others: G. Capuano (2007), *Mesoeconomia*, Franco Angeli, Milano; G. Garofoli (1991), *Modelli locali di sviluppo*, Franco Angeli, Milano.

[9] The Ministry of Economic Development has repeatedly proposed "regional SBAs" and "regional Mr SME's" during its participation in conferences and seminars at a local level.

the European Commission, to which Italy provided a major contribution and the approval of the *Statuto delle imprese*[10] in November 2011 (see Paragraph 1.2), which can be considered as the first annual law of SMEs.

In particular, the SBA Review Paper has included some proposals put forward by the Ministry of Economic Development, in collaboration with the SMEs Standing Committee set up in March 2010 within the Ministry (see Box 2).

Here are some major strategic measures for MSMEs designed to:

- foster a "network culture" for small businesses and artisans, also through a "European Network Contract" in line with the Italian model, so as to foster relationships among EU SMEs through internationalization processes[11];
- promote *Venture Capital* for "middle class" or "high end" small businesses in order to match the demand and supply of capitals to finance these notoriously undercapitalized enterprises;
- regionalize the SBA so as to take into consideration the different economic and territorial realities (some Italian regions have already launched their regional SBA, such as Lazio, Liguria, Lombardy, Marche and Tuscany) and appoint a Regional "Mr SME" (in February 2011, Italy was the first European Country to appoint Mr Giuseppe Tripoli "Mr SME".

1.2 Statuto delle imprese

The *Statuto delle imprese* was turned into a Law on November 11 2011 (Act n. 180/2011, published on the Official Journal of the Italian Republic of November 14 2011 n. 265). This law underlines the attention given by the Italian Government to small and very small businesses and establishes their fundamental rights. The law transposes the provisions of the SBA and defines the "Statute" for micro, small and medium-sized businesses. It is mainly designed to support start-ups, in particular those created by young people and women and to enhance the growth, productivity and innovation of MSMEs.

The law includes many public policy provisions for MSME's (Art. 16). In view of restructuring the system of incentives *ex lege* of July 23 2009, n. 99 (extended until June 2012) and of fostering the competitiveness and the productivity of MSMEs and of network companies, the *Statuto* provides them with a minimum share of 60% of automatic and evaluation-based incentives, of which at least 25% for micro and small companies, promoting strategic cooperation among universities and MSMEs and transparency in the relationship between enterprises and credit institutions which are obliged to periodically send a report on the average credit conditions applied.

As to the issue of delayed payments for commercial transactions by the Public Administration and by the large companies to micro and small sub

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10 Act n. 180 November 11 2011, *Norme per la tutela della libertà d'impresa. Statuto delle imprese*.

11 For more information on enterprise networks see: *Reti di impresa oltre i distretti* (2008), edited by AIP, IlSole24ore editore, Milan.

contractors, under Art. 10 of the *Statuto*, the Government must adopt a Law Decree within 12 months to fully transpose the EU Directive 2011/7, on the basis of the following principles:

a) counteract the negative effects of the companies' dominant position on their suppliers or on their sub-suppliers, in particular on MSMEs;

b) the possibility for the Antitrust Authority to investigate and directly intervene with warnings and sanctions against the misconduct of large organizations.

Art. 12 and Art. 13 are designed to allow micro and small businesses to more easily participate in public contracts. These contracts will be subdivided into lots and will allow for subcontracting, for aggregations of MSMEs and for the provision of local public services by micro and small businesses. They are designed to make public contract procedures transparent, in particular those for contracts below the threshold envisaged by the European Union. In case of biddings, the Public Administration cannot require participating companies to have disproportionate financial requirements with respect to the value of the goods and services to be provided once the contract has been awarded. The Prefects and the Government Commissioners must draft lists of companies and suppliers with specific transparency and traceability requirements for financial flows, goods and services. In order to protect the needs of Italian small and medium-sized enterprises, even in the European Union, the *Statuto* envisages the set up of an MSME Authority within the Ministry of Economic Development (Art. 17). The Commissioner must monitor the implementation of the SBA; evaluate its regulatory impact on MSMES both before and after its implementation; work out proposals designed to develop the MSME system; prepare an annual Report to be sent to the Government on the specific measures and policies to promote the competitiveness of MSMEs. The Report is to be submitted to the Prime Minister and must include a section on the ex-ante analysis and the ex post assessment of development policies on these companies. Within 60 days and in any case within March 31st of each year, the Government must discuss the content of the Annual Report in Parliament.

The Authority must also set up a standing committee with the most representative associations of MSMEs, so as to create a partnership for development policies between enterprises and the regions.

Art. 6 of the *Statuto* provides for the Regulation Impact Analysis (called AIR), introduced by Art. 5 of Act n. 50/1999 amended by the Simplification Law of 2005 and implemented through Regulation n. 170/2008. AIR is an *ex ante* quantitative and qualitative evaluation of a new regulation on the life of citizens and of businesses; under this provision, the Central and Local Governments must assess the need for a new regulation, the different alternative options and its impact, especially on small businesses.

The *Statuto* establishes that the State and the Regions, local authorities and public entities must evaluate the effects of any legislative and regulatory changes before they adopt them. In addition, Art. 14 of the Simplification Act n. 246/2005 is amended to also envisage the assessment of the impact of information, operational and administrative costs introduced or eliminated on both citizens and businesses. In this perspective, this new law introduces a broader concept of information charges, i.e. any requirement in terms of gathering, processing, transferring, maintaining and producing information and documents to the Public Administration.

Central, regional and local governments must also consult the major business associations before approving a new law, regulation or administrative or tax provision that may have an impact on enterprises.

The so-called "SME test", that is an SME impact analysis, is envisaged under the Small Business Act, Art. 6, paragraph 1. This provision provides for the implementation of Act n. 256 of November 28, Art. 14, paragraphs 1 and 4 on the Regulation Impact Analysis and the Regulation Impact Verification (called VIR) on the basis of the so-called "proportionality principle". On the basis of this principle, rules and provisions must be proportional to the size, to the sector where a firm operates and must respond to the need to protect public interests.

The *Statuto* governs the relationships between enterprises and institutions (Art. 7, 8 and 9) with a view to transparency and simplification. In particular, Art. 7 introduces the general principle of reduction of administrative costs for authorizations, permits, certificates and incentives. Therefore, the Public Administration is required to consider reducing administrative costs whenever it issues regulatory and general administrative provisions. To this end, all the provisions introducing or eliminating information charges must be published. Under this new regulatory framework, all these provisions must be published on the institutional web site of the administration concerned, even if they have been published on the Official Journal.

In order to evaluate the impact in terms of simplification and reduction of administrative costs, under the paragraph 3 of Art. 7, the Department of Civil Service will prepare an Annual report by March 31st of each year on the implementation of the provisions described above.

Instead, under paragraph 4, the regulation designed to identify the criteria to measure these charges must also define the roles and responsibilities of the managers as well as the criteria for the failed implementation of these provisions. So the *Statuto* is designed to pave the way to the implementation of the measures targeted to SMEs through a more rigorous approach with respect to the past.

Another interesting measure is provided for under Art. 8 in order to balance regulatory, information and administrative charges. On the basis of this provision, it is not possible to introduce new charges without concurrently reducing or eliminating others by the same amount.

Art. 9 explicitly forbids public entities from requesting documents, even the copy, if they have been registered in the Business Registry. This is another innovation with respect to Presidential Decree n. 445/2000, which established that the charges for citizens must be reduced and the Public Administration must accept the copy of the documents contained in the public registries with the support of the a self declaration to replace the attested affidavit.

In line with the proportionality principle, the *Statuto* transposes a fundamental feature of the SBA Directive of May 4 2010. Art. 18 envisages that by

June 30th of each year, at the proposal of the Minister for Economic Development and in line with the opinion of the Joint Conference, a Bill must be submitted to Parliament to protect and develop micro and small companies in order to define the actions for the following year. Moreover, the Bill must report the level of compliance with the SBA principles and objectives, the implementation stage of the measures envisaged in previous years, the ex ante analysis and the ex post evaluation of the impact of SME economic and development policies.

1.3 Changes in the EU legislation in 2010-2011

These are the main regulatory steps undertaken by the European Commission to implement the SBA:

- Directive 2010/45/EU adopted by the Council in 2010, which authorizes electronic billing in addition to paper invoices;
- Directive 2011/7/EU adopted by the Council in January 2011 which establishes that the Public Administrations must pay their suppliers within 30 days and that payments between enterprises must not exceed 60 days;
- Draft regulation on the *Statuto* of European Private Enterprises (SPE)(COM(2008)396) to create a new European legal entity so as to create the SME Single Market and to make it work.

Moreover, the Commission has adopted the following concrete instruments and actions:

- the Innovation and Competitive Program (PCI), which guarantees loans to SMEs and venture capital investments; 100000 SMEs, of which 90% are micro enterprises have utilized the PCI financial instruments. Another 200.000 SMEs are expected to access the Program by 2013;
- measures to allow SMEs participate in public contracts. A recent survey by the Commission shows that, by now, SMEs have lower administrative costs to participate in public tenders and can more easily submit joint bids. In 2006-2008 SMEs were awarded 33% of the total value of contracts above the thresholds set by the EU Directive, while their overall share of the economy in terms of sales is 52%;
- a permanent Forum on SME's financing , as well as the extension until the end of 2011 of State Contributions so as to provide additional funds to SMEs;
- the adoption of the Europe 2020 initiative "The Union of Innovation" (COM (2010) 553);
- measures to promote the access of European SMEs to foreign markets;

- a stronger cohesion policy and the European Agriculture Fund for Rural Development (EAFRD).

Here follow some concrete initiatives adopted only by some Members States:

- the integration of the SME test in decision-making processes;
- a "credit mediator" so as to improve the access of SMEs to funds;
- innovative tendering and e-government procedures so as to improve SME's access to the markets.

Chapter 2 Business figures in Europe and Italy

2.1 MSMEs in Europe

According to the Cambridge Econometrics estimates[12], non agricultural enterprises amount to slightly less than 21 million in Europe, of which 92.1% are micro enterprises (Tab. 1).

On the whole, micro and small enterprises account for 98.7% of the whole business sector. Instead, they provide a more limited contribution to employment (50.2%), investments (39.6%) and to sales (37.3%).

Tab. 1 – Number of enterprises, number of employees and number of employees in non farming companies according to their size, operating in the non financial business in the 27 Countries EU in 2010

	Micro enterprises	Small enterprises	Medium sized enterprises	MSMEs	Large enterprises	Total
Number of enterprises	19.198.539	1.378.401	219.252	20.796.192	43.034	20.839.227
% of the total	92.1	6.6	1.1	99.8	0.2	100.0
Number of employees	38.905.519	26.605.164	21.950.106	87.460.790	43.257.098	130.717.888
% of the total	29.8	20.4	16.8	66.9	33.1	100.0
Employees per company	2.0	19.3	100.1	4.2	1.005.1	6.2
Investments (millions of Euros)	26.3740	159.338	176.684	599.761	470.087	1.069.848
% of the total	24.7	14.9	16.5	56.1	43.9	100.0
Sales (millions of Euros)	4.592.607	4.670.377	4.881.221	14.144.205	10.684.276	24.828.480
% of the total	18.5	18.8	19.7	57.0	43.0	100.0

Source: Cambridge Econometrics data processed by the Ministry of Economic Development

12 For an in-depth analysis of European and Member Countries' production enterprises up to 2012, please see Ecorys, (2011) *Study on the annual report on European SMES, Methodological Report*.

Tab. 2 – Number of enterprises and number of employees per company, size and sector in non financial activities in the 27 EU Countries in 2010

Sectors (a)	Micro enterprises	Small enterprises	Medium Sized enterprises	MSMEs	Large enterprises	Total	N of Employees per firms
Total non financial Activities	19.198.539	1.378.401	219.252	20.796.192	43.034	20.839.227	6.2
C Mining	15.667	4.794	941	21.402	275	21.676	31.9
D Manufacturing	1.760.912	311.564	7.7335	2.149.811	17.226	2.167.042	14.6
E Electric power. gas and water supply	34.753	3.815	2.213	40.781	993	41.774	38.9
F Construction	2.789.236	208.857	22.385	3.020.478	2.373	3.022.849	4.5
G Wholesale and retail motor vehicle repair. motorcycles. personal goods	5.968.300	361.222	42.324	6.371.846	6.948	6.378.795	5.0
H Hotels restaurants	1.552.574	151.018	12.066	1.715.658	1.527	1.717.183	5.6
I Transport storage and communications	1.109.424	93.533	16.956	1.219.913	4.046	1.223.962	9.9
K Real-estate. rentals and business services	5.967.673	243.598	45.032	6.256.303	9.646	6.265.946	4.6

(a) The classification by sector is in line with the statistical classification of economic activities of the European Community (NACE Code) used to finalize and harmonize the economic/industrial definitions in the EU member states.

Source: Cambridge Econometrics data processed by the Ministry of Economic Development

The distribution of the EU businesses by sector (Tab. 2) shows that services account for more than 70% of the total of enterprises, while the manufacturing and construction sectors account for 10% and 14% respectively.

The average size – the ratio of the number of employees vs. the number of enterprises – is equal to 6.2 employees, especially in the field of Constructions (4.5) and, in general, of Services (except for Transportation with a mean number of 9.9 employees).

The Cambridge Econometrics data for 2011 and 2012 do not show major changes.

2.2 The 27 EU Member Countries and their difference in terms of business size

It is well known that in the EU 27 Member Countries, the productive structure is mainly characterized by small and medium sized enterprises: SMEs' firms and employees are 99.8% and 67.4% respectively (2008 Eurostat data).

The previous SBA reports of 2009 and 2010 showed two different groups of Countries: the ones characterized by medium and large sized enterprises and the ones characterised by micro and small businesses operating in the manufacturing industry. To this end, they considered the number of these two types of companies as a percentage of the total number of manufacturing companies: so Group I included Countries with a higher percentage of medium and large sized enterprises with respect to the European average; Group II included Countries with a higher percentage of micro and small businesses with respect to the average of the EU 27 Member Countries. Group III included 10 Eastern European Countries, 6 with a significant number of medium and large-sized companies and 4 with micro and small businesses (Tab. 3).

Tab. 3 - Groups of Countries by class of enterprises (2009 and 2010 SBA Reports)

Group I Medium-Large	Group II Micro–Small	Group III Former Eastern Europe	
Austria	Cyprus	Bulgaria	(Medium/Large)
Belgium	France	Estonia	(Medium/Large)
Denmark	Greece	Latvia	(Medium/Large)
Finland	Italy	Lithuania	(Medium/Large)
Germany	Malta	Poland	(Micro/Small)
Ireland	Portugal	Czech Rep.	(Micro/Small)
Luxembourg	Spain	Romania	(Medium/Large)
The Netherlands	Sweden	Slovakia	(Medium/Large)
United Kingdom		Slovenia	(Micro/Small)
		Hungary	(Micro/Small)

Source: Eurostat Data processed by the Ministry of Economic Development (2008)

However, the number of manufacturing companies provides a significant but partial view of the productive structure. In order to broaden the scope, this SBA Report considers the contribution to employment provided by the enterprises operating in the non financial productive sectors[13]. Then, *a specialization index* has been calculated as the ratio of the number of employees for each enterprise vs. the total employment in each country and vs. the whole 27 EU area.

[13] The sectors considered are: mining; manufacturing, electricity, gas and water supply; construction; wholesale and retail; hotels and restaurants; transportation; warehousing; communications; real-estate.

A value above 1 indicates the specific size of the enterprise of the Country considered[14]; for example, the analysis of the production sector in Italy shows a *Specialization Index* equal to 1.58 for the "micro" size of the enterprise: as a result, Italy is in the second group of Countries with a strong micro and small business tradition.

A *specialization index* has been elaborated for all 27 EU Member Countries and for each different dimensional type of enterprise (Tab. 4)[15].

Tab. 4 – Specialization indices (non financial productive sectors)

	Micro	Small	Medium	Large
Austria	0.85	**1.12**	1.11	1.01
Belgium	1.00	**1.04**	0.92	1.02
Bulgaria	0.94	1.12	**1.35**	0.80
Cyprus	**1.31**	1.20	1.15	0.51
Czech Rep.	0.98	0.90	**1.17**	0.99
Denmark	0.66	1.22	**1.24**	1.05
Estonia	0.82	1.36	**1.53**	0.66
Finland	0.77	0.90	1.06	**1.24**
France	0.83	1.00	0.95	**1.18**
Germany	0.65	1.05	1.14	**1.21**
Greece	**1.95**	0.84	0.69	0.40
Hungary	**1.19**	0.93	0.96	0.89
Ireland	0.70	1.19	**1.35**	0.97
Italy	**1.58**	1.04	0.73	0.59
Latvia	0.73	1.37	**1.55**	0.73
Lithuania	0.77	1.22	**1.56**	0.78
Luxembourg	0.64	1.16	**1.39**	1.02
Malta	**1.36**	0.88	1.08	0.71
The Netherlands	0.98	**1.04**	0.98	1.01
Poland	**1.30**	0.56	1.10	0.96
Portugal	**1.42**	1.11	0.96	0.57
Romania	0.71	0.96	**1.33**	1.12
Slovakia	0.50	0.85	1.35	**1.37**
Slovenia	0.95	0.85	**1.24**	1.01
Spain	**1.27**	1.23	0.87	0.67
Sweden	0.83	1.01	1.07	**1.11**
United Kingdom	0.72	0.87	0.90	**1.39**
27 EU	1.00	1.00	1.00	1.00

Source: Eurostat Data processed by the Ministry of Economic Development (2008)

[14] If this value is above 1 in more than one dimensional group, the highest value is considered; for example, Bulgaria has a value equal to 1.2 and 1.35 for small and medium sized businesses respectively and it is considered a Country with a strong tradition of medium-sized enterprises.

[15] Table 5 shows in bold the highest values for the productive structure of the Country.

These data show that most European Countries (10 Countries, of which 7 former Eastern European Countries) have a medium sized productive structure, followed by 8 Countries with a strong presence of micro enterprises. Most of these Countries (France, Germany, United Kingdom) are mainly characterized by a strong presence of large companies (Tab. 4).

Tab. 5 – Groups of Countries by number of employees (new methodology)

Group I Medium – Large	Group II Micro – Small	Group III Former Eastern Europe	
Denmark	Austria	Bulgaria	(Medium/Large)
Finland	Belgium	Estonia	(Medium/Large)
France	Cyprus	Latvia	(Medium/Large)
Germany	Greece	Lithuania	(Medium/Large)
Ireland	Italy	Poland	(Micro/Small)
Luxembourg	Malta	Czech rep.	(Medium/Large)
United Kingdom	The Netherlands	Romania	(Medium/Large)
Sweden	Portugal	Slovakia	(Medium/Large)
	Spain	Slovenia	(Medium/Large)
		Hungary	(Micro/Small)

Source: Eurostat Data processed by the Ministry of Economic Development (2008)

So the Countries have been clustered into three different Groups: the first Group is mainly characterised by the presence of medium and large enterprises; the second Group by micro and small businesses; the third by Former Eastern European Countries (Tab. 5). If the Groups are subdivided according to the number of employees, there are some changes in the Countries in the first two Groups with respect to the approach based on the number of manufacturing companies; in particular, France and Sweden move from Group II to Group I, while the Netherlands and Austria move from the Group of Countries characterized by medium and large enterprises to Group II with Countries featuring micro and small businesses.

Italia, Greece and Portugal remain "*micro-small firms oriented*" Countries; the United Kingdom, Germany and Finland continue to be characterised by medium and large enterprises according to both approaches. Even Former Eastern European Countries do not change Group (except for the Czech Republic and Slovenia that move from Countries with micro and small businesses to Countries with medium and large enterprises).

2.3 MSMEs in Italy

Italian companies mainly fall within the business category with 9 employees; according to the 2009 ISTAT data, about 3 million non agricultural micro businesses account for a little bit less than 94% of the whole national business panorama. Large enterprises only account for 0.1% of the total number of businesses[16].

Tab. 6 – Share of non-agricultural enterprises by size in the main Italian productive sectors in 2009

Sectors (a)	Micro enterprises	Small enterprises	Medium enterprises	MSMEs	Large enterprises	Total
Total non financial activities	93.6	5.7	0.6	99.9	0.1	100.0
Mining	74.9	22.8	2.2	99.9	0.1	100.0
Manufacturing	81.9	15.6	2.1	99.7	0.3	100.0
Electricity, gas and water supply	83.7	11.5	3.5	98.6	1.4	100.0
Construction	94.9	4.9	0.2	100.0	0.0	100.0
Wholesale and retail: repair of motor vehicles. motorcycles and personal and household goods	96.6	3.1	0.2	100.0	0.0	100.0
Hotels and restaurants	93.7	6.0	0.3	100.0	0.0	100.0
Transportation storage and communication	90.6	7.9	1.3	99.8	0.2	100.0
Real-estate. rental and business services e	99.6	0.4	0.0	100.0	0.0	100.0

(a) The breakdown according to the sectors is in line with the EU statistical classification of economic activities (NACE code), used to harmonize the definition of economic/industrial activities in the EU Member Countries.

Source: ISTAT data processed by the Ministry of Economic Development

As shown in the table, micro enterprises mainly operate in the Services and Construction sectors; in particular, they account for 99.6% and 96.6% respectively of the enterprises "listed" in the Real Estate and in the Retail and Wholesale sectors. The share of business with 9 employees in the Manufacturing sector is 81.9%

Cooperatives play a crucial role inside the Italian economy; the latest data (end of November 2011) provided by the Ministry of Economic Development Certified List of Cooperative Companies, show that there are about 93 thousand

16 The analysis of the Italian production structure is based on the latest ISTAT data (2009), while the other surveys designed to compare Italy's production system with that of the 27 EU Member Countries are based on 2010 data processed through the Cambridge Econometrics model on Eurostat data.

cooperative businesses in Italy, mainly localized in Lazio, Lombardy, Sicily and Campania (Tab. 7).

Tab. 7 – Geographical distribution of registered Cooperative enterprises at the end of November 2011

	TOTAL	PERCENTAGE %
North West		
Liguria	1.733	1.86
Lombardy	11.837	12.73
Piedmont	4.418	4.75
North East		
Emilia-Romagna	6.152	6.61
Friuli-Venezia Giulia	1.198	1.29
Trentino-Alto Adige	1.700	1.83
Valle d'Aosta	342	0.37
Veneto	4.431	4.76
Centre		
Lazio	13.250	14.24
Marche	2.042	2.19
Molise	532	0.57
Tuscany	4.852	5.22
Umbria	1.089	1.17
South		
Abruzzo	1.873	2.01
Basilicata	1.405	1.51
Calabria	3.156	3.39
Campania	9.270	9.97
Apulia	8.811	9.47
Islands		
Sardinia	3.511	3.77
Sicily	11.409	12.27
ITALY	93.011	100

Source: Registry of Cooperative enterprises, Ministry of Economic Development

The 2011 and 2012 data on the distribution of enterprises by size and by sector do not show any major changes.

The model developed by Cambridge Econometrics allows for extrapolating the trends until 2012, thus providing information on the role and on the contribution of businesses to employment and sales. The comparison between Italy and the EU 27 Member Countries shows that the most dynamic enterprises in Italy are not micro businesses, but medium sized and above all small sized ones. The 2008-2009 financial crisis and recession is expected to "bite" also in the next few years; in particular, the number of micro enterprises and their relative contribution to employment and sales tend to stabilize (with a slight increase in 2012). The worse *performance* of micro and small businesses may be partially due to their greater propensity to operate on the domestic market (characterized by a stagnating demand) rather than on international markets, especially in Brazil, Russia, India, China (BRIC).

A more in depth analysis of the Italian productive structure as compared to that of the major European Countries (Tab. 8) reveals that Italy is characterised by:

- the higher percentage of microbusinesses as a share of the total (94.5%) followed by France (93.1%); while this share is significantly lower in the United Kingdom (88%) and especially in Germany (83.3%);
- the higher number of businesses with 9 employees, with a share slightly above 47% of the total. In this connection, the *difference* with respect to the other European Countries is even greater especially in comparison with Germany and the United Kingdom, where employment in micro businesses is equal to 19.3% and to 21.9% respectively of the total;
- the lowest number of people employed in large enterprises (with over 250 employees);
- the highest contribution of micro businesses to added value: 32.6% vs. 18.2% in the United Kingdom and in Germany 16.5%;
- finally a significant contribution in terms of investments 29.3% in comparison of 18.8% in Germany and of 11.8% in the United Kingdom; in France, the incidence of investments of micro enterprises as a share of the total is considerably higher and equal to about 42%.

Tab. 8 – Enterprises, added value and investments by Country and by size in 2010 (as a % of non financial activities (NACE) (a)

	1-9 employees	10-49 employees	50-249 employees	Above 250 employees	Total
Enterprises					
27 EU Countries	92.1	6.6	1.1	0.2	100.0
Italy	94.5	4.9	0.5	0.1	100.0
Germany	83.3	13.8	2.4	0.5	100.0
France	93.1	5.8	0.9	0.2	100.0
United Kingdom	88.0	10.0	1.6	0.4	100.0
Employees					
27 EU Countries	29.8	20.4	16.8	33.1	100.0
Italy	47.3	21.7	12.3	18.6	100.0
Germany	19.3	21.8	19.9	39.1	100.0
France	24.3	20.3	15.7	39.6	100.0
United Kingdom	21.9	17.2	14.9	46.1	100.0
Added Value					
27 EU Countries	21.6	18.9	17.9	41.6	100.0
Italy	32.6	23.5	15.2	28.7	100.0
Germany	16.5	17.3	20.0	46.2	100.0
France	22.4	18.9	14.7	44.0	100.0
United Kingdom	18.2	16.4	15.6	49.8	100.0
Investments (millions of Euros)					
27 EU Countries	24.7	14.9	16.5	43.9	100.0
Italy	29.3	16.7	16.3	37.6	100.0
Germany	18.8	15.9	18.4	46.9	100.0
France	41.6	10.2	12.6	35.5	100.0
United kingdom	11.8	11.2	15.1	61.9	100.0

(a) The classification by sector is in line with the statistical classification of economic activities of the European Community (NACE Code) used to finalize and harmonize the economic/industrial definitions in the EU member states.
Source: Cambridge Econometrics data processed by the Ministry of Economic Development

Box 1 – Aggregations and internationalization: two success factors of Italian SMEs

Aggregations

In the last few years, many Italian SMEs have compensated for their small size with "informal" aggregation and functional strategies with other enterprises, by preferring a qualitative-relational approach (aggregations-networks) to a quantitative approach (increase in the number of employees).
In particular, up to the end of the 90's, the backbone of the Italian production system was the industrial district, i.e. a spontaneous aggregation of enterprises in the same geographical location.
The deep changes in the business organizational structure (significant acceleration of internationalization, competitive pressures of newly industrialized Countries, the technological revolution and the adoption of the Euro, etc.) have led to abandon the organizational models based on geographical location and sectorial specialization.
Moreover, the tertiarization process, which also took place in the districts, has paved the way to new production *clusters*, often internationalized and with key competencies (vocational training, *know-how*, etc.).
Since the year 2000, networks have been organized more according to their function than according to their geographical location (supply chain). This organizational model has allowed several SMEs, also based outside Italy, to operate on the market with the strength of a medium-sized and large enterprise.

Business Groups

In the last few years, many Italian enterprises have pooled into Groups and, in general, into a network system to maintain and possibly strengthen their competitive position on the global markets. In particular, Groups represent one of the main forms of formal and structured links among enterprises; in 2008, according to ISTAT, Groups amounted to over 76 thousand with more than 178 thousand active businesses based in Italy and with over 5.7 million employees. Notwithstanding the low number of enterprises, Groups account for more than half of the overall Italian business volume and for over 55% of employment.

Industrial Districts

According to the ISTAT Census data (2001), there are 156 industrial districts mainly located in the Centre and North of Italy while only 16.7% operate in the South. Most districts are found in Lombardy and in Marche (27 Districts).
The 156 districts "fall" within the jurisdiction of over 2200 municipalities, with about 222 thousand enterprises employing about 2 million people in the manufacturing sector. They are specialized in the typical Made in Italy productions: Textiles (45 districts), machine tools (38), tiles (32), leather (20).

Cooperation Agreements

Formal agreements and geographical integration schemes are not the only business aggregation solutions; enterprises with less than 100 employees mainly choose non-formal collaboration agreements. The reason is that these agreements are mainly related to the production of goods and services through orders and/or subcontracting and to the general provision of services.
The percentage of enterprises operating under these agreements is directly proportional to their number of employees; in the dimensional category 1-2 employees only 6% of them (196 thousand) signed such an agreement at the beginning of the year 2000, with respect to 27.4% of the category 50-99 employees.

On the whole, 310 thousand enterprises have entered into collaboration agreements.

Network Contracts

The Government has promoted business aggregations through Network Contracts (Act 33/2009 as amended by the Development Act). This tool has been enthusiastically welcomed by entrepreneurs as shown by the latest data provided by Unioncamere (see Box 3).

Internationalization

Italy is a transformation economy, with a strong manufacturing industry (second in Europe after Germany) with a high export propensity. In 2010 exports accounted for 25.8% of GDP, i.e. for each 100 euros of GDP, more than ¼ comes from exports and, through the open market multiplier, for each Euro exported, 2.5 Euros of GDP are produced through spin-off effects.

Given these strengths, the crucial objective is to boost Italy's productive system through the internationalization of its small and medium-sized enterprises.

Since the year 2000, there has been a considerable growth in the exports of Italian products towards emerging Countries with respect to the total of exports; at the end of the decade, exports reached 31.7% vs. 21.4% in the year 2000.

The cyclical trend of exports in Italy grew in the first and second quarter of 2011, by 18.4% and 13.5% respectively. Moreover, a comparison with the main industrialized Countries (United Nations data) shows that Italian exports have increased more than those of other Countries in the second quarter of 2011: +29% in comparison with the second quarter of 2010 (denominated in dollars), followed by Germany with +26% and Japan ranking last with +4%.

Districts too show signs of export growth mainly in the second quarter of 2011; the exports were very strong towards advanced markets and especially toward " new markets" (+13.6% as a trend).

This performance level would have been impossible without the significant contribution of the 206 thousand Italian exporting SMEs, a 6% increase with respect to 2009 and in line with the 2008 figures; about half of them has less than 49 employees and is organized into districts or networks.

Part II

Actions and measures for MSMEs

Chapter 3 Stage of implementation of the measures designed to promote the competitiveness of Italian MSMEs

3.1 Main measures adopted in 2011

In 2011, the Government continued to support SMEs in line with the SBA Directive. It adopted some important regulatory measures such as: the *Statuto delle imprese*, the *Decreto Sviluppo* and the *Decreto Salva Italia*. These zero-cost provisions are designed to promote the development of micro and small businesses, so as to contribute to supporting the weak growth of the Italian economy.

The *Statuto delle imprese* ("Provisions to protect the free enterprise, the Corporate Statutes") was analysed in depth in the previous paragraph 1.2.

By issuing Law Decree n. 70 on May 13 2011, the so-called *Decreto Sviluppo* (Development Decree), turned into Act n. 9/2009 concerning the "European Semester – First emergency measures for the economy", the Government has adopted a series of measures to revamp the economy, such as three tax credits, simplification and streamlining of bureaucracy, relevant changes to the public works legislation, the development of tourist districts to relaunch tourism at the national and international level.

However, this package was not considered sufficient by the financial markets. As a result, in August, the Government adopted a corrective package so as to balance the public debt ratio by 2013. The Government promptly reacted also pressured by the emergency situation and by the social partners. It launched an overall package of 40.5 billion Euros to be implemented in 24 months (20 in 2012 and 20.5 the following year).

The most relevant measures envisaged under Law Decree n. 138 of August 13 2011 "Further urgent measures for fiscal stabilization and development" included advancing the cut by 6 billion Euros for Ministries in 2012 through the reduction of the Fas Funds (Funds for Marginal Areas) and by another 6 billions for local authorities; the increase in capital gains tax from 12.5% to 20%; new cuts in the civil service sector; the reduction of the "costs of politics". Parliament passed the Decree in mid September with more stringent provisions; in particular, the increase in VAT from 20% to 21%, a 3% solidarity contribution for incomes above 300 thousand Euros, the increase in the retirement age of women working in the private sector from 60 to 65 by 2014 instead of 2016 as planned.

However, the response of the financial markets was not reassuring: the *spread* between the German Bunds and the Italian Btps shot to an alarming level (above 500). This indicated that there was an urgent need to promptly respond to the emergency situation and to focus on the real problems of the Country[17].

[17] The indications of the International Monetary Fund (January 2012) showed a further deterioration of the macroeconomic scenario; in particular, the GDP was expected to grow by 0.4% in 2011 (in September, the IMF assumed a 0.6% growth rate) and to drop in 2012 and 2013 by -2.2% and by 0.6% respectively. In this scenario, it becomes very difficult to balance the budget by 2013.

In October 2011, the Italian Government undertook a commitment towards the European Union and signed a "Letter of Understanding" to adopt concrete actions to foster economic growth. In November, a new Technical Government led by Mario Monti took office and adopted the so-called *Decreto Salva Italia* n. 201 on December 6 2011. It is a package designed to rebalance the public fiscal deficit, in particular through the re-introduction of the property tax, the increase in the registered property yields, the fine-tuning of the pension reform through the extension of the contribution-based method to all members as of January 1 2012; the increase in VAT by two percentage points by September 1 2012, etc.). In particular, the expected impact of the package on the net indebtedness of the Public Administration is equal to about 20 billion Euros in 2012 and slightly above 21 in 2013 and 2014 for a total of about 63 billion Euros in this three-year period.

In addition to these restrictive measures, the *Decreto Salva Italia*[18] has introduced measures designed to revamp Italy's productive system and, more in general, its economic growth. The aim is to at least partially minimize some structural problems affecting SMEs: low capitalization, limited liquidity and borrowing constraints, limited exposure to international markets, especially outside the European Union.

The most important measure is the introduction of the ACE (Aid to Economic Growth) designed to increase the capitalization of Italian businesses (generally undercapitalized), by reducing taxes on the return on equity invested in the company; at the same time, the labour cost is reduced through a partial deduction of Irap (Regional Tax on Production Activities) so as to promote employment (especially of women and young people below 35 years of age).

The Monti Decree is also trying to overcome another weakness of Italy's productive system - hard pressed by the crisis, by scarce liquidity and by a major credit crunch – by strengthening the Guarantee Fund; in particular it increases to 2.5 million Euros the amount to be allocated to each individual enterprise and provides for a minimum of 80% of the Fund for micro and small businesses.

In addition, the Italian Trade Commission has been redesigned with the aim to support and "accompany" enterprises on foreign markets and to promote the image of Italian products in the world.

Finally, the Law Decree aims at promoting competition by liberalizing some sectors (retail shops, pharmacies, transportation), by simplifying procedures and by reducing lead times for the realization of infrastructures.

Box 2 – The SME Standing Committee: main activities in 2010-2011

A "Standing Advisory Committee for monitoring the economic cycle and for identifying SMEs' critical requirements" was set under the Ministerial Decree of March 2010 in order to monitor the implementation of the SBA ten principles and to propose measures of industrial policy. This Committee works within the General

So the IMF stressed the need to continue with adjustment measures together with structural adjustments to promote growth.

18 Law Decree December 6 2011, n. 201, turned into Act 214/2011.

Directorate for Small and Medium-seized Enterprises and Cooperatives of the Ministry of Economic Development. It is a *"reference point and a one stop shop to identify the needs and changes in terms of consolidation and development of micro, small and medium sized enterprises in Italy".*
Following a series of meetings with the members of various working groups, numerous action plans were presented in 2010 and 2011, some of which were included in the SBA Directive approved in May 2010. Other measures were adopted within the framework of the "Annual Law on SMEs", which was then transposed in the *Statuto delle imprese*.
During the Committee meeting at the beginning of February 2011, the participants proposed to focus their attention on some "priority" measures for SMEs, through ad hoc working groups to discuss and prepare some themes to be submitted to the Plenary Meeting. Since Italian businesses face a series of problems such as borrowing restrictions and a small size, the first working groups to be convened in April were the Group "Credit, insurance, finance and business incentives" and the Group "Cooperation, aggregations, districts and business networks". Moreover, since it is necessary to enhance the information system related to SMEs, especially as to the method used by the European Commission to monitor the SBA, the working group on "Statistical Indicators" was also convened in April. Finally, the Group on "Business Transfer and inheritance" met to analyse these issues and identify targeted action plans.
The numerous proposals put forward by the members of these Groups were then included in a final document submitted to the SME Standing Committee in July.
On the occasion of this meeting, the Committee decided to draft different *Position papers*. The first on "Business Transfer and inheritance", the second on "Statistical indicators" so as to analyse in depth and integrate the various suggestions and thoughts provided by participants.
The SME Standing Committee was considered as a *good practice* in the European SBA review of February 2011.

3.2 Implementation of the 10 SBA principles

This paragraph briefly describes the main measures adopted by the Italian Government in 2011 to support the Italian productive system. In analysing these measures, the effort has been made to "cross" them with the ten SBA principles (many interventions are in line with several principles, as in the case of Network Contracts which fall within the framework of the "Entrepreneurship", "Competencies and Innovation" and "Internationalization" principles) and to provide some data on their implementation, if available.

3.2.1. Entrepreneurship

Network Contracts were launches by Act n. 33 of April 2009, which was then amended by Act n. 122/2010. These Contracts allow several entrepreneurs to cooperate on the basis of a joint network program so as to exchange industrial, commercial and technical information and practices or to jointly implement some business projects. In particular, **Act n. 122/2010**, Article 42, provides for tax, administrative and financial incentives to network businesses, among which a group guarantee on public contributions and a single procedure to obtain these contributions. More specifically, these tax incentives allow the profits from network projects not to be included in the corporate income: the upper limit for this tax incentive for each company is equal to 1 million Euros; moreover, 48 million Euros worth of financial resources have been allocated (20 in 2011, 14 in 2012 and 2013 respectively). In January 2011, the European Union considered this measure to have a general character and not a form of State aid. A Decree issued by the Ministry of Economics and Finance in February 2011 identified the requirements to be fulfilled for enterprises to join the network Program and to obtain tax incentives. Finally, the Ministry issued another Decree in mid April 2011 to make Network Contract fully operational.

This new form of aggregation proved to be very popular. In fact, from mid April 2010 to the end of November 2011, 200 network Contracts were registered, with the participation of more than 980 enterprises (see Boxt 3 for a quantitative analysis of Network Contracts).

The growth in the number of Network Contracts can be ascribed not only to the "spontaneous" participation of many Italian enterprises looking for new aggregation modalities, but also to the numerous business network support measures adopted by many Italian regions in 2011[19]. In particular, in March 2011, Emilia Romagna launched a Call "internationalization networks" to develop and strengthen formal networks among SMEs in the field of production, design, logistics, services on the international markets. In September 2011, the Basilicata Region published a business network call for proposals for groups of at least three small and medium sized enterprises; the planned incentives aim at promoting Network Contracts to create new jobs and implement commercial and/or production projects abroad among enterprises operating in the same production and/or commercial business and belonging to a district approved by the Basilicata Region. Under a Law Decree of October 4 2011, the Lombardy region approved the ERGON call for "setting up business aggregations" so as to promote new products, services and to create new business opportunities. At the same time, the Piedmont region published a Call for proposals for projects to be presented by SME's aggregated into networks and to be implemented in European and extra European Countries. Tuscany launched some support initiatives for business networks so as to make production and distribution more efficient, to exchange *know how,* to develop networks of sub-suppliers, to support mergers and acquisitions of other companies or of spin-offs and to create more business networks.

Art. 2 of Law Decree n. 70/2011 (*Decreto Sviluppo*) envisages a **tax credit for a more stable labour market in the South of Italy.** A tax credit will be provided for each new stable job created in the South of Italy (Abruzzo, Basilicata, Calabria, Campania, Apulia, Molise, Sardinia and Sicily). In particular, all employers -

[19] The information on the measures adopted by the Italian regions to support business networks was obtained from an analysis conducted by the Presidency of the Council of Ministers.

including those who operate in the agricultural sector – are eligible for this incentive if they increase their number of employees with long-term contracts within twelve months as of the entry into force of this provision.

Art. 2 bis of *Decreto Sviluppo* envisages **a tax credit for investments in the South of Italy**, in particular in marginal areas, which will be refinanced through the European Structural Funds in line with Act n. 296 of December 27 2006 (Tremonti-sud). Under this non regulatory Decree, the Ministry of the Economy and Finance, together with the Ministry of Regional Relations and Territorial Cohesion and in line with the agreement reached within the Standing Conference of the State, the Regions and the Autonomous Provinces of Trento and Bozen, establishes the upper limit for financial resources to be allocated to each region, the duration of the incentive and the implementation measures to comply with the priorities and the procedures of the European Structural Funds. Considering the long delays to commit and spend these funds, the resources provided for under this Articles will be jointly allocated by the European Regional Development Fund (ERDF) and by national co-financed resources for Abruzzo, Basilicata, Calabria, Campania, Molise, Apulia, Sicily and Sardinia.

Art. 3 of *Decreto Sviluppo* provides for the creation of **Tourist-Hotel districts.** The enterprises operating within Tourist Districts and connected through a network are entitled to administrative, financial incentives for research and development as envisaged under Act 266/2005 Art. 1, paragraph 368.

Art. 27 of Law Decree n. 98 of July 6 2011, converted into Law and amended by Act n. 111 of July 15 2011, is designed to help young and unemployed people launch business initiatives. It envisages **a simplified tax regime for the so-called minimum contributions** for four years after the start-up phase. This incentive can only be provided to physical persons who start-up an enterprise, who start a profession or a vocational activity or who have started it after December 31st 2007. So, the number of beneficiaries of the so-called "flat-rate package " (a 20% flat rate for Vat subjects and for self-employed people who earn less than 30000 Euros) are entitled to have a lower rate if they have started up an activity in the last three and a half years or if they intend to do so now. Moreover, the substitute income and regional and municipal Tax is reduced to 5 % as of January 1 2012.

The importance of micro and small businesses was largely recognized, in line with the SBA Directive, by the ***Statuto delle imprese*** ("Provisions for the protection of free business. Corporate Statutes") approved last November. In the previous paragraph 1.2, the actions envisaged in the *Statuto* in the field of "Entrepreneurship" have already been described: definition of the juridical *status* of MSMEs; extension of the incentive system and provision for a minimum amount of incentives for MSMEs and for network enterprises; appointment of a Trustee for micro, small and medium sized enterprises within the Ministry of Economic Development.

Finally, Law Decree n. 201/2011 (***Decreto Salva Italia***) introduced two measures to support economic growth. The first measure is called «**Aid to economic growth"** (Ace): 1 billion Euros in 2012, 1.5 in 2013 and 3 in 2014. This measure provides for the reduction of the tax on the return on the equity reinvested for enterprises that must pay the corporate income tax (Ires). More specifically, since 2011, joint stock companies, limited companies, cooperatives and other organizations specified under Art. 73, p. 1, letters a) and b) of the Framework Law on Income Taxes are entitled to deduct the notional return on equity from their annual income. This is determined by applying a percentage equal to 3% to the increase in equity vs. the value charged in the Accounts as of December 31 2010. This percentage will be used for 2011, 2012 and 2013; later, it will be determined by January 31 of each year. The other incentive allows enterprises to **completely deduct Irap from the labour cost** to calculate both corporate and personal income taxes. This is a radical innovation with respect to the legislation of 2008 which set a 10% flat deduction of Irap from corporate and personal income taxes. This deduction can only be applied to labour cost and not to both components: labour cost and interest payables. This tax deduction amounts to 1.5 billion Euros for enterprises that hire people in 2012 and 2 billion Euros in 2013. In addition, another 1 billion Euros' worth of incentives are envisaged for **young people and for women** in 2012, 2013 and 2014: the base deductions increase from 4600 Euros to 10600 Euros for women and for young adults below 35 years of age, if they are hired with a long-term contract (from 9200 Euro to 15000 Euro in disadvantaged areas).

In 2011, over 400 million Euros were allocated for **Development Contracts** within the framework of the 2007-2013 PON "Research and Competitiveness". The new instrument is designed to attract capitals from abroad and to launch large business development projects in particular in the South. They will replace Program and Localization Contracts. Development Contracts are extremely innovative because they are also open to the tourism and trade and to foreign companies with a secondary branch in Italy; their procedures are simplified (now managed by Invitalia Spa) and they envisage several types of incentives (contributions for plants, for expenses, concessional funds up to 25% of authorized expenditure, for interests up to 80% of the reference interests when the incentives are granted); moreover, funds are envisaged for research and experimental development projects.

Since September 29 2011, it has been possible to apply for these facilities. In fact, the conditions to make this instrument operational have been fulfilled with the publication on the Official Journal of the MD of May 11 2011 (Official Journal n. 176 of July 30 2011) and of the explanatory letter of June 16 2011 (Official Journal n. 174 of July 28 2011).

Box 3 – Network Contracts: a regional analysis

The Network Contract was established by the Economic Development Act n. 99 of July 2009. It is an innovative aggregation modality used to overcome some structural problems of the Italian production system: i.e. the limited size of Italian businesses. A recent survey has shown that many Italian enterprises, mainly located in the Centre and in the North of Italy, are interested in this formula. According to the latest data from Unioncamere, 200 network contracts were finalized with the participation of over 980 enterprises from the end of March 2010 to the end of November 2011.
The analysis of the different types of network contracts shows that three regions in particular use this specific approach: Emilia Romagna, Veneto and Lombardy (Tab.1).

Tab. 1 – Network Contracts by Geographical Area

Piedmont	5
Lombardy	15
Trentino Alto Adige	3
Veneto	19
Friuli Venezia Giulia	8
Liguria	2
Emilia-Romagna	21
Tuscany	13
Umbria	1
Marche	10
Lazio	7
Abruzzo	2
Molise	1
Campania	7
Apulia	11
Basilicata	4
Calabria	3
Sicily	3
Sardinia	9
North West	*22*
North East	*51*
Centre	*31*
South	*40*
Regional Contracts	144
Interregional Contracts	56
TOTAL NETWORK CONTRACTS	200

Source: Unioncamere data processed by the Ministry of Economic Development

Most contracts have been signed by enterprises based in the same region, while ¼ of them are interregional contracts especially in Lombardy, Emilia Romagna, Veneto, Lazio and Campania.
Many Contracts envisage joint business activities and projects such as energy saving and design actions in the field of technological innovation and internationalization (Tab. 2).
Network contracts generally involve a limited number of enterprises: in fact, 50% of them involves 2 maximum 3 enterprises; a much lower number of Contracts is signed by 4 to 6 and even less by more than 7 enterprises.

Tab. 2 – Types of Contracts by objectives[20]

Innovation	32
Internationalization	27
Energy efficiency	10
Environment	9
Brand promotion	7
Research and development	5
Innovation/internationalization	2
Research and development/brand promotion	2
Environment/Energy efficiency	1
Environment/research and development	1
Internationalization/Research and development	1
Innovation/internationalization	1
Energy efficiency/research and development	2

Source: Unioncamere data processed by the Ministry of Economic Development

The Contracts with medium-high density are mainly signed by enterprises based in Emilia Romagna, Lombardy and Tuscany, while Veneto has a high concentration of Contracts with a maximum of 3 enterprises (about 80%). The overall number of enterprises involved in Network contracts is equal to slightly over 980, the majority of which are joint-stock and limited companies, while a much lower number of them are partnerships and sole traders.

Most enterprises are located in the North and Centre part of Italy, in particular in Emilia Romagna, Tuscany and Lombardy. The first Region in the South is Campania with 37 enterprises with are involved in this specific aggregation approach.

Network Contracts are mainly chosen by micro firms (50%) and small firms (34%).

3.2.2. Second chance

Act n. 69/2009 ("Competitiveness Act") and its implementation regulations finally established that the charges to start up but also to wind up an enterprise must be reduced (***"ComUnica project")***. As already provided for under Act n. 40 of 2007, a single "click" is needed to enter, change and delete the business data requested by the administrative offices. So the whole administrative process to start up, transfer and wind up a company can be done *once for all*, independently of the separate and sometimes overlapping national and local competencies. In fact, as of April 1 2010, these data must be submitted only through the internet or by telephone to the Business Registry Office.

Law Decree n. 98 of July 6 2011. (the so-called Summer Package) regulated the numerous VAT positions opened but never used. Art. 23, paragraph 23, allows VAT position holders to close them down within 90 days after the coming into force

[20] The objective is clearly defined only in 50% of Network Contracts.

of the Decree, by paying the sanction provided for under Art. 5 of Law Decree 471/1997 reduced by one fourth (129 Euros). They are entitled to this rebate if they have not received a notice concerning the outstanding Vat position. Moreover, under paragraph 22 of Art. 23, all VAT positions that have not been used for more than three years must be closed.

3.2.3 Think Small First

The European Commission invites ‹‹…*Member States and regional and local authorities to set up an organization designed to coordinate all the issues related to SMEs at different levels of the Public Administration ("SME Representative") with adequate human resources and a prominent role within the Administration* ›› under section 4 of the Communiqué' of February 28 2010 on the "Review for Europe". Under section 5, in order to fully implement the SBA, the Commission ‹‹…*wants to continue to give priority to SMEs and to consider their specific characteristics in its proposals and programmes. For the SBA to be implemented to the benefit of the business community, it will be necessary to better inform the national and regional representatives and other stakeholders and to give more visibility to these actions. The "SME Representative" will have to monitor the progress of the Member States in implementing the SBA and will regularly inform the SME Assembly".*

In order to strengthen the SBA *governance,* in February 2011, Daniel Calleja Crespo from Spain was appointed "Mister SME" for Europe, who is in charge of the EU strategy for small and medium seized enterprises. He is also responsible for the correct and full implementation of the SBA in the 27 Member Countries. Some days later, the Italian Ministry of Economic Development appointed Mr Giuseppe Tripoli to act as the Italian SME Representative. Italy has been the first Country to appoint a national SME ambassador with the task to protect the interests of small and medium sized enterprises, by promoting their relationship with the institutions and supervising the implementation of domestic and European legislations, first and foremost the Small Business Act.

The role and tasks of Mr SME are specified and strengthened under the *Statuto delle imprese*, already described in paragraph 1.2, which also illustrates the simplification measures and the impact evaluation of the rules regarding the MSMEs. Finally, a Law Decree is likely to be enacted for the protection and development of micro and small businesses.

Moreover, in order to reduce the charges deriving from the current provisions for small and medium businesses, **Law Decree n. 70/2011** (the so-called *Decreto Sviluppo*) provides as follows:

- **private construction**: the building permit is issued on the basis of the silence as consent principle, instead of the current silence as refusal, unless there are environmental, landscape and cultural constraints. The time to obtain a final decision goes from 15 days to 30 days (40 if the application is rejected). This new system is also in line with the regional provisions on the simplification measure and the reduction of lead times. Moreover, the scope of the Start Work Notice (called Scia) is better defined and also extended to the construction sector, except in the case of Superdia (Super Start Work Notice). The Scia can be submitted by registered letter exhibiting all the necessary documents, certificates, certified papers and technical plans (and it is considered as submitted when it is received by the Administration);

- **privacy:** the Privacy law will have a different field of application. In fact it will no longer govern the use of personal data related to legal entities and other organizations, both public and private, for accounting and administrative purposes. This change is designed to reduce the cost of data processing for merely administrative or economic relations between enterprises and between enterprises and public entities, without changing the existing provisions protecting the privacy of physical persons;
- **obligations of the Public Administration:** the Public Administrations' web sites must post a list of all the documents and papers to be submitted for any administrative procedure. If these requirements are not published, the Public Administration cannot turn down an application if a document is missing and must invite the applicant to provide the missing paper/s within an adequate time span;
- **measurement and reduction of administrative charges:** a series of measures are envisaged to calculate and reduce administrative charges, in line with the commitments undertaken within the European Union, also in the sectors regulated by independent administrative authorities.

This Decree envisages some additional measures to reduce bureaucratic burden on both enterprises and tax payers:

- **control planning and coordination:** in order to plan and control taxes and contributions, a more effective coordination is necessary for the Tax Police, the State Monopoly Administration, the Social Security Institute and the Welfare Ministry to inspect enterprises. To this end, some measure have been adopted to exchange electronic data and information among these entities. In addition, the other Administrations must be informed before the start of the inspections and then must be given any interesting data to allow them to conduct their own controls. Finally, "sub-state controls" on enterprises must be periodically planned by local Authorities, local police forces and regional and local organizations. The coordination of inspections is conducted by the Industry One Stop Shop or by the local Chambers of Commerce. The Public administrations are obliged to conduct inspections according to the plan and never repeat them before six months. These rules do not apply to controls and inspections to curb crime and to protect the health and safety in the work environment. The same applies for urgent controls which require an ad-hoc permission;
- **information duplication:** the Ministries, the Treasury, the Tax authorities and the Social security entities are not allowed to request information that is already available on their systems. This is designed to avoid any duplication of information to the benefit of users;
- **simplified accounting**: in order to reduce administrative costs for small and medium sized enterprises, ordinary accounting will be used only for higher revenues: from 600 million Lira to 400 thousand Euros and from one billion Lira to 700,000 Euros;

- **executive assessment**: this procedure becomes softer: if the tax payer appeals, the tax payer must pay 30% of the sanction within 180 days after its notification;
- **collection by Municipalities and tax clamps**: for tax debts up to 2000 Euros, it is not possible to use tax clamps if Equitalia has not first sent two requests for payment six months apart. Foreclosures are not allowed for tax debts up to 20000 Euros on the property where the debtor lives. As of January 1 2012 this 'collection role" is given to the Municipalities and to municipal companies; moreover any form of compounding of interest rates on these debts will disappear (this will only apply to future debts);
- **cancellation of delayed payments notices** in case of regularization of payments. The notices related to these delays by physical or legal persons already entered in the data banks must be cancelled when payments resume their regular schedule. Credit Institutions must communicate they have received the payments within five working days and ask for the cancellation of these data within seven days.

In order to reduce the burden of bureaucracy on SMEs, the **Stability Act for 2012** (Act n. 183 of November 12 2011) has introduced a series of changes to Presidential Decree 445/2000 under Art. 15 (Framework Law on Administrative Documents). The aim is to reduce a series of information charges. In particular, it is established that the personal certificates issued by the Public Administration are valid and can be used only between private parties. Instead, for any relationship between a private individual and the Public Administration or public service providers, the private subject must provide a substitutive declaration. Then these entities are obliged to obtain: *a*) the information contained in these declarations; *b*) all the data and documents in the hands of the Public Administrations; *c*) the information related to the payments of social security contributions (before included in the so-called Document on Payment of Contributions - DURC). These declarations must be then verified and controlled by an office responsible for managing, securing and checking the data transmission or access by the Public Administration. The certifying entities can cooperate with this office to identify and publicize on their institutional website the organizational measures adopted to effectively and timely acquire all the necessary data to carry out controls and how to implement them.

In addition, this Law includes a series of provisions for **simplifying accounting** for enterprises. The provisions which limit the requirements to set up a limited company also include a simplified procedure to transfer their shares. Finally the subjects with a simplified accounting system and self-employed individuals can replace accounting documents with the bank receipts if incoming and outgoing payments can be fully traced.

Box 4 – Regulation Impact Assessment and SME Test

Art. 5 of Act n. 50/1999 introduces the Regulation Impact Analysis (called AIR) in Italy. Its aim is to assess how and to what extent these provisions have an impact on the living conditions of citizens and on enterprises. This makes it possible to evaluate *ex ante* whether a regulation is really necessary. It evaluates the consequences of a

decision both in quantitative and qualitative terms and their impact on the regulated subjects and the regulatory authorities. It highlights all the factors that determine the decisions by these authorities: costs and benefits for current and future regulated subjects and costs and benefits for the administration; the risks for all the subjects involved and for enterprises in general; other indirect economic and social consequences. This experiment was already conducted between the year 2000 and 2001, but with disappointing results, probably due to the fact that it was "too new".
Under Act n. 229/2003, Supervisory Authorities must adopt Regulation Impact Assessment methods and tools in order to issue their provisions and, in particular, their general administrative, planning and programming documents. The 2005 Simplification Act reintroduced the AIR to look for less costly options for citizens and enterprises alike; under Art. 14, the President of the Council of Ministers must issue some regulations to set the assessment methods and models; from an organizational point of view, the regulatory activity must be conducted by the competent authorities, who are responsible for the simplification approach.
The 2007 "Action Plan for regulatory simplification and quality" envisaged the introduction of a "rapid, credible, exhaustive and updated procedure in line with the objectives of the Government and with the international best practices". Moreover it established that, in adopting the regulation under Art. 14 (Act 246/2005) on the impact assessment methods, the so-called "AIR file" must be simplified to include all the results of the assessments and the value judgement of the regulations. This is the first step to undertake further simplification measures. The corrections envisaged in the "Plan" can explain why it is still difficult to actually implement AIR when Parliament has to evaluate the Bills submitted by the Government. This is also due to the fact that the President of the Council has not yet issued the regulations provided for Art. 14, as mentioned above. The Decree by the President of the Council n. 170/2008 is indeed designed to enhance the role of AIR; Art. 7 envisages that, without an exhaustive report, the bills to be submitted to the Cabinet cannot be included in the agenda. Moreover, it determines the scope of AIR and specifies the exceptions three years after the introduction of Act 256/2005. The regulation of September 2008 also clarified the content of the AIR Report, which must be based on the subsidiarity principle in its broadest meaning, limiting the regulatory activity so as to promote self-regulation. Therefore the impact analysis is designed to evaluate the quantitative and qualitative consequences of a decision on the regulated subjects and on the administration that has to implement and/or enforce the rules.
The results of this evaluation must be reported in a document describing:

- the problem which originated the proposal and the objectives of the proposal;
- the consultation phases;
- the possible actions, including the choice of not acting;
- the direct and indirect effects that each of these possible choices may have on the beneficiaries and on the administration;
- the costs and benefits for each action and their quantification;
- the method used to obtain the data and the quantitative estimates.

On the basis of this detailed information, decision makers will have an overall view to optimize the quality of regulation; but the AIR approach is not only important for *better regulation* in the general interest, but it achieves another very important goal, i.e. it clarifies and promotes the public interest. With respect to the early experiments with AIR in Italy in the late 90's, the number of regulatory sources has increased and the context has become more fragmented because of rules from the State, from the European Union, from independent Authorities, from the Regions and from the Municipalities. A heavy regulatory framework does have an impact on the development of a Country; in fact, better regulation is conducive to growth and competitiveness and to the increase in the gross domestic product (Tab 1).

Tab. 1 – Number of regional laws and regulations as of December 31 2008

Region	Laws	Regulations
Abruzzo	2737	160
Basilicata	640	92
Calabria	761	46
Campania	1212	*n.d.*
Emilia-Romagna	929	41
Friuli-Venezia Giulia	1043	*n.d.*
Lazio	2170(*)	156(*)
Liguria	815	61
Lombardy	632	102
Marche	799	52
Molise	995	54
Piedmont	942	154
Apulia	886	186
Sardinia	2104(*)	*n.d.*
Sicily	2935(*)	*n.d.*
Tuscany	968	134
Umbria	992	105
Valle d'Aosta	927	66
Veneto	782	38
Prov. Bolzano	1320(*)	*n.d.*
Prov. Trento	701	367

(*) The data is referred to the provisions issued and not to the ones now in force, because no data is available on the ones repealed.
Source: Chamber of Deputies – Observatory on Legislation – 2009 Report on the State, regional and European Union legislation. 2009

In addition, there are rules from local authorities, and the regulations issues by other public administrations, such as independent regulatory entities, that may have a major impact on the activities of businesses operating in these sectors.
At present, the quantity of laws issued in Italy is not larger than in other European Countries (Tab. 2); Parliament no longer produces hundreds of laws per year, but the number of provisions has not changes in that the laws are not so many but they are longer; this is particularly true for financial laws.

Tab. 2 – Laws issued in 2007 and 2008 in the main European Countries

Country	2007	2008
France	107	95
Germany	149	144
Italy	68	64
United Kingdom	31	33
Spain	72	6

Source: Data from the Chamber of Deputies

The "law-cutting" mechanism is designed to reduce the number of laws and it is the main tool to improve the regulatory framework. It has produced useful results because it has provided a greater insight in the system and a "prophylactic approach to legislation, that is the elimination of rules by now forgotten but never repealed. However, it does not streamline or reorganize the current legislation. This can only be achieved by patiently reforming one regulatory domain at a time, so as to eliminate excess rules thus making the system less costly for public institutions and private organizations.
The system can be improved not only by simplifying the rules or by reducing administrative charges, mainly with an impact on the regulatory stock, But this can be achieved by using the AIR approach, which can manage the regulatory flow if correctly implemented, because it evaluated the costs and benefits and the pros and cons of each option.
The Conference "Regulation and competitiveness" organized by the Presidency of the Council of Ministers in October 2011, provides some data on the AIR Reports produced in 2009 and 2010, 169 and 207 respectively. The Ministry of Economic Development is mainly concerned with the impact analysis of regulations on competition and on the annual provisions for SMEs.
The *Smart Regulation* communiqué issued by the European Commission (October 8 2010) underlines that on the one hand, it is necessary to reason in terms of a series of policies and with a broader approach and not with a single regulatory intervention. In fact each rule interacts with a series of other provisions within a broader scope; on the other, it is important to involve citizens and enterprises in the regulatory interventions, trying to avoid a technocratic attitude.

In the renewed Lisbon strategy, the European Commission launched a global strategy for better regulation and for paving the way to growth and employment, always keeping in mind social and environmental objectives and providing benefits to citizens and national administrations.
To this end, in order to build up a constructive dialogue between all the parties concerned and all the participants in the EU and domestic regulatory processes, an **SME consultation test** (**SME Test**) has been implemented in order to simplify and fine-tune the existing legislation and draft better provisions in Europe.
In this connection, in 2011, the European Commission, – DG Enterprise E4 – studied the use of the SME Test in the Member States and in the European Union. This survey showed that slightly less than 50% of all the EU member states uses the SME Test (DE, LV, NL, SE, FI, HU, DK, AT, LU, UK, RO and FR); Malta, Slovenia and Slovakia are preparing the Test; the others do not have yet an *ad hoc* SME Test (PT, IE, PL, GR, CZ, BE, CY, LT, ES, EE, BG and IT).[21]
This study emphasizes that it is absolutely necessary to develop the SME Test in the European Union so as to provide an updated feedback between the States and between member States and the European Union.
The Commission has stressed how important it is to simplify, clarify and provide greater consistency to the regulatory and administrative framework in which SMEs operate. To this end, it believes that it is crucial to build up the test and urges all Member States to use the Test more effectively and efficiently at a national level.
The Commission has confirmed it is willing to continue to help Member States fulfil this task and has proposed to make this Test compulsory for SMEs and their associations. It has invited the Member States to use a systemic and integrated

21 European Commission, SME Test Survey in the European Union, September 2011.

approach and to include it in the tools designed to have an overall view of the regulatory impact.

3.2.4 Responsive Administration

In 2011, the simplification measures envisaged in the Small Business Act and in the Directive of the President of the Council of May 4 2010 continued to have a positive effect on SMEs and on their business activities.

In this connection, it is worth stressing that the SBA proportionality principle was first transposed as a primary provision (Law Decree n. 78 May 31 2010) and then amended converted into a law by Act n. 122 of July 30 2010). Finally, it was implemented through the regulations issued by the Government in 2011.

Start-up in one day

In view of the subsidiarity principle, the Chambers of Commerce provide their support to the Italian municipalities to set up a Single Stop Shop for Enterprises (SUAP). It is a single interface between businesses and the Public Administration, as envisaged under the EU Services Directive and regulated by Art. 38 of Law Decree n. 112 of June 25 2008.

In particular, The Presidential Decree n. 160 of September 7 2010 adopted the Regulation on the simplification and the reorganization of the SUAP legislation and entrusted the Chambers of Commerce with the task of creating the Portal www.impresainungiorno.gov.it. This website gives access to the national network of single stop shops.

The same provision also requires that in the Municipalities that do not have the information technology systems needed to successfully run these units, the local Chambers of Commerce must act as an interface for the SUAP file transfer.

The National Association of Italian Municipalities and Unioncamere are working together on the Single Stop Shop for Enterprises, an important step forward to implement the SUAP reform.

The Single Stop Shop for Enterprises plays a fundamental role within the Municipalities, as emphasized in the Bill of Rights of Local Authorities under discussion in Parliament, a crucial initiative for local economic policies. The integration and the strengthening of the cooperation and the synergy between the Chambers of Commerce and the Municipal Councils are important not only for the communities concerned. In fact it strengthens the whole system of the Country and the competitiveness of enterprises.

In addition, to specifying the objectives shared by these two entities, the Convention establishes the requirements to design and implement the website project, which is instrumental in the success of the reform. In particular, the agreement stresses the need to: standardize all forms and procedures as much as possible in line with the current legislation; to adequately meet users' needs and to quickly solve their difficulties; to avoid any additional burden on these procedures and to consistently streamline them; to ensure a consistent technological innovation to SUAP and its services.

So, the Portal www.impresainungiorno.gov.it becomes the single point of contact at a local level for all formalities related to enterprises: a point of access and response for businesses which will receive a single and timely response through the web independently of the administrations involved in this process, including the ones in charge with the protection of sensitive data.

Presidential Decree n. 160 of September 7 envisaged the following schedule:

1) by January 2011, the Municipalities had to notify if they fulfilled the criteria required to operate a SUAP; otherwise, by the end of March, the task had to be entrusted to the Chambers of Commerce;

2) by March 2011, the automated system had to be in place;

3) by September 30 2011, more complex procedures had to be adequately regulated and the administration had to retain its discretionary evaluation power (ordinary procedures require ad hoc provisions).

At the end of 2011, 4.303 Municipalities had already certified their requirements with the Ministry of Economic Development, while 2570 had decided to be supported by the Chambers of Commerce. In total, 85% of Italian Municipalities has a Single Stop Shop for Enterprises, and they account for 87% of the Italian population and 89% of registered enterprises. 1219 Italian Municipalities do not have this facility.

The reform envisages that the Single Stop Shops for Enterpises of the accredited Municipalities must use their information systems to receive and process the files. Instead from march 30 up to the end of 2011, the SUAP of the Municipalities supported by the local Chambers of Commerce processed more than 20 thousand notices (SCIA) together with the Single Communication (Comunicazione Unica) under Art 5, paragraph 2 of D.P.R. 160/2010 and 1299 SCIA directly filled on the Portal www.impresainungiorno.gov.it (Tab. 1). Among them, 286 authorization requests processed through an Ordinary Procedure by the SUAP in line with the law on September 30 2011. Instead the law on the automated procedures came into force on March 28 2011.

Tab. 1 - SCIAs sent up to December 2011

Regions	N. Municipalities	N. Accredited Municipalities	N. Municipalities supported by the Chambers of Commerce	% areas covered	N. SCIAs with ComUnica	N. SCIAs sent through the portal
Abruzzo	305	179	67	81	522	6
Basilicata	131	14	93	82	207	100
Calabria	409	118	153	66	384	188
Campania	551	210	251	84	2.313	71
Emilia Romagna	348	348	0	100	449	0
Friuli Venezia-Giulia	218	116	61	81	66	25
Lazio	378	206	96	80	709	129
Liguria	235	39	155	83	47	6
Lombardy	1.544	896	613	98	10.170	312
Marche	239	225	11	99	823	3
Molise	136	34	58	68	71	2
Piedmont	1.206	775	360	94	870	129
Apulia	258	104	103	80	1.346	38
Sardinia	377	323	0	86	214	0
Sicily	390	127	110	61	422	6
Tuscany	287	287	0	100	0	0
Trentino Alto-Adige	333	0	0	0	0	0
Umbria	92	88	0	96	30	0
Valle d'Aosta	74	74	0	100	1	0
Veneto	581	140	439	100	1.508	284
Total	**8.092**	**4.303**	**2.570**	**85**	**20.152**	**1.299**

Source: www.impresainungiorno.gov.it

Ad hoc simplification measures for SMEs

The Cabinet has approved the first package of simplification measures for the prevention of fires and the protection of the environment, whose requirements are particularly burdensome for about 2 million Italian small and medium sized enterprises.

All these measures have been studied in collaboration with the Business Associations and the Competent Administrations to implement a new simplification method. For the first time in Italy, the proportionality principle is fully implemented: the administrative measures are adjusted to the size of the enterprise, the sector where it operates and to the need to protect public interests.

After the approval of the first two regulations, the next simplification step will be taken in the field of privacy, industrial safety and public contracts.

The simplification measures for SMEs do not change at all the level of protection of general interests. Indeed, the environment and public health are better protected.

The proportionality principle helps public offices work more effectively and focus their attention on the verification and control of very sensitive cases.

Tab. 2 - Administrative costs for SMEs in the regulatory areas under investigation

Area	Annual Administrative Costs (billions of Euros)
Labour Market and Social Security	9. 9
Environment	3. 4
Taxation	2. 7
Public Contracts	1. 2
Fire Prevention	1. 4
Privacy	2. 2
Landscape and Cultural Heritage	0.6
Industrial safety	1.5
Total	**23**

Source: PCM, DFP – Simplification Unit

Tab. 3 – The most expensive procedures/obligations for enterprises

Procedure/obligation	Annual Cost (millions of €)	Implementation Status
1 – Book keeping	6.015.4	Simplified
2 – Annual statement and VAT Communication	1.957.1	Simplified
3– Industrial waste discharge authorization	1.044.9	Simplified
4 – Monthly income statement (Emens flow)	1.041.6	Simplified
5 – Monthly contribution statements	990.4	Simplified
6– Applications and papers for tender bidding	869.7	Underway
7– Fire prevention certificate	833.8	Simplified
8–Noise pollution documents	792.7	Simplified
9 –Withholding agent's statements (simplified 770)	762.1	Underway
10–Compulsory communication of the start/end of the labour relationship	584.7	Simplified

Source: PCM, DFP – Simplification Unit

The simplification package approved consists of two regulations related to the following administrative procedures in the fields of fire prevention and environmental authorizations:

- project conformity opinion;
- fire prevention certificate;
- renewal of the fire prevention certificate;
- control registry;
- industrial waste discharge authorization;
- noise pollution documents.

These procedures are very relevant. In fact, the cost for Italian SME's was about 3.2 billion Euros per year. The introduction of this simplification package will allow enterprises to save about 1.5 billion Euros per year.

The environment regulation: waste water discharge simplification:

- self-certification for the renewal of authorizations if no changes are introduced in the meantime;
- the enterprises which have water discharges similar to domestic ones (hotels, restaurants, bakeries, offices, banks etc.) are included in an ad hoc list and treated as residential units or as condominium. This list is only valid for the Regions that have not yet prepared their own lists.

The environment regulation: simplification of noise pollution documents:

- 1.5 million enterprises with low noise pollution (retailers, hair stylists, fitness centres, artisans etc.) are not obliged to submit the noise pollution documents;
- all the other enterprises are entitled to submit a self-certification, except for the ones producing noise levels above the upper limits established by municipalities. In this case, they must submit the documents drafted by ad hoc technical experts.

The fire prevention regulation:

There are three different sets of fire prevention rules according to the type of risk.

Low-risk activities are exempted from the conformity opinion. It is sufficient to submit a notice (SCIA) within a pre-set deadline for all enterprises.

Medium and high-risk activities must obtain a fire safety conformity certificate within 60 days.

The follow-up controls after the start of the operations are specified according to the risk level:

- targeted and sample controls on low and medium risk activities;
- controls on all high risk activities;

Privacy

The privacy requirements are very costly for SME's. According to the 2007 estimates, the administrative charges in this field amount to about 2.2 billion euros per year.

The proposed changes envisage that the Privacy Law does not apply to the personal data of legal entities in their administrative and accounting relationships. In this way, the Italian legislation will be in line with the other European Union Member Countries: in fact, only Italy and Austria have a privacy law which applies to both physical and legal persons.

In addition, a simplified approach has been envisaged for a large number of enterprises that only deal with the sensitive data of their staff, their collaborators and their family members: a simple self-certification can replace the Security Certificate.

Public Contracts

It is well known that participating in tender bids in extremely expensive. The most costly procedures are related to the application process and to the submission of documents (on average 27 times per year), which is equal to about 870 million Euros per year.

The proposal agreed upon with the employers' associations envisages:

- a national data bank of public contracts to allow public administrations to consult and acquire the documents presented by enterprises;
- the compulsory use of pre-defined document formats by contracting authorities;
- the direct acquisition of the *antimafia* document by contracting authorities.

Industrial safety

The Ministry of Labour and Social Policies in collaboration with the employers' associations are preparing some proposals to combine simplification with the protection of health and industrial safety, shifting the focus from formal requirements to concrete results, in line with the EU legislation.

A Plan was submitted by the Minister of Civil Service and Innovation with the delegation for administrative simplification, during the Cabinet meeting of October 7 2011. This Plan is designed to: 1) reduce by 25% the charges for enterprises by 2012, with expected savings amounting to at least 17 billion Euros per year; 2) simplify the procedures for small and medium sized enterprises (Tab 4.).

Tab. 4 – Measures designed to reduce the administrative charges by regulatory area and estimated savings

Area	Administrative charges (billions of Euros)	Instruments	Savings (billions of Euros)
Labour and Social Security	9.9	Reduction Plan Act n. 133/2008	4.8
Fire prevention	1.4	Reduction Plan and SME simplification regulation	0.65
Landscape and Cultural Heritage	0.6	Reduction Plan Small-scale measures	0.2
Environment	3.4	Simplifications for SMEs	0.8
Taxation	2.7	Provisions issued by the Revenue Office (Circular letter n. 1/E January 25 2011)	0.46
Total	**18**		**6.9 (38% of costs)**

Source: PCM, DFP – Simplification Unit

3.2.5 Public Procurement

A Memorandum of Understanding was signed by the Ministry of Economic Development, the Ministry of the Economy and Finance and CONSIP to allow SMEs to more easily access the public contract market through information and communication instruments, such as the Public Administration Electronic Market made available by the Ministry of Finance through Consip. In particular, some possible areas of cooperation have been identified such as the rationalization and the innovation of the purchasing of goods and services, which, for example, requires these entities to provide information to SMEs about tender contracts and electronic billing.

Law Decree n. 70/2011 (Development Decree) devotes a large section to public contracts. The aim is to streamline and speed up the public contract award process so as to promptly start the infrastructural works already awarded to revamp this sector hardly pressed by the current financial crisis and to reduce the enormous number of disputes existing in this domain. Here follow some of the most significant innovations.

Swift awarding process: in order to simplify the awarding procedures of contracts below a certain amount of money, the negotiated procedure can be used for contracts not exceeding 1 million Euros, instead of 500 thousand Euros (Article 122 of the Contract Law). This increased threshold is designed to ensure the maximum level of competition in the procedure, with an increase in the minimum number of participants who must be invited (at least ten for works above 500 thousand Euros, at least five for works below this figure). Moreover, under the negotiated procedure, the result of the tender bid must be communicated within 10 days as of the final award of the contract and must indicate the subjects invited to participate so as to ensure the rotation principle. Following the increase to 1 million Euros as the upper limit for the negotiated procedure without publication of notice, the threshold for the simplified procedure provided for under the current legislation is raised to 1.5 million Euros (Art. 123 of the Code).

Simplification measures: the landscape authorization procedure will be streamlined by transforming the Superintendent's binding opinion into a non-binding opinion if the municipalities have transposed the provisions of the Regional Landscape Plan and the Ministry of Cultural Heritage has approved this adjustment. Moreover, the silence as consent mechanism is introduced if this opinion is not issued within ninety days after receiving the approval and the indications issued by the region and by the Ministry of Cultural Heritage.

In view of specifically defining the exclusion criteria and limiting the discretionary power of the awarding Authority, a new Paragraph has been introduced under Art. 46 which only envisages the exclusion criteria provided for under the Code of Public Contracts and its regulations, in addition to the cases of absolute uncertainty about the content and the origin of the bid or on the integrity of the documents which violate the bid confidentiality principle. The calls for tender must specify all these exclusion criteria and cannot apply any additional exclusion parameters. The aim is to limit the high number of applicants who are excluded for formal and not for substantial reasons so as to ensure competition and to reduce the number of contract award disputes. Moreover, calls for tender must be prepared by the awarding Authorities according to the models approved by the Supervisory Authority and previously accepted by the Ministry of Infrastructures and by the professional associations involved. The procedures are streamlined by eliminating the 1 million Euro upper-limit provided for under Articles 56 and 57 of the Contract Law for the negotiated procedure when a previous open or restricted tender contract has not been awarded. This change is in line with the EU Legislation which envisages the award of the contract with a negotiated procedure without any upper limit.

Anomalous bids: in order to reduce the contract award lead times, a transitory period is envisaged (until December 31st) with the automatic exclusion of all anomalous bids without negotiating with the bidder. This is deemed necessary because it is concretely difficult to assess the anomaly, which results in delays in the procedures. In fact, the administrations, especially the small ones, may not be sufficiently prepared or equipped to conduct this assessment.

Rebates: with the addition of Paragraph 3-bis of Art 81 of the Contract Law, the best offer must be calculated net of safety charges but also of labour expenses calculated on the basis of the minimum wages negotiated by the most representative trade unions and employers' associations of Italy.

Sanctioning ungrounded disputes: in order to reduce litigation, Art 246 bis introduces the notion of "ungrounded disputes" to the Contract Code. The system of Court expenses under Art 26 of the Administrative Procedural Code remains unchanged, but, if the Court decision is based on explicit motivations and established cases, the losing party must pay a fine amounting to a minimum of twice as much and a maximum of three times as much the contribution due for filing a suit. The revenues from these fines will be allocated to the Treasury.

Alterations to the plan during the execution of the Works: the alterations decided by the works supervisor under Paragraph 4 of Art 132 of the Contract Law, which are designed to improve the work and its function, must be included in the 5% of the original contracted amount and must be covered by the sums allocated to construct the works net of 50% of the tender rebates obtained.

White list: each Prefecture must have a list of enterprises with no links to organized crime so as to more easily control subcontracting and extending antimafia controls to subcontractors. The list must be periodically updated by the Prefect according to the modalities defined by an ad hoc regulation. It is necessary to be registered in the list to participate as sub-contractors.

The ***Statuto delle imprese*** is aimed at facilitating the micro and small-sized enterprises to public contracts. Paragraph 1.2 above illustrates the main measures to simplify the access of SME's to public contracts, by subdividing contracts into lots, by providing a higher number of subcontracting opportunities and envisaging greater transparency in public procedures.

3.2.6 Access to finance

The access to credit for small and medium sized enterprises is supported and facilitated mainly by the **Guarantee Fund for SMEs** *ex lege* 662/96. Under Decree n. 69 of March 23 2011 of the Ministry of Economic Development adopted together with the Ministry of the Economy and Finance, the Guarantee Fund was extended to SME subcontractors (at least 50% of their sales) of large companies under receivership since July 1 2008. The main goal of the Fund is to support the 7 thousand or so small and medium sized enterprises that are structurally healthy, but which have credits vis-a'-vis hard pressed large enterprises. Then in order to stimulate the allocation of new resources to business activities, Decree n. 70/2011 (Development Decree) envisages an extension of this guarantee to entities about to play a major refinancing role, such as *private equity* funds.

Law Decree n. 201/2011 (*Decreto Salva Italia*) not only increases the resources for the Guarantee Fund to 400 million Euros each year in 2012, 2013 e 2014, but it has also introduced some significant innovations to the management of this fund. The direct guarantee and the counter guarantee have been increased up to 80% of the overall financial resources allocated throughout Italy. Moreover, the current minimum contingency fund out of the guaranteed amount is designed to increase the leverage for the resources allocated to the Fund. According to some technical experts, by reducing the percentage from 8% to 6%, the multiplier would increase to 20 and, with the resources already available for 2012 (506 million), the funds would amount 12.3 billion Euros. Considering the new incoming resources, the Ministry of Economic Development plans to allocate about 20 billion Euros. This provision increases the maximum guaranteed amount for each medium-sized company to 2.5 million and reserves 80% of the funds for micro and small businesses. Another innovation is the possibility to guarantee not only individual transactions but also portfolios of funds for SMEs. Finally, the intervention on credit line guarantee consortia; their capital, so far only open to SMEs, can now accommodate the participations of other subjects such as regions, chambers of commerce and foundations.

In the last two years, the Fund provided a significant amount of financing: over more than 105 thousand applications were accepted (over 55 thousand in 2011) for an overall amount of funds equal to 17.5 billion Euros (8.4 billions in 2011), The stock of the guaranteed funds amounted to 9.6 billion Euros (of which 4.4 billion Euros in 2011 alone).

The most significant measures approved by the *Decreto Sviluppo* (**Development Decree n. 70/2011)** for SMEs are: the reform of the European attraction regime (introduction of management and coordination of groups of enterprises in the economic activities entitled to benefit from the European attraction regime; the elimination of the time constraint of three years); the obligation for receivers to close the extraordinary administrative procedures that have been open for more than 10 years; incentives for the economy in the South of Italy to attract capitals for medium and long term investments of small and medium sized enterprises based in the South of Italy (financial instruments with a minimum maturity of 18 months issued by Italian, European Community and non European Community banks, which can be acquired in the form of bearer securities or nominal securities by physical persons with no business activities); the national Agency for Microcredit, the national coordinating agency with the task of evaluating and monitoring financial instruments promoted by the European Union as well as the micro-financial projects funded by the European Union (see Box 6); the possibility to transfer the credits issued within the framework of the Common Agricultural Policy (PAC contributions) so as to provide greater liquidity to farmers and to support this sector. The modalities will be defined on the basis of a Ministerial Decree.

In 2011, the **Moratorium on SMEs' debts** was extended within the framework of the **Agreement between Government, Banks and Enterprises** reached in 2010[22]. In 2010-2011, 260 thousand applications were accepted, which was was an injection of liquidity for enterprises, due to the discontinuation of the payment of interests, amounting to over 15 billion Euros.

One year after the launch of the **National Investment Fund**[23], which came into force on November 9 2010, the Board of Directors authorized 352 million Euros' worth of investments, about one/third of the available resources. There are about 170 companies being screened by the Board of Directors, with 17 *due diligence* processes and 9 investments already authorized in favour of SMEs, for a total of 85.9 million Euros. Moreover, 80 indirect investments in funds were taken into consideration, of which 6 *committed* (for a total of 140 million Euros) and 5 already authorized. In this connection, a four-year Cooperation Agreement was signed on October 24 between the Italian Investment Fund and the European Investment Fund so as to make investments in Italian closed funds. The aim was to raise venture capital for SMEs. The first investment amounted to about 50 million Euros, with a dozen companies eligible to benefit from the investment through the closed fund.

SACE developed a new instrument (operational since January 2012) to acquire and manage major interests in SMEs already listed or about to be listed on the Italian market, with less than 400 million Euros of capitalization. The investments were made through a major intermediary specialized in Small Caps (Symphonia Sgr) and they will last for 3-5 years, possibly with an export-oriented business model. The

22 The Agreement was based on 4 pillars: 1) a 6 month extension of debt freezing; 2) a rescheduling of debts; 3) interest rate hedging with simple and transparent risk management tools; 4) financing of enterprises to strengthen their capitalization.

23 A measure to strengthen the capitalization of Italian SMEs was developed in March 2010, called the National Investment Fund at the initiative of the Ministry for the Economy with the support of the Italian Banking Association (ABI) and the Italian Federation of industries (Confindustria) and with the financial participation of Intesa SanPaolo, Unicredit, MPS and Credito cooperativo. The Fund has 1.2 billion Euros 'worth of resources and will have more resources in the future. It is designed to finance enterprises with sales between 10 and 100 million Euros, whose mission is to grow abroad. In addition, it aims at investing 50% of its resources to in companies, while the remaining 50% will be allocated to the *private equity* funds that invest in SMEs.

initial amount of resources is 50 million Euros with the objective of financing 20-30 enterprises.

In October 2011, **Cassa Depositi e Prestiti** provided an additional amount of 10 billion Euros to finance SMEs through banks. Out of these, 8 billions will be allocated to SME's investments and capitalization, while 2 billions will be used to bridge the gap of the delayed payments by the public administration. So far, positive results have been obtained: 6.3 billion Euros already appropriated, 36 thousand beneficiary enterprises and 76% of bank branches involved.

When the Public Administration and large companies **delay payments** to micro and small sub-contractors, as illustrated under paragraph 1.2, the *Statuto delle imprese* delegate the Government to adopt a Law Decree, to fully transpose the EU Directive 2011/7 into the Italian legislation, at the latest 12 months after its coming into force.

The **Single Venture Capital Fund** continues to work (for more details see Box 5)

Box 5 - Venture capital in Italy, main implementation instruments and some operational proposals

Some thoughts about the Italian financial market
In Italy, micro and small businesses pay interest rates on average higher by 4-5% with respect to medium and large companies[24]. This is only partly due to the higher percentage of non-performing loans in the South of Italy and to the smaller size of credit lines provided to small and medium businesses (higher fixed costs for credit lines under the same conditions).
This situation is also caused by an oligopolistic "bank-centred" financial system (the banking system in the South has practically disappeared following acquisitions and mergers in the 90's). Therefore enterprises have few alternatives to raise funds for investments, except for self-financing.
This is also due to the lack of financial education of SME's about other forms of financing (especially in the South) and, on the other, to a financial infrastructure still too distant from the business requirements of companies in Italy.
These causes have a macro dimension (inadequate financial infrastructure) and a micro dimension (poor financial education of SME's) with two negative effects for the Italian economy: the cost of financing for Italian enterprises is higher with respect to their *competitors* and a credit crunch, in particular for micro and small businesses.

Venture capital in Italy
The Report "The Global Venture Capital and Private Equity Attractiveness Index 2009-10" drafted by the IESE Business School in collaboration with Ernst Young reveals that Italy ranks 29th in the world for attracting investments (due to risk aversion, labour market conditions, the taxation system, ineffective public interventions, etc.).
In the last few years, this trend seems to have radically changed also thanks to the greater attention attached by public bodies to these alternative forms of financing.

[24] See the National Credit Observatory Unioncamere-Istituto Guglielmo Tagliacarne which, for the last ten years, has provided statistical information at the regional level.

The latest data provided by AIFI show that in Italy, in the first semester 2011, 124 investments were finalized (50 early stage and 74 expansion projects). However, these figures are distant from the ones provided by Germany, where, last year, 947 enterprises received venture capital funds. However, in the wake of the recovery in 2010, when private equity e venture capital operators made 292 investments (+3% with respect to 2009) for an amount equal to 2.5 billion Euros. Of these, 55% was allocated to enterprises with a turnover lower than 10 million Euros vs. 45% in 2009. In addition, the number of investments in the South increased from 4% in 2009 to 8% in 2010.
On the basis of the first survey on venture capital public initiatives conducted by AIFI on a local level, 508.5 million Euros were invested in venture capital funds provided by the Regions, the Provinces, the Chambers of Commerce, in order to promote the growth of enterprises, most of which *start ups*.
The North of Italy has the highest concentration of funds, first and foremost Lombardy, with 87 million allocated from the Regional Financial Organization Finlombarda, in addition to the resources provided by the 4 Chambers of Commerce, (about 80 millions).
Then Tuscany, where the Region allocated 96.4 millions for three different investments and 700 thousand and 500 thousand Euros respectively provided by the Prato and Pisa Chambers of Commerce. Veneto can invest 65 million. In Sicily, there is a public *venture* capital fund, the Cape fund, with 34 million Euros, while Sardinia mainly uses *early stage* initiatives (35 million from the Ingenium Fund).
The number of regional funds seems to be bound to increase also in the light of the allocations made by the EU in favour of Italy, equal to 500 million Euros for the current programming period with the aim to provide public support measures to *venture capital*.
Hence the proposal to have greater coordination between regional and national Funds.
The national funds already implemented include the **National Innovation Fund** (MD March 10 2009). In the first months of 2011, two public calls were launched for operators who create portfolios to finance SMEs' innovative projects based on patents (about 39.1 million Euros worth of funds).
The above-mentioned **National Investment Fund** started working in March 2010.
Then, it is important to mention the funds designed to manage the resources coming from the **High Tech Fund for the South** (Act 311/04. Art. 1. Paragraph 222).
The **Venture Capital Fund** set up in 2007 to support investments in geographical areas considered to be strategic for the internationalization of the Italian production system, such as China, the Balkans, Africa and the Middle East, Russia and Caucasian Countries, India and the South East Asia Countries hit by the tsunami, Central and South America. The Ministry assigned this task to SIMEST SpA and the Balkans' Fund under Act 84/2001 to FINEST SpA. These Funds work on top of the standard ones provided by SIMEST and/or FINEST and under Act 100/90 or under Act 19/91. 33 initiatives were approved in 2011 (of which 11 for SMEs) for an allocated amount of about 22.4 million Euros (of which a little bit less than 4.5 million Euros for SMEs.).
With the aim is to promote the introduction and the use of private equity and venture capital investments for small businesses, in 2010 an Agreement between the Ministry of Economic Development and AIFI was signed (the Italian *Private Equity* and *Venture Capital* association) designed to promote training and information initiatives in the field of *venture capital*. So far, the Ministry of Economic Development has organized three seminars (Naples, Reggio Calabria - Messina and Bologna) in collaboration with AIFI, ABI, Borsa Italiana and Unioncamere.

These meetings are mainly designed to disseminate the still obscure *venture capital* culture among Italian companies, especially in the South, notwithstanding some recent positive signs (increase in the number of investments in the South from 4% in 2009 to 8% in 2010). These data are encouraging, but there are still "entry barriers" to use *private equity* and *venture capital* opportunities (limited knowledge about the technical tools to use these financial instruments and the high cost of planning). However the Ministry wants to go on with the current promotional/training pilot project, also creating a geographical network of **"Equity Angels".** The network mainly consists of adequately trained accountants who provide their services to enterprises that want to adopt a financial innovative strategy with respect to the "bank-centred" approach to fund raising.
Finally, the legislative initiatives launched by the Government in the filed of *venture capital* have so far focused in particular on the *early stages* of the life of enterprises, especially of innovative enterprises.
According to numerous experts, the use of *venture capital* would be desirable also in other stages of the business life cycle, in particular, to allow for the transfer of the enterprise and to allow it to survive and continue its activity in difficult times, and also to improve its economic and financial *performance* and its competitiveness.
According to the EVCA (*European Private Equity and Venture Capital Association*), more than 60% of the venture capital investments made in Europe by institutional investors is designed to support family-based enterprises. In particular, for most of them, the participation of a venture capitalist has allowed it to continue its *business* and to maintain its corporate autonomy and independence.
In this context, the SME Standing Committee has also proposed to provide tax incentives and rebates for enterprises that open up their capital to promote their transfer. This would lead enterprises, especially family owned ones which are about to have a generational change, to use venture capital to continue their operations.
The intervention of a specialized financial investor seems to be desirable also for enterprises that are hard pressed by economic and financial problems: these companies can be saved and relaunched towards a new development cycle through *turnaround financing* provided by specialists who investment in companies in crisis so as to restructure and revamp them.

The proposal of the European Commission
The European Commission has recently issued a draft regulation due to come into force between 2013 and 2014 after the approval by the Council and by the European Parliament. This regulation envisages a set of rules to give momentum to this domain that still has a very high and untapped potential for the development of European SMEs. According to these draft provisions, all venture capital managers who fulfil a number of common standards in the 27 Countries of the European Union should be entitled to have a European marketing passport to allow all eligible investors to operate within the EU. If the regulation comes into force, the *venture capital* funds will have an ad hoc regulatory framework and they will no longer be obliged to comply with the directive on alternative investment fund managers, that is more suitable for hedge funds and private equity funds. A European venture capital fund must comply with the following requirements: invest 70% of the capital provided by its financial sponsors into SMEs, avoid borrowing; comply with harmonized rules and quality standards.

Box 6 – Ente Nazionale per il Microcredito

Ente Nazionale per il Microcredito was first set up as the National Committee for Microcredit under Act n. 81 of March 11 2006. After its approval under Law Decree n. 70 of May 13 2011, it has become a not-for-profit public entity with administrative, organizational and financial autonomy; it coordinates, guides and evaluates micro-financing initiatives promoted by Italy and by the European Union in order to promote and support microcredit and microfinance programs for the economic and social development of the Country and to fight against poverty.
This Entity is under the administrative and accounting control of the Ministry of Economic Development and the Ministry of the Economy and Finance under Act n. 122 of July 30 2010 and under the administrative and accounting regulation approved with the Decree of the President of the Council of Ministers on November 27 2008.
The Ministry of Economic Development has entrusted this administrative and accounting control to the Directorate General for Small and Medium-sized Businesses and Cooperatives – Division VIII; The task of the Ministry is to supervise its institutional activities and to notify the Court of Auditors about the most significant findings gathered during the inspections.
It has promoted strategic partnerships with public institutions, the private sector and the non-profit organisations to launch credit and technical initiatives; in addition it has signed several Memorandums of Understanding such as:

- Memorandum of Understanding to launch a microcredit project with the Campania Region within the framework of the "National Network for Microcredit of Italian Municipalities";
- Memorandum of Understanding for research and training initiatives (to become microcredit operators) with the Bologna Alma Mater Studiorum University;
- Memorandum of Understanding with the Ministry of Labour and Social Policies for the implementation of projects: "Monitoring the integration of labour policies with policies for the local development of production systems in the field of Microcredit and Microfinance" and A.MI.C.I. "Access to microcredit for immigrants";
- Memorandum of Understanding with Unioncamere for the organization of a series of national microfinance conferences;
- Memorandum of Understanding with the Union of Italian Provinces within the framework of the project "national network of municipalities";

Moreover, some more agreements are being finalized with the Italian regions, the Bari Municipality, Converse Bank (Armenia); the Province of Cordoba (Argentina); the Luiss University of Rome; the International Organization of Migrants; the Tunisian Solidarity Bank.
One of the objectives of this Organization is to train professionals in the field of microfinance in Italy; it organizes high level training courses with the Bologna University and it finances a scholarship for a PhD in the field of economics at la Sapienza University of Rome.
Training is accompanied by promoting the microfinance culture through conferences, seminars and workshops in Italy and abroad.
In addition, it carries our research activities on microfinance in Europe, in developing Countries, in emerging economies (feasibility studies; *governance* models; business plan development and monitoring, technical assistance for financial inclusion). It also issues draft regulations and solidarity microcredit models through a guarantee fund for disadvantaged individuals. To this end, it has conducted Country-specific studies

for the Balkan area, the Maghreb, Latin America (Bolivia), the Caribbeans, Asia (Mongolia) and Europe.
Finally it promotes communication initiatives to expand and strengthen the connections among the people operating in this field, the institutions and civil society, such as for example: the development of the institutional portal; the press office; the publication of the magazine "La rivista del Microcredito e della Microfinanza"; the publication of the following books: "Access to microcredit for immigrants: the Italian model"; "Microcredit in Italy"; "Microfinance as an instrument to overcome the crisis".

3.2.7 Single Market

The strengthening of the European single market is an essential condition for Member States to grow in terms of competitiveness and, at the same time, a fundamental instrument for social policy-making.

On April 13 2011, the European Commission submitted the **Single Market Act** (COM2011 206), which identifies twelve drivers for growth in Europe, among which: access to funds for SMEs, protection of intellectual property rights, single digital market, taxation and harmonization of the regulatory framework for enterprises. These areas are crucial for enterprises, but also for consumers who will benefit from a competitive market in terms of lower costs and a higher purchasing power, similarly to a tax reduction.[25]. These are also the central themes for the National Reform Programs (NRP) presented by several member States in the first months of the year[26].

The same holds true for the **Europe 2020** strategy to foster an intelligent growth of the European Union. Its priority is to promote a single digital society based on the development of information and communication technologies and to create a single digital market with fast or ultrafast broadband Internet network characterized by interoperability through the "Digital European Agenda".

In Italy, broadband connections have not yet really started (no funds were allocated to broadband and ICTs in the amended provisions to the Stability Act, as originally planned). But several measures have been adopted in terms of e-Government and innovation in the field of Public Administration.

The **New Digital Administration Code (CAD)** - as supplemented by Law Decree n. 235 of December 30 2010 and by Law Decree n. 138 of August 13 2011 – renewed the "old" regulatory framework with the introduction of the most recent developments in the IT world. The new Code is designed to simplify the relationships between the Public Administration and the citizens (including

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25 "A new strategy for the Single Market for the European economy and society", Mario Monti's Report to the President of the European Commission, May 20120.

26 The Cabinet meeting on April 13 2011 approved the Economy and Finance Document 2011, as provided for under Act n. 30 of April 7 2011 submitted by the Government within the framework of the new rules adopted by the European Union on the coordination of the economic policies of member states. This document is subdivided in three sections: 1) Italy's stability program; 2) Public finance analysis and trends with a methodological note on the criteria to formulate trend analyses; 3) National Reform Program.

enterprises and professionals) stimulating the P.A. modernization process through the use of electronic devices.

Moreover, it aims at improving the efficacy and the efficiency of the whole public system, by reducing its costs and by disseminating technological and organizational solutions so as to revamp its productivity.

Under the Digital Administration Code:

- the communication between enterprises and the Public Administration must take place through the use of information technologies;
- the sums due to the Public Administration must be paid through a series of streamlined instruments, such as credit, debit, prepaid cards, etc.;
- all applications and statements, except for taxes, must be sent to the Public Administration through a Certified Electronic Mail Account (PEC) which is obtained through the provision of personal identification data to use this account as an identification instrument and to send electronic documents[27];
- each communication sent through the PEC must feature an electronic stamp; the Public Administration must collect all the documents, papers and data received in an ad hoc personal file;
- the market of digital signatures must be liberalized through the use of separate electronic certificates also made available on the web, so as to promote the use of the advanced electronic signature and review the concept of the qualified electronic signature;
- all the documents must kept by an appointed Storage Manager acting in conjunction with the Data Manager envisaged under the Privacy Law and with the File Manager, if required;
- the electronic documents must be legally validated by a **digital signature, a qualified electronic signature or an electronic advanced signature.** The electronic or digital signature is an authentication system to exchange legally valid documents through the web. Anybody is entitled to have a digital signature from certified providers accredited and authorised by DigitPA, which certify the identity of electronic signature holders. A recent Decree postponed to November 1st 2013 the deadline for the self-certification of security requirements for the automatic signature devices (but only if, by November 1st 2011, these devices have obtained or are about to obtain the security certification from the IT Security Certification Organization (OCSI).

Italy is the first country to have given the full legal recognition to electronic documents and has the highest number of signatures in Europe and it is considered one of the most advanced Countries in this field.

Among the twelve drivers for growth in Europe, harmonizing the regulatory framework of enterprises is particularly crucial for the single market. The European network called **SOLVIT** was created in 2002 in order to help solve the issue of non-harmonized legislation. SOLVIT is designed to protect citizens and enterprises from

[27] According to a circular issued by the Ministry for Economic Development last November, enterprises and professionals must communicate their PEC address to the Registry of Enterprises by early 2012.

the problems that may derive from the incorrect implementation of the European legislation on the part of the Public Administrations in the Member States, such as the registration of EU citizens, social security, the access to education.

There is a SOLVIT centre in each European Union member state and also in Norway, Iceland and Liechtenstein. In Italy, the national SOLVIT centre operates within the European Policies Department. The public administrations of two or more States involved in the dispute commit themselves to providing concrete solutions within *ten weeks* after the problem has been communicated.

Within the framework, the European Policies Department launched a pilot project called "**SOLVIT in Comune**", in collaboration with Scuola Superiore della Pubblica Amministrazione Locale (SSPAL) and the National Association of Italian Municipalities (ANCI). The pilot project envisages twenty training days, one for each Region, with a SOLVIT expert from the department so as to promote this project on a local level.

The **Internal Market Information system (IMI)** is a multi-language IT system designed to facilitate and accelerate the administrative cooperation among the member states' competent authorities, thus contributing to speed up the procedures and reduce the costs incurred in waiting. As a result, citizens and enterprises receive a better service and can better capitalize on the opportunities offered by the Single Market.

This tool was developed by the Commission in cooperation with the member states to fulfil the administrative obligations provided for under Directive 2005/36/EC on the recognition of professional qualifications. It is will become a compulsory instrument to exchange information among the competent authorities on all the internal market directives.

The IMI system is used by the authorities of the 27 European Union member states and by those from Liechtenstein, Norway and Iceland.

In 2011, all member states started the **IMI Pilot Project to exchange information on the " transnational detachment of workers".** In Italy, in late 2011, the Ministry of Labour – DG Policies for labour services – in collaboration with the European Policies Department (IMI National Coordination) and the European Commission organized some training days for the inspectors of the Territorial Labour Commissions. Thanks to the **IMI** system, the cross-border exchanges of information among the Labour Inspection Units of all EES States will promote the harmonized implementation of the legislation designed to counteract distortions and the elusion of contributions in many sectors, such as construction, road transport and tourism.

In view of fostering innovation and in particular, in view of a single system to protect intellectual property rights in Europe, a **Community Patent** was created last spring for the whole European Union area.

For the time being, the European Commission-sponsored "**enhanced cooperation**"[28] to create a European Patent in three languages is opposed by Italy and Spain. In fact, if patents are only issued in English, French and German, this would be a discrimination against their national languages and result in a major competitive disadvantage for Italian and Spanish enterprises. At present, Italy and Spain can obtain the Single European Patent that is not valid in their national territories.[29].

3.2.8 Skills and innovation

The **National Innovation Fund**[30] is designed to allow SMEs to fully participate in the **industrial property system and in strengthening the Italian patents.** The financial resources of the Fund amount to 80 million Euros and come from the taxes paid to the Ministry of Economic Development to maintain existing patents alive. The aim is to strengthen the competitiveness of Italian SMEs by allowing them to benefit from a full-fledged industrial property system. The Fund has two funding channels: one devoted to debt financing for patents and design projects and the other to venture capital investments only for patents. It operates in two phases as follows:

- identification of the financial intermediary to develop the financial instrument through a public call;
- opening up of the financial instrument to enterprises.

With regard to the **capital debt**, in February-March 2011, two public calls were published to select one or more banks to manage a portfolio of funds for SMEs for **patented** innovative projects (39.1 million Euros) and **design** projects (20 million Euros). The banks selected to manage these funds are Unicredit, Mediocredito Italiano and Deutsche Bank Italia (patents); Unicredit and Mediocredito Italiano (design projects). The banks will create a portfolio of funds through a virtual securitization supported by a *cash collateral* provided by the FNI. The overall value of the three portfolios for patents amount to about 300 million Euros, while the two design portfolios amount to about 100 million Euros with a *cash collateral* of 30 and 9 million Euros respectively. The new financial instruments will be made available to enterprises between December 2011 and February 2012. The first to start was the portfolio for design and model projects in late November.

28 "Enhanced cooperation" is a procedure that allows a group of European Countries (at least 14) to bring forward a proposal even without the consent of all 27 European union member Countries.

29 "Enhanced cooperation" was adopted to overcome the opposition of Italy and Spain and to launch the European Patent, a long-awaited development. The idea of a single patent to protect inventions throughout the European Union dates back to the 70's and more than ten years have already elapsed since the European Commission has submitted its proposal. On March 8, the European Court of Justice decided that the proposal on the European Patent is "not compatible with the EU law" for its 'ad hoc' jurisdictional system, with a lower Court and an Appeal Court dedicated to patent disputes. The Commission is currently reviewing the possibility to pass from three languages (English, French and German) to the "English only" option.

30 Ministerial Decree of March 10 2009.

As regard the **risk capital**, on November 12 2010, an Agreement was signed between Ministry of Economic Development and INNOGEST SGR SpA to create a closed fund of 40.9 million Euros called IPGest[31]. This closed fund will become operational after private investors have acquired participations in the fund (by late 2011 and early 2012). The total amount of resources (€ 40.9 million) will be invested through INNOGEST SGR SpA by acquiring majority or minority participations in SME's, in the form of shares or share capital investments or through quasi equity instruments (more or less correlated to the economic results of the company). The upper limit for investment in each SME is 1.5 million euros over a period of twelve months. The overall duration of the investment will depend on the exit strategy applied by the financial intermediary selected to manage the initiative, but it is expected to last less than ten years.

In order to protect patents, designs and industrial models to enhance the industrial production of the small and micro business operating in Italy, Invitalia has launched the program ***Brevetti+*** of the Ministry of Economic Development. The program envisages two measures: grants up to 30 thousand Euros to cover the patent costs and incentives up to 70 thousand Euros to acquire specialized services for the introduction of the patent within the production cycle or to promote its value on the market (industrialization, engineering, organization and development, technological transfer). The total amount of resources is 30.5 million Euros and they can be refinanced. As November 30 2011, more than 900 enterprises have applied for funding for an overall amount of 30 million Euros; the most active enterprises have been the ones from Lombardy, Emilia Romagna and Veneto.

Moreover, 15 million Euros have been allocated to provide incentives to micro and small businesses within the framework of the ***Disegni+*** program to register and enhance the value of design. The initiative is managed by the foundation Fondazione Valore Italia.

The aim is to increase the number of design registrations and promote the economic exploitation of industrial design. About 450 applications have been submitted to the Disegni + program for an overall value of over 15 million Euros.

The Official Journal n. 103 of May 5 2011 reported the ranking of the technological innovation programs proposed by **high and medium-high technological start-up businesses** (Ministerial Decree of July 7 2009). Under Act 46/82, 65 programs will be entitled to obtain these incentives thanks to the Fund for Technological Innovation (FIT) of which 25 will be implemented in the convergence area (Campania, Apulia, Calabria and Sicily). The total cost of the programs amounts to over 130 million Euros (of which more than 50 million are to be allocated to the above-mentioned four southern regions). The total amount of incentives is about 66

[31] The resources made available for this type of investments by FNI through a public call amount to € 20 million, plus other resources allocated by private investors for an overall amount of 20.9 million Euros.

million Euros (over 24 millions will be allocated to the convergence objective areas and about 42 in the other areas of Italy).

Law Decree n. 70/2011 (Decreto Sviluppo) established a **tax credit for scientific research** under Art. 1. It is an experimental incentive to be provided in 2011 and 2012 to the enterprises which finance research projects in universities or public research centres, such as state universities, accredited university institutes (public and private), public research centres, the Italian space agency and research hospitals. The investments made after December 31st 2011 and up to December 31st 2012 are eligible to obtain this facility. If new resources are needed, the Treasury is authorized to cut the financial resources allocated to Ministries. Decreto Sviluppo has also introduced new forms of program Contracts for research purposes with public or private organizations, also in partnership, called **"Strategic Research Contracts"** in order to launch negotiated programmed initiatives to mainly value the underdeveloped areas of the South.

Law Decree 201/2011 ("Salva Italia") introduces the possibility to use the resources of the revolving Fund for enterprises also to support research and development initiatives and programs within the framework of **industrial innovation projects.**

Decreto Sviluppo acts on the **Revolving Fund to support Enterprises and Research Investments** so as to optimize the resources allocated to the Fund, but not yet utilized, in a more simplified and flexible way. It partly modifies the mechanism to allocate and use the resources without any additional burden on the State budget. I particular, up to 50% of the unused resources allocated by Cipe (including the ones coming from refunded capitals or from revoked, readjusted or rescheduled facilities) is to be provided on concessional terms to businesses through credit institutions. The priority is given to small and medium businesses, with risk-sharing plans. This does not entail any additional charges for the Public Administration. In fact, all these resources come from the funds already allocated to the FRI. Moreover, the Fund created under Act 311/2004 within Cassa Depositi e Prestiti, is designed to provide enterprises with concessional loans with an advance scheme to be repaid over a certain number of years. The FRI has a last-resort guarantee from the Treasury and allocated resources from the State Budget over the years to cover the concessional interests. At present, it has 6 billion Euros coming from postal savings.

3.2.9 Environment and the *green economy*

The green economy or ecological economy is an approach to "economic theory" based on a close relationship between a balanced ecosystem and economic development. The green economy analyses not only economic benefits but also the environmental impact provoked by the incorrect use of the land and by the lack of planning of the whole production cycle (extraction of raw materials, processing of raw materials into finished products, disposal of waste); this analysis proposes economic, legislative, technological and environmental measures designed to reduce the consumption of energy and of natural resources, reduce pollution and recycle waste.

Given the problems related to global warming, the green economy promotes the widespread use of renewable energy sources (biomass, wind and solar energy) and of clean technologies, with the involvement of all stakeholders; so it is a new way of "economic thinking" which involves companies, farmers, the industry and services. It can be defined as a "measure" to reconcile environmental protection with economic development and as a form of social responsibility with an emphasis on energy and land management.

It is not possible to respond to the economic crisis only trying to stimulate consumer demand. It is crucial to promote the innovation of goods and services and clean technologies can result in new growth, investment and employment opportunities; to this end, about 30% of the Italian manufacturing SMEs have started operating in the *green economy*, and more than 34% or export businesses have done the same, in addition to 41% of enterprises which also managed to grow in 2009 and to 44% of the ones which have improved the quality of their products.

Confartigianato reveals that in Italy the sectors that are better weathering the storm of the economic crisis are the food industry, the *Information and Communication Technologies* (ICT) and the *green economy*; according to Confindustria, the employment potential of the *green economy* (as indicated in the growth manifesto sent by entrepreneurs to the Government) is estimated to be 1.6 million new jobs by 2020 in the energy efficiency sector alone.

At present, according to the data published by IR Top (a public relations Company working with financial investors) during the conference "Growth and the Green industry" held in Milan in 2011, the turnover of the green economy in Italy is higher than the average in Europe thanks to the results obtained by 13 Italian enterprises surveyed together with another 112 foreign businesses operating in the fields of renewable energy sources and waste disposal; the 13 Italian companies significantly grew in 2010, with a 35% increase in revenues against an average in Europe of +25% and with more than 7000 employees.

Many Italian manufacturing and farming micro and small businesses have adopted this form of social responsibility, giving priority to environmental protection and some medium and large enterprises have adopted this new way of "rethinking the economy". A case in point is found in the province of Arezzo, where the multinational of clean energy One-Power opened its Centre of Excellence and Development for renewable energy sources which is expected to employ 135 people, including some engineers called to study how to better extract and store the energy produced by the sun and the wind.

The sustainable use of raw materials and the production of clean energy require highly technological production and processing plants and effective, efficient services: for example, the company Acea Risorse ed Impianti per l'Ambiente (A.R.I.A.) has been authorized by the Umbria region to implement the project to "revamp the waste treatment plant and to expand the landfill' in Orvieto;

The new plant will improve the biological process through anaerobic digestion in order to produce green energy. It will also use a more advanced technology (aerobic biotunnels) to produce quality compost for the agricultural sector.

The Report GreenItaly 2011 drafted by Symbola and Unioncamere shows that the characteristic of the Italian green economy is the eco-sustainable restructuring of traditional industrial plants (in the manufacturing sector, for example, 28% of enterprises makes green investments vs. 22% in the sector of services) and that the "green program" is becoming increasingly widespread in Italy, accounting for 24% of enterprises and 38% of new jobs.

In Italy, local Authorities aim at linking a balanced ecosystem with the economic development: according to Confartigianato, Veneto is the most virtuous region in Italy, with an increasing number of artisan enterprises operating in the field of fight against pollution and land management with respect to the average in the rest of the country; at the same time, the above-mentioned Report GreenItaly 2011 shows that Trentino-Alto Adige ranks first among the regions in terms of number of *green* enterprises, (29.5% of businesses investing in green technologies) followed by Valle d'Aosta (27.3).

According to the National Observatory of Construction Regulations for Energy Saving, in the last five years, 839 Italian municipalities – with a population of more than 20 million citizens – decided to change their construction rules to include new and objective energy and environmental standards so as to improve the quality of buildings, such as insulation, the use of renewable energy sources, energy efficiency, construction materials (local and recyclable), water consumption reduction measures and soil permeability.

In view of implementing the Kyoto protocol, the Budget Law 2007 set up a revolving fund within Cassa Depositi e Prestiti Spa to finance the reduction of greenhouse gases and to support research and innovation in the field of clean energies. The revolving fund has an allocation of 600 million Euros in three years and it can be used to finance enterprises, local authorities and private citizens that submit projects in one of the above-mentioned sectors.

The 2009 Copenhagen Conference dealt not only with climate change, environmental sustainability, pollution, waste disposal and recycling, but it also focused on how to create new jobs in these areas, such as the production and distribution of renewable energy sources, creation of new eco-compatible materials, the production of advanced biofuels, land management and recycling, transportation and logistics, energy optimization, energy requalification of buildings and water supply.

So far experience shows that environmental protection, business requirements and employment can be reconciled by the green economy which also includes a large number of traditional jobs that can be done with a different approach, that is with a lower energy consumption and a low environmental impact.

3.2.10 Internationalization

The last twenty years have shown an increasingly rapid growth in the systems designed to expand operations on a global scale, with major social, political and economic implications. Moreover, this has resulted in greater interdependence and integration among Countries for developing opportunities rather than for exploitation purposes. In particular, relationships with foreign Countries promote the development of infrastructural networks and of domestic economies. They can also contribute to overcoming critical regulatory issues and to bridging the gaps between competing market economies.

In the global business scenario where Italian enterprises compete, markets are becoming increasingly fast paced and horizontal. This requires great skills to develop and manage innovation, which is a strategic tool to improve competitiveness at all levels. Combining innovation, quality and competitiveness into a multidimensional set of objectives and tools is absolutely instrumental for companies to operate on international markets. It is necessary to capitalize on innovation to improve products or services, but, in particular, to redefine the corporate "*mission*", to integrate different sectors, to identify innovative market niches, to develop *partnership* networks and to exchange experience in a structured way.

The current competitive scenario requires small enterprises to internationalize their business, switching from a local to a global approach. Sometimes the path to internationalization is not linear because of heterogeneous technological, cultural and organizational factors. A European study[32] on the degree of internationalization of European SMEs has been conducted on 9480 small and medium sized enterprises in 33 European Countries. It has shown that enterprises are able to develop fruitful commercial relationships with foreign parties in the field of exports, imports, foreign direct investments, international technical cooperation and international *subcontracting*. The highest number of internationalized enterprises works in the wholesale, mining, manufacturing and automotive industries, while "research" has the lion's share in the field of services, showing that innovation promotes international relations.

According to this study, internationalized SME's have an employment growth rate of 7% which is much higher in comparison with the rate of growth (1%) of SMEs that do not operate on the international markets (Tab. 5).

[32] European Commission, *Internationalisation of European SMEs*, 2010.

Tab. 5 - Performance of the first 10 Economies (GDP) between 2002 and 2007 (%)[33]

	Gdp (real % variation)	Employment (%variation)	Exports (real % variations)
United States	15.1	7.0	67.8
Japan	11.1	1.3	71.1
Germany	7.1	0.2	115.4
China	65.5	2.8	274.1
United Kingdom	14.7	4.6	55.5
France	9.5	2.7	66.5
Italy	**5.5**	**7.5**	**93.2**
Spain	19.0	15.4	92.5
Canada	14.2	10.2	65.8
Brazil	20.6		

Source: OECD data processed by Censis, International Monetary Fund, WTO

According to an ISTAT survey, there are about 3 thousand enterprises - 13.4% of the total with at least 50 employees - that can actually be considered international because they have moved part of their operations or have set up new businesses ones abroad.

The approach to internationalization adopted by enterprises clearly shows they do not merely want to de-locate operations to "simply" boost their production and reduce their costs. By transferring their commercial functions and starting new operations abroad, companies aim at expanding their business and more efficiently controlling the end users' market.

Italian enterprises adopt several different internationalization approaches but their share the following strategic *drivers* designed to:

- *stabilize their presence abroad*: more than half (54.5%) of the enterprises operating on international markets has launched new production operations, while 45.5% has only transferred some functions;

- *tailor productions to the needs of the markets*: 67.6% of enterprises has started new operations abroad to develop specific products on their new markets (71.5% in the industrial sector) or to launch new products (48.6%) (Tab.6);

- *to better control the foreign distribution and commercial networks abroad*: enterprises have moved parts of their Italian operations abroad, except for their core business, de-locating only some support functions such as marketing and post sales (18.2%), distribution and logistics (17.2%) and the administrative, accounting and management functions (16.1%).

[33] The data on Brazil and China come from the OECD, the ones on other Countries from the IMF. The data on China go back to 2005.

Tab. 6 – Main markets for Italian enterprises (%)

Western Europe	53.7
Central and Eastern Europe	14.7
The Mediterranean Basin	9.1
South-East Asia	8.7
Usa	5.9
Rest of the world	7.8
TOTAL	100

Source: processing of 2009 Istat data by Ministry of Economic Development

Even though "globalized" Italian enterprises are generally more confident than non "globalized" ones, their approach to internationalization is still very immature from the qualitative point of view; their main internationalization mode is direct exports (77%) or indirect exports (37%).

In this connection, the European Commission[34] suggests that Member States should have a broader view across nine crucial thematic areas for the internationalization of small and medium businesses:

1) raising awareness;
2) high value information;
3) development programs for human resources;
4) financial support to internationalization;
5) network promotion;
6) support to the internationalization of services;
7) use of internationalization to increase competitiveness;
8) personalized support;
9) border areas and cross border cooperation.

The report[35] - based on the contributions provided by a group of experts from the European Union and of the European Economic Space - shows that many SMEs still find national boundaries as a major obstacle to the expansion of their business and they mainly or exclusively rely on their domestic markets. In particular, the study emphasizes that internationalization does not only mean exports but also cross-border cooperation, participating in economically viable networks, searching for competitive supplies or new technologies. These are all critical success factors for modern SMEs which require a combination of different approaches and a more effective support.

The ability to operate on international markets is instrumental in economic growth. Italy traditionally is an export country and has fully embraced this principle. In fact, in the last ten years, foreign trade has been the safety net for the Italian economy and the most evident sign of the dynamic character of its companies.

34 European Commission, DG Enterprise and Industry.
35 SME internationalization support – Luxembourg 2008.

For these reasons, the **2011 guidelines of the Ministry of Economic Development** focused on strengthening some **promotional actions** aimed at expanding foreign distribution channels and enhancing the supply chain approach to meet the increasing demand for high-end Italian products, especially in very relevant markets such as Russia, China, Brazil, Turkey and India, the Arab Emirates and Saudi Arabia; on the other markets, these promotional initiatives are mainly designed to strengthen market shares in the advanced economic areas of North America and Europe and on the emerging markets in the Middle East, in Asia/Pacific, in Sub-Saharan Africa and Latin America. The ultimate goal is to identify new business opportunities and to capitalize on **country strategies** to harmonize the actions of all the subjects operating on an international level.

Moreover, since 2004, these promotional actions have been accompanied by the **Made in Italy Program** with its organic and integrated approach, with the involvement of enterprises and other organizations interested in internationalization.

In addition to promoting the "**Four A**" traditional sectors (***A**rredo, **A**bbigliamento, **A**utomazione, **A**groalimentare*) (furniture, clothing, automotive and food and agricultural products), this program supports the sectors where Italy has a leading edge such as biotechnologies, leisure boating, filmmaking, wine and food, construction, advanced technologies and restoration. To this end, it has adopted a country-wide and industry-wide approach to harmonize the actions of all stakeholders – government, regions, public entities, chambers of commerce, trade associations – through a consultation process so as to avoid duplications and to optimize the use of resources.

In particular, the promotional strategy is designed to: increase the number of exporting enterprises, especially in the South; facilitate their access to credit; foster territorial cooperation through shared promotional policies to achieve greater efficacy and efficiency; create a "**network of networks**" cooperating to support companies abroad; develop a sub-supply and internationalization network, linking leading internationalized businesses to their sub-suppliers to help them operate on the foreign markets.

Moreover, the most recent provisions under Art 22, paragraph 6 of the "Salva Italia" Decree are also targeted to help SMEs position themselves on an international level.

The above-mentioned Decree set up the **Agency for the promotion and the internationalization of Italian Enterprises,** with the specific task of cooperating with the Regions, the Chambers of Commerce and with other public and private organizations to focus their internationalization efforts on strategic sectors and on the support to small and medium-sized businesses. The resources already allocated to the former Foreign Trade Commission will be transferred to an ad hoc Fund to be created within the Ministry, so as to be able to promote trade and the internationalization of Italian companies.

The aim is to provide a single coordinated system of internationalization support measures with a "country-wide and industry-wide" approach. To this end, the Ministry has signed multi-year "**Program Agreements"** to share and co-finance promotional projects; in 2010, the Partnership between the Ministry and the Regions reached a budget of 12.1 million Euros.

An important political objective is the harmonization of **international local trade fairs** so as to share the national objectives between the Regions and trade fair associations. The results achieved will be discussed during the periodical meeting of the **Trade Fair Coordination Committee** set up within the Ministry on the basis of an agreement between the State and the Regions. This Committee and the Agency mentioned above will play an essential role in determining the ways in which trade fair promotional activities will take place.

It is important to add that the Guidelines of the Ministry traditionally attach a strategic value to the public-private partnership to support exports, which is fact a very relevant instrument to strengthen the integration of the programs launched by internationalization actors.

The **Italy-System** has been launched to improve the synergies across the organizations that support Italian companies on foreign markets and to strengthen internationalization initiatives through a number of measures such the existing or new consultation processes, like the "**National Strategic Panel to Facilitate International Trade** (TSN), the official presentation of the single internationalization platform called *International Trade Hub-Italia* (ITH-Italia) designed to identify the weaknesses of the Italian system[36] and the solutions [37] suggested in the form of *Best Practices*.

The Public *promotional* effort has been very significant, with the launch of a series of extraordinary Made-in-Italy campaigns thanks to the *ad hoc* funds that have been allocated since the 2004 Budget Law; the **Made in Italy Fund** is a special promotional fund for specific campaigns and projects in Countries identified as *target* markets for priority sectors.

The *Made in Italy* program has been revamped in view of regaining market shares for Italian exports in this difficult economic situation. The program has been subdivided into country projects, integrated communication projects, systemic projects with the Regions and the Chambers of Commerce, sectorial projects (also in line with past projects in the automotive, mechanics, fashion, industrial and technological cooperation sectors).

Some operational improvements have been introduced in the existing internationalization financial incentives, such as **Fund 394/81**, designed to foster long-term operations abroad (outside the European Union), for years a major source of concessional loans for investments on other markets. Moreover the new "**Capitalization**" instrument has been created to increase the size of exporting SMEs

36 According to Atradius Italia – an insurance and credit management company – Italian companies that have payment delays on a global level have increased by 20% with respect to 2010.

37 a) Negotiating a two or three-year plan to allow enterprises to repay their debt and credit institutions to fully recover their credit.; a particular focus on the *privacy* provisions that differ from one country to the other.

b) A common action of the 27 EU Countries to recover cross-border credits through a draft regulation submitted by the European Commission to freeze the debtors' bank accounts to allow the judicial authorities to appropriate the sums due; the draft regulation is being discussed by the European Parliament and the EU council and is expected to pass by the end of 2012.

to better compete on the international markets. In a few months about 60 million Euros have been allocated.

As to the reform of the existing instruments - **Law n. 133/2008**, Art. 6 Paragraph 2, letters a and b (funds for long-term operations and funds for feasibility studies abroad), the most significant changes with respect to the past are: the reduction of concessional terms from 40% to 15% in the interest rates; the increase in the advance payment from 10% to 30%; the eligibility of the expenses borne by enterprises as soon as they submit the application for funding and not when their application is received; the eligibility of flat-rate promotional and operational expenses up to 25% of the total amount of the project; the possibility to provide more favourable conditions to SMEs on the basis of their creditworthiness and reliability. In particular, "creditworthy" SMEs need only to secure 50% of the concessional loans received.

The new financial instrument called "Capitalization" instrument – provided for up under Act n. 133/2008, Art. 6, paragraph 2, letter c – aims at strengthening and supporting the growth in the size of exporting SMEs so as to have a stronger financial basis to take up the difficult challenges on the international markets. It provides concessional loans if beneficiary enterprises improve/protect their financial soundness over time and continue to promote their development abroad; concessional loans are given to small and medium sized companies whit sales abroad amount to at least 20% of their total sales and with a plan to strengthen their capitalization by turning into joint stock companies.

The **Start-Up Revolving Fund** is designed to promote the *start-up* of internationalization projects for individual enterprises or groups of enterprises, as provided for under Art. 14 of the Development Act. The *Start-Up* Fund is managed by SIMEST and is used by the Ministry of Economic Development to help SMEs to overcome the difficulties they have on extra European Union markets. It promotes the aggregation of small and medium businesses that want to implement joint internationalization projects; the new financial instrument to support internationalization works through the participation of the Fund in ad hoc created companies - *new-cos* – based in Italy or in another EU country if this is necessary to develop a project. It is a temporary and minority participation which cannot exceed 49% of the capital of the new company or € 200.000,00; moreover, it does not require any bank or insurance guarantee.

In order to support investments for the internationalization of Italian enterprises in strategic geographical areas, a **Venture Capital Fund** was set up in 2007 managed by SIMEST, as already explained in Box 5.

Since 1999, the partnership between the Ministry and the Business Associations has become stronger through a series of **sectorial agreements** to help companies adopt a common synergic approach to foreign markets. There are already 50 sectorial agreements underway with many business associations, including the agreements recently renewed (after four years) and the ones signed since 2009. A new and broader 'sectorial framework agreement" has been proposed for different business lines to promote Italian products in target markets.

In 2010, 28 operational agreements were signed to implement sectorial framework agreements with business associations for an estimated of more than 16.8 million Euros: 7.9 million provided by the Ministry through the funds for the former Trade Commission, 8.6 million Euros provided by the associations and almost 340 thousand Euros as a direct contribution by the Ministry *ex lege* 1083/54. There are over 150 initiatives planned in the framework of these projects, especially promotional initiatives to help companies expand in the following markets: neighbour markets (Mediterranean, European Union, Central and Eastern Europe), Latin America (Brazil in particular) and South-East Asia.

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