RESTART, ITALIA!

WHY WE HAVE TO RESTART FROM THE YOUTH, INNOVATION, AND STARTUPS

The Report by the Task Force on startups established by the Minister of Economic Development

Ministero dello Sviluppo Economico

In April 2012, we were asked by the Italian Minister of Economic Development Corrado Passera to reflect and put forward proposals on how to turn Italy into a country that encourages the establishment and development of startups. These suggestions were given in a personal capacity on the basis of our qualification and diverse professional background.

The findings of our work, coordinated by Alessandro Fusacchia, are contained in this Report.

The Report was presented to Minister Corrado Passera on 9th July and was publicly released on 13th September 2012.

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Index

Preliminary Remarks

A FRIENDLY COUNTRY

In the midst of a great transformation innovators see unexplored possibilities. When they are given the opportunity to put their ideas into practice, to give everything they can, to use science and new technologies to identify and fulfill emerging needs, they create a company and foster development.

A country can be friendly to a greater or lesser extent for these innovators. If it is not friendly enough, innovation develops elsewhere and unfriendly countries become impoverished.

Italy has a great history of innovation supported by science and technology, but also by lifestyle and culture. Over time, the country has demonstrated that it is able to develop by exploiting some of its great strengths – e.g. clothing and fashion, furniture, automation technology and mechanics, and the food and wine industry. As a result, it has created and developed companies that can sell their best products around the world. In many cases they have even become global leaders.

However, innovation needs to be constantly nourished. By definition, it can never be achieved once and for all.

Today, Italy can choose to bet on innovation again. It can choose to be active and competitive within the new global crisis scenario. To succeed, the country must maintain sound public finances; support the best of its industry; invest in tangible and intangible infrastructure; reform its institutions and its administration but, most importantly, *Italy must become a friendlier place for new innovative enterprises*.

This must be done in the knowledge that innovation comes at a price. Only by renouncing undue income and privileges and by becoming active can a country become more open. This is the price we must pay if we really want to change, if we too want to shape modernity and be part of the transformation. In fact, not being part of it does not mean we would not have to deal with change. It means we would have to cope with sweeping changes and with innovation that would come from elsewhere. Therefore, the price we have to pay is a great investment for our future.

Italy must become an increasingly friendly country for its young people in particular. We have to achieve this so that young people will start believing that all is not lost; so that they will not be obliged to beg people to give them a chance or to look for their opportunity abroad. We have to achieve this so that young people will realise that, while they can certainly look for a job, they can also create it. Invent it. For themselves and for others.

In fact, by using their skills to turn an idea into a project and a project into a new enterprise, young people will not only contribute to generating wealth, growth and jobs, but they will also show that a shared vision of the future can help us overcome our fear of change. Individuals can be reckless but when groups, communities and whole generations move towards the same goal, they become pioneers and active players.

Those who decide to create a new enterprise are not afraid. They do not fear anymore because they have understood that the real risk they are taking today is *not* getting things wrong by trying. The real risk is not learning because you did not have the chance to try. These people know that the real risk is *having no opportunity to put themselves to the test*.

For a country like ours, yet too slow and with minimal social mobility, innovation can be the key to the enfranchisement of all those people who are ready to get in the game. This is why we should stop making life difficult for them and give them the opportunity to become explorers. Role models. Since all this can be done, there are no excuses. Italy *must* do it.

WHAT ARE THEY CALLED AGAIN?

At the time of the industrial revolution, enterprises had a clear vision: they were established by combining work and capital, they grew in a linear way, exploiting the economies of scale. They tried to increase the performance of these two production factors, work and capital and made constant improvements to production methods.

Nowadays, in a knowledge-based society, things have changed. Often, new enterprises only have an idea, a team of founders and a high level of innovation to count on. They need funds, mentors and collaborators to develop their idea, make it into a prototype, test it and start selling an innovative product or service. Think, for example, of a material that can be used for car tyres instead of rubber or for computer chips instead of silicon. Think of an online platform where you can report inefficiencies and abuse. Think of last-minute food that consumers can buy at lower prices, reducing the amount of food that goes out of date on supermarket shelves every day. Think of an ultra-light plane, of car and motorcycle parts made of carbon fibre, of an advanced ultrasound that makes it possible to monitor the foetus during labour in three dimensions and with great precision. Think of a musical instrument handcrafted using a 3D printer, of a programme that elaborates satellite images and turns them into services for the people.

Slowly but surely, these small innovative enterprises turn into enterprises that are competitive in the market. Alternatively, they are sold to big companies that buy them to innovate themselves. In yet other cases they fail.

Whatever the case may be, these companies generate experience, business culture and knowledge. They create new jobs, explore new possibilities, test their market strength. And, most importantly, they give real hope.

New innovative companies of this kind should not be perceived as a rare species that needs to be protected and put in a nature reserve. Instead, they should be perceived as new bridges between universities and enterprises; traditional knowledge and technology; talented young people and experienced managers; local governments and international investors; provincial towns in our country and big foreign metropolis.

They should be seen in the light of their social role: a constant stimulus for traditional SMEs, for schools and universities and for public administration – both on a national and on a local level. Innovative companies stimulate these institutions to re-invent themselves, making a new start based on innovation and the constant desire to improve. In a country where jobs are still too often inherited, innovative companies should be seen as an instrument that favours social mobility and that can contribute to greater equality by turning business culture into something within the reach of many – if not everyone. This, in turn, has an impact on income distribution and equal opportunities.

For all these reasons, innovative companies are not a passing trend, but rather a key resource in which to invest in coming years in order to sustain growth, generate good jobs and opportunities for young people and to make people aware of what can be achieved in our country.

What do we call these companies in order to differentiate them from other businesses, those that are not newly established and those that are not innovative?

Like in the rest of the world, like all those who create them, we call them *startups*.

IF WE DO NOT ACCEPT THIS...

Entrepreneurs who want to create a new company in Italy are faced with an onerous fiscal and bureaucratic system. They are discouraged by red tape, an unfavourable taxation system and often also by the lack of connections between the places that generate knowledge and those who could turn this knowledge into wealth by producing goods and services. Thus, many innovators and entrepreneurs opt for another solution: they settle for work contracts that are not fit for purpose, that are designed to achieve different goals and are unable to make the most of these people's skills and business spirit. In some cases, these entrepreneurs go abroad. Or they just give up.

As a result, those willing to support these innovators by investing in their companies also opt for a different solution. Large-scale enterprises that could use this effervescence spread across the country to their advantage and to use research findings to grow – while at the same time promoting innovation in the whole of the country

– hardly find what they are looking for. They are obliged to act at random, since there is no system in place that can quickly identify one prototype that works (out of many others that do not) because it identifies and responds to the needs of the market.

As a result, no new innovative enterprises are created. The few enterprises which are established can hardly grow. Innovators spend their time dealing with red tape and looking for funding instead of developing their innovation, trying to obtain a share in the market, generating interest and attracting more young people into their enterprise.

Today, we need to rethink all this thoroughly.

THE REPORT
The pages that follow contain **our proposals to the Italian Government**. Their aim is to turn Italy into a friendly place for the establishment and growth of startups – whether it be digital ones, manufacturing, arts and crafts, social, linked to commerce, agriculture or other sectors of the economy.

We have decided to put forward just a few proposals, but the ones we have included in this Report are ambitious and forceful. No proposal is more important than the others. They will be effective only if considered as a "single package"– only if implemented all together.

Let us ask ourselves what is more important: bureaucratic simplification or availability of funds? The answer is: this question does not make sense. How far would a young person with a business idea get, if it took him or her just one day to establish an innovative company, but if it then took six months to find funding? How far would he or she go if, on the contrary, liquidity was readily available, but if it then took six months for the business to be legally set up?

Let us also think about what would happen if we only incentivised the launch of a startup and not the steps that follow. We would run the risk of establishing many new innovative enterprises and see them leave when they got off the ground, just when the initial investment started bearing fruit. This would result in a premature brain drain.

This is why it is necessary to put in place measures related to all the main stages of a startup's life-cycle. From the launch to growth all the way to the maturity stage. This is why we need a single comprehensive package and why the pages that follow should not be seen as an *à la carte* menu. Some measures will surely be put in place more easily and quickly than others, but all of them are indispensable. One missing card is enough for the whole house of cards to collapse. Even if just one ingredient is missing, the recipe is not the same anymore.

The proposals we put forward to the Italian Government in this Report take inspiration from some of the best experiences at a European and international level, although they have been adapted to our national context. They focus mainly on the supply side: offering a slimmed-down and quick State, where it is easy to establish startups; offering greater funding and resources to finance the startups' first stages and their growth; offering better places – evenly spread out over the territory – where one's business project can be hosted. We are convinced that there are many young people out there, who are ready to take this opportunity. Young people who believe that they do not necessarily have to move to another country, but they can – at last – try to change *their* country.

The proposals put forward in the Report are not one-off proposals but long-term ones. Without such a structural approach it would be hard to generate confidence and to succeed in changing economic behaviour or attracting international capital.

The proposals can be divided into two main categories. Some are "zero cost" proposals and are aimed at making life easier for startups, removing obstacles and restrictions, tapping into their potential and latent energy, offering them new instruments for growth. Other proposals focus on economic advantages. However, in no way are we thinking of funds going from State coffers into a startup's bank account like windfall funding. We believe that our proposals will not distort the market or create new blind spots. Least of all will they result in everyone registering as a startup in the future just to receive concessions or benefits.

The proposals that are not "zero cost" ones concern mainly fiscal incentives and tax relief. In some specific cases, fiscal incentives and tax relief apply to startups directly. This allows them to keep as many resources as possible within the company in the first years of their life-cycle, thus increasing their chances of survival. In some cases, there are measures aimed at those actors who can sustain startups, as for example incubators and accelerators, venture capitalists and companies. As a result, startups can invest not by following "nanny State" logic, but by following a market logic and can try to identify truly innovative young people, as well as the ideas and business projects that are most likely to develop and become success stories.

Some might think that these tax concessions result in a "loss of returns for the State coffers". But this is not the case. We are talking about enterprises which would not be set up without our comprehensive package of measures or they would be set up elsewhere. We are not asking for preferential treatment for startups. We are asking that they be given a chance to grow stronger. We want the Government to understand that it is in its interest to facilitate this process, to avoid intervening prematurely and to look with foresight to the contribution that startups could make (in the medium term also in terms of returns for the State coffers, but immediately in terms of growth and employment) in a country where one out of three young people is unemployed.

All the proposals tend to *minimise* the State's *direct* role when it acts as a filter, an intermediary, an actor that authorises or denies something. By doing so, we reduce long waiting times, slow bureaucracy and unlawful acts. At the same time the proposals *maximise* the State's *indirect* role in giving incentives to private individuals who can contribute to creating a new environment.

For each of the proposals in the Report it is explained why such measures are needed: what problems and limitations we are trying to tackle and how. For almost all the proposals we believe it is necessary to go into details. Special tables were used to provide the Government with the key elements the proposal should maintain in order not to lose its characteristics when it will be made into law.

Moreover, we think that our proposals alone will not be enough to create the right conditions. We think a new awareness needs to be developed in this country. A clear and widespread awareness. The awareness that any one of us can create a job for him or herself and start a business. The awareness that "another, ever present possibility" exists, one that can motivate in equal measure unemployed people and employees who are already happy with their jobs. It can motivate people who have just finished their studies, as well as adults to find within themselves the resources and the solutions which will allow them to face the future in a different way. This is why we are also putting forward some specific proposals to try and spread the culture of innovation and business spirit amongst young people. We also want the whole of Italian society to discover the world of startups.

This part on awareness is followed by a section on regions. The latter is not an annex to the Report, but a key part of what we think needs to be done. The places where they are set up are very important for startups. This is why the Government should stimulate in equal measure those regions that have already generated innovation and where the first enterprises and poles of excellence were created, and the regions with a not yet fully expressed potential and latent energy. In both cases, regions should be pushed to focus on their specificity and on a strong collaboration between public and private entities. They should be pushed to create a local environment able to attract and offer support to people with ideas, talent and business spirit, thus achieving the collaboration of all the actors involved.

In the last few years or even months, many regions have seen a number of initiatives, projects and local policies promoting startups. They should keep up the good work, as we think it is important to build on this ferment. Similarly, we believe that in the areas recently hit by earthquakes startups can contribute to reconstruction. They can help making a new start, not so much in terms of local GDP, but rather in terms of dynamism, as well as social and economic innovation.

At the end of the Report there is a section for evaluation. We believe it is important that institutions look at the data, that they measure and monitor the impact of their own policies. We are asking the Government to do this with the package of measures contained in this Report in order to see the real impact these measures will generate in terms of growth and employment.

It is also clear that the Report does not concern the Italian system as a whole, with its positive and negative sides, nor does it concern all the policies which one could intervene in. Instead, it focuses on direct and targeted actions that the Government should adopt urgently to support startups.

At the same time it is clear that the success of these measures will depend on how much attention and resources all the institutions – regions, provinces, municipalities, Chambers of Commerce, universities, associations of entrepreneurs – will devote to startups and how much attention will be given to them in the policies that are (to a greater or lesser extent) related to business and innovation – from internationalisation to the digital agenda.

We know that we are not starting from scratch. Much has already been done, although with many difficulties and with mixed results. Today we have to do more and do it better. We must act all together, generate a critical mass and be consistently committed to achieving our goals – something which requires many years of strong and coherent actions. We rest assured knowing that the EU too is encouraging us very much to continue in this direction.

IT IS WHAT THE EU TOO RECOMMENDS

On 10th July, on the basis of the National Reforms Programme presented by the Government and the subsequent proposal from the European Commission, the Council of Ministers of the European Union adopted the recommendations concerning Italy in the 2012-2013 time-frame. The European institutions evaluated the policies and reforms carried out in Italy to this date and encouraged the country to double its efforts on some fronts that were deemed particularly important.

Of these recommendations – six in total – two concern startups directly. There is recommendation no. 3, a more specific one, with which the Council of Ministers of the European Union raises the issue of youth unemployment and encourages Italy to take further action, including by giving incentives for the launch of startups. Recommendation no. 6, a more general one, invites Italy to "simplify further the regulatory framework for businesses and enhance administrative capacity [and to] improve access to financial instruments, in particular equity, to finance growing businesses and innovation".

These recommendations witness that the European institutions agree on the importance of innovation and startups for economic development and employment in our country.

Since the Summit of EU leaders that took place at the end of June, it has become even more important to follow these recommendations. In fact, in order to – if need be – activate new anti-spread mechanisms, it will be increasingly important for Italy, as well as for other countries in the Eurozone, to be able to demonstrate – at any time of the year – that they follow recommendations from Brussels. All the more reason for giving maximum priority and importance to a package of significant measures that can facilitate the establishment and development of innovative startups.

WHAT IF IT WAS OUR TURN?

In the last ten years, startups have generated three million jobs in the **United States**. After President Obama launched Startup America, the private sector in the US has developed a partnership between entrepreneurs, multinational companies, universities, foundations and leaders in different sectors. In less than a year, this partnership has raised the equivalent of one billion dollars in business services for a national network which will provide services for one-hundred-thousand startups in the next three years. Why are they doing this? Because they are aware of the fact that, nowadays, 40% of the wealth in the US is produced by enterprises that did not even exist thirty years ago.

After launching the Yozma programme for startups in 1993, **Israel** has become the country with the highest number of companies listed on the Nasdaq index, as well as the country with the highest number of high-tech patents per capita in the medical sector.

Some years ago, **Chile** decided to become the new global hub for innovation. It launched a programme with the aim of attracting innovative entrepreneurs from all over the world. Professionals from the Silicon Valley came alongside government representatives from Santiago. The best business ideas were then chosen and received a substantial package of support measures. Today the whole world is talking about it and Chile seems to be well on its way to achieving its goals.

Let us look at **Estonia**, a small country with a population similar to that of the Abruzzo region. In the last twenty years, this country has had a forward-looking political leadership that promoted technological advances. A local success story like Skype helped to create reference models and the right climate for business despite the country's geographic position. Nowadays Estonia is the country with the highest number of startups per capita in the whole of Europe.

Great Britain has clear and concise economic legislation, a flexible and specialised job market, fiscal policies that incentivise investments and an excellent infrastructure and telecommunications network. In addition to these special conditions for businesses, the StartUp Britain campaign was launched in 2011. It is a large-scale nationwide campaign sponsored by the Government but conceived and financed by entrepreneurs so as to utilize their passion and experience to promote the establishment of new innovative companies and speed up the whole process.

Just across the Alps, **Austria** has recently introduced a package of measures costing more than one hundred million euros for a period of six years. This package is aimed at young entrepreneurs and it includes support measures (in some cases direct ones) for investments in startups.

Cities rethink themselves too. In the last few years, **New York** has become the new Mecca for all startups in the financial, fashion, media and retail sectors, thanks to its proximity to the major selling points and great trademarks for these sectors. **Berlin** relied on its multicultural nature to attract young people who want to establish a startup. Multiculturalism makes everyone feel at home, no matter what part of the world they come from. Moreover, the city could rely on affordable living costs, starting from low rents. **Singapore** is becoming a startup hub in Asia thanks to an interesting combination of fiscal incentives and bureaucratic simplifications.

If countries like the United States, Israel, Chile, Estonia, the United Kingdom or Austria did it, why shouldn't we? If New York, Berlin or Singapore are trying to become "startup capitals", why could this not be the case for Milan, Matera or Pisa too?

Our country is world-famous for its unique landscapes and cities. Let *us* become the next international success story.

We can definitely still make it, but let's get moving.

We know that it will take several years and that this Report is just a first step. Much still needs to be done, many proposals need yet to be made and many things will improve as we go along.

But we also know that there are many people who are ready to start. From Turin to Bari, from Catania to Vicenza, from Cagliari to Rieti and Ancona, this country has never felt a more wide-spread and burning desire to be dynamic and quick.

The time is right.
Go, Italy!

ACKNOWLEDGEMENTS

The proposals contained in this Report are the result of long discussions within the Task Force, carried out using the competencies and experiences of each member. They are also the result of many valid contributions made by the following groups: young people who have established or intend to establish a startup; lecturers; entrepreneurs; operators of incubators, accelerators and venture capital; associations – in particular groups of young entrepreneurs in the fields of industry, commerce, craftsmanship, agriculture and cooperatives; and many other individuals from Italy and abroad.

These proposals and suggestions, which arrived by e-mail, telephone, from social networks or were drawn up during informal conversations at different events, have enriched the Task Force's discussions. Without them this Report would clearly have been much poorer. We are referring to some hundreds of people who have all made extremely valuable contributions to this task.

Thanks to their interest and collaboration, the twelve members of the Task Force and its coordinator have

always felt that healthy peer pressure that is often indispensable in order to do one's best within the established time-frame.

The Task Force thinks it necessary to mention explicitly some people for their precious support right from day one and for some ideas which were especially appreciated and, in some cases, were included in this Report:

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To all these people goes a heartfelt "thank you" from the Task Force, which remains the sole responsible for the content – and the possible imperfections – of this Report.

Definition

I Definition

I What startups are we talking about?

Intuitively we can all recognise a startup. We can all recognise an enterprise that has been established recently, one whose goal is to develop, produce and market certain goods or services which are the result of research, or one which uses a high rate of innovation in its activity. We also know that startups do not pertain just to the digital world, but are established across all sectors, including more traditional ones.

As we put forward a package of support measures to the Government, we also have to give a definition that is not intuitive and that allows these new innovative enterprises, of which we hope to see an increasingly large number in Italy, to be identified objectively.

In our opinion, this definition encompasses a few well-defined criteria which concern primarily the owners of startups, the time which has elapsed since their establishment, their (clearly still) limited turnover and the reason for which a startup was established. The latter is linked to innovation, the management of profits and bookkeeping.

We call startups all those enterprises that are not listed on the stock exchange, reside or are subject to taxation in Italy and fulfill the following criteria:

a__are owned directly and for at least a 51% share by individuals, also in terms of voting rights;

b__have been established for no longer than 48 months;

c__have no turnover or have a turnover that does not exceed 5 million euros (according to the last approved financial statement);

d__do not distribute profits;

e__their social goal is the development of innovative goods or services of high technological value;

f__their bookkeeping is transparent and they do not use cash – except for the expenses related to reimbursements.

In our opinion, the first criterion is essential if we want to really identify new enterprises made up of people who decide to embark on a new entrepreneurial adventure and to be in control of a new company. This criterion is also key if we want to avoid classifying scam companies under “startups” or, what is worse, call startups those enterprises that exist only on paper and are used for everything but producing innovative goods and services.

Then there is the time criterion. We think that 48 months is the right period of time for the start-up stage of a new innovative business. This period of time is not excessively short – which would stunt its expansion and growth. Neither is it an excessively long period – which would allow a startup to rest on its laurels.

Clearly, if a time limit exists, we also need to ask ourselves what will happen with a startup after those 48 months. After this period, a startup simply does not match the definition anymore (the same rule applies to all the other criteria) and therefore cannot benefit from the measures this Report provides for. This obviously applies to startups which are established after the adoption of the package of measures. For the startups which have not yet been running for 48 months, but which already exist, the 48-month-period would start when the package is adopted. However, we believe that startup support measures should no longer apply when a startup enters its 6th year (see Chart 1).

CHART 1

When the package of support measures is adopted, the startup has been running for:	*The startup can benefit from the package of measures for:*
years	**years**
0*	**4**
0-1	**4**
1-2	**4**
2-3	**3**
3-4	**2**
4**	**0**

** I.e. Startups established after the coming into force of the measures on startups*
*** This Report does not consider this category as startups*

STARTUPS DEFINITION

What startups are we talking about?

Companies with a high level of
TECHNOLOGICAL
INNOVATION

BUSINESS ACTIVITY

-4
years

LAST FINANCIAL STATEMENT

-5
MILLION EUROS

DO NOT DISTRIBUTE PROFITS

SHAREHOLDERS WITH VOTING RIGHTS

51%

Natural persons

TRANSPARENT BOOKKEEPING

Furthermore, the startups that want to benefit from these measures, should have a limited turnover and should not distribute profits. There are two reasons for this. On the one hand, this is because we believe that once they start having a higher turnover, they are mature. On the other hand, we believe that profits should be used to capitalise a startup or should be re-invested in R&D, thus helping a startup to grow.

Then there is the criterion concerning transparent bookkeeping: transparent startups are rewarded and can benefit from the package of support measures.

There are two other criteria – actually two "non-criteria" – which are very important to us. They concern the business founder's "ID" (date of birth and nationality). Although we believe that, as is to be expected, in most cases the people benefitting from the package will be young people and, more specifically, young Italian citizens, we also believe that our proposals should not be limited to under 35s or to Italian citizens only. Our country urgently needs to tap into the energy of those who want to use their ideas to generate wealth and jobs on our territory – for themselves and for others. Age and country of origin cannot be a limitation. What is important is how and in what spirit these people do business and that they abide by the rules.

Lastly, it should be clear that **we are not talking about all new enterprises, but only about innovative enterprises.**

This is probably the most "critical" criterion, since it is difficult to define innovation. Firstly, this is because innovation does not just have one form. Secondly, this is because if we defined the concept accurately today, the definition would not include real innovation, the kind of innovation which does not yet exist today and will happen tomorrow. At the same time, the Italian Government will have to deal with this vague concept in order to prevent anyone from claiming that they are innovative just for the sake of getting startup status.

This is why we are referring to *technological* innovation and we believe we should give indicators which would make it possible to verify that the previously mentioned requirement (e) is fulfilled.

HOW CAN WE RECOGNISE TECHNOLOGICAL INNOVATION AND, CONSEQUENTLY, "REAL" STARTUPS?

There is no definition of startups used at a European level. However, EU regulations and policies contain some useful elements which help us understand how Brussels has dealt with the complex "innovative" dimension of new enterprises.

First and foremost, there are elements regarding the characteristics which a "new innovative enterprise" must have and which make the direct aid startups receive compatible with the common market and, consequently, with competition regulations in the EU.

One characteristic of startups is that they are small companies that have been running for less than six years at the time when they received financial aid. Moreover, the status of "innovative enterprise" must be given on the basis of the following criteria: (i) the member state can demonstrate – by means of an external evaluation, more precisely, of a business plan – that in the foreseeable future the beneficiary will develop services or goods which can be considered technological innovations or which will considerably improve the state of affairs in the EU in the sector concerned and which run the risk of technological or industrial failure *or* (ii) R&D costs represent at least 15% of the total operative costs for at least one of the three years prior to aid being granted. As far as R&D expenses are concerned, if a startup has no prior financial events, in the audit of its current fiscal period the piece of data concerning R&D needs to be certified by an external auditor.

Secondly, a more indirect definition of innovative startup, as defined in the European research policy – more precisely the 7th Framework Programme – includes other elements.

A Risk Sharing Instrument (RSI) has been created within this Programme, in order to incentivise banks and other brokers to grant loans to the SMEs which make significant investments in research, development and innovation. This is to be achieved by means of a guarantee mechanism.

By looking at the criteria startups have to fulfill in order for banks or brokers to grant them loans – knowing that they can rely on the RSI guarantee mechanism – we can deduce how the EU has dealt with identifying new innovative enterprises. This time the EU did not focus on State aid, but on policies supporting R&D.

In order for a startup to receive a loan (SME transaction), it must fulfill at least one out of the following ten requirements: (a) it uses the loan to invest in the production or development of innovative products, processes and/or services, for which the business plan states the risk of technological or industrial failure; (b) it is a "high-growth company" which focuses on R&D and/or innovation (measured on the basis of its investments or on the basis its turnover); (c) expenditure/investments in R&D and/or innovation, verified by the SME's certified public accountant(s), correspond to at least 20% of the SME transaction; (d) the startup commits itself to devoting the equivalent of at least 90% of the SME transaction to R&D and innovation – either in terms of direct expenses or in terms of investments – within the next 24 months, as stated in its business plan; (e) the startup has been officially awarded guarantees or loans from European/national R&D or innovation support schemes within the last 24 months; (f) it has won a prize for innovation within the last 24 months; (g) it has registered at least one patent within the last 24 months; (h) it has received a cash investment from a venture capital fund dedicated to innovation (biology, renewable energies, technology); (i) at the time of signing the SME transaction, the startup has a registered seat in a science park, a technology park and/or an innovation park; (j) it has received tax credit or a tax exemption for an investment in R&D/innovation within the last 24 months.

These criteria represent a very interesting starting point, but most of them cannot be used *tout court* as indicators with which to measure the "innovation" criterion and thus identify startups. In fact, some criteria are distinctive of the policy within which they have been set and link the identification of startups to a sector that runs the risk of technological or industrial failure. Other criteria are closely linked to the EU measure itself, for example those referring to loans. Moreover, some criteria appear to be particularly limiting, for example the criterion establishing that the startup must be in possession of a patent – a criterion that does not necessarily take into account the way in which research develops in the very first stage of a startup's life-cycle.

Yet other cases – for example those related to innovation prizes or investments received from venture capital funds or to a startup's connection with a science or technology park – cannot be taken into account, since this Report focuses on actors in the startup environment who, in their turn, benefit from concessions or support. This would create a conflict of interests between those in charge of defining a startup and the benefits these same people receive, precisely because of the support they give to startups. There would thus be an overlap between the *definition* and *concessions*, since the people in charge of defining a startup would also be the ones receiving concessions. This, on the other hand, does not happen with the Risk Sharing Instrument (RSI), since neither banks nor brokers receive concessions.

Furthermore, in the Risk Sharing Instrument, the criteria mentioned previously do not allow to identify the startups that benefit from *direct* support at that time. Rather, they identify startups which have applied for a loan guarantee, i.e. for *indirect* support from the EU. In order to receive this indirect support, they have already passed through a useful "filter": a market actor (a bank and other financial intermediaries) which verifies and certifies that the company in question really is innovative.

Other than the case of the EU, interesting reference cases exist on a national level. In France, for example, there is the *Jeune Entreprise Innovante* (Young Innovative Enterprise – JEI), created in 2004 with the aim of reducing the fiscal burden and thus offering support to new innovative SMEs. Many criteria used to define a JEI – for example the criterion stating that it must be "independent", i.e. owned and controlled primarily by individuals – are similar to the criteria we mentioned previously in our definition of startups.

As for the *"innovative"* dimension, the French Government refers to a required minimum level of expenditure in R&D. Among the entries that can be included in R&D are tenements and personal property bought for R&D purposes, the costs of the staff involved in R&D activities, as well as the costs related to patents or intellectual property.

SMEs which want to receive JEI status ask the French administration to evaluate if they are eligible. This is done by filling in a simple form which can be found and filled in online at any time.

In France, the category *Jeune Entreprise Univeritaire* (JEU) also exists. It encompasses all those new companies whose main goal is to support the research work of students or of young people who have graduated from their undergraduate or master's degree within the last five years.

Drawing inspiration from some elements contained in the EU and French classifications, we propose that criterion (e) of the definition of startups – which gives us the means to identify companies which really are new and which produce innovative products and services of a high technological value – is verified on the basis of R&D activities and by looking at three indicators:

1. The *first indicator* could match the French indicator and would therefore refer to **the percentage of R&D expenses on a startup's financial statement.** This criterion could be measured using criteria similar to the ones used in France for the JEI in terms of expenditure entries – for example, expenditure related to tenements and personal property bought for R&D purposes and the costs of the staff involved in R&D activities. Moreover, it is essential that R&D expenditure includes expenses for basic research, as well as expenses for pre-competitive and competitive development. In fact, the costs of software development and those of tests and prototypes in general, as well as the costs of all the activities startups carry out to create a product or service, often do not appear as R&D expenses on the official financial statement. Nevertheless, the costs of all these activities should be included in R&D expenditure. This way, R&D would appear amongst one of the startup's key activities.

Since we are talking about startups, it is important to ensure that this criterion can also be used by those new innovative companies that have not yet issued their first consolidated financial statement. In this case, self-certification could be used to prove that the company has reached the minimum required level of R&D expenses and activities. These would then be verified ex post on the first consolidated financial statement. If the company failed to follow this procedure, it would have to return the concessions obtained thanks to its startup status and pay an additional sanction.

2. Considering that startups are usually qualified-human-capital intensive, a *second indicator* could be used to measure **what percentage of all the workforce (founding partners and the rest of the team) is highly qualified.** More specifically, we are referring to: *either* people in possession of a PhD or those completing a PhD at an Italian or foreign university *or* people in possession of a degree, who have been doing research at public or private research institutes for at least five years *or* those in possession of an international patent. In this case too, the percentage of highly qualified staff should be significant relative to the total workforce.

In Italy, research and entrepreneurship are still two very distant worlds. This is why we believe it is important to have a specific criterion for PhD students and PhD holders. Such a criterion would eventually create a secondary market for such qualifications and bring research and entrepreneurship closer. On the one hand, this would result in universities being less isolated and, on the other hand, it would facilitate innovation in the economy and business. Furthermore, there is a potential pool of researchers who – similarly to patent holders – are highly qualified and would be extremely valuable for a startup's activity.

3. Finally, there is a *third indicator* which would be useful particularly for all those startups established as business spin-offs of pure/basic research. In these cases, the R&D dimension had been mainly developed *before* the startup was established. The third criterion would therefore take into account whether the startup is a **university spin-off.** This criterion is complementary to that concerning the possession of a patent, since not all the innovations which were the result of business projects have already been patented (they may never be). In any case, the time-frame for patents is often too long and is not compatible with establishing a startup.

To sum up, we believe that these three indicators – (1) the percentage of R&D expenditures; (2) the percentage of PhD students, PhD holders or staff highly qualified in research activities; (3) being a university spin-off – enable us to identify all innovative i.e. technological startups and to avoid including traditional, non-innovative SMEs in the definition.

Therefore, for a company to be considered a startup, it must fulfill all the criteria previously mentioned, as well as demonstrate that it fulfills criterion (e) by means of at least one of these three indicators.

AN ONLINE PUBLIC DIRECTORY FOR STARTUPS
We also believe that it is very important to develop a culture of maximum transparency and peer-checks. For this

reason we think that, in order to benefit from the support measures listed in this Report, all technological startups (established before or after the adoption of these measures and which fulfill all the criteria mentioned previously) will have to (self)register at **an online public directory** created at the Chambers of Commerce. The registration involves sharing internal data concerning, among others, the startup's I.D., its activities, its founding partners and other collaborators, its bookkeeping, its relations with other actors in the sector, for example incubators or investors. All this is done with maximum transparency. Protection of sensitive data – for example data related to privacy and commercial strategies – is guaranteed.

Every startup should have a "reputation" section, where people can leave references and signed comments. On the basis of the comments a startup could be awarded a certain number of points. This system is commonly used on some websites where books can be purchased or hotel rooms can be reserved.

On the directory it will be possible to see which startups have registered (and have received benefits) and which startups have de-registered – either of their own will or because the period of time in which they received support was over (see above, *Chart 1*).

The registration process is completed by the startup itself and no authori sation is needed (see below, *Section 1.1*). This directory allows everyone – other competing enterprises, public institutions, associations, journalists and any Italian citizen – to see which startups benefit from the measures put forward in this Report, as well as their characteristics, their evolution over time, their general reputation.
We believe the public directory is very important: it is a transparent medium, which acts as a deterrent against possible abuse and puts in place a self-regulatory mechanism which minimises the cases requiring State intervention and control.

Lastly, all the other actors in the field (incubators and accelerators, business angels, venture capital funds, companies) that want to benefit from one or more measures included in this Report should also register at the online directory.
This should be done giving the same level of detail and transparency, by using self-certification and in compliance with privacy rules for confidential commercial data.

Table 1
A directory for startups

The directory's key features:
____*It is established at the Chambers of Commerce and updated every six months. Failure to do so will result in the concessions provided for by this Report being lost.*
____*It is created as an open data system, which gives free access to data and the possibility to re-publish data for research and/or commercial purposes.*
____*Data should be collected in a format that: (a) is coherent with the information usually required by the credit and bank system to verify eligibility to receive credit. Such a way of collecting information is also a step towards creating a culture of financial reporting. Startups will benefit from it when promoting themselves with private investors, institutions or on the market in the future; (b) will facilitate their diffusion with API (application programming interface); cf. http://www.nysenate.gov/developers/api.*
____*The directory must allow users to identify startups by carrying out a keyword search related to different sectors of activity.*

A list of information and key data that startups must obligatorily publish in the directory:
____*date and place of establishment;*
____*the company's headquarters and branches;*
____*the company's website; the homepage must contain a link/banner to the directory;*
____*contact details: e-mail, telephone number;*
____*short description of the company's activity (including important decisions taken and important events for the company), short description of the products/services offered;*
____*a description of the company's R&D activities, including the technology/instruments used;*
____*a statement explaining why a product/process is innovative;*
____*a list of founding partners and a transparent list of trust companies, holdings etc., together with self-certification certifying the truthfulness of all the information provided;*
____*a list of the different types of partners, employees and other collaborators who receive payments of any kind by the company. Payments in kind must also be included (without specifying either the names and surnames of every individual or the pay they receive);*
____*a brief description of the payroll qualifications and professional experiences (excluding possible confidential data);*
____*the startup's collaborations and international relations;*
____*professional and/or business relations with other actors in the field in question (incubators, accelerators, business angels, other companies etc.). The information must be confirmed by these actors themselves;*
____*a list of awards and prizes received;*
____*the last financial statement filed and – pro forma – information regarding the last financial year, as of 1st of March of the following year (using an XBRL standard, a system which is widely used in Europe and allows to compare data included in the financial statement);*
____*a list of registered patents;*
____*proof of inspection carried out by the Chamber of Commerce;*
____*(for social startups only – see section 1.2) an evaluation of the social and/*

or environmental impact. This has to be done by means of widely used frameworks like SROI (Social Return on Investment).

A list of confidential pieces of information that startups must register in the directory (for statistical and monitoring purposes):

____information from the Central Credit Register[1] concerning the company and its founding partners;

____the most common clauses of parasocial agreements (drag along, tag along, preemptions, etc.);

____the company's options or derivatives of any form; if there are any, their features must be defined;

____total amount of associates' loans, if applicable; the associates' names and the characteristics of the loan need to be provided (duration, interest rate, terms and conditions);

____list of capital or debt transactions within the last two years; total amounts, names of the people involved and the percentages they received;

____startups which already have an official business plan need to submit the company's financial plan (to be updated every six months) attached to an investment contract.

A DIRECTORY FOR STARTUPS

The directory's key features

REGISTRATION AT THE CHAMBERS OF COMMERCE

FREE ACCESS TO DATA

FACILITATE DIFFUSION OF DATA
(www.nysenate.gov/developers/api)

PAROLE

KEYWORD SEARCH

A list of additional confidential pieces of information and data that must be registered in the directory

CENTRAL CREDIT REGISTER

FINANCIAL PLAN

TRANSACTIONS

TYPES OF LOANS

TYPES OF OPTIONS AND DERIVATIVES

A list of additional confidential pieces of information and data that must be registered in the directory

THE STARTUP'S IDENTITY

Data, name, address of the notary public, headquarters, website, email, telephone number, a description of its innovative activity and process

PRIZES

Prizes and awards obtained

PARTNERS

A list of founding partners, employees and collaborators, their qualification and professional experience

FINANCIAL STATEMENTS AND PATENTS

The last financial statement (pro forma) and the financial statement for the following year
A list of registered patents

COLLABORATORS AND SUPPLIERS

A list of suppliers of goods and services, the company's collaborators, parasocial agreements clauses, relations with other players

ENVIRONMENTAL AND/OR SOCIAL IMPACT

The last financial statement (pro forma) and the financial statement for the following year
A list of registered patents

2 Startups with a focus on the social dimension

Let us imagine a startup that makes an application – or “app” – that helps disabled people move around freely by providing information on the accessibility of roads and buildings. Or an app that gives information on preservatives and colourings in packed foods, personal hygiene and cleaning products, so that people with allergies can choose the products that are more suitable for them.

Or let us think of a startup that designs and/or produces clothing for people with reduced mobility and other physical problems.

Or a startup that cleans buildings whose surfaces are blackened by air pollutants using lab-grown microorganisms.

These startups clearly operate in very different sectors – from digital sectors to care, from the food industry to health, cultural heritage preservation, fashion and the environment – but they all have something in common: *a social mission*.

Having a declared social mission is not an irrelevant aspect for these startups, but rather constitutes an important part of their nature and focus. Startups with a focus on the social dimension (social startups) generally tend to adopt business models that may be less attractive for investors, since their reason for being is to answer society’s needs first and foremost, along with market ones. For this reason, they have lower returns on investments and, consequently, fewer chances to develop in comparison with "ordinary" startups.

These startups' contribution to society is important however, especially at a time when the State finds it increasingly difficult to respond to all of the citizens' needs. As such, it is paramount that social startups benefit not only from the support measures included in this Report, but also from some extra, more targeted ones, elaborated to facilitate their establishment in Italy.

In order to do this, we must first identify what social startups are, as they are a particular group of startups within the larger startup family, present in all business sectors.

How can we define them? First and foremost, no exceptions should be made to the general definition. Thus, social startups should also be companies with share capital that have been established for no longer than 48 months, companies in which at least a 51% share is owned and controlled by natural persons; startups that do not distribute profits and have transparent bookkeeping. Furthermore, they should fulfill all other criteria already mentioned.

Secondly, we should avoid making up a new definition of "social". The Italian State has identified different social areas over time and has codified them in the normative references for the Third Sector. These concern not only welfare and healthcare, but also education,vocational training, the protection of the environment, cultural heritage, sustainable tourism, undergraduate and postgraduate education, research and cultural services, among others.

We can therefore refer to these sectors in order to identify those startups that, in our opinion, fall into the category of social startups, regardless of whether they operate in the digital field, in the field of biotechnology, medicine, manufacturing, crafts, agriculture or commerce.

In addition, we believe two more types of startups should come under the definition of social startup.

The first category concerns startups that deal with scientific research that can be especially beneficial for society. For example, a startup that turns wood into inorganic compounds that can be used to substitute bone portions in surgical operations. Our aim is therefore to identify, amongst the startups doing scientific research and already encompassed in the general definition mentioned above, the ones whose research can have a direct and significant impact on society at large.

The second category are startups whose aim is to preserve jobs and create business continuity within companies at risk of total or partial failure. These enterprises are also known as Rescue companies. The general definition of startup already encompasses – without mentioning them explicitly – so-called *on-demand startups*. These are spin-offs established by medium-large companies with a view to promoting innovation from within, something that may not happen without the creation of a new company.

These on-demand startups help promoting business intrapreneurship, i.e. new ideas and initiatives that originate from inside a company with the help of its employees, managers and various stakeholders. They are created and developed by combining the skills and innovation abilities of the new team with the traditional, well-established activity of the mother company in crisis. Their establishment is reversed compared to that of a traditional enterprise, because they are given impetus from an industrial/commercial partnership agreement that results in a new team being created. Excluding the support they need when they are created, on-demand startups do not require specific incentives and when they get off the ground, they result in new jobs, they generate technological or business renewal in mother companies and provide new employees. Like all startups, on-demand startups can also have a social mission. For example, a food-processing company that creates a spin-off dedicated to finding greener solutions for its packaging, as a way to reduce its carbon footprint.

Rescue companies are variations within the world of on-demand startups. They are, in fact, startups created for partially or totally failed companies – usually companies operating in the industrial sector – and therefore have a clearer social impact. These startups were created to promote innovation from within. With their contribution they can limit – even if only partially – the negative consequences of businesses in crisis (including SMEs). It is clear that, in order to match the definition of social startup, a rescue company too has to fulfill the requirement of technological innovation. For example, it is not enough that a company merely makes innovative changes to the tasks already performed in order to reintegrate employees.

Regardless of the sector in which they operate, social startups will have to abide by the rules that apply to traditional startups in order to receive the benefits and support available.

Lastly, it is important to guarantee that, even when the first 48 months are over, the social startup – now a company – keeps behaving in a more socially responsible way than a limited company. We should, in fact, prevent social startups from becoming just an instrument, an excuse to obtain greater incentives for a period of four years. Likewise, it is necessary to ensure that a startup with a social goal stays true to its nature for the full length of its operations. For all these reasons, it is important to ensure that, even after the 48-month period ends, social startups redistribute only a limited part of the company's profits.

Table

2

Identifying startups with a focus on the social dimension

Criteria that startups need – in addition to those in the general definition – if they are to be classified as "startups with a focus on the social dimension"

1. *The first criterion defines the type of activity social startups can carry out; in fact, it specifies that, in addition to "developing innovative goods and services of high technological value", social startups can only operate in the following sectors:*

____the sectors indicated in article 2 comma 1 of legislative decree 155/06, in which social startups carry out scientific research of considerable social interest in areas and with methods which are still to be defined with specific regulation; or where business activities focus on the integration of disadvantaged workers, as referred to in article 2 number 18 of EC regulation no. 800/2008 under the heading Rescue Company *(where "companies in* *crisis" refers to companies in insolvency procedure. In order to benefit from the measures included in this Report, Rescue Companies – as defined in this Report, i.e. a spin-off of a company in crisis – must introduce at least one element of technological innovation. Currently, this is not required by other laws. Cf. Emendamento "Bobba" (the "Bobba" Amendment), which provides for measures to support entrepreneurship, youth and female employment; it also assigns the issues related to tax concessions to the Government);*

____the sectors indicated in article 2 comma 1 of legislative decree 155/06: social welfare, healthcare, education, vocational training, protection of the environment, cultural heritage, social tourism, undergraduate and postgraduate education, research and cultural services and after school education with the aim of preventing youth from dropping out and contributing to academic success; services which are useful to social enterprises and are offered by entities, of which more than 70% is made up of organisations performing social entrepreneurship;

____these sectors are further specified in special regulations, which are mentioned in Act 155/06.

2. *The second additional criterion strengthens the principle of transparent bookkeeping and obliges social startups to present a "triple bottom line financial statement":*

____social startups must draw up and present a clear and simple "triple bottom line financial statement", drawing on article 10 comma 2 of legislative decree 155/06 and subsequent instructions for implementation. The social statement may be simplified.

3. *The third criterion allows to make a clear distinction between the specifically financial and economic goals of traditional startups and the markedly social objectives of social startups:*

____social startups must have a "permanent" statutory restriction (i.e. one that applies also after the first 48 months), as to the distribution of profits. The statutory restriction must allow the return on invested capital, but not its unlimited growth. Hence, emphasis is put on the startup's social impact and mission, rather than on profit. In line with what has already been established by norms, after the first 48 months continuity can be ensured without neglecting the possibility of a marginal redistribution of profits according to the requirements already provided for by art. 2514 of the Italian Civil Code, which currently applies to social cooperatives (cooperative con mutualità prevalente) and which states that it is forbidden to distribute dividends greater than a 2.5 increase of the maximum interest rate as it applies to interest-bearing postal savings bonds).

STARTUPS WITH A FOCUS ON THE SOCIAL DIMENSION

Additional criteria to identify them

SECTORS

II Support measures

II Support measures

I Launch

Nowadays, those who want to start a new business initiative and establish an innovative startup, are faced with a series of problems and obstacles: red tape; "unfriendly" tax regulations; difficulties when recruiting staff or experts who offer consulting and other services in the first stage of a company's life-cycle.

In order to remove these obstacles, it is important to act simultaneously on two complementary fronts. These two fronts are crucial for the launch of a new innovative startup and offer the company all the necessary instruments to start operating quickly on the market.

The two fronts are the following:

1. ***administrative and normative simplifications;*** the normative framework must be simple, stable, unambiguous and comprehensible even for those who are not experts in legal issues. The simplification must apply to the startup's establishment stage, as well as to all actors who contribute to its growth. Moreover, some more onerous burdens, as for example the fiscal burden, should be reduced;

2. ***human capital available for new startups;*** human capital available for new startups; subordinate work relations are not adequate for the startup's typical organisational model. In the latter, employer and employees need to work together to achieve a common goal. Thus, this model goes beyond the traditional hierarchical model.

Of course, there are other areas in which intervention is necessary in order to facilitate the launch of a startup. These include, for example, the availability of starting capital and, in many cases, of a location for the startup's incubation. Since these aspects are relevant not only to the launch of a startup, but also to its development, they will be dealt with systematically in the next chapter of this Report, which will be dedicated to the growth stage. Different aspects will be dealt with in a coherent and comprehensive discussion in order to give us an idea of the measures needed on this front.

Similarly, some of the measures illustrated in this chapter are important not only for the launch stage, but for the growth stage too. Nevertheless, they are dealt with in this chapter of the Report for consistency purposes.

II.1. ADMINISTRATIVE SIMPLIFICATION AND THE REDUCTION OF TAX BURDENS

II.1.1 SIMPLIFYING THE SETUP OF A STARTUP: THE iSRL

Today, those wanting to set up a company in Italy can choose from a wide array of options: the S.n.c (Società in nome collettivo, i.e. the rough equivalent of a general partnership), the S.a.s. (Società in accomandita semplice, i.e. the rough equivalent of a limited partnership), the S.r.l. (Società a responsabilità limitata, i.e. the rough equivalent of a limited liability company), S.p.a. (Società per azioni, i.e. the rough equivalent of a joint-stock company) – just to mention the most common ones. For each of these types of companies there are different documents to be filled in and different requirements to be met. Each type offers the entrepreneur specific instruments and imposes different obligations. Choosing one option over another depends greatly on the type of business a company deals with and its founder's ambition.

Over the years, there have been attempts to reduce fiscal burdens in the startup's launch stage. Let us take as an example the S.r.l. Although the company still needs to be registered with different institutions (the tax office, the companies registry, INPS[2], INAIL[3]), registration can be done using ComUnica[4]. This online register makes it possible to register with all these institutions at once. However, all this has to be done via notary public and, in almost all cases, the company's founder needs the help of various experts in order to deal with all the documents, to apply for different business permits, for various notifications and for fiscal and legal assistance.

Over the last months, the Italian Government has tried to further simplify the process of setting up a company, by means of the new S.S.r.l. (Società semplificata a responsabilità limitata, i.e. a simplified limited liability company). It has become easier to set up a company thanks to the following measures: exemptions from stamp duties and fees paid for issuing documents; notary public services free of charge; a minimum share capital of 1 euro (for under 35s only).

However, the Government has not yet intervened on the obligations and expenditures that arise after the establishment of a company or on the taxes that need to be paid in order to set up a company. As a result, many young people are put off starting an innovative business in Italy. Furthermore, the S.s.r.l. status only applies to newly established enterprises and the notary public services are free of charge only when related to changes of social contracts (e.g. if a partner withdraws, or if the company name is changed). Lastly, although setting up a S.s.r.l. is now simpler, the company must still fulfill the obligations of an S.r.l.: it must pay an annual tax on company books, issue a company valuation report, pay tax for lodging the minutes of a meeting every time profits are distributed; pay for a tax advisor. Furthermore, taxes on the registration of the transfer of shares from one business partner to another still apply.

Nowadays it is therefore easier to set up a company, since this aspect has been dealt with. However, there are still problems related to authorisation, i.e. the actual creation of a company – not on paper or at the Chambers of Commerce registry of businesses, but in the economic and productive system. In fact, there are different regulatory levels – from the State level to the municipal level – that represent a hinderance when it comes to businesses becoming *really operational*.

Thus, starting a business is still in no way an easy business! Italy still lacks the right instruments to encourage a young person with a good and innovative business idea to launch their own startup.

This is why we believe that it is *crucial for us to carry out another across-the-board and far-reaching simplification operation, in order to simplify the administration system and reduce taxes.* Furthermore, innovative startups should be more free to act and move on the market. Given the specific features of startups, there should be mechanisms which allow for participation in business risk. These mechanisms should enable a company to replace cash requirements with instruments like *startup stock options or work for equity deals (see below, section 1.2).*

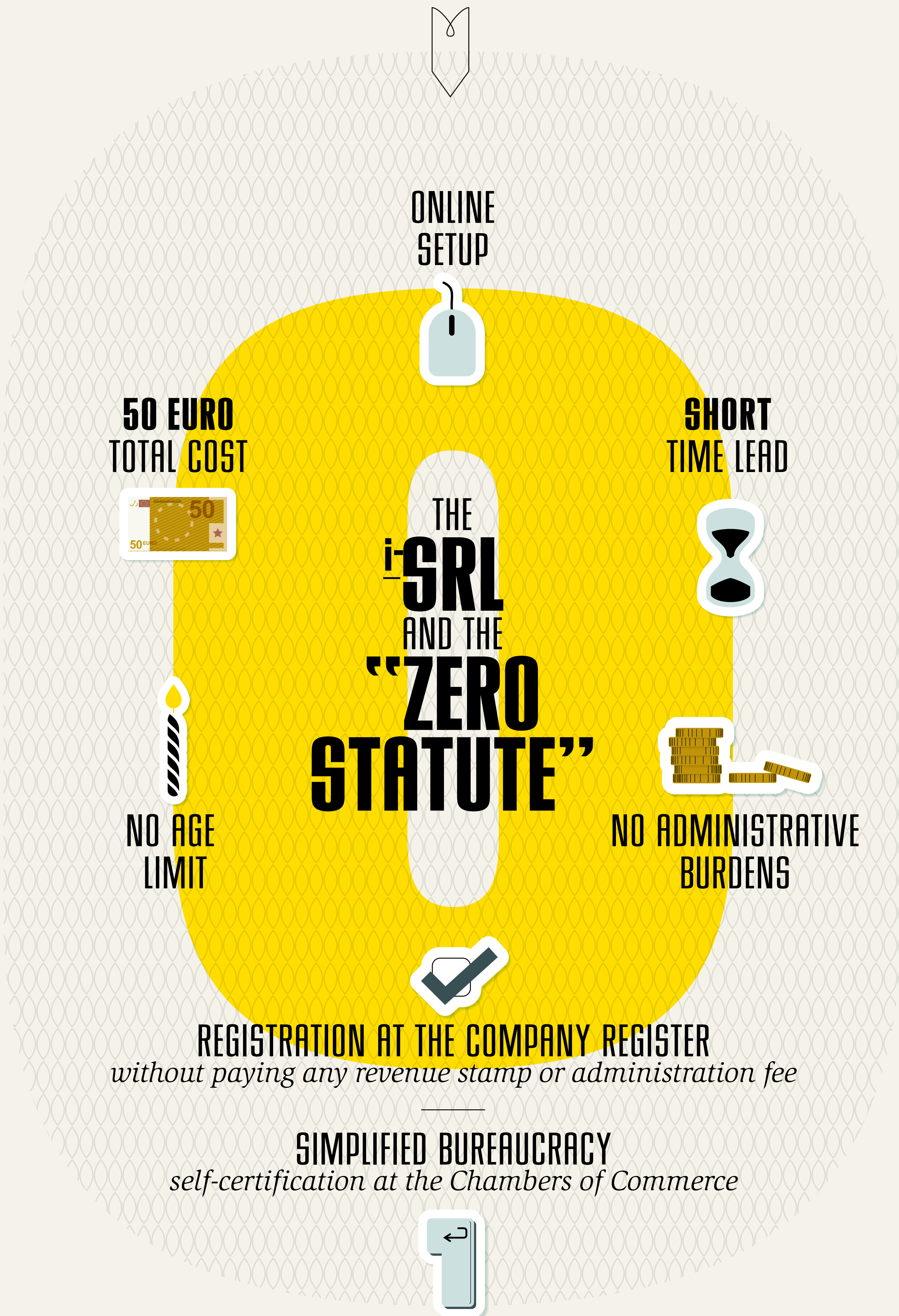
To achieve all this it is not necessary to create a new legal role. However, what *is* needed is a package of measures at the disposal of those who want to establish a startup. This package should further simplify and improve the regulations already in place for S.s.r.l. companies. We suggest this package, which incentivises the establishment of innovative limited liability companies, is called **iSRL**, where the "i" is a clear reference to innovation.

In order to establish an S.r.l. using the iSRL package, there needs to be a "zero statute" ("statuto zero"). This statute must be adopted by anyone who wants to set up an innovative startup. Those who have already established one (using the options available), who fulfill the criteria mentioned previously and want to switch to this model, also have to adopt the "zero statute".

To sum up, by adopting the zero statute, a startup: (a) benefits from the removal of administrative and bureaucratic burdens related to the company's establishment and life-cycle; (b) has at its disposal a series of key instruments which improve the startup's activity *(see below, Table no. 3).*

The setting up of the S.r.l. (using the iSRL option and the zero statute) needs to be done entirely online. *A notice must be sent to the Chamber of Commerce directly.* If necessary, a certified digital signature can be used for authentication purposes. It is clear that it must be possible to pay share capital online too.

What this really means is that once this simplification comes into force, those who want to establish a startup will know that:
__there is a standard statute which can be adopted quickly and which must be subscribed by all the founding partners;
__the statute can be sent to the Chamber of Commerce *directly* (without the intervention of a notary public or other intermediaries) using the ComUnica system and/or Telemaco – both are already computerised and accessible. Other information which needs to be sent with the statute includes: the data required for registration at the online public directory and a document showing that shared capital has been paid;
__once these steps have been completed, the S.r.l. (with the iSRL package) is set up and is operational;
__by using the iSRL package, the founders of a startup will avoid a series of bureaucratic burdens and they will be able to put into practice a number of useful and targeted instruments for their innovative entrepreneurial activity.
All this is going to be simple, quick and transparent.
Forty-eight months after setting up the company or once the set period of time is over *(see above, Chart no. 1)*, the iSRL package expires and the startup turns into an "ordinary" S.r.l.



Table

3

The iSRL and the "zero statute" for startups

The "zero statute" must allow those who want to establish a startup to be free of some administrative and bureaucratic burdens:

1____*The total set-up costs for startups are symbolic and fixed – 50 euros, regardless of the company's place of residence.*

2____*The startup is established within a short time lead, which is clearly set.*

3____*No age limit applies.*

4____*The company is set up online – in order for this procedure to be completed, share capital must be paid and the company must be registered at the Chamber of Commerce.*

5____*Similarly to what applies to S.r.l. companies*[5]*, registration at the company register does not require the payment of a revenue stamp or administration fees. Registration is completed with an electronic signature and an online registration of the company.*

6____*A number of burdens are eliminated, as for example the annual tax on company books.*

7____*Simplification of administrative duties (e.g. bookkeeping, valuation reports).*

8____*Administrative duties are replaced by simple (self) certifications which need to be sent to the Chambers of Commerce.*

Other key features of the "zero statute" are:

1____***No fixed minimum amount of share capital required. Nevertheless, the amount of share capital needs to be adequate to the company's purpose and the type of activity*** *(if it is not so, the founder is personally liable); in order for the concept of adequacy not to be left to the discretion of the founder and in order to reduce differences at a local level, the Government will draw up a table showing suggested minimum share capital levels for different types of activities.*

2____*It will be* ***easier to increase the company's capital****, since this operation will be regarded as an investment; capital will be increased by means of a simple payment and a notice to the Chambers of Commerce. The operation will be possible, provided that assurances are given on the size of the company's assets.*

3____*As it is already the case for S.r.l. companies,* **the company's governance will be simplified.** *There will be a sole director, who will be head of the company and will be responsible to associates, creditors, partners and any other*

party involved.
4___*The possibility to resort to* ***startup stock options*** *quickly and efficiently. In this way, the company will be able to pay (part) of the wages of its collaborators who agree to this with its own shares. (see Section 1.2).*
5___*The option of using the following types of shares:* ***(i) performance shares*** *– shares for founding partners which can be freed up at a set price only if certain business objectives have been fulfilled;* ***(ii) seeding share*** *– shares for investors which grant them the same rights as those demanded in usual M&A business procedures (right of co-sale, liquidation preferences, appointment of non-executive managers who are in charge of assisting the managing director, etc).*
6___***Work for equity****, the startup's providers can be paid with the company's shares. This mechanism reduces the need of cash in a given moment. In order for this system to work,* ***convertible notes*** *can be used. These enable the company to pay its strategic providers (obviously, only those who agreed to this) with capital shares. This reduces short-term capital outflows and helps new startups to maintain liquidity. Convertible notes are a type of debt for which the equity's price does not need to be set at the time of issue. They are therefore suitable for the seed or pre-seed stages or in bridge financing. Moreover, in order for the work for equity system to work, tax concessions should be put in place, whereby if the provider of services (a lawyer, a notary public, a tax consultant, etc.) has been paid with the company's shares and not with money, he does not pay tax on the goods or services provided (and duly invoiced). (Note: in order for people not to avoid paying tax, the equity given as a means of payment should not be negotiable for a period of at least two years, in the light of the tax differential between the transfer of shares and business turnover).*
7___*The option of having* ***specific employment contracts for startups*** *(see below, section 1.2).*
8___*The option of using* ***simplified "fail fast" proceedings and simplified liquidation regulations*** *(see below, section 3.2).*
For startups with a focus on the social dimension only:
- Non-profit organisations – regulated by volume 1 of the Italian Civil Code – can issue bonds for the financing of social startups in their field of interest. For example, a foundation in the field of scientific research may use a bond to finance a startup that is developing a patent which would serve the foundation's needs (volume 1 of the Civil Code needs to be modified cf. draft implementation law, reform of title ii, volume I of the Civil Code approved on 31st March 2011, art. 4 letter h), n. 5.

II.1.2 MAKING THINGS EASIER FOR ORGANISATIONS THAT INVEST IN STARTUPS

It is essential to ensure that the process of setting up a startup be simple and easy. But this alone is not enough. We need to make things easier for all the other actors in the field who help the startup in its development and growth stages, starting from the organisations that raise capital. Without them, capital to prop up startups could hardly be found.
On this front there are two measures that remedy the current limitations.
First and foremost, it is necessary to intervene on so called Società di Gestione del Risparmio (SGR)[6]. These asset management companies were introduced in Italy at the end of the 1990s. Nowadays , there are more than 300 SGRs in the whole country and they deal almost exclusively with the promotion and management of investment funds. The regulations set by the Banca d'Italia (the Central Bank of Italy) related to the establishment of SGRs do not fully respond to the needs of the market. In fact, they are onerous both in terms of management and in terms of the increase of a company's equities. So much so, that it is not convenient to set up a venture capital fund (which usually does not exceed a few 10 million euros). As a result, nowadays there are few SGRs that manage venture capital funds, although it is clear that the functioning of the system and the results in terms of support offered to startups, do not only depend on the total investment made, but also on the *number* of general partners who can find investors (and consequently, also on the total number of professionals who can prop up startups).
To remedy these limitations, we propose a *simplified procedure for the establishment of SGRs.* This procedure provides for reduced starting capital requirements and lower management costs when opening an SGR. Besides dealing with a general limitation, this modified SGR would also solve the problem specifically related to investors who are willing to make an investment in social startups. For such investments the time-frame is longer and they have lower returns.

Table

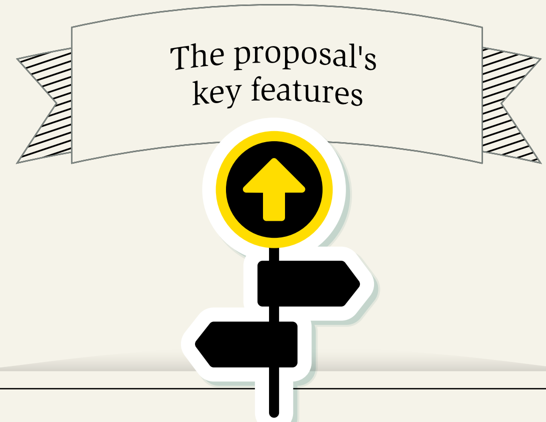
4

A simplified SGR[7] with reduced starting capital requirements

The proposal's key elements:
1___*a simplified path supporting the establishment and management of SGRs and assimilates. The regulations of reference as far as corporate composition is concerned, are integrated. This enables also SGRs which are not controlled by research institutes or universities (contrary to what is the case in this Report) to establish SGRs with reduced starting capital requirements for the management of venture capital funds. Thus, SGRs can also be established by using private capital only.*
2___*it provides for the procedural simplifications necessary to lower operating costs related to compliance and risk management. In specific terms, the simplification path aimed at simplifying certain mechanisms (and consequently at making them less onerous), must:*
___*review the system of checks for SGRs in the field of venture capital, thus avoiding a "stratification of functions";*
___*apply the proportionality principle and state that the obligation to introduce certain positions applies only if the levels of assets managed cross a certain threshold;*
___*avoid creating new positions (for example the position in charge of anti-money laundering checks) and distribute competencies between existing control bodies;*
___*avoid negative notices, stipulating instead the obligation to issue a notice*

should an event occur and, if need be, toughen the sanctions to be applied if a violation of the norms is discovered during inspection;
____reduce the frequency of notice even further, following the example of the simplified procedure which applies to the managers of funds for qualified investors and statistical surveillance notices. A six-monthly frequency should be maintained in any case.
____instead of obliging the company to report ad hoc for entries that can be "extrapolated" from financial statements or management regulations (as for example, management commission fees), there should be an online reporting system which would be used for all funds;
____documents should not be sent to both Banca d'Italia and Consob[8] (e.g. reports on the supervisory bodies established and reports on the company's organisational structure; regulations and six-monthly reports concerning the funds; financial statements; changes made to the statute and parasocial agreements; changes in company bodies); a system should be set up in which documents and data could be sent to one reference authority via a platform or a uniformed method.

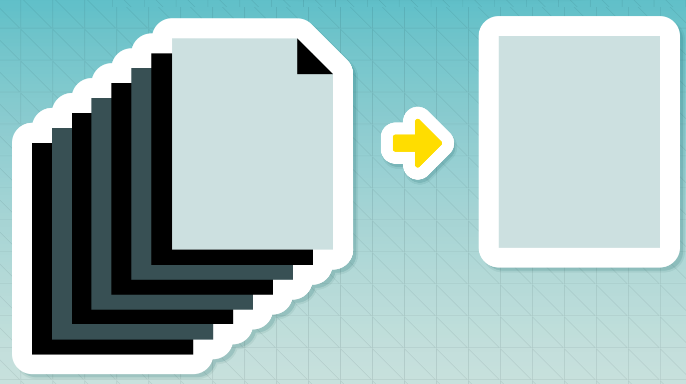
THE SIMPLIFIED SGR



THE SIMPLIFIED PATH

1 A SIMPLIFIED ESTABLISHMENT AND MANAGEMENT OF SGRS

2 PROCEDURAL SIMPLIFICATIONS TO LOWER OPERATING COSTS



AVOID A **"STRATIFICATION OF FUNCTIONS"**

APPLY THE PROPORTIONALITY PRINCIPLE

AVOID CREATING NEW POSITIONS AND DISTRIBUTE COMPETENCIES BETWEEN **EXISTING CONTROL BODIES**

AVOID NEGATIVE NOTICES

REDUCE THE FREQUENCY OF NOTICE EVEN FURTHER, FOLLOWING THE EXAMPLE OF THE SIMPLIFIED PROCEDURE

The second proposal, aiming to make it easier to raise capital, concerns *joint-stock companies (S.p.a.) and the self-discipline system*. In this case, the proposal aims to identify mechanisms, regulations and standard statutes that could "simulate" the management of an SGR, without however falling within the remit of the Central Bank of Italy's supervision or that of other supervisory mechanisms. Thus, our proposal offers cost and time incentives for those willing to invest in startups using these means.
We are talking about so called "investment companies" – joint-stock companies (S.p.a.), but also limited liability companies (S.r.l.) – to which we would extend the benefits included in this Report with regards to the earnings from a venture capital activity. These investment companies could be awarded a "certified" statute for their self-discipline system. This statute could be awarded, for example, by the Italian Association for Private Equity and Venture Capital (AIFI).

Table
5
Joint-stock companies (S.p.a.) and the self-discipline system

JOINT-STOCK COMPANIES AND THE SELF-DISCIPLINE SYSTEM

The proposal's key elements:
Simplify the procedures for the setting up of investment companies which have the suitable characteristics to raise capital from savings, by means of a "standard" statute which takes into account the most common needs of investors.
In particular, this statute should set uniformed mechanisms in terms of:
__duration of a company;
__use of raised funds;
__cost structure;
__use of disinvested funds;
__informative report provided to subscribers.
The companies that adopted this statute and would be subject to self-discipline rules, would be obliged to join a trade association in order to gain visibility on the market and provide information regarding their own investment and disinvestment activity to the association, the association's members and the market. In this way, the adoption of the self-discipline system – with no regulatory integrations – could be supervised directly by trade associations themselves (e.g. AIFI, the Italian Private Equity and Venture Capital Association).

II.1.3 TAX BURDENS
The launch stage of a startup is always the most sensitive one. The liquidity at the disposal of the newly established startup is usually limited and this is precisely why so many new innovative enterprises fail in the first stage of their life-cycle.
Funnily enough, even a successful new startup that has a good turnover is at risk of failing if it does not quickly receive payment for its credits. This is due to the way in which the tax levy system works in Italy: taxes (in particular VAT, but also IRES[9]) already need to be paid in the first few months of a startup's life-cycle, regardless of when the company really receives payment for its credits i.e. regardless of its real income. In Italy, it takes a long time to receive a payment. This holds true for payments from the Government, as well as for payments between individuals.
Nevertheless, taxes must be paid on the basis of fixed taxation rates rather than on real cash-flow. What counts are the invoices issued and those received, not whether they have actually been paid. As a result, a startup is faced with high initial expenditures and at the same time it is also starting to sell its own products and services. Often, such a situation results in a liquidity crisis and the startup is compelled to close down.
To avoid this, it is important to allow a startup to keep as much liquidity as possible while it is still growing.
In the first years of a company's life-cycle, the State should not deprive it of the financial means that are indispensable for its survival.
To remedy this problem, we suggest to **switch from a fixed taxation rate system to a taxation system based on real cash-flow.** Such a system already exists, but it is used only for companies with a turnover of up to 2 million euros. The threshold was fixed at 200,000 euros, but it has recently been raised.
At the end of a financial year (i.e. at the end of their first, second, third and fourth year of their life-cycle), startups would not pay tax on the basis of what they have registered, but on the basis of what they have actually cashed.
At the end of the 48-month period – once the launch stage is over – the startup would go back to using the standard taxation system.
Clearly, this proposal does not aim to reduce the taxes paid by startups, but rather to avoid that not paying invoices on time (a widespread habit in Italy) kills off all startups, seeing as they are inevitably more fragile than other companies.
The measure should stay in place until the problem concerning late payments – not only in governmental institutions, but also between individuals – is solved once and for all. It should therefore stay in place until Italy adopts the European Union Directive on late payments and ensures that everyone abides by its rules.

FROM FIXED TAXATION RATES TO TAXATION BASED ON REAL CASH-FLOW

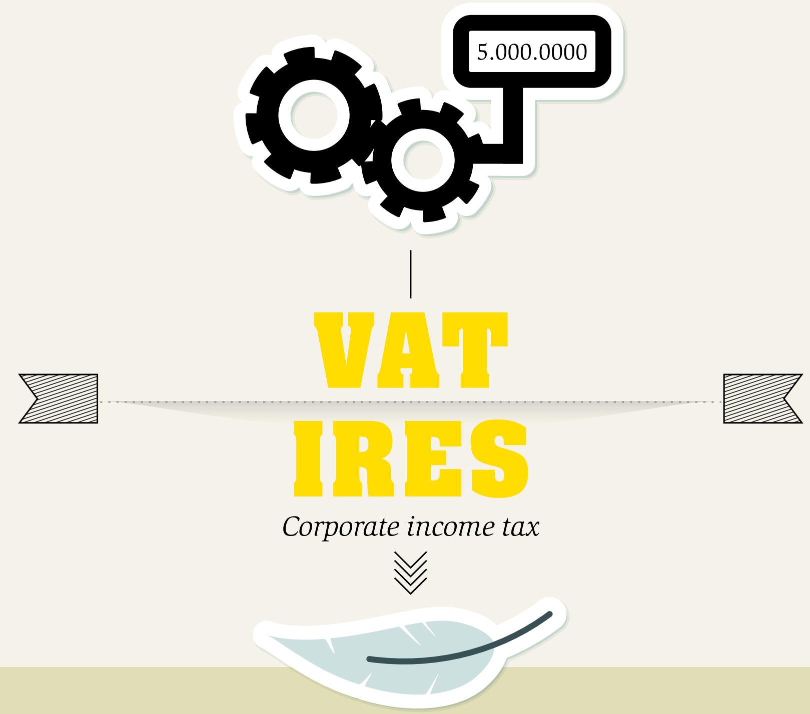


Table
6
From fixed taxation rates to taxation based on real cash-flow

The proposal's key elements
At the end of every financial year, startups should pay taxes (IVA and IRES) based on real cash-flow as opposed to fixed taxation rates.
IVA (VAT) *– The current provisions of article 7, legislative decree of 28th November 2008, no. 185, converted into Law no. 2/2009, concerning VAT, should be revised so as to eliminate the turnover limit. This norm regulated VAT collection based on real cash-flow as opposed to fixed taxation rates only for companies with an annual turnover lower than 200,000 euros. Recently, the threshold has been moved up to 2 million euros. With the revised provisions this norm would be extended to startups (as defined in this Report). For startups only, the annual turnover limit should not exceed 5 million euros.*
IRES (Italian corporate income tax) *– Introducing a flat-rate for IRES, for which taxable income is calculated based on the company's real cash-flow. This is done in the light of already existing principles which regulate tax relief systems within the Italian taxation system. The Italian taxation system is based on fiscal equity, but at the same time it provides for tax relief for more vulnerable groups of taxpayers.*

II.2. THE TEAM AVAILABLE FOR STARTUPS

It should not only be possible to establish a startup quickly, with limited costs and keeping as much liquidity as possible. Startups must also be able to rely *on a strong and high-quality team* led by its founder(s). Human capital, ideas, skills, the ability to research and innovate are key factors for the success of a new business. Moreover, given the high business risk that is typical of innovative enterprises, startups need a streamlined and dynamic working structure.

A startup's founding partners need to be able to rely on a team that will develop and expand the business project. Besides their founding partners, startups should be given the chance to employ other collaborators who will be part of the entrepreneurial adventure. In order to do this, the company needs to rely on people who are ready to work with a flexible system and whose goal is to achieve the company's success. Given the unique features of such companies, we need to think of an *ad hoc* employment contract for startups.

We believe **a specific job contract for working** in startups should be introduced. The contract would **apply to the time-frame defined in this Report, i.e. the first 48 months of a company's life-cycle.**

This contract would be a short-term one and would apply to all the members of the team. The number of people in the team could vary depending on the needs. In the beginning of the startup's life-cycle, it is really important that the company adapts the size of its team to its research results, its ability to find sponsors and to get a share of the market. At the end of the 48-month period, the team members must either be offered an open-ended contract or they must end the working relationship with the company. The working relationship *must not continue under any other form.*

A startup should be free to use this contract with the number of people it deems necessary, regardless of the total number of other contracts issued. The contract must therefore *apply to the whole team working in a startup* – developers, researchers, sales managers and administration staff alike. The contract should apply regardless of the age of team members age. Hence, a startup could also use it to reintegrate some of its senior employees who are out of work. Consequently, the latter would be able to work again, while the startup would gain from their business experience and their knowledge.

In order to be really advantageous, this specific contract for startups should allow for great flexibility and dynamism. Moreover, it should also be **exempt from as many taxes as possible**, in order for startups to keep as many resources and as much liquidity as possible in the very first years of their life-cycle, when the company develops resilience, the ability to grow and to survive. More specifically, a **full tax relief should apply to IRAP**[10] **– the regional company tax in Italy – for all of the team members.**

Today IRAP is paid based on the company's turnover, not on its profits. It is therefore proportional to the number of employees in a company. Consequently, it penalises companies like startups, which usually invest directly and proportionately more in competencies and human capital than in other production factors. A full tax relief for IRAP would enable startups to invest in know-how and human capital. In many cases we are talking about qualified and competent young people, who are tempted to go abroad due to a lack of job opportunities in Italy.

An additional measure which is necessary is **to slash taxes on employees' income** in order to reduce the difference between the company's costs related to its team members and the team members' real wages.

Of course, there needs to be an offset for the greater flexibility provided for by this specific startup contract. A startup's team members should not be treated as "employees" but as people who, to all intents and purposes, are taking part in the entrepreneurial adventure.

To achieve this, we could resort to stock options.

These make it possible to pay the company's payroll with the company's shares, without prejudice to a minimum and obligatory pecuniary remuneration and a minimum pension contribution.

People often associate stock options to big enterprises and their millionaire managers. Stock options are never thought of as a means to remunerate young people who agree to collaborate with a startup (this often being their first job experience). This is also due to the fact that, in the current taxation system, stock options are mainly used in companies listed on the stock exchange to supplement the wages of their top managers.

The startup contract could provide for this option too.

The person(s) who set up a new startup could therefore decide whether or not to give **startup stock options** to some or all the members of their team. They might, for example, decide to give stock options only to the most qualified members of the team or only to senior employees. Startup stock options might also be used as an additional incentive to attract talented people, be they Italian or foreign. In order for them to work and really be used, stock options must not be disadvantageous in terms of taxation for those who receive them *(see below, Table no. 7).*

With stock options, the team members would no longer just be working for a company. They would also share business risks and take part in the business bet. Their expectations and interests would be in line with those of the founding partners. It would be in their best interest to see the value of the startup increase, because the value of their stock options would increase too. The motto of those who worked in a startup and used stock options would be "we are all entrepreneurs!".

Of course, there are business and other risks linked to all this. Nevertheless, we should keep in mind that we are talking about new companies and new jobs. Without such an opportunity, no new enterprises would be created, or maybe they would be created abroad. Or they might still be created in Italy, but not entirely legally. This would feed the grey market economy, where the concept of legality is vague and there is room for abuse at work.

One could imagine that abuse would increase precisely because of this new contract for startups. We, however, believe that an exact definition of innovative startup together with the mechanisms we have put forward to ensure total transparency (e.g. the online public directory), will facilitate legal supervision by State bodies, as well as horizontal peer-to-peer supervision. Furthermore, we believe we should trust individuals, because if we are not convinced that we can win this bet, then we can hardly imagine a truly innovative country, a country that relies on new generations of open-minded Italians who run their business differently and who are on an equal footing with the rest of the world.

The aim of this proposal is to give people, who want to make a personal and a career investment by setting up a new business, a "job opportunity". This is, in fact, what many twenty or twenty-five-year-olds think of when it comes to a job. Rather than thinking of a job as their right, they think of it as an opportunity. They are convinced that, if they are not given a (first) chance, their right to a job will only exist on paper. Young people who operate in the world of innovation are especially ready to take risks, to deal with uncertainties – all they want is to be given a chance to do it.

Table 7
An employment contract for startups

Main features:

___A specific contract to work in startups within the first 48 months of their life-cycle – with simplified hiring and dismissal/resignation procedures;

___A two months' notice for dismissal and a 15 days' notice for resignation;

___The contract expires at the end of the 48-month period at the latest (clearly, the startup can end the contract earlier). The contract can also be changed into an open-ended national employment contract used by mature companies;

___Advantageous contributions, which allow the maximum alignment of the costs a startup has with its employees with the team members' real wages. This is done by reducing the IRAP tax and income tax.

Startup stock options

___Stock options are options which allow to subscribe to the company's capital on a certain date. The price is fixed at the time when stock options are given.

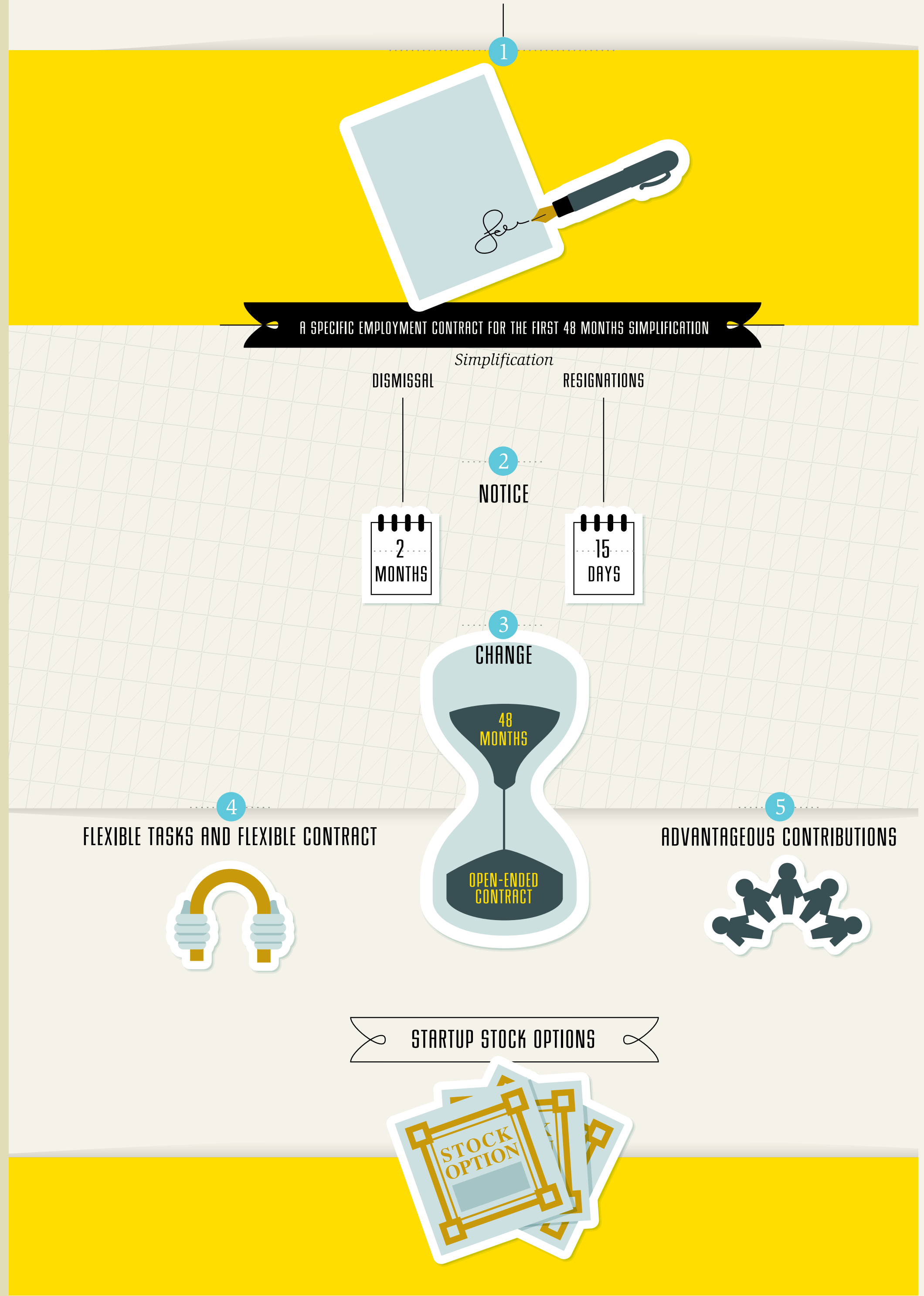
___Tax regulations currently in place are very complex and highly penalising. In fact, they treat earnings from stock options and income from employment equally. Moreover, income tax should be paid on earnings from stock-options, even if these earnings have not yet been paid, but have become payable.

___Equity stakes – owned by individuals who have an employment contract with a startup (including the aforementioned startup employment contract) – should neither be liable for taxes which apply to employment (in some cases, a flat tax) nor subject to social security contributions. More precisely, taxes should be paid in such a way that options can be given to collaborators even when they are "in the money", without them having to pay the tax in question.

___Another option, similar to stock options and just as useful in terms of paying collaborators, is the option of selling – free of charge or at face value – a share of the capital to employees or collaborators. It should be possible to sell a share of a company's capital (e.g. up to 10%) to collaborators or employees free of charge. The selling should not be subject to tax or social security contributions at least until the share is capitalised.

___Lastly, the ban whereby the startups established with the iSRL package are forbidden from buying their own shares, should be eliminated. Once this is done, the company could give shares to employees.

WORKING IN A STARTUP



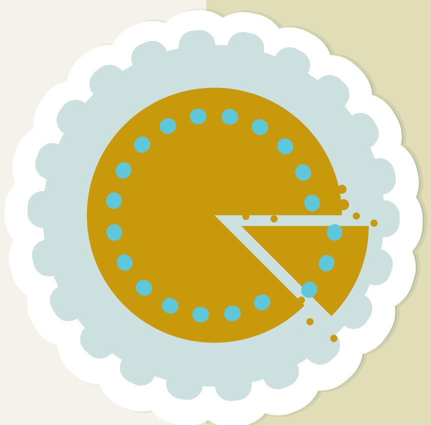
Besides having a good team at their disposal, startups need to **make use of external providers**, first and foremost providers of services.
On this front there is an instrument which is widely used in some countries, for example in the US. The instrument is called **work for equity**. By using this system, the company could pay for the services of a lawyer, a tax consultant, a provider of various goods/services or the person renting out the company's premises by giving them company shares instead of paying an invoice. This would reduce cash-flow needs in relation to some important items of expenditure which are the first ones to show on a company's financial statement.
Similarly to the employees in a startup, its providers would also share business risk, knowing that, if (also thanks to their services) the startup grows well, their gains will be proportional to the company's growth.

Table

8

Work for equity

REMUNERATING COLLABORATORS WITh
THE COMPANY'S SHARES



The work for equity system allows a company to remunerate external providers by giving them a share of the company's capital. Providers become involved in the company's plans for the future, without there being a negative impact on their financial situation. Apart from giving the company the possibility to remunerate providers with capital shares, it is important to ensure that:

a__*the shares transferred are exempt from taxes during transfer;*

b__*the shares transferred are not subject to social security contributions; as for the shares acquired by legal persons, their value should not be considered as part of the company's income and should therefore be exempt from taxes;*

c__*if the shares transferred are subsequently sold, some kind of tax relief should apply. This tax relief would be included in the recommendations put forward in this Report with regards to investments in startups by other business and would have their same value (see below, Table no.12);*

Support measures II

Growth 2

Once the startup has been set up and launched, what do we need to make it grow? In order for the startup to have an impact on the system not only in terms of innovation, but also in terms of generating jobs, income and becoming firmly rooted in the culture, it should have access to adequate mechanisms that support its growth. The two components necessary for growth are linked to funds and incubators/accelerators.

___***growth requires funds.*** Investments in venture capital are essential to speed up a company's growth in the first stage of its life. In the past, venture capital investments were much lower in Italy than in other European countries. As a result, there were limited possibilities to generate wealth and jobs by means of innovative entrepreneurship. In the long term, this choked economic growth. To remedy this problem, intervention is needed to strengthen the venture capital market. In this case too we need to follow the example of good practices in other countries, put in place measures that would not unduly affect public finances, while at the same time promoting quick progress and market logic in the field of innovation. Furthermore, startups should have access to resources ordinary companies have, to investments. In fact, many Italian citizens would be ready to make an investment, be it a large or a small one. Lastly, we need to give startups better access to bank loans.

___***growth requires the right places.*** Innovative startups can hardly grow without a strong support from incubators and accelerators, which offer an adequate working environment, opportunities for "contamination", as well as technical and entrepreneurial know-how. Once the incubators and accelerators which can sustain a startup in its growth stages have been "certified" and those which only claim to do so have been eliminated, it is necessary to identify the measures that can offer support to these places.

II.2.1 THE FINANCIAL RESOURCES NEEDED TO GROW

Startups can rely on greater financial resources, if the right conditions are created **to attract funds from four main sources:**
1__the **venture capital market** (in Italy still less developed than in other European countries);
2__**companies' financial resources;**
3__**investments made by individuals:** both real fortunes and smaller sums that could be invested in startups;
4__**access to bank loans** by strengthening the guarantees system.
The proposals that follow aim to intervene on all four fronts.

II.2.1.1 VENTURE CAPITAL

The first issue linked with the creation of a strong venture capital market has to do with **public funds available to professional investors.** Currently in Italy the funds available for startups are limited. A 2011 estimate showed there were at the most 120 million euros of stock available in venture capital funds which are used for international operations. If we consider that the average investment period lasts for 5 years, it would mean 25 million euros are available per year. **This is a small amount, especially if compared to what is available in other large European countries like the United Kingdom, France or Germany.** These limitations are even greater if compared to what has been done in this respect on the other side of the Atlantic in recent years. In 2011, the European Commission itself mentioned "insufficient funds" for the funding of innovative startups. It also reminded that in 2003-2010, while the US venture capital funds system had at its disposal approximately 131 billion euros, all European venture capital funds put together reached approximately a fifth of this amount, i.e. 28 billion euros.

Italy already has many entrepreneurs on whom to build its funding policy. A statistic on Italian Venture Capital Hubs identified 600 of them every year. Although not all of them are worth the same, it is already a large pool. Moreover, this statistic does not include all those initiatives which institutional investors are not aware of and which use other channels. The fact that an initiative in favour of startups, promoted by a large Italian enterprise, received more than two thousand business ideas in the 2011 edition alone, confirms this hypothesis. Thus, In Italy the sector of innovative startups has already generated a large number of relevant and successful initiatives. However, without a policy supporting the capitalisation of the venture capital funds market, it will be difficult for such initiatives to continue developing.

How can we ensure that good innovation ideas count on the right investments and that investors are ready to bet on new business projects?

Now it is certainly not the best time to achieve this. Nevertheless, **we believe the Italian Government should act on two fronts:**

__on the one hand, it should strengthen venture capital in general;

__on the other hand, it should offer specific support in order to favour venture capital investments which play a role in the very first stage of the startup's life-cycle. These investments are also known as *seed investments.*

II.2.1.1.a A Fund of funds for venture capital

In Italy, as well as in the whole of Europe, it is very difficult to raise funds for the launch of venture capital funds.

This is why we believe it is even more important that we avoid dispersing the few resources available. We ask the Government to act as an "anchor investor" and facilitate the raising of venture capital.

How should this be done?

By imitating the European stimulus model for the creation of venture capital funds which are then used to finance innovative startups. This model, which revolves around the European Investment Fund, should be supplemented with some features of Israel's Yozma Program. Of course, we need to be careful not to distort the market mechanisms which venture capital funds rely on.

To sum up, we would import a successful model and adapt it to our country.

Our proposal consists in creating a **Fund of funds dedicated to co-investments in venture capital funds**. A part of the Fund's capital share should be allocated to *the matching* of the operations carried out by angel investors and those carried out by business incubators and accelerators which are able to invest.

Therefore, the Fund of funds capitalises public funds on the one hand and, on the other hand, it is the main interlocutor of institutional investors: banks, insurance companies, pension funds, banking foundations and large enterprises. Therefore, it also plays the role of an "institutional fundraiser".

The capitalised Fund of funds would act as an anchor investor for venture capital funds, sustaining their capitalisation by up to 2/3 of the fundraising objective.

Funds would be selected after appropriate due diligence on the quality of the projects and of the business teams involved.

The selection would depend on two criteria: merit and transparency.

There would be no geographical limitations when selecting Funds. Moreover, once a year the Fund would offer options to new players.

As far as public funds are concerned, resources for the Fund of funds could be provided by the Italian Government by using the funds which have already been granted (but not allocated) through other means like, for example, the Cassa Depositi e Prestiti (an Italian joint-stock company), the revolving fund administered by Invitalia (the Italian national agency for inward investments and economic development), the HTC-Sud fund and the Venture Capital Fund for Internationalisation administered by Simest (a financial institution for the development and promotion of Italian enterprises abroad).

Of course, the capitalisation of public funds should take place in compliance with EU regulations. Moreover, we might envisage a seven-year investment period and a seven-year capitalisation with annual increases. A seven-year period would enable venture capital funds that have obtained the first funding to receive funding for another fund at the end of their investment period.

Public capital should not be non-repayable, but should benefit from a fraction of target funds' remuneration.

Moreover, the Fund of funds will sustain the capitalisation of innovative startups by matching the investments made by networks of qualified angel investors and those made by incubators and accelerators that allocate venture capital. Capitalisation will never happen by means of direct investments in a company. Consequently, the capitalisation of innovation sectors will not influence final investment decisions. The latter will only follow market logic.

Lastly, the actual administration of the Fund of Funds should be entrusted to experts who will be in charge of supervising the allocation of funds and checking on the managers and their governance practices. In the case of the Fund of funds too, we would supplement existing facilities which function well and we would not have to create new ones. The Italian Investment Fund (Fondo Italiano di Investimento) already has the necessary features to become the entity administering the Fund of funds and has already been allocating a share of its capital – up to 50 million euros – for investments in venture capital funds. Increasing the Italian Investment Fund's capital is something that could be achieved relatively quickly and efficiently. If this is done within a short and fixed time-frame, it will contribute to investments in the innovation sector and to the establishment of new businesses. This would, in turn, be beneficial for the whole country. Provided that EU regulations allow for a body to be nominated directly, we suggest that the Italian Government entrusts the administration of the Fund of funds to the Italian Investment Fund and obliges it to improve the team and the competencies of the former. This way the Fund of funds will have the necessary means to cope with its workload and with additional investment operations.

Table
9
The Fund of funds

The Fund of funds' key features:

____it sustains venture capital funds and other market operators who are willing to make venture capital investments in startup companies;

____its beneficiaries are (a) venture capital funds, through an investment in this medium; (b) angel investors and business incubators and accelerators through the matching of investment operations (the total amount of which equals that of the total investment);

____it plays the role of anchor investor and sustains the raising of funds from private entities and all kinds of institutional investors;

____it does not invest directly in companies;

____it has a 7-year investment period;

____it has no geographical limitations within the Italian territory;

____every year it offers options to new players; this is done by means of market due diligence;

____if the performance of one of the target Funds is positive,

the distribution of profits is asymmetric: the remuneration of public players is suspended when it exceeds maximum return levels (following the up side leverage cap scheme*);*
____if performance is negative, losses are distributed equally;
____entrepreneurs and/or other subscribers of shares can re-purchase the Fund of fund's shares;
____it constantly monitors target funds;
____it does not interfere with investment decisions of target funds;
____it can subscribe shares of foreign funds, provided that they invest at least 70% of their capital in Italy;
____the administration of the Fund of funds will either be entrusted to the Italian Investment Fund or to an entity selected by means of a call for tenders.

At this point we would like to mention in particular **investments on the venture capital market in relation to startups with a focus on the social dimension.** In fact, in the first stage of their lives, social startups are at risk of market failure, since they are trying to answer new needs that are not provided for either by the State or by market operators. They often have low economic returns but high environmental and social returns. Social startups often offer brilliant products or services, but are also promoted by individuals who may not be very business-oriented. Therefore, it is usually harder for them to access venture capital than it is for others. In the case of social startups investments are generally small, transaction costs high and economic returns are limited.
In order to thrive, these startups need a traditional market, as well as a market made up of professional investors who are interested in investing in this field.
In order to achieve this we need to consider: (a) possible advantages/incentives that would lower operational and structural costs (i.e. incentivising professionals who want to operate in this sector in order to make it attractive also for those who usually operate in more "traditional" sectors); (b) offering options for other specialised types of funding like grants (from banks) and equities (from credit institutes and social venture capitalists).
It is also important to highlight the efforts made by the European Union – *via the Social Business Initiative* – to facilitate the establishment and growth of Funds that invest in social startups. The *Social Business Initiative* also recognises the possible impact and the specific characteristics of these startups and puts forward additional proposals to achieve greater transparency and accountability. The proposals are as follows: (1) a single brand for funds that invest at least 70% of their capital in social startups; (2) collecting and sharing key information with investors in a standardised format. Information can be related to the social objectives which the Fund invests in and to the way in which the Fund evaluates whether the startup has achieved these objectives or not; (3) attracting funds from investors all over Europe (this can be done once the Fund fulfills the programme's basic requirements).

Table
10

The Fund of funds will dedicate up to 20% of its capital to sustain funds specialised in social startups.

II.2.1.1.b A Fund for seed investments

In addition to general support to venture capital, it might be useful to think of a specific measure which would support startups in the first stages of their life-cycle, when an innovative idea is turned into a business plan and a business plan is first turned into a business project and then into a new company. At this first stage many risks exist and the process of finding funds is more dispersed and not very structured. This specific measure would also allow for an increase in **seed or early stage investments** within venture capital. In Italy, the number of seed investments has been limited in the last few years and the main actors in the field of venture capital have only carried out few such operations each. This is why it is **key to further develop the seed investment market with a support measure dedicated exclusively to these investments.**

How? By drawing inspiration from what has been achieved in Germany in recent years. Not long ago the situation in Germany was very similar to the situation in Italy. In 2005, the Germans decided to deal with the situation and created a fund – the High-Tech Gruenderfonds (HTGF) – which revolutionalised the seed investment market in their country. If in 2003, 2005 and 2006 seed investments in Germany were 28, 26 and 20 respectively, in recent years they have more than tripled. The numbers are as follows: 111 seed investments in 2008, 71 in 2009, 81 in 2010 and 75 in 2011. In recent years, more than half of these operations were carried out by HTGF.

How does the German seed investment fund work?

The first fund (HTGF 1) was launched in 2005 with a capital endowment of 272 million euros, a significant part of which came from the KFW – the equivalent of the Savings and Loans bank in Italy. The investment plan allowed for small shares (2.5 million euros on average) that could be bought by private investors as well, including large German companies. The plan foresaw a 6-year investment period, followed by a 7-year period of disinvestment. The focus was on high-tech innovative companies in the seed stage (up to the first 12 months). The type of investment was standardised to 500,000 euros per company in the first stage, allowing for additional follow-on investments of up to 2 million euros in the same company. Investments were carried out directly by HTGF, which worked with a team of approximately 40 people divided into three groups: (i) hardware, automation technology, optical technologies, energy; (ii) life sciences, material sciences, diagnostics, medical; (iii) telecommunications, media, software, e-commerce.

The success of the HTGF lies in some of its specific features

First and foremost, its *investment model.* Investment terms are standardised: they always include a first seed investment of 500,000 euros through a subordinated loan which is turned into a company's share (evaluated with a 15% discount compared to subsequent operations that are underwritten by a third party, e.g. venture capital increases). Thus, no specific evaluation of the company is carried out at that stage, since the general conviction is that it is too early and maybe not very useful to evaluate a company so early on. An additional one and a half million euros is reserved for possible follow-on operations. The loan is a 7-year convertible loan and the 10% interest rate is deferred for four years in order to preserve the startup's liquidity. The contribution from the person who wants to set up a startup must correspond to at least 20% of HTGF's investment (10% for East Germany). Half of this investment is open to other investors, for example, business angels, regional seed funds, public and private investors.

Secondly, the way it operates. *Decision-making* is streamlined and quick. While in Italy it takes on average several months to make a seed investment, in Germany HTGF investment operations take are concluded within 60 to 90 days. People who want to establish a startup can count on the assistance of HTGF's network of coaches and partners for the business plan. On the basis of the business plan, a term-sheet is signed, and on the basis of the term-sheet, due diligence is carried out. Among other things, this due diligence evaluates innovation levels and market opportunities, the sustainability of the business model, intellectual property and the opinion of other investors. If the result is positive, a recommendation is made to one of the three committees specialised in the various sectors. Each committee has five members: an industrial partner, a KFW representative, a successful entrepreneur, a representative from the field of venture capital and a scientist specialised in the technological sector of the startup in question. It is this committee that makes the final decision.

Thirdly, *management and governance subject to private-law.* Investment decisions are made by highly qualified people and are only based on the quality of the business idea and on business opportunities. These people are also offered the advice of a large **network of coaches** (business angels, public institutions, private consultancies, individuals with experience in the sector of technological startups). All of them are accredited and they are listed on the HTGF website. They sign standard contracts with startup founders.

Since 2006, HTGF has received and evaluated more than four thousand proposals. It selected 271 of them for a total of 319 follow-on rounds and an overall investment of 381 million euros. Seventy percent of this amount is made up of private capital (venture capital, business angels, corporate investors). The total number of exits was 20, while there were only 30 cases of failure – equivalent to slightly more than 10% of all the seed investment operations. In 2011, HTGF II was launched and it was capitalised with 291 million euros in total.

The HTGF model – the first one to carry out seed investments in Germany – should be replicated in Italy. **The Cassa Depositi e Prestiti[11] should be involved in this process and there should be significant financial resources available, so as to have a systemic impact.** In this way, our country would be equipped with a complementary tool – almost a "preamble" – which is crucial in order to achieve a fully developed venture capital market through the Fund of funds described above. This tool would in fact contribute substantially to new innovative startups being set up, the very startups venture capitalists could end up investing in again.

Therefore, **preserving the winning features mentioned above is of the utmost importance** if we want to achieve results which are comparable to those in Germany. In particular, we should ensure that the Fund of funds is administered following a market and business logic whereby the top management is highly qualified, with considerable experience on an international level and not influenced by outside interference.

Table

11

A Fund for seed investments

Essential requirements of the seed capital Fund:

____it is administered by a team of experts with an appropriate track record, both in terms of investments in companies from the sector concerned and, most importantly, in terms of disinvestments;

____it is capitalised by the Cassa Depositi e Prestiti and/or other institutions, but it should ensure a share of private funding (e.g. 35%) – preferably coming from Italian industrial players – and the commitment of the administrators themselves (5%);

____it invests amounts of up to 500,000 euros in seed operations; it must also take part in co-investments with other entrepreneurs and/or investors;

____its decision-making and lead time are quick and based on standardised mechanisms (e.g. contracts) it adopts interest-bearing convertible loans (or assimilates) in the seed stage. Loans are converted and interests paid only after the loan is due and on the conditions set by a third party, who subscribes to the follow-on offering;

____it co-invests up to 1,500,000 euros with other funds and industrial investors in early-stage operations;

____it has an investment period of 5 years + 5 years for the administration of the portfolio and possible follow-on offerings;

____its dimensions are proportional to those of the investment team and can be increased when performance objectives are achieved and/or when portfolio companies are capitalised indirectly (e.g. by means of follow-on offerings);

____in case of a positive portfolio performance, profits are distributed asymmetrically: the remuneration of public players is suspended at a maximum returns threshold, following the up side leverage cap scheme;

____does not have any geographical limitations within the Italian territory;

____its investments and their most relevant details must be made public; the same applies for its organisational structure and the criteria used in selecting its team;

____it organises an annual public session where results and portfolio companies are presented.

II.2.1.2 THE COMPANIES' RESOURCES

Another important aspect in terms of the financial resources which could be used to capitalise the startup environment, is that of private capital – from both companies and individuals. On this front we need to **encourage direct and indirect investment from institutions and individuals by resorting to tax incentives.** To this end, in 2011 the Italian Government already put forward specific incentives aimed at sustaining the establishment and growth of new companies. Among other measures, earnings from shares in venture capital funds are exempt from taxes. The implementation decree, with which the provision will come into force, will be issued shortly. Companies that receive investments from venture capital funds, must meet the following criteria: (i) they must not be listed on the stock exchange; (ii) they must be owned mainly by natural persons; (iii) they must have a turnover lower than 50 million euros; (iv) they must have been established for no longer than 36 months; (v) they must be liable to corporate income tax (or similar taxes provided for by local legislation) with no possibility of tax exemptions, neither total no partial. Nevertheless, these criteria, as well as the general mechanism of incentives provided for by this measure, have some limitations.

First and foremost, there are limitations concerning the criteria which must be met by companies that receive investments from venture capital funds. The last two criteria are not in line with the parameters outlined in this Report. In fact, according to this Report, startups are businesses which have been operating for less than 48 months, not 36 months. Moreover, this Report envisages the possibility of more fiscal concessions applying at once.

There are *two other major limitations.* (a) The fact that tax exemptions only apply to indirect investments in venture capital funds and not to direct investments in startups. (b) Tax exemptions only apply to capital gain, not to the actual investments.

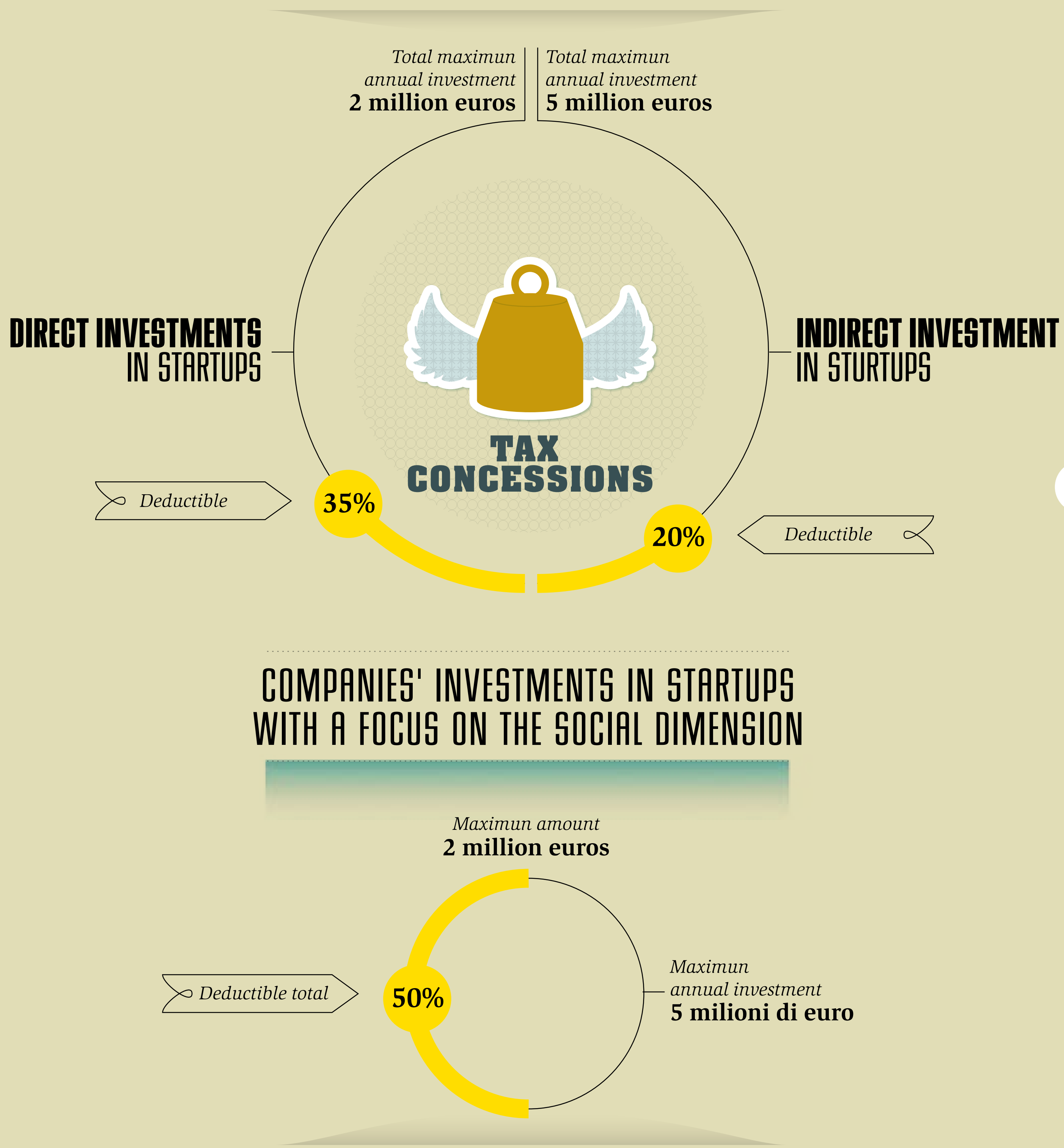
Due to these limitations, the whole mechanism might not be very efficient or useful. It might not sufficiently encourage investments and, consequently, it might not give a substantial contribution to the very much needed capitalisation of startups.

There is no doubt that the provision is an important one, since it shows that the Italian Government is willing to strengthen a capital market for support to startups and because it certainly creates a precedent on which to build. Nevertheless, this is just the first step. We

believe the Government should envisage a more ambitious measure.
We believe that this measure should provide for **a tax deduction on company investments in startups.** In concrete terms, this means that every time a company decides to invest in an innovative startup with a minority share of the capital, a partial tax deduction applies.
If we compare this measure to the provision already introduced by the Italian Government, we notice that with this new measure, tax concessions do not only apply to investments in venture capital funds, but also to direct investments in startups. Most importantly, tax concessions do not apply just to income (and therefore to capital gain), but also to the actual investments.
The advantage of such a measure is that it incentivises external innovation amongst industrial groups in Italy and, more generally, it enables startups to contribute to the transformation, modernisation and innovation of the productive sectors in Italy.
As a result, stronger links are created between medium and large enterprises on the one hand and highly-innovative and fast-growing micro and small enterprises on the other. Therefore, this measure encourages an alliance between existing companies that want to be innovative and new companies that are intrinsically innovative.
Clearly, in order to avoid "Maddoff-style" fraud or "nested arrangements", it is important to ensure that startups are not both the recipients of investments and the investors. We should therefore prevent a startup from investing in another startup which, in turn, invests in another startup and so on.
In line with the above mentioned measure which is already in force, taxes would be deducted also from company investments in venture capital funds. However, different tax rates would apply, so that direct investments in startups would still be more "advantageous".
Moreover, we believe that this measure will have two other important effects. These are not directly related to the concessions' main aim, but they are very important in terms of fiscal policies and the revival of the Italian economy.
We can quite easily predict that a part of the resources invested directly and/or indirectly in startups thanks to favourable policy measures will be regularly taxed and will therefore never be part of the grey economy, where tax avoidance and tax evasion are the norm. Secondly, these investments and minority shares would encourage a healthy finance culture that is so badly needed in Italy. They will also encourage a corporate venture capital mechanism which has enabled businesses in other countries to grow and innovate with limited risks and at a very low cost. This will benefit SMEs in particular.
Lastly, it is necessary to adapt the original measure - which concerns deductions on the earnings from investments in venture capital funds and startups - to the criteria and structure of this Report. Firstly, the period of 36 months should be extended to 48 months.
Secondly, the concession should not be incompatible with a possible exemption of corporate income tax for the startups which receive the investment.

Table
12
Encourage businesses to invest in startups

ENCOURAGE BUSINESSES TO INVEST IN STARTUPS



The mechanism's essential requirements:
___A 35% tax deduction applies to investments made directly in startups through cash-flow by companies with a seat in Italy and the aim of which is the subscription to newly issued shares for minority shareholding (also as far as voting rights are concerned) for a maximum total annual investment of each company and/or beneficiary group of 2 million euros.
___Similar concessions – with different tax rates – would apply to indirect investments (e.g. through venture capital funds). In this case, a 20% tax reduction would apply and the maximum deductible investment would be of 5 million euros.
___Changing the mechanism of tax deductions on earnings which derive from disinvestments in startups, so that it applies to startups in their first 48 months and even if they are already totally or partially exempt from other taxes. Similarly, returns from indirect investments and 100% of the earnings generated from such investments, should benefit from tax deductions. It could even be decided that such investments are taxable only when the total amount of disinvestments is greater in value than the total amount of (direct or indirect) investments in startups. This way, startups only have to pay tax only if there was a return on the investment.
Companies' investments in startups with a focus on the social dimension:
___As far as social startups are concerned, tax deductions on a company's investments in such startups could be brought up to 50%. The maximum amount for which this applies would be 1 million euros. If a company were to invest more than 1 million euros in a mission-driven startup (and up to a maximum of 2 million), what has been stated previously would also apply here.
___As for tax deduction on the income generated by social startups, there is no need to provide for additional tax relief. Social startups benefit from the same type of tax relief as other startups, as their statute already provides limitations on financial returns from the capital invested in social startups.

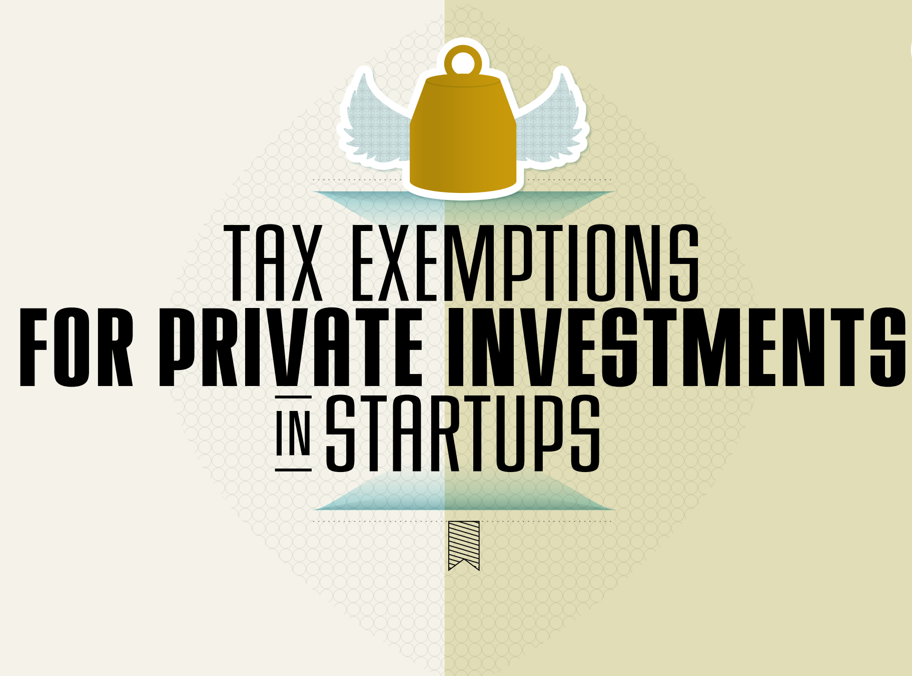
II.2.1.3 PRIVATE INVESTMENTS

Companies are not the only ones in possession of resources which could be invested in startups. Individuals can invest in startups too. To this respect, two proposals will be illustrated in the pages that follow. The first one concerns large personal fortunes which often belong to entrepreneurs. Therefore, it is directed to so called business angels. The second one is directed to all citizens – not just very wealthy ones – and offers them the possibility to invest in the new startup environment by means of micro-shares.
These two proposals together aim to enable all Italian people – regardless of their income – to invest in startups and bet on the talent, creativity, business spirit and desire to innovate of many young people, as well as of a country as a whole.
The first proposal regards a **strong incentive which would encourage individuals with large savings to invest in startups.** More precisely, we want to make these investments subject to tax deductions. An individual who invests in a startup, a venture capital fund or a certified incubator or accelerator, will benefit from a deduction on taxable income equal to 30% of the amount invested.
This provision applies to investments of up to 1 million euros which last for a period of at least three years. The largest share it is possible to buy is a 49% share, so as to prevent shareholders from controlling the startup they invested in.
This measure incentivises investments of private capital in the production sector. Therefore, it offers an alternative to typical forms of investment – for example, investments in the property market – and encourages investments which contribute towards the capitalisation of the startup environment.
Recently, the United Kingdom has adopted a very similar scheme which market operators have branded as quite "aggressive" and which not only incentivises investments from British citizens, but also investments from abroad. The scheme provides for a 50% tax exemption, but the maximum investment limit is much lower than that contained in our proposal: it is fixed at 100,000 euros.
The British scheme is different from the one we hope the Italian Government will adopt. However, these two schemes would offer similar concessions and would therefore be perceived as two competing packages.
We need an ambitious proposal which would make us competitive with other developed countries that have placed a large bet on startup companies, in order to increase our investment levels in this field and attract foreign private investments in Italian startups.

Table

13

Tax exemptions for private investments in startups



Key elements of the tax-exemption mechanism:
___*deductions equal to 30% of the investment;*
___*the maximum investment to which tax concessions apply is of 1 million euros and has to be maintained for a period of at least 3 years; the maximum share which can be purchased is 49% ;*
___*if the investment is carried out through a vehicle company, tax concessions will only apply to the capital actually invested in the "net worth" of the target startup.*
For startups with a focus on the social dimension only: *we are aware of the fact that social startups have limited returns, but we are also aware that they can offer an interesting investment opportunity. For this reason, we believe that investments in social startups should be subject to tax concessions similar to those which apply to traditional startups, but different in terms of quantity:*
___*deductions equal to 50% of the investment;*
___*the maximum investment to which tax concessions apply is of 250,000 euros and must be maintained for a period of at least 3 years; the maximum share which can be purchased is 49%;*
___*if the investment is carried out through a vehicle company, tax concessions will only apply to the capital actually invested in the "net worth" of the target startup;*
___*however, if the amount invested is greater than the indicated amount, social startups will be subject to the same tax concessions which already apply to all other types of startups.*

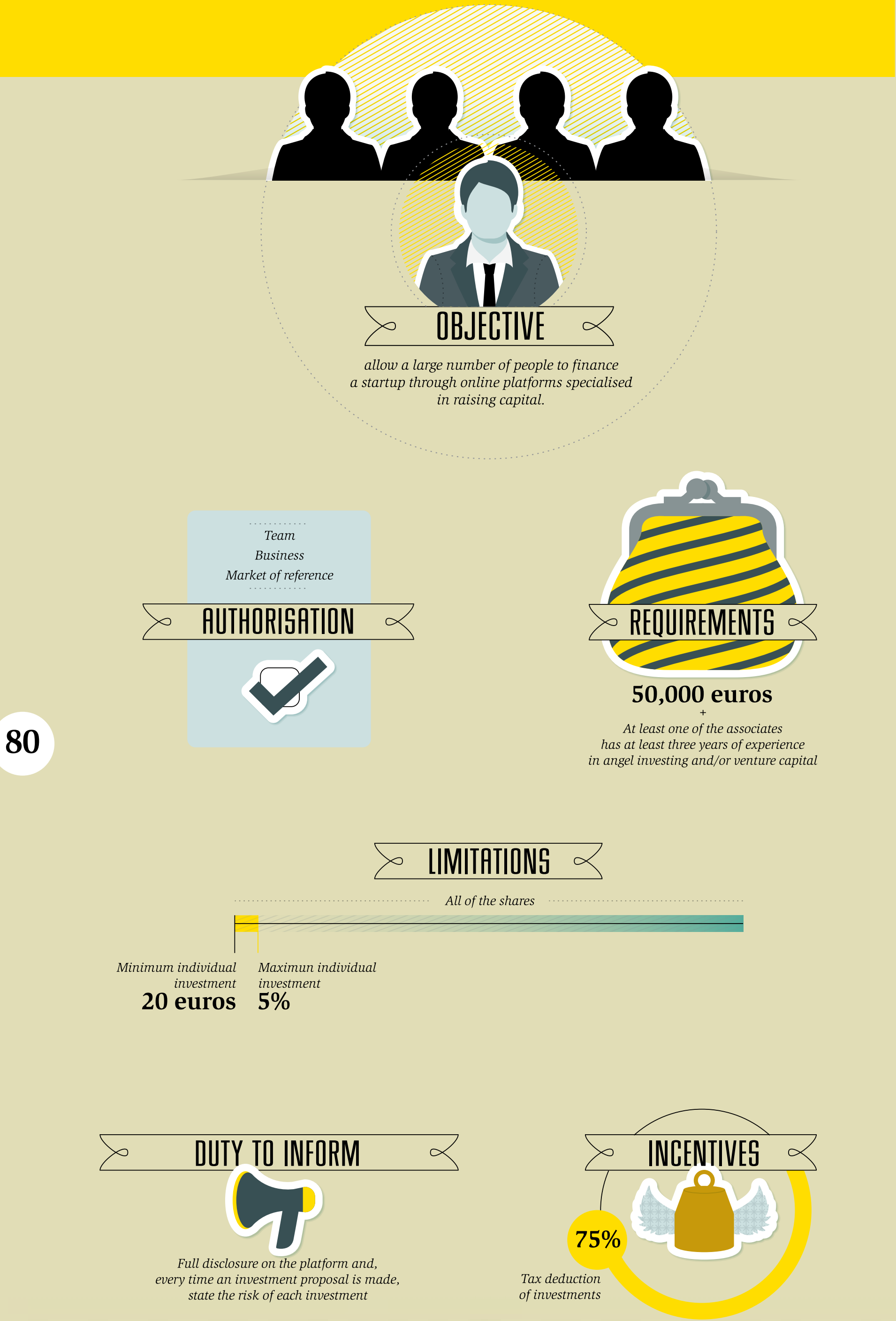
Large capital is often linked to smaller investments. If accumulated, these can become another important source of funding for startups. We are talking about raising funds with the help of a large number of people and **importing crowdfunding to Italy.** Crowdfunding is relatively unknown in Italy and yet the concept is easy to grasp. Crowdfunding is what enabled Barack Obama to become President of the United States. During his election campaign hundreds of thousands people donated a few dollars each, but all together they enabled the leader of the Democrats to raise more money than any candidate to the White House has ever raised before.
Of course, in the case of US elections, the money raised were *donations* aimed at financing the election campaign. Nevertheless, the same mechanism works well when, instead of collecting donations, we collect *small investments* to finance startup companies. It is no coincidence that it was precisely Obama who introduced the Jobs Act, an innovative instrument to raise capital based on the principle according to which many people contribute small amounts of money. This principle is becoming increasingly popular in Europe too. For example, in the Netherlands, crowdfunding has been used to raise capital to launch new startups. Many (small) investors, often ordinary people, placed a bet on a new business idea.
As far as Italy is concerned, for the time being crowdfunding is not provided for explicitly by our legislation. If we want this instrument to be available in Italy too, we should think of a clear and simple authorisation procedure which relies on the guarantees of those who want to open these online fundraising platforms. This should be done transparently and people should be informed that, as for every investment, they run the risk of losing the capital they invested. Once sufficient levels of transparency have been ensured and information about crowdfunding has been passed on, crowdfunding will gradually become part of our business culture. Eventually this instrument might turn out to be very useful for startups to gather the necessary resources to grow.
Italian people donate hundreds of millions of euros to different causes every year. Moreover, they bought 6.8 billion euros worth of lottery tickets and 10.2 billion euros worth of scratch cards in 2011 alone. We would like to imagine that in the future there will be just as many people ready to make a small donation or a bet on a young neighbour's business project or on the idea of a group of researchers at the other end of the country. This time, they will be spending their money in small investments and run the "risk" of having financial returns. We would like to imagine tens of people, mostly talented young people, who are trying to find the means experiment their business idea and tens of thousands of people from all over Italy who support them – not by giving them small change but by making an investment, albeit small. People who invest in other people, betting on them and believing in them.
In order for all this to happen – and in order not only to give people the *possibility* to open an online crowdfunding platform, but also to spread the culture of small investments in Italy – it would be useful to encourage people by granting them tax concessions for investments in startups which rely on crowdfounding.

Table 14 *Crowdfunding*

Objective: *allow a large number of people to finance a startup through online platforms specialised in raising capital.*
In order to avoid authorisation expenses (CONSOB[12]/ Banca d'Italia) and capital requirements that cannot be met by various operators – excluding banks and financial brokers – the regulation on capital accumulation must be modified by intervening on the Testo Unico della Finanza (Italian regulations on financial instruments and markets, legislative decree 58/1998 and subsequent updates) and on related regulations, to create a safe harbour for crowdfunding. This should be achieved by defining the limits within which it is possible to operate without being subject to supervision. In particular the following:

__***Authorisation***_*a clear and simple authorisation, by means of verifying that formal requirements are met (to this respect, the current legislation on share capital companies is adequate). It is even better if authorisation is obtained by means of a notice and self-certification to CONSOB, requesting the opening of a register of operators. The request is done using a standardised model, which includes a clear description*

CROWDFUNDING



of the startup's team, its type of business and the market in which it will operate.
*__**Requirements**_Share capital companies with a minimum fully paid-up capital of 50,000 euros. At least one of the associates/legal representative has at least three years of experience in angel investing and/or venture capital (drawing on the model of recruitment companies).*
*__**Limitations**_Quantitative limitations for raising funds (2.5 million euros per operation). A minimum investment of 20 euros for each crowdfunding investor's share. A maximum investment equal to 5% of the total amount of investors' shares (e.g. in a total investment of 500,000 euros, the maximum individual share of a single investor can be worth up to 25,000 euros).*
Voting rights in shareholders' meetings are removed for the subscribers of shares who resort to crowdfunding. The latter only maintain economic rights, as well as inspection and control rights. Alternatively, crowdfunding partners can invest in startups by forming a single legal entity: either a "Dutch cooperative" or a company exempt of the costs which usually apply to limited companies, in line with what was stated in the section on business simplification.
*__**Duty to inform**_Give full disclosure on the platform and, every time an investment proposal is made, state the risk of each investment.*
*__**Incentives**_Tax deduction equivalent to 75% of the investments made in the startup by means of crowdfunding. Annually, this deduction must not be higher than 10% of the income declared. However, it can be spread out over several years.*

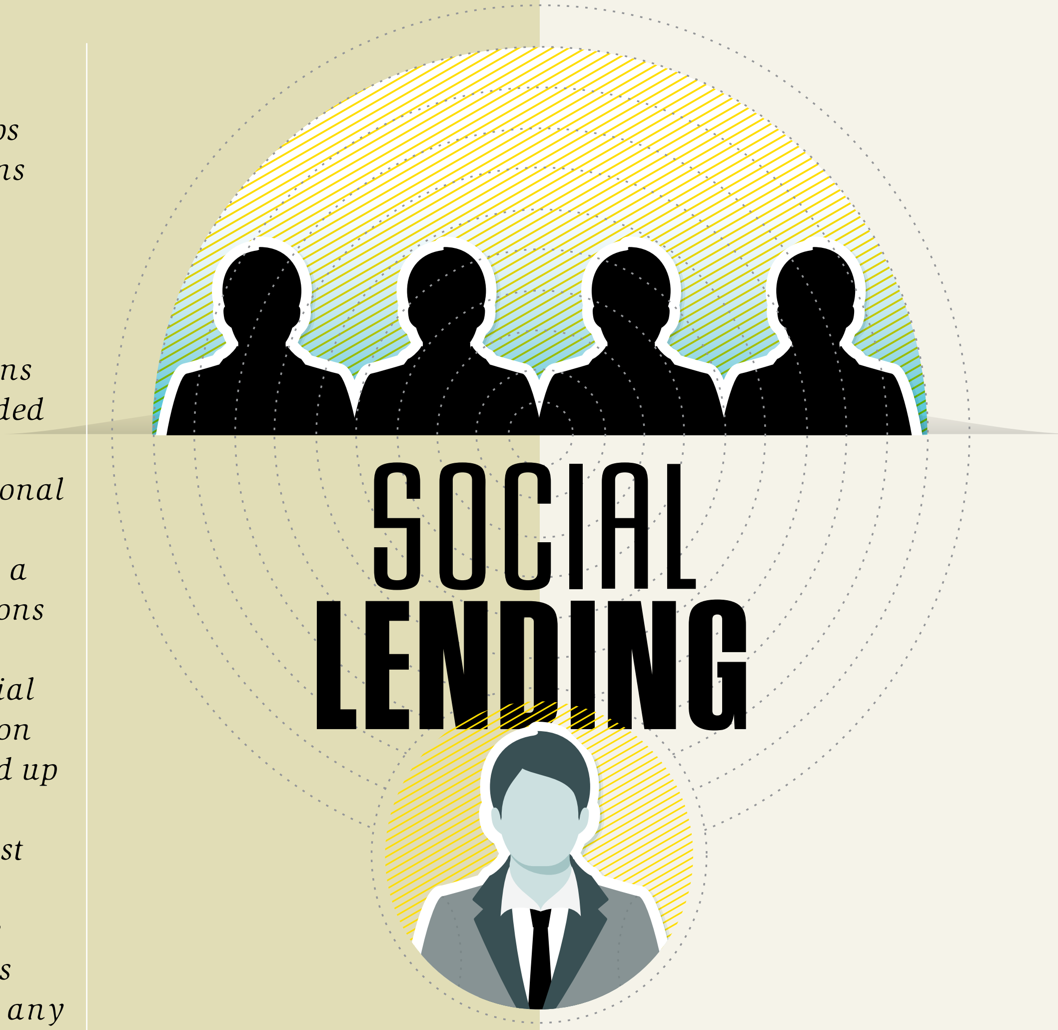
As it has been already said, the crowdfunding mechanism allows to raise capital for startups in the form of small investments. If a startup is successful, investments yield high returns and people gain from it. If a startup is not successful, the people who invested in it lose their money. Is it possible to limit this risk? If so, in what cases?
We suggest to create a variation of crowdfunding by adding a guarantee mechanism whereby third parties guarantee for these micro-investments. This guarantee mechanism would **apply to startups with a focus on the social dimension only,** given that, on the one hand, they yield fewer profits and, on the other hand they can potentially be more attractive for investors due to their social mission.
All this is carried out using **social lending platforms.** Similarly to crowdfunding, social lending platforms do not provide generous or non-repayable funding. On the contrary, they are out-and-out investments in startups from private individuals who, however, are given a guarantee by a third party: a bank, a region or a private institution. In the case of social lending platforms, this guarantee is a fundamental feature and facilitates the creation of a network of "patient capital" investors. These become shareholders, to all intents and purposes, in social startups, which are considered to be economically sustainable and have a social impact.
In order for them to work, social lending platforms must necessarily fulfill the following criteria: (1) they must be places where to share opinions, where startups can propose their projects and private entities can choose which ones to finance; (2) they must promote social lending on particularly favourable rates and must not resort to funding models similar to those which offer generous or non-repayable funding; (3) formally acknowledge the relation between supply and demand by means of simplified contract formats, so as to help establishing this relation quickly and clearly.

Thanks to social lending, in the future it might be possible for a startup – for example, one that makes tactile works of art to bring art closer to blind people or a startup that offers environmentally friendly mailing services because it uses electric vehicles – to use a social lending platform in order to raise funds from a large number of people – who maybe have friends or family members who are blind or are simply more sympathetic to such problems. It will also be able to involve associations, foundations, medical research centres or enterprises that decide to donate a small sum of money to help these social startups grow.

Table
15
Social lending

Social lending allows a large number of people to finance social startups through online platforms specialised in raising capital in the form of "debt".
__Requirements_*Both natural and legal persons can grant a loan, provided that such activity is not carried out as a professional and organised activity.*
__Limitations_*Within a solar year, natural persons can lend up to 30,000 euros to one or more social startups. Legal persons, on the other hand, can lend up to 100,000 euros.*
__Interest rates_*Interest rates can be set by the lender, but they must be lower than interest rates found in the market, in any case.*
__Guarantee_*In any case, lenders would be given the guarantee (e.g. co-signing) of a third party, which would intervene – and return the capital to the lender – only if the startup is not able to repay the loan.*

NOTE: From a normative point of view, organising "platforms" of private individuals with the purpose of lending money, is still not clearly defined. The Testo Unico Bancario (Italian regulations on banking and credits) should therefore be modified and it should be stated that such activity does not correspond to raising capital in the public sphere.



II.2.1.4 ACCESS TO CREDIT
Another issue – a more "classical" one in comparison with venture capital or equity capital mentioned above – concerns access to credit and the role of banks. In order to live and grow, startups must have access to the same instruments and the same founding possibilities that a traditional company has. A startup must not only have access to venture capital, but also to working capital for its everyday life.
The issue of access to credit concerns all the sectors of production in Italy and it has a particularly negative impact on SMEs. However, startups have even bigger problems in this respect, given that the Italian banking system does not usually grant credits to new companies, even less so if they are considered not to be sufficiently capitalised or not to have adequate capital guarantee, as is the case for most startups.
To remedy this issue, we propose to intervene on the system of guarantees.
In particular, **we suggest that the Fondo Centrale di Garanzia (Central Guarantee Fund) sustains access to credit for innovative startups.**
The Fondo Centrale di Garanzia – established at the Ministry of Economic Development in 2001 – favours access to credit for SMEs by issuing a public guarantee for the funding given by banks. Companies that need funding for their business activity can ask a bank to guarantee for the operation by means of a public guarantee (a *direct* guarantee). This guarantee is a "zero risk" guarantee for the bank, since, if the company becomes insolvent, the bank is repaid by the Fondo Centrale di Garanzia. Alternatively, the company can require counter-guarantee by turning to a Confidi[13] or another guarantee fund. These institutions will then send the request for counter-guarantee to the Fund. A third possibility exists: a co-guarantee. The beneficiaries of this Fund's guarantee are SMEs which are economically and financially healthy, regardless of the sector they belong to.
The Fund's operational regulations already provide for specific support for startups which can be evaluated on the basis of the last two approved financial statements. Startups which cannot show the last two approved financial statements because they were set up recently, can access the guarantee only if they show a provisional financial statement and an investment plan. This does not apply, if the company's own resources (which must be already deposited) are lower than 25% of the amount included in the investment plan.
The Fund's definition of startup is *different from the definition given in this Report*. The differences include the time a startup has been running for and the fact that the Fund does not state that 51% of the funds must be owned by natural persons. Most importantly, the Fund's definition does not mention either the innovation criterion or the technological dimension.
The proposal also envisages to allocate *additional resources* to the Fondo Centrale di Garanzia for support to startups (as defined in this Report), which would enable startups to receive the guarantee they need to access bank credit.

Table
16
Guarantees for the credit that banks give to startups

The proposal's key elements:

Creating a ***Special Section*** *of the Central Guarantee Fund for SMEs, which would only deal with guarantee and counter-guarantee operations for startups (as defined in this Report).*
More specifically, the proposal

GUARANTEES FOR THE CREDIT THAT BANKS GIVE TO STARTUPS

consists in creating a Special Section, ***for which additional resources equal to 30 million euros will be granted*** *– not only by the Italian Government, but also by other players: local authorities, banks, Chambers of Commerce, etc. These resources will be used for guarantees for innovative startups. They will be granted by funds, regions, local institutions, banks and other actors that may be interested.*
Apart from offering additional resources to startups, this Special Section would allow innovative startups to have easier access to the Central Guarantee Fund:
*a__***no charges** *for accessing the guarantee (free access to the guarantee);*
b__The Central Guarantee Fund's **maximum coverage** *on individual operations (maximum coverage will be extended to startups; currently it only applies to certain categories: 80% for direct guarantees; for counter-guarantees, 80% of the amount is secured by Confidi or other guarantee funds, on the condition that the guarantees released do not exceed 80%);*
*c__***reduction of the capital and reserves parameter from 25% to 15%** *and* **abolition of investment limits** *– guarantees are therefore available for launch expenses too.*

Lastly, in addition to securing bank loans and therefore bank debt operations, the Central Fund can also give guarantees on equity operations (i.e. the acquisition of minority interests in SMEs by means of social capital increases) if they are carried out by certain types of common investment funds offered by investment companies, banks or certain financial intermediaries. The shares secured by the Fund must be kept for a period no shorter than 2 years and no longer than 7 years. Failure to do so will result in losing the shares. The maximum amount the Fund can guarantee for is equal to 2.5 million euros for every beneficiary company. It is clear that this guarantee on equities would also apply to the purchase of minority interests in startups (as defined in this Report).

II.2.2 PLACES WHERE TO GROW: INCUBATORS AND ACCELERATORS

In order to grow, startups do not only need capital or access to markets. They also need a suitable place. There exists the myth, the romantic vision of starting the entrepreneurial adventure in the basement or in the garage, but actually, far more often, startups need to be "incubated" and then "accelerated" in order to grow. Business incubators and accelerators are the most suitable structures to accompany this process – from the conception of a business idea all the way to the first years of a company's life-cycle. They are the containers and the supplements which enable small new enterprises that want to enter the market, to compete and be at the frontiers of innovation, to grow in terms of efficiency, productivity and visibility. In some cases, they even manage to bridge the gap in the development of applied research.
Startups can develop better in incubators and accelerators. In fact, they can share experiences and competences, exchange information on the markets or on the opportunities available and organise better services at lower costs. This is possible thanks to real contacts between different players and thanks to the fact that incubators and accelerators take into account the *actual needs* of new innovative enterprises. These physical spaces are the starting point every startup needs in order to build an efficient network of services. On the one hand, they offer the necessary *infrastructure*, for example equipped venues, optical-fibre connections, a wireless internet connection, a common space which enables them to become well-known, conference rooms and auditoriums; on the other hand, they offer access to the qualified services that well-established startups share, for example advanced training for the future class of entrepreneurs with managerial skills, coordinated promotion and marketing initiatives, the examination and administration of integrated projects, shared databases, agreements with credit institutions, the opportunity to use research laboratories and technological platforms. For all these reasons, incubators and accelerators can offer the necessary support in a startup's launch stage, thus making the first stage of its life-cycle less complicated and increasing its chances of success.
Lastly, two types of incubators and accelerators exist. On the one hand, there are specialised incubators and accelerators, the aim of which is to become poles of excellence in their respective sectors or for specific products. On the other hand, there are non-specialised incubators and accelerators which prefer to bet on cross-fertilisation.
Nowadays, in Italy, many facilities claim to be accelerators and incubators (specialised or not), when in fact they offer completely different services and support in terms of competencies,

resources and quality.
In some cases, such facilities have great venues and good management, but they do not really know what a startup's life-cycle looks like or what it takes to set up and develop such a company.
Yet in other cases, incubators and accelerators really can represent a great added value and are able to achieve their goals. They have all it takes: the right venue, the right technical and management structure for the company to grow, connections to universities and research institutes, laboratories and machinery (if they are needed in the startup's activity), connections to sponsors and, lastly, connections to venture capitalists, investors, large enterprises, which are useful to achieve structural growth and for different exit strategies.
Between these two extremes there are, of course, a number of incubators and accelerators which offer different services and different quality.
Everything that has been said so far makes us think that, in order to benefit from support measures, accelerators and incubators should possess the key features that are necessary to offer startups the right support.
One important requirement is that startups are present in these incubators and accelerators and that the latter collaborate with (some of) the players in the startup environment. Therefore, accelerators and incubators need to have a track record with which they guarantee that what they do is not a scam, that they really do play an active role in the chain of players that accompany and sustain startups.

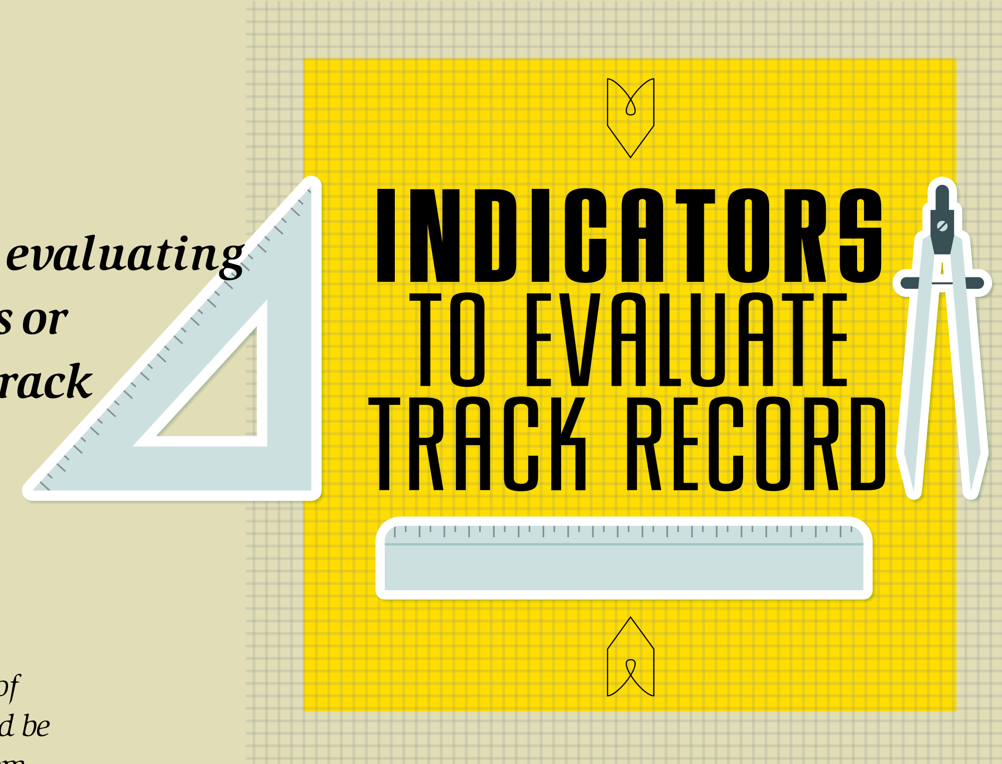
II.2.2.1 CERTIFIED INCUBATORS AND ACCELERATORS

We have seen that incubators and accelerators are startup "facilitators" focused on the launch and growth stages of innovative businesses, on the selection of the projects, the teams of founders and and the first partners. They focus on a startup's development, educating and helping its founders on important aspects of business management and the business cycle. They inform investors about the new startup and often directly invest in the company themselves. They contribute to the establishment of startups, offer operational support, provide the right venue and working instruments. They support new entrepreneurs in setting up the company, offering them the help of mentors and specialised consultants.
In order to be as efficient as possible in offering support to innovative businesses, an incubator or accelerator needs to have *all* of the following characteristics:
____**Legal status** – it must be registered as a company with share capital.
____**Venue** – it must have suitable infrastructure to host a startup (also in terms of buildings) and areas where to set up experimental equipment, carry out tests and research.
____**Facilities** – it must have the right facilities and/or equipment for its field of activity/specialisation: internet connections, conference rooms, machinery for tests/prototypes.
____**People** – it must be managed by experts and offer permanent technical and management consultants to startups in all the stages of their development and growth.
____**Network** – it must have continued relations with universities, research centres, public institutions and financial partners that could contribute to the startup's development.
____**Track record** – it must be able to prove that it can carry out its mission; hence it can host and accelerate a startup. The indicators that are used to evaluate, whether an incubator and accelerator is fit for purpose are listed below (*Table no. 17*).
Another important requirement for the people who are moving somewhere is certainly the **attractiveness** of the location where incubators and accelerators are to be set up in terms of touristic spots, quality of life, logistics and means of transport.
If all these requirements are met, this Report considers the incubator/accelerator to be certified. Hence, it is included in the general ranking of incubators and accelerators in Italy.

Table

17

Indicators for evaluating an incubator's or accelerator's track record and performance



Hereafter there is a list of indicators which should be used – all or some of them – when "certifying" the incubators and accelerators which want to benefit from the concessions included in this Report.
These indicators allow to measure the "track record" criterion, i.e. the work carried out by the incubator or accelerator to the present day. Nevertheless, these indicators could also be used to measure an incubator/accelerator's performance and therefore to monitor the quality of the work an incubator/accelerator will carry out in the future for the startups it hosted.
The indicators are the following:
____the number of applications received in a year;
____the number of startups launched/hosted in a year;
____the "survival rate" for companies which were created in the incubator/accelerator;
____the number of startups which left in a year;
____the "survival rate" for companies which left the incubator;
____the total number of people (collaborators and staff) hosted;
____percentage of variation of the total number of people employed in comparison with the previous year and reasons for it;
____the number of occupied workstations;
____the average growth-rate of the turnover of hosted companies;
____the amount of venture capital raised by hosted companies;
____the number of patents registered by hosted companies (taking into account the sector to which a startup belongs).

II.2.2.2 SUPPORT MEASURES FOR INCUBATORS AND ACCELERATORS

Our proposal in relation to the incubators and accelerators that meet these criteria and are therefore “certified” is to **extend some of the concessions startups can benefit from to these incubators or accelerators as well.** In fact, incubators and accelerators *enjoy the same treatment of startups, as if they were startups themselves.*

Concessions are related to the following aspects in particular:

____**administrative and bureaucratic simplifications.** For example (a) make it easier to obtain permits; consider investments the incubator/accelerator makes in housing, works to enlarge its venues or investments that encourage economic activity as investments of public interest; (b) delegate the power of local entities and State bodies to issue permits to the mayor of the place in question. This measure can be contravened if a motivation is given. Any request from the incubator/accelerator related to its activity in support of startups must be dealt with within a period of 15 days in any case;

____the possibility to **request and receive guarantee from the Central Guarantee Fund,** as stated in *Table no.16* with regard to startups;

____**tax concessions,** proposals to pay VAT and IRES (the Italian corporate income tax) based on real cash-flow; tax relief on IRAP (the Italian regional company tax); tax relief on work relationships;

____**host for equity deals,** whereby the incubator/accelerator can receive the startup’s shares in exchange for the services it offers. This type of payment is exempt from taxes;

____**the matching of investments,** whereby the incubator or accelerator that makes a seed investment in a startup that *they* “incubated” or “accelerated” can obtain a co-investment either from one of the venture capital funds which have access to the resources of the Fund of funds or from the seed capital Fund. This is done by means of an easy and quick due diligence procedure.

A startup was set up to realise a new innovative business project. It has started to grow, the first stage is over. What now? Gradually it becomes clear whether the business project is a successful one or it has considerable chances of success

in the short term, or whether, on the contrary, it did not convince the market and, for a series of reasons, is failing to achieve its main objective: to create a new innovative service or product.

III.3.1 EXIT STRATEGIES

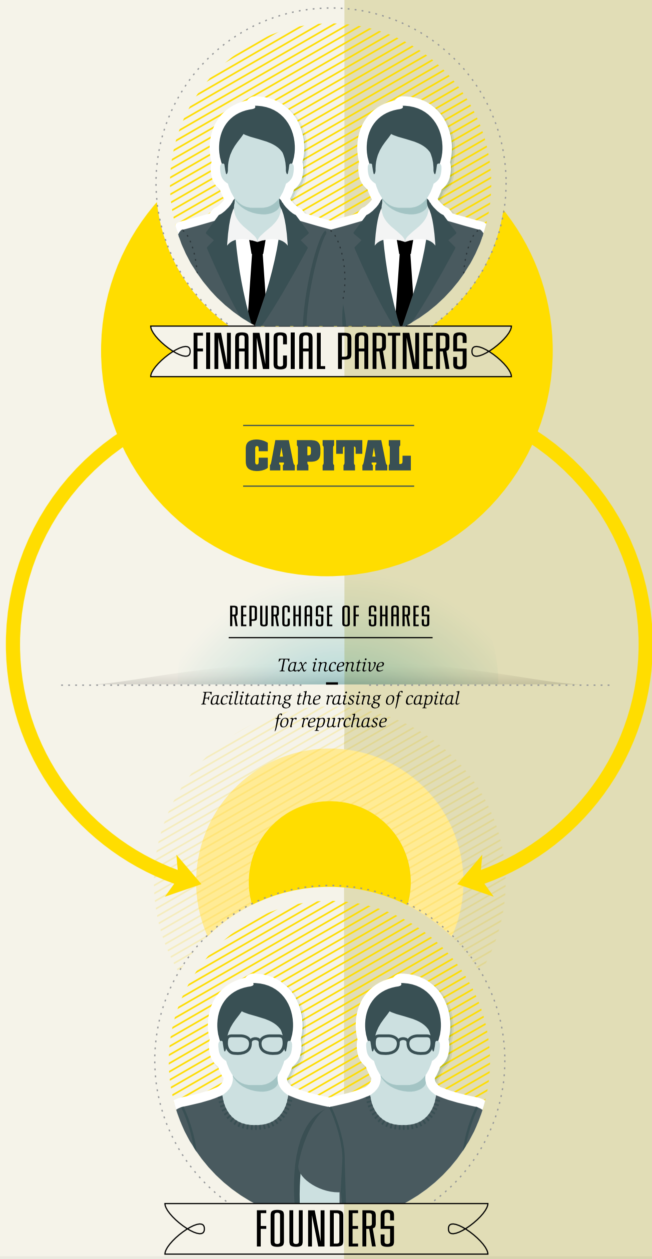
If the startup is successful, different possible scenarios exist – in jargon they are called "exits".
A normal development is one in which founding partners decide to continue their entrepreneurial adventure. If they have financial partners (an incubator or accelerator, business angels, venture capital funds) which took part in the project in the first months of a startup's life, they pay for the shares owned by the partners in an attempt to re-purchase all of the company's shares. This is done by means of a management buyout, an operation with which the founding partners regain total control of the startup.
There is then the second option. The startup has convinced the market and is bought by an enterprise or a financial entity which sees the startup as a possibility to gain added value. By purchasing a startup, the enterprise gains in terms of innovation, research and development. The startup might have also been bought just to increase the company's profits.
Lastly, there exists a third option: listing the company on the stock exchange. The startup has proved to be based on solid foundations and decides to be part of the capital market in order to find additional funds that would allow it to reach its full potential.
In Italy, all three exit strategies are difficult. In fact, for each of them there are limitations in the system which is currently in place. The first exit strategy will encounter considerable limitations in relation to the availability of borrowed capital which could sustain the founders' re-purchase. As for the exit strategy where the startup is bought by another company, the main problem is that industrial groups do not consider the purchase of a startup to be a smart move with which to make their business grow and strengthen it. In the exit strategy linked to the listing on the stock exchange, the main limitation is the high cost of listing and the lack of liquidity in the segment of the market dedicated to SMEs.
What can be done, to facilitate and encourage these kinds of exit strategies?
The **repurchasing of shares by the management or the founding partners** is a move which is often undervalued, yet it is one of the liquidity events that increases the investors' capital.
Although this exit strategy is (generally) less profitable in financial terms in comparison with an acquisition or an IPO (the listing of a company on the stock exchange), repurchasing shares has the advantage of freeing invested capital, since it results in the founding partners owning all of the company's shares. Consequently the founding partners can capitalise their own company without incurring dilution.
The repurchasing of shares – also known as Management Leverage Buyout (MLBO) – usually happens in two ways: (1) by means of a financial leverage on future cash flow that the company will generate (a repurchase strictly speaking); (2) by means of the support from a third-party investor (a private equities fund or other) which assists the team that carries out the repurchase; this operation does not return all the capital to the founding partners or associates, but it allows for the repayment of previous investors and it limits the increase of active partners. These can arrange the operation together with the fund.
However, these kinds of operations are not very common, because it is difficult to find the capital (both borrowing and venture capital) to start the operation. This problem, in turn, has an impact on the "risk profile" (i.e. guarantees they need to give) of the entrepreneurs who are interested in repurchasing shares and limits their financial capacity. Consequently, such investments are not very attractive for investors (especially not for those who must get fixed returns).
We have two proposals aimed at incentivising and facilitating this type of transactions.
Firstly, a total exemption from taxation of the capital used for MLBO transactions aimed at startups, if these transactions are initiated by the startup's founding partners and/ or senior employees whom the market cannot reabsorb for different reasons (e.g. because they are temporarily unemployed and are seeking a new post or because they are redundant). In any case, such operations must always be initiated by natural persons.
Secondly, public support for raising the liquidity that is necessary to carry out the transaction and a parapublic system (credit guarantees consortia or a pool of banks that make a standard offer) to sustain the financial leverage of the operation (which should always be carried out following a business logic and never for speculative purposes).
See below for details *(Table no. 18)*.

Table

18

Repurchasing shares

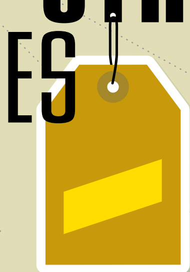
REPURCHASING **SHARES**



The repurchasing of shares by a startup's founders is, to all effects and purposes, an exit strategy for early-stage investors. It involves paying for the shares owned by the partners, freeing invested capital. As a result, all of the company's shares are returned to its operating partners (or their dilution is prevented).
The proposals aim to facilitate this transaction by acting on two fronts:
1__making the transaction more attractive by means of a tax incentive (e.g. by introducing a full tax exemption for possible costs related to the capital itself) or putting on the same level the capital used for MLBO transactions which are aimed at startups and the capital invested in a startup by private investors. In this last case, all the benefits mentioned in Table no. 13 – or possibly even greater ones – would apply to investments made by private individuals who already are the company's associates;
2__facilitate the raising of capital for repurchase:
__the Central Guarantee Fund will include repurchasing transactions in the Fund's Special Section for guarantee and counter-guarantee operations as defined in Table no. 16;
__setting up a system for repurchase transactions from para-public funds (Italian Strategic Fund).

As far as the second option is concerned, the **acquisition of one company by another**, it should be kept in mind that the acquisition of startups is one of the biggest problems of the Italian market. The lack of a mergers and acquisitions culture (M&A), is one of the main reasons why the Italian market is not very attractive for investors, be they Italian or foreign. This can be explained by saying that big Italian companies usually do not consider an acquisition to be a valuable opportunity for the company's growth, when in fact, it could give the company new impetus and new energy, as well as a renewed business spirit.
What can we do to encourage the development of M&A culture? Our proposal is to make acquisition more attractive by means of **tax exemptions** – not only on investments, as already suggested in Section 2.1.2, but also on ***acquisitions* of startups by other companies.**
If we want startups to become an important part of the productive sector in Italy, it is important that we involve traditional Italian companies. A connection between startups and medium and big enterprises, would help startups to reach the "point of no return" and access bigger and more stable markets.
At the same time, this incentive would give traditional companies an alternative way of investing in R&D – an undoubtedly more flexible one in comparison to the traditional way. Instead of having to create or boost research activity within their own company – or having to give up on it if such activity cannot be justified with sufficient economies of scale – traditional companies could have a look on the market, check which companies in their sector focus on innovation and buy a startup.

ENCOURAGE **THE ACQUISITION OF STARTUPS BY OTHER** COMPANIES



Table

19

Encourage the acquisition of startups by other companies

In a 100% acquisition of a startup's capital, 50% of the investments made are exempt from taxation. The tax incentive is revoked if the company is sold off to a third party within two fiscal years from acquisition.
The tax incentive applies to companies that buy startups which have been established within the past 48 months. The acquisition of capital can be gradual, but in order to benefit from the tax incentive in question, the company should complete it within 48 months.

The third option is **listing on the stock exchange.** This exit strategy is clearly the one that most increases the startup's value. This is because, if a startup is listed, entrepreneurs will receive financial resources, which will then be invested again. In this way, the company gains in financial terms, but also in terms of its skills and credibility.
Furthermore, with the listing on the stock exchange, the private investments made in the various stages of support to startups are capitalised. These investments are necessary to make the asset class of reference attractive in comparison with other types of investments.
In Italy, there are different markets (e.g. Nuovo Mercato, Expandi, MAC, AIM Italia) that give small and medium-sized enterprises the opportunity to be listed on the stock exchange. However, there has never been sufficient critical mass in order for this mechanism to run smoothly, regardless of the usual stock-exchange fluctuations.
The proposal in support of this last exit strategy, **listing on the stock exchange,** includes a reduction of listing costs, measures to improve the system of international promotion of listed startups or those about to be listed and measures to support the liquidity of listed shares.

Table

20

Encourage listing on the stock exchange

The proposal's key elements:

1___Incentives in terms of listing costs

____After the startup has been listed for at least 24 months, listing costs are deducted by 100%;

____A symbolic flat fee applies to listing in the first 24 months.

2___The international dimension

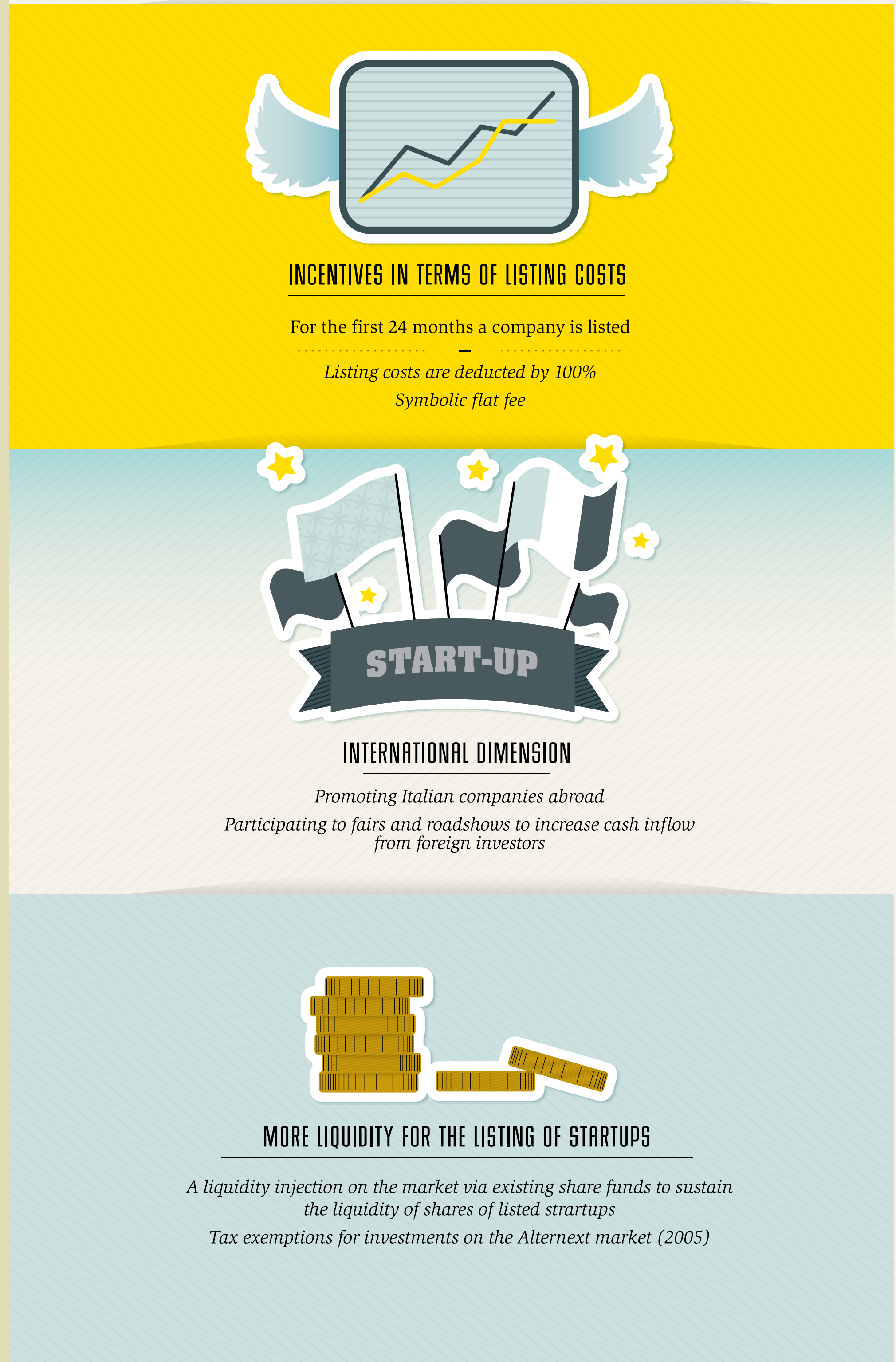
____Strengthen the participation of listed startups (and those about to be listed) in road shows and fairs that can result in greater cash inflow from foreign investors. This is achieved through collaboration between the Italian Stock Exchange and the Italian Trade Agency[14] (new ICE).

3___More liquidity for the listing of startups

____A liquidity injection on AIM and/or other regulated Italian markets via existing share funds in order to sustain the liquidity of equities of listed startups for a period of one or two years at least. This could be achieved by resorting to existing funds, which the Cassa Depositi e Prestiti[15] would capitalise with funds earmarked for the purchase of shares of newly-listed startups.

- Draw on the French system of concessions for investors, which aimed to expand the Alternext market (2005). This system provides for tax exemptions on capital gains of institutional investors – in particular private equity investors – who chose to transfer shares on the Alternext market as an exit strategy. The system also provides for a 25% deduction for professional investors who invest in SMEs listed on Alternext up to a total amount of 20,000 euros (40,000 euros for groups of two people). In the Italian system, the regulation concerning tax exemptions on capital gains for investors in venture capital funds would be modified: (a) the tax exemption would be extended to legal persons, so that professional and institutional investors (e.g. social security investors, foundations, insurance companies) would also benefit from it; (b) the target companies' characteristics which make vehicles and mandates eligible would be extended, so as to include Italian small and medium capital companies.

ENCOURAGE LISTING ON THE STOCK EXCHANGE



Lastly, **startups with a focus on the social dimension** (as defined in this Report), have particular needs in the exit stage. For this reason, it is useful to envisage additional ad hoc measures.
Difficulties related to the funding of social startups persist throughout their whole life-cycle. Hence, they affect a company's exit stage too. The questions we have to ask ourselves are the following: how can an investor liquidate his investment after some time? To whom can he sell his share? The risk that the investment, although still profitable, "gets stuck" due to the lack of potential buyers, clearly exists. This risk might be the main reason why investors are reluctant to invest in social startups.
This is why we propose to create a capital market just for social startups – a **Social Stock Exchange.**
The idea of a Social Stock Exchange arises from the realisation that there is widespread and growing demand for goods and services of high environmental and social value. This market, which is potentially much bigger than just a niche, can be better covered by entities which are not only interested in profit. In fact, profit maximisation is clearly in conflict with the types of goods and services offered, also in terms of the interpersonal relations involved.
The Social Stock Exchange is thus conceived as an additional opportunity. Its aim

is not that of replacing the traditional stock exchange, but that of complementing it. It was designed specifically for enterprises that have different terms and conditions in comparison with ordinary companies and therefore need to have specific structures. In this sense, to be listed on the Social Stock Exchange may be one of the natural exit strategies available for social startups, since it will have a positive impact on price on the "ordinary" stock exchange.
The idea of creating a Social Stock Exchange is not a new one, neither in Europe nor on an international level. Similar bodies already exist in some particularly innovative environments. Thanks to an investment from the Big Society Investment Fund, a Social Stock Exchange was officially established in the UK, although it is still a work in progress. In Brazil, on the other hand, the *Bolsa de Valores Sociais* has been operating for some time now.
In Italy, a similar initiative could be carried out thanks to the collaboration between *Borsa Italiana* (the Italian Stock Exchange) – which would be the entity actually administering the market and the interlocutor of the supervisory bodies – and a promotion company, which would help to match supply and demand.
On the side of demand, there would be social startups, as well as other social entities. On the side of supply, there would be a large pool of socially responsible investors. Not donors who give money and do not expect neither the return of invested capital nor to receive interests, but private individuals and institutions (e.g. foundations, religious organisations, banks, funds) that do not mind having lower financial returns, because they know that their investment has social and environmental benefits which can be measured and verified.

Table
21
The Social Stock Exchange

The proposal's key features:
____Borsa Sociale (the Italian Social Stock Exchange) is created thanks to the collaboration between an existing investment company (e.g. the Italian Stock Exchange) – which is the entity actually administering the market and the interlocutor of supervisory bodies for all regulated activities – and a promotion company, which would help to match supply and demand by encouraging startups to get listed on the stock market and investors to pursue securities trading.
____Although it is unique, Borsa Sociale is a financial market to all effects and purposes: transactions involve securities that are either shares of companies or debt securities (bonds). The entities issuing bonds can only be companies with specific characteristics in terms of capital and governance. Other entities (foundations, associations and the like) cannot be listed. They can, however, set up vehicle companies – or consortiums, if their size does not allow them to create an ad hoc instrument.
____The companies which are to be listed need to provide proof of their social and environmental impact, both on the first listing and thereafter, periodically. They should provide all the information required by a system of evaluation designed for this purpose. This should be clearly stated in the listing rules.

III.3.2 IF A STARTUP DOES NOT GET OFF THE GROUND: LIQUIDATION, BUSINESS CONTINUITY, FAILURE

Certain startups never get off the ground. In this case, the best thing to do is liquidate them, in order to then make a new start with a new business idea. Then there is also the risk of a startup failing.
To shut up shop is not a bad thing. It is not bad in general, because, by definition, running a business involves risks. It is also not a bad thing for startups, if we take into account how new and fragile they are. Moreover, startups focus on innovation – a field in which there are many uncertainties. Therefore, it is not surprising that the "startup mortality rate" is high.
What *is* surprising – also to foreigners who would want to invest in Italy – is the fact that in our country not only it is difficult to set up a company, but it is even more difficult to close it down.
In Italy, a company's liquidation procedure is long and complicated. Moreover, bankruptcy regulations punish entrepreneurs whose companies go bust – and we are not referring to cases where there was a criminal offence. As if failure were an offence that could not be forgotten.
Therefore, it is absolutely necessary that we build on what the Italian Government has already done recently.
It is important to encourage the founder of a startup to leave the past behind them and look to the future. It is important that they have the time to learn from past mistakes and that they do not have to spend all their time dealing with never-ending administrative or judiciary procedures, as is

the case today. We have to make sure that bankruptcy does not stop people from making new plans for the future and setting up new businesses.
What concrete measures can be taken to improve the situation?
Closing a failed startup can become easier and quicker – regardless of whether it failed for "physiological" or "pathological" reasons (in this last case it has to undergo bankruptcy proceedings).
First and foremost, it would undoubtedly be useful to **speed up the startup's liquidation procedure,** thus avoiding having to wait forever, as is often the case for very small businesses.

LIQUIDATING A STARTUP QUICKLY

Table

22

Liquidating a startup quickly

Liquidation proceedings are often excessively long. One such case is, for example, when the company is involved in an ongoing litigation and, as a result, it cannot close the financial statement for liquidation purposes.
In order to speed up the liquidation process, we would need to think of a procedure which repeals in part liquidation regulations of limited companies (articles 2484 to 2496 of the Italian Civil Code).
This procedure needs to provide for the following measures:
1__the startup's founder (or a person chosen by them) is automatically nominated as liquidator;
2__the financial statement for liquidation purposes (art. 2490 of the Italian Civil Code) is simplified considerably (e.g. it is a simple assets and liabilities statement);
3__the company is cancelled immediately after the simplified financial statement for liquidation purposes (see point 2) has been filed at the Chamber of Commerce;
4__the company is exempt from expenses related to the Chambers of Commerce and/or other costs related to liquidation;
5__the maximum time-frame for completion of liquidation procedure is 60 days – if creditors do not include the Italian State or the company's employees and if their credits can be liquidated within this time-frame with readily available resources or directly with the company's assets (without first having to sell the assets and then distribute them);
6__creditors and dissenting associates – excluding the Italian State and the company's employees – cannot contest the financial statement (except in case of offences);
7__the liquidator is exempt from personal liability (except in case of offences).

Secondary, it is important to **ensure business continuity** and simplify the liquidation procedure of a company which, however, has interesting elements that can be put to best use.
It is important to ensure business continuity in all those cases where, despite all the difficulties, the company still possesses some "healthy elements". These situations are somewhere between liquidation and bankruptcy.
Such business continuity is in line with the idea of "fail fast". In fact, it is an operation that the startup's founder *can* (they do not necessarily *have to*) carry out if they think there are parts of the startup which could be "saved" and put to best use. Going bust would not only be negative in itself, but it would also mean losing valuable elements like source codes or molecules. In any case, business continuity does not prolong the overall time frame – provided that the simplified procedure is adopted, whereby the Court is replaced by an expert and creditors (if there are any "ordinary" creditors, for example clients or providers) cannot contest the state of affairs.

BUSINESS CONTINUITY? 'S EASY IF YOU ARE A STARTUP

Table

23

Business continuity? It's easy if you are a startup!

Our proposal is to put in place a simplified system, a kind of business continuity arrangement, to facilitate the liquidation or closing-down procedure of a startup which has problems, but which still possesses some business elements or assets of interest that could be put to best use (e.g. intellectual property). In some cases, this system could facilitate a kind of exit (this might not be very profitable but it is a better option than failure) by means of the selling of assets (i.e. by selling off part of the company).
Nevertheless, in the case of startups, this business continuity arrangement – which has been conceived for bigger companies – should be simplified.
In particular, we could draw inspiration from the recently approved reform concerning the arrangement with creditors and business continuity.
Our simplification would provide for the following:

(i) that the arrangement is approved by an auditor and not by the Court (see point 2). This auditor supervises the company's founder in the process of liquidation of assets; (ii) the company has the possibility to apply for funding (under the supervision of the auditor mentioned in the previous point); (iii) creditors (excluding the Italian State and the company's employees) cannot contest such possibility (except for cases of offence).

Lastly, it is necessary to **eliminate any consequences the declaration of bankruptcy could have for the person at the head of the business.** This is already happening in the US, where failure in itself does not result in any limitations, unless it was related to offences. In Italy, on the other hand, if the owner of a startup fails, he has very few chances of ever doing business again.
In addition, we should provide for an ad hoc mini-reform of bankruptcy procedures that would **simplify and speed up bankruptcy procedures for startups**, since the startup's founder himself would be appointed liquidator.

Table
24
Failing is not the end of the world!

1. Fewer consequences for those who go bankrupt

____As far as a company's bankruptcy or examination procedures are concerned, it is necessary to eliminate all the consequences that these could have on private persons and/or members of the administration board of a failed startup, who did not commit offences. Currently, companies which are declared bankrupt (or their directors) have a number of obligations and restrictions which clearly influence their ability to do business after bankruptcy has been declared.

____In particular, we should aim to eliminate the consequences of a declaration of bankruptcy with regards to the following aspects: (i) access to credit or stricter conditions to access credit (eg. the bankrupt entity must inform the Central Credit Register of the Interbank system about its bankruptcy); (ii) nominating the person at the head of the failed company as director, auditor, representative in bondholders' and shareholders' meetings; (iii) nominating the person at the head of the bankrupt company as receiver; (iv) access of the person at the head of the bankrupt company to certain professions (e.g. lawyer, tax consultant, etc.); (v) the person at the head of the bankrupt company being the contractor in public-works contracts (art. 38 of legislative decree no. 163/2006); (vi) the duty to inform the trustee about any change of domicile or residency (currently this is an obligation of the person who went bankrupt or of the directors of bankrupt companies; penal sanctions apply if this is not done, as stated in articles 220 and 226 of the Italian Bankruptcy Act).

2. The startup's founder becomes the receiver

____Carry out an ad hoc mini-reform only for startups, whereby the company's founder is nominated receiver.

____The actions of the founder-receiver are not supervised by the official receiver (giudice delegato) – who, according to current bankruptcy legislation is in charge of all bankruptcies – but by a professional registered in the register of auditors. This auditor is appointed by the President of the Association of auditors in the area where the company's headquarters are situated.

____The above-mentioned auditor only verifies the legality of the company's closure acts regarding its assets and liabilities entries. The auditor is paid according to standard rates set by the appropriate Ministry. The rates vary depending on the size of the company.

____If the auditor suspects that either the company or its founder has committed an offence – either prior to declaring bankruptcy or afterwards – he must inform the law immediately. If the law concludes that such suspects were justified, usual bankruptcy proceedings start and the offender is prosecuted if the offence was really committed.

____Similarly to what applies for cases of company assessments, the auditor, jointly with "the founder-receiver", is responsible for any damage in the case that he did not do his job properly. A similar provision, contained in the recently approved bankruptcy legislation reform, concerns the main duties of experts, who must certify deeds related to the company's activity and accounting).

____Special concessions (esdebitazioni - art. 142 of the Italian Bankruptcy Law) are automatically granted to the founders of bankrupt startups.
Startup founders do not need to apply for them.

These proposals aim to bring to the surface the company's problems within the shortest possible time. If bankruptcy cannot be avoided, these measures will make closing down a company easier and quicker. Indirectly, these measures aim to gradually change business culture in Italy. Such change would, in turn, encourage large numbers of people to get in the game knowing that losing is not the end of the world.
In Canada, *Admitting Failure* was created. It is a website where non-profit organisations can share stories on failed business ideas. As it can be expected, this initiative was opposed by many. In fact, admitting to not having achieved an objective or admitting to not having managed the company's finances well, is not something to be proud of. However, within a couple of months, *Admitting Failure* has contributed to creating a new perception of "failure" and the sponsors and donors of no-profit organisations started appreciating the fact that companies publicly admitted failure.
The situation in Canada – and, of course, in the US – shows that going bankrupt can become *normal*. In Italy too we are starting to realise that one can (and in some cases he *must*) go bankrupt. We now know that we can leave the past behind – without being ashamed of anything – and look to the future again.
We know that those who go bankrupt are not losers, but people who have learnt something.

Support measures II

Awareness 4

It is often said that Italian youths are lazy, they do not have any role models, they will not take on challenges and are not willing to learn or commit themselves to anything.
The truth is that most young people in Italy are merely lost.

They have no plans for their own future simply because no-one – neither family nor teachers nor the TV – was able to tell them what their future would be like. They keep being asked: "What do you want to do when you grow up?" and all too often they reply by saying the exact same things their parents would have said twenty or thirty years earlier: "I want to be a... lawyer, a doctor, an architect, a journalist, etc". They do not have the slightest idea of how these professions have changed in the last twenty years, as a result of global changes, both technological and social. Such changes resulted in many uncertainties, but also in many opportunities. Young people are therefore obliged to talk about what they *want* to do, without actually knowing what they *can* do. We have brought up a new generation of Italian people who are often not brave enough to follow their passion. This is because, in order to have a passion for something, we need not only talent but also awareness. Our young people, on the contrary, have very vague ideas on today's labour market and on the various professions.

This holds true for any career path, new and old alike. It also holds true for entrepreneurs. Italy lacks business culture outside its businesses. There is no wide-spread business culture that permeates the whole of society. Consequently, Italian sixteen to eighteen-year-olds think that being a farmer or a craftsman is a thing of the past; they think that entrepreneurship is something that concerns just few big families of industrialists. They do not realise that anyone can do business – on his own or with just a few friends – provided that he or she has the right spirit, is tough enough, has a good idea and is aware of the fact that it might be easier to succeed if they bet on innovation.

Young people are not the only ones who lack this awareness. It is a wide-spread phenomenon across the whole of the Italian society. Families, school-teachers, public institutions all lack awareness. The same is true for newspapers and TV that often deal with innovation and entrepreneurship as if it were something exotic, using anecdotes or interesting short stories. Innovation and entrepreneurship are never treated as key societal issues. There is then the need to raise the awareness of all the Italian people on these issues. For this reason, it is important to intervene on two fronts. On the one hand, timely intervention is needed to inform young people by means of direct action in *schools and universities*. On the other hand, a more general intervention is needed in order to provide better information, so as to make the people in *all homes and all offices* aware of these new opportunities and new potential. The whole country must become a favourable environment, where young peoples' ideas can take root and grow.

II.4.1. AWARENESS AMONG THE YOUNG PEOPLE

The first phase of intervention should be to increase the awareness of young people, so as to stimulate the interest and creativity of these so-called digital natives.

As for education, Italy still has a good reputation on an international level. Many of our high-school graduates, university graduates and PhD holders are regarded highly abroad. Why are we not able to make use of their knowledge on the job market? How can we achieve a greater interconnectedness between institutions and companies on the one hand and schools and universities on the other? How do we enable students to face the complex society they live in and combine the knowledge they have gained from books with opportunities on the job market? How can we ensure that they have different experiences – in school and outside school – that would teach them to take risks, show them how interconnected or "contaminated" different disciplines are and promote entrepreneurship? How can innovation become part of school and university education? How can innovation become a source of pride for a new generation of Italians and be part of any working environment, starting from the enterprise that will employ them or that they themselves will create?

In concrete terms, the two proposals that follow aim, firstly, to bring enterprises and innovation closer to young people in schools and, secondly, to support the creation of "contamination" venues in the vicinity of schools and universities, where there are no rules and new business ideas can be created. Places where multidisciplinarity is key and where university students can cooperate and create business ideas. Places that host players from the real business world who want to share their experiences with others directly.

The **first proposal** is to **run activities, programmes and initiatives that would help spread the culture of innovation and entrepreneurship to schools in Italy.**
(a) In Italy, half of the teaching staff is over 50 and fewer than 2% of teachers are under 35. This means that they were students themselves in the 70s and 80s. They were educated before the digital era. Although their age does not necessarily mean that they are not prone to innovation, we should help them improve their technological knowledge, thus enabling them to be the first to interpret our modern world. We need to help teachers keep abreast of the changes – new geography and new technology – in order for them to become our children's coaches, their mentors. So that teachers are not the only ones who ask questions, but that students too ask questions and receive answers that dispel their doubts. This is why it is important to **support teachers – offering them refresher courses and new ways of teaching the topics related to technology and business** – and their role as catalysts of the students' interest and creativity, and as intermediaries between the school and the world outside it. Teachers must be able to stimulate students and encourage them to be innovative. They must feel at ease with new technologies. This is why we want to invest in the competencies of teaching staff and offer review courses that will enable teachers to better understand their pupils and to draw up a syllabus together with these digital natives. These refresher courses might be held by experts in different fields, as well as by the students themselves.
(b) Our educational system is very often focused on teaching students to pass exams and obtain a mark. However, this mark does not always reflect the student's real potential and the skills acquired outside of school or university – the so called *soft skills*. The Italian way of teaching is one that rewards learning instead of creativity, repetition instead of problem solving. We should promote activities that encourage students to be creative, especially when solving complex problems. There are three things that could be done about this: (1) in addition to existing evaluation methods, **activities in schools should include business plan competitions and international science fairs.** For such activities to be adopted on a large scale, we need funding and competences. Thus, we need to involve companies and the Chambers of Commerce, among others. The resources provided – be they financial or in kind – should be subject to tax credit. (2) **Introduce innovative content and learning models in schools and universities, so as to stimulate the efficient use of technology for creating, launching and managing innovative enterprises.** We could even envisage a system for certifying appropriate teaching material that is particularly useful for startups. The certification could be issued by the school system itself and all its stakeholders. This could be done either via crowd platforms where participants could share teaching projects and discuss their impact, or via certification institutions similar to international institutions and prestigious universities where this system is already used. If we created demand for this type of certification and service, it would be easier for businesses to evaluate a candidate's aptitude for a given job. (3) All the universities offering economics, business and technology courses could introduce **a new type of dissertation.** Students could choose to finish their university studies as startupers: instead of defending their dissertation, they would do an *elevator pitch*. They would thus try to convince their boss about the validity of their idea in the time one usually spends in an elevator. If students were then put in contact with investors or companies, they could turn their projects into new innovative businesses.
(c) In order to strengthen the ties between schools and enterprises – especially in terms of developing professional skills, entrepreneurship and innovation – **entrepreneurs who stand out as innovators need to visit schools.** There already exist several projects, whereby entrepreneurs share their business experiences or professional models with the pupils of a class. However, these are sporadic activities, solely dependent on the goodwill of some associations and of single forward-thinking teachers. Moreover, schools in more disadvantaged areas, in which positive examples would be most beneficial, do not take part in such initiatives. Entrepreneurs, innovators and professionals should be encouraged to share their experiences with schoolchildren and contribute to adding "innovation" to school curricula – even by means of comprehensive systems on a national level. These kinds of programmes, activities and initiatives – barely outlined here – should be carried out nationwide and should not be dependent on the goodwill of individuals or on the resources available in schools. These should be large-scale systemic programmes. The people involved should be encouraged to be inclusive and share their knowledge. The programmes should aim to promote innovation and creative business culture by mapping the places that promote new projects, connecting and strengthening them, as well as by offering venues where such projects could be developed. Such initiatives should involve students, teaching staff, entrepreneurs, potential startup founders, the technological sector, opinion leaders and entrepreneurial organisations alike. In this way, platform would be created, where all these players could together and collect best practices and success stories related to creative business and creative teaching and become a collector of material related to innovation. Moreover, there should be promotional and ad hoc awareness campaigns in schools. Their impact should be evaluated using innovative mechanisms that involve the target audience as a whole: students, teaching staff and businesses alike.

The **second proposal** concerns the creation of a Contamination Lab, a place where students, researchers and young professionals working in different fields could meet and start putting their business ideas into practice. Unlike business incubators and accelerators, the ***Contamination Lab*** aims to create a place where business projects could be developed in a creative way. The initiative could be regarded as a "step back", since it aims primarily to build a network that allows to gather the human capital needed for highly innovative projects. The ideas put forward by a very heterogeneous group of participants, who operate in very different fields, are then selected and promoted with the help of experts in the field in question. Contamination Labs should be set up voluntarily in all universities. Moreover, they should receive a Quality Label from the Italian State, as well as its support - provided that they meet all the key requirements (see below, *Table no.25*). Contamination Labs would become cutting-edge places, pilot projects that – after a trial period - could be repeated in other universities too.

THE CONTAMINATION LAB

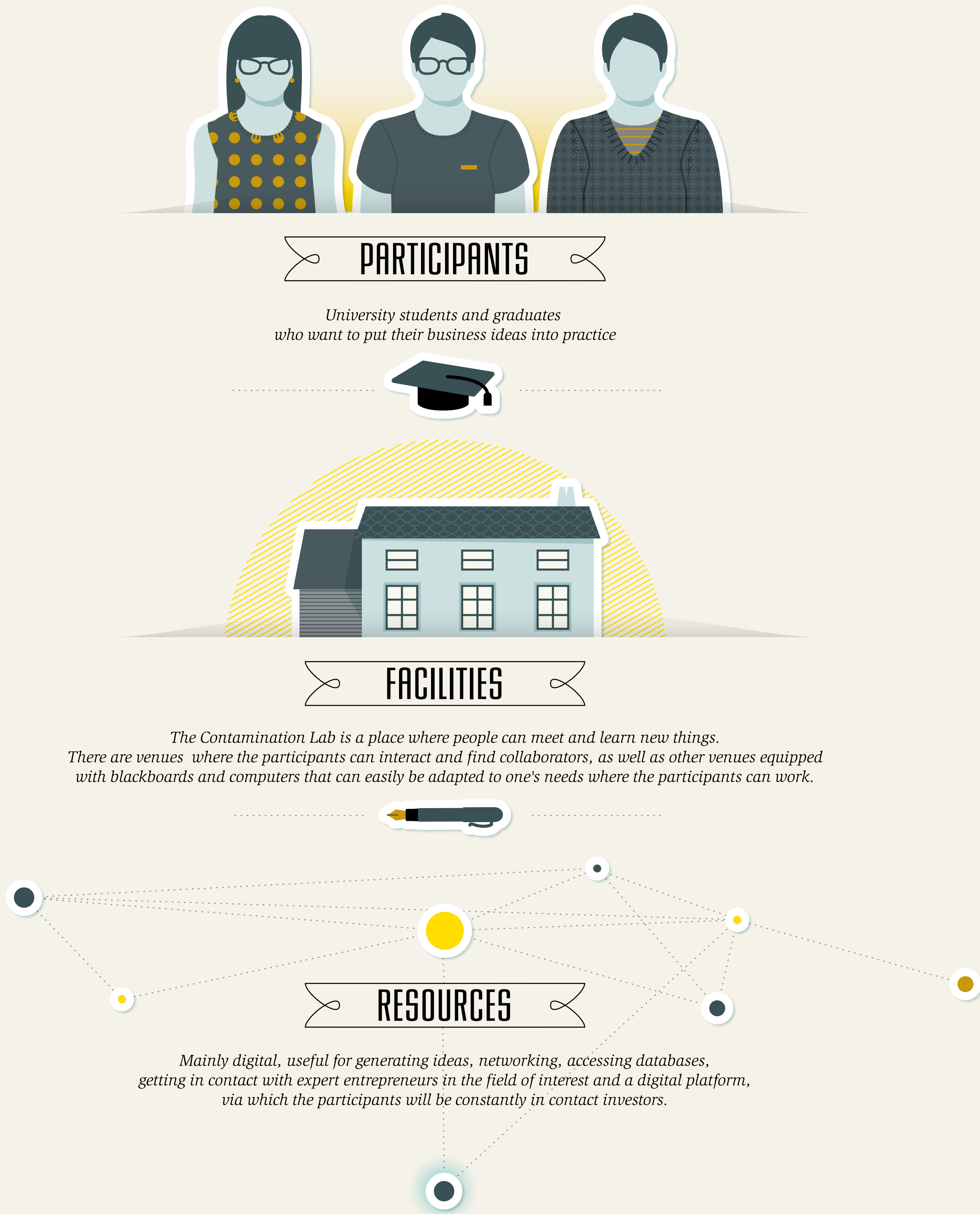


Table
25
The Contamination Lab

Participants	Facilities	Resources
The Contamination Lab's target audience are students and recent graduates in different fields: engineering, architecture, biology, agriculture, pharmacy, but also economics and law. The Contamination Lab is also open to anyone who wants to start a business in his/her field of expertise. To promote the initiative with students, the Contamination Lab will turn directly to Italian universities, but it will also try to involve young professionals via their a respective associations.	*The Contamination Lab is an organisation where people can meet and gain new knowledge. It consists of an informal open space where young people can interact and look for partners for their projects and of closed venues, equipped with blackboards and computers that can easily be adapted to one's needs. These spaces are used once the participants have found their partners.*	*The resources available to the participants of the Contamination Lab will be mainly digital. They will be useful for generating ideas, networking, accessing databases, getting in contact with expert entrepreneurs in the field of interest. A digital platform will be used, via which the participants will be constantly in contact investors. The latter will thus be able to follow the evolution of business projects and give the participants information on their own investment portfolio.*

III.4.2 AWARENESS AMONG THE GENERAL PUBLIC

It is not enough to educate and inform students. If we want Italy to become a country that promotes and divulges the culture of innovation and entrepreneurship, we need to intervene on society as a whole, not only on pupils and students. We should explain to families how complex the world of work is; explain to existing businesses that innovation can help preserving their traditions too; explain to the people that by definition innovation simplifies procedures and increases productivity.
A comprehensive cultural operation is necessary. One that generates wide-spread awareness of the great opportunities that can arise from using our skills creatively. This could

be achieved through a nationwide debate that would allow for some foreign concepts to be used in a new Italian context. Although the Internet is certainly an important medium to feed such a debate, we believe we should mostly make use of traditional media – seen how present TV is in all Italian households. The traditional media should be the primary instrument for reaching those people who are still excluded from the digital world.
The first proposal concerning general awareness is to **use the Italian public TV channel (RAI) to promote innovation and illustrate the possibilities link to setting up a company.**
Measures include:
Producing a reality TV show – with the same format as the BBC's *The Apprentice* – where a limited number of people, selected on the basis of their managerial skills and ability to innovate creatively – have ten weeks to show their creativity and skills as entrepreneurs and managers. Participants are eliminated throughout the competition. Those who make it to the end, can present their startup projects. The award at the end of the programme consists in co-funding the winner's business project. To demonstrate that such a format is not a niche product, let us just remember that the British version of *The Apprentice* (there exist similar versions also in the U.S., Canada, New Zealand and Ireland) is now in its eighth series, that it has resulted in spin-off programmes and that audience shares have reached peaks of 33% and 10 million viewers. Public TV should produce programmes that inspire young people who aspire to set up businesses, invent new technologies and become successful. We could draw inspiration from business competition models (another useful example, also taken from the BBC, is *The Dragons' Den*).
Moreover, public TV should feature **in-depth programmes on innovation.** It is imperative that a share of the programming on public TV be produced by young people themselves. These programmes should focus on innovation and they should be broadcast at peak viewing time. As for the selection of candidates, there could be a competition. Additionally, schools and universities could be involved in producing audiovisual content. This activity could either be a group activity or a competition and would allow the pupils to put into practice the knowledge gained in the classroom.
Lastly, **public TV should be the first to set an example** and enhance the use of new technologies in all sitcoms and entertainment programmes.

For example, those who play a major role in such programmes should use digital technology (banal as it may seem, mobile phones too are included in this category) to access different services or purchase products. Variety shows and contests should also encourage the use of SMS and of the Internet to involve the audience. To this end, a system for the "integrated" promotion of new technologies should be put in place. This could be achieved either by granting tax concessions to those media productions that promote the use of digital technologies, or by using these technologies both as a means of interaction (for voting, in surveys, etc.) and in the programme's content where they are used by the main characters.
The second proposal concerning general awareness on issues related to innovation and new entrepreneurship is to launch **a nationwide awareness campaign.**
The proposal consists in launching an online contest for the planning of the campaign, the title of which is: *"Startup, does it ring a bell?"* The contestants would receive votes from the audience and from critics. The winner would be the director of the promotional campaign. The winning project would be improved using other contestants' projects, so as to preserve the best ideas contained in each project. In terms of advertisement, the campaign would consist of some online advertisement, publicity in the media (both social and traditional) and in the various regions. We hope that people will emulate role models and that the campaign will gain visibility thanks to testimonials from players who will tell stories of successful startups. Town councils and media companies could give free advertising space to the campaign.
If we are able to create a new culture in our country, a culture based on a new collective awareness and equipped with new instruments to educate and spread knowledge, we will have contributed greatly to avert any prophecy on the lost generation. If we can help young people to understand the world they are going into, the opportunities it offers and how to take them, if we can explain to them the deepest meaning of the word "innovation" the importance of taking risks and believing in themselves, if we can give them the **confidence they need to try to turn a passion into an idea and an idea into a project,** each of them will have better chances to be able to do what they want to do in life and follow their dreams. Not only that. As a group, young people will make deep changes in our country. Making it more dynamic and energetic.

III Regions

III Regions

1 This is not an annex

The various measures put forward so far aim to make up for the time lost in our country and putting in place a series of instruments that will facilitate the creation and growth of new entrepreneurial adventures based on innovation. The measures we have put forward

are policy proposals – proposals that intervene on the level of administration, taxation and labour law, and which grant benefits to businesses. These proposals require normative interventions from the side of the Italian Government and Parliament.

We think that all this is absolutely necessary, but at the same time it is not enough.
In order to give the country a real wake-up call, *all regions need to act in support of startups*. This should involve various players, from the public and the private spheres and there should be commitment from all the levels of government.
We want as many regions as possible to create the best possible conditions for the setting up, the localisation and the development of startups with a high potential for growth. This should be achieved by drawing inspiration from other success stories or by making the most of unexploited resources and potential.
All this is a necessity for startups and a unique opportunity for the regions. This is why it should be made an absolute priority, one that complements other measures mentioned previously.
This section is not an annex to this Report.

III Regions

2 The needs of startups

The most successful startups only need a few years to conquer the global market, but each of them started off in one concrete place. Their first location played a really important role in the most delicate stage of their life-cycle. This location – a valley, a city, a renovated area – becomes the most important factor in ensuring the success of a startup. This is exactly why some places have become very famous for their ability to attract these enterprises of the future.

Startups are not like any other business.

On the one hand, they have needs that are typical of small or very small new companies. They need low-cost working places, tax concessions and need to be free of the burden of all the bureaucracy and time-consuming administrative steps that might trip them up.

On the other hand, they have needs of more mature, medium and large businesses that have the potential for rapid growth. They need a communication infrastructure, strong connectivity, staff with technical competences of a very high level, as well as the services and tools to access international markets.

For many startups, the connection to the place in which they operate is even stronger. In sectors like biotech, pharmaceutical, the agricultural and food

industry, nanotechnology or neuroscience, access to laboratories, workshops, places in which it is possible to experiment with the help of technology and new equipment, is of a strategic value and it is indispensable for the development of a new business idea.
This explains why startups are often not spread out evenly, but rather concentrated in certain geographical areas.
Startups are not just companies. First and foremost they are ideas, projects, the promise of innovative business. They need friendly locations, regions where they can find everything they are looking for. They also need other startups (and other players in the field of innovation) with whom to collaborate, exchange ideas and "contaminate" each other. They know that the environment they develop in is a decisive factor.
Consequently, they are looking for the best possible environment; they choose it. If the environment they started in is favourable, they stay. If not, they move elsewhere: to the surrounding areas (if they can find what they are looking for there) or, if need be, even to the other side of the world.
Regions can do more than just watch in this respect.
They can do more than just hope that sooner or later they too will host a startup and that startups will be set up *despite* the problems regions have when it comes to organising themselves in order to become innovation hubs.

3 An opportunity for the regions

Regions have no choice: if they want to develop, they need to take risks. Some have always done this. They have always taken care of their heritage, attracted investors or tourists and exported their most successful goods and services. Others are learning to do this.

If they want to get in the game of innovation, regions should also learn to welcome new ideas, to cultivate talents and learn to attract talented individuals from abroad: people with ideas, competencies, skills and business spirit.

In a knowledge-based society, it is increasingly easy for people – especially young people – to move. They know they can do research, work or set up a company in many different places.
Italy has all it needs – in terms of tradition, beauty, charisma – to become a place that welcomes global talents, a place to which it is worth moving in order to develop a business idea. As long as they keep trying to export their best ideas, our regions *have the unique opportunity to become the perfect place for setting up startups.*
But startup-friendly regions are not ordinary places.
They need to be *platform-regions:* efficient and interconnected in order to enable a new enterprise to connect with the outside world. They need to have clear rules, a limited number of bureaucratic requirements and a limited number of decision-making bodies.
At the same time, *they must promote innovation.* They must host startups and other players in this field. They need to be places where it is easy to settle, find partners and work in an open and friendly environment.
Let us remember that, in the *competition* ***between*** *regions,* the ones with the highest chances of winning are those who manage to *work together best* ***within*** *a certain region.*
All this brings us to the role of institutions: instead of being unfriendly entities in charge of authorising, they should become precious allies which enable things.
Which regions can take this opportunity?
Many. Regions that, over the years, have managed to be innovative, where companies and poles of excellence have been established, as well as other regions, the potential of which has not yet been tapped into enough. In any case, if these places want to take the opportunity, they should start from their own history and culture, from their productive talent, their own resources – be they visible or hidden – and their strengths. Therefore, they should start from their own specificity.
How can we encourage and help these regions to become friendly places for the establishment and development of startups?
We think we know the answer: **with a challenge.**
This challenge should mobilise the whole country and reward those places that present the best projects.
Whole areas should be turned into startups and work according to startup principles. Starting with an innovative idea, turning it into a project, creating a team, quickly finding those willing to support the project, working day and night to make it happen.

III Regions

4 A challenge for the regions that want to bet on startups

The Italian Government should challenge regions in order to stimulate their proactivity and their ability to design projects that would turn these areas into startup-friendly locations. This initiative is directed towards two kinds of places. On the one hand, it aims to help local startups which are already successful, by turning them into real international champions which others could draw inspiration from. On the other hand, the initiative offers support to those places that want to tap into their latent energy and invest in new innovative enterprises.

There is not just one way of doing things: creating a business environment is a challenge that involves a large number of players – both public and private – and requires every place to define its development plans.

WHO CAN PRESENT PROJECTS?
The body which presents a region's candidature – and which consequently is the body in charge of presenting the project – should be a local institution, preferably a municipality or a group of municipalities.
The place where the project will be carried out can be part of an urban area, of the outskirts of a town, of a land between two cities. It can be a close-by and clearly

marked-off place or a larger region. Whichever the case, the location should be clearly specified in the project.
The main pre-condition on the basis of which it will be decided how adequate different places are to host startups, is a region's ability to involve a vast array of players, both from the public and private spheres (universities, associations, Chambers of Commerce, existing enterprises, accelerators and incubators, sponsors) in one project. In doing so, the region will overcome possible conflicting interests and demonstrate the ability to pool resources and generate a critical mass.
The Chambers of Commerce can play a very important role in all this.
They should contribute to the general efforts and invest a large part of their resources in the setting up and development of startups.

WHAT DOES THE STATE CONTRIBUTE AND WHAT DO THE REGIONS CONTRIBUTE?

The regions should use the resources they already have (people, institutions, networks) and try to attract the resources they still need (new competencies, funds and investments), so as to create a large pool of resources. The idea is to take into account the specificity of each place and what each place has to offer, and use the resources available to create a local project with a global perspective.
The projects should be evaluated according to the ability of each region to achieve the following:
____enhance its own specificity by using innovation (by specificity we mean strengths, resources, existing infrastructure and particular features of a place); create or strengthen a local identity that might (or might not) be linked to the field of specialisation of the startups that are the region wants to set up;
____use the resources available to make a significant contribution to the total cost of the project;
____simplify and make viable (infrastructure, services, costs, bureaucracy); act as a platform, i.e. create connections within the region itself and with the outside world;
____involve a number of individuals in the project in order to stimulate initiative in the local communities; involve local players in the field of startups in drawing up a strategy and monitoring how the strategy is put in place;
____attract people from outside – "contamination" and diversity favour an innovative economy;
____involve talented people in the area in the project and promote the creation of a local community startup;
____attract private capital (from abroad as well) in order to add more funds to those already granted by national and local public institutions;
____plan to identify *one contact person for every project and set up a team that would carry out the project* (every place should have its task force of experts, rather than a group of people representing various interests on a local level).
What will the Government offer in return to all the places that achieve all this?
The Government will secure the allocation of the following resources and tools:
____*in terms of resources,* a fund for highly innovative regions will be created. This fund will be used to finance projects which favour the creation of startups (and can be realised quickly); the regions taking part in the project contribute to its overall cost with local and regional public financial resources. Moreover, regions should aim to attract private sponsors and investors. The contestants' ability to act as fundraisers of private resources is one of the main criteria for the evaluation of the project.
____*in terms of tools,* the Government devolves certain powers to the competing regions in order for them to reduce local bureaucracy and become "no bureaucracy" areas. Moreover, the Government helps these projects to become (self) sustainable in time. How? For example, by using tax reward systems for the development of startups. The region which demonstrates that its project has been successful, since it resulted in the establishment of new startups, should have the right to invest part of the tax revenues generated by these new companies in that same region.

THE NATIONAL PLAN FOR THE STARTUP ENVIRONMENT

The Government will create a **Fund for the startup environment** aimed at financing easy-to-realise interventions which represent a *quick* and *considerable* improvement of the regions's capacity to host startups and other players in the field of innovation, and which create an environment that encourages innovation.
The Fund is administered by a working group on startups which includes representatives of the Ministries directly concerned, of other State authorities, of the authorities of the Conference of Regions, of the Autonomous Provinces and of the ANCI (the National Association of Italian Municipalities).
Local institutions (especially municipalities or groups of municipalities), in collaboration with other public and private entities, can apply and propose projects which consist of various coordinated events.
For each project there must be one contact person and a team that will carry out the project (a task force for every contestant).
The evaluation and selection of the projects will be entrusted to internationally renowned experts (both Italian and foreign). These will make a decision on the basis of clearly defined criteria and by means of a peer-evaluation process.
If the project is approved, resources will be granted on the basis of a settlement contract, which defines the duties of the different public and private entities involved and simplifies intervention procedures.
The contract also stipulates the stages subsequent to the implementation of the project.
Moreover, it specifies that:
____State intervention is aimed at reducing administrative fragmentation by entrusting only one entity with the supervision of the project;
____the proponents and of the Government should ensure the rapid implementation of the project. In this way, the transfer of resources is turned into a real *seed investment that the State makes in the region.*
In case of inaction, the State withdraws its support and funding.
All of the settlement contracts make up the **National Plan for the startup environment.**
The latter consists of many pilot projects and demo areas that can be living examples of innovative and startup-friendly places.

Table

26

The National Plan for the startup environment

The tools

> A Fund for the startup environment;
> A national working group on startups which includes representatives of the following bodies: the Ministries directly concerned, other State authorities, the Conference of Regions, the Autonomous Provinces and ANCI (the National Association of Italian Municipalities);
> One contact person for every region/project and a task force for its implementation;
> A settlement contract for pro-startup areas;

The projects

The projects should state:
a__the region concerned and its features (presence of startups, players in the field, etc.);
b__the interventions planned (transformation, enhancement, activities to be carried out, education, opportunities for young people, etc.);
c__the efforts of the local administrations involved to reduce the tax burden, simplify procedures and reduce red tape;
d__a plan of necessary investments, both public and private, including possible co-financing of local and regional public entities;
e__a description of the proponents, including one contact person per application and information on the working group. The latter consists of various local players and renowned experts (one task force for every project);
f__the international dimension of the project in terms of attracting capital and competences;
g__a timeline including the interventions to be carried out and the results expected after every stage.

Who evaluates the projects and how?

Applications must be evaluated by a team of internationally renowned experts (both Italian and foreign), which are part of the startup environment. Evaluation must be based on a peer evaluation mechanism and must be in line with the principles of transparency, competence and international comparison which inspire this whole Report.
Experts evaluate the projects on the basis of the following criteria:
a__suitability of the team of proponents, as well as public and private entities with regards to achieving the objectives set in the project;
b__quality of the project proposal (clear objectives, coherence, allocation of resources, etc.);
c__the project takes into account the specificity of the region and its mission;
d__viability of the project (technical, administrative, economical, financial);
e__implementation time frame;
f__impact on the territory (e.g, renovation of areas/infrastructure no longer in use);
g__administrative and bureaucratic simplification;
h__follow-up: self-sustainability over time, also via tax reward mechanisms linked to the setting up of new innovative enterprises;
i__involvement of private capital;
l__involvement of key players in the field of startups – incubators, accelerators, venture capital funds – starting with those already present in the region;
m__ability to create and/or strengthen the development of local "community startups";
n__involvement of other places that have already implemented successful measures in twinning/tutoring projects.
The decisions of the commission in charge of evaluating the projects are detailed and motivated. A public performance ranking is elaborated.

Table

27

A Fund for the startup environment

A FUND FOR THE STARTUP ENVIRONMENT

Table

28

The timing of the Plan

Call for proposals:	*November 2012*
Project proposals to be sent by:	*February 2013*
Evaluation and selection:	*April 2013*
Signing of contracts:	*May 2013*
Work on projects starts on:	*1st June 2013*

THE TIMING OF THE PLAN

*As far as timing is concerned, the Government is going to take the following steps: launch the Plan for startups, receive the projects and select them, sign the contracts in order to start putting the projects into practice and, finally, intervene in the places selected by **spring 2013 at the latest.***

In order to further increase the number of people and organisations involved in the projects, the launch of the Plan is accompanied by: (a) a series of meetings on success stories and on the possible strategies to promote startups in the region (b) a platform where to illustrate the objectives and monitor the progress of the various local projects.

IV Evaluation

IV Evaluation

1 Evidence-based public policies

The proposals included in this Report all share a common aim: to increase the number of innovative enterprises in sectors of strategic importance for the growth of the Italian economy. The costs of some proposals are limited, while other could have a considerable impact on Government spending. It is therefore necessary to put in place **mechanisms with which to evaluate the proposals contained in this Report, so that their efficiency and their systemic impact can be verified periodically.**

Impact evaluation will be carried out by analysing factual evidence which will be collected over the period of time when startup support measures will be in place. Appropriate scientific methods will be used.

In order for the evaluation to be scientifically valid, we need to have a wide range of statistical information at our disposal which will allow us to use modern techniques – such as those widely used in many other countries – to carry out an "evidence-based policy".

In the US, nowadays, most public intervention programmes undergo a strict evaluation; in fact, evaluations are considered key for the Government to work efficiently.

In the UK, the Government is making every effort to include the evaluation of public policies in the administration's decision-making process.

It is not only important that we analyse; above all, it is important to take the results of the analysis seriously.

In the US, for example, the financing of public policies is increasingly dependent on the results of the evaluation process.

2 Measuring the impact of the new policy on startups

Since our ambition is to stimulate innovation in Italy, we suggest that, after the Italian Government implements the measures presented in this Report, we proceed to their **careful examination. The measures for which a positive effect – in line with the objectives outlined in the Report – cannot be demonstrated, might be suspended.**

In order for the evaluation to be as accurate as possible, we believe that the provisions whereby the measures included in this Report will be made law and implemented, should include **a financial statement entry for the creation of databases on the startup environment and for conducting analyses. The Italian National Statistical Institute (ISTAT) might be involved in this plan.** Lastly, the Government should ensure that the analysis is as objective as possible and that it can be used in public and scientific debates. To this end, the data used in the evaluation process should be made public and readily available.

Conclusions

A country is successful if it knows where it is going. If its citizens have prospects and are committed to building their own future.
A government can contribute to outline these prospects. It can do so by describing a vision and by taking the strong decisions needed to make this vision clear, concrete and feasible.
It is clear that no government can force its citizens to become innovative, to create new enterprises, to face the future with faith. However, a good government can eliminate the obstacles to innovation, it can facilitate the creation of new enterprises and it can stand by the side of those who look to the future with faith and those who build the future. The Government can help the whole country to deal with old outdated models and to rethink them; it can help the country oversee change.
In few countries other than Italy people have demonstrated that they can be competitive and innovative despite the burden that, throughout the years, the system has accumulated on their shoulders. It is time the Government did its part to get rid of the unnecessary difficulties which are in the way of innovators. Few countries need new opportunities for employment, growth and innovation of the system as much as Italy.
One thing is clear: employment, growth and innovation are closely linked to the creation of new enterprises. However, so long as incentives embedded in the system will favour the financially advantageous positions and the privileges that certain groups, which have asserted themselves in the past, have accumulated over time, innovation will always be at a disadvantage. Therefore, there cannot be any doubts about the right path to take. Our objective is to turn Italy into a really friendly place for the creation of startups.
Other countries have already adopted strong measures to this respect. If we compare Italy to these places, it is clear that our country is lagging behind when it comes to being a friendly place for startups. This does not only hold true when Italy is compared to the US and Germany, but also to Switzerland and Chile. The criteria used to assess a country's "friendliness" are usually the following: how easy it is to set up a startup, a favourable taxation system, the availability of venture capital, a cultural and organisational environment where everyone is aware of and enthusiastic about the social and economic contribution a new enterprise can represent. The measures other countries, which are more alert than Italy, have taken to this respect, have proven to be successful. They have helped to create the right environment for innovation and have attracted capital and talented people from abroad. As a result, many more new enterprises were created, which in turn contributed to greater employment, growth and productivity.

CHART OF MEASURES **IN FAVOUR OF STARTUPS**

	LAUNCH		GROWTH				MATURITY	AWARENESS	REGIONS
	Simplified establishment of business	*Pro-startup provisions of labour law*	*Direct public funding*	*Public (co)-investment in venture capital*	*Tax concessions for startups*	*Crowdfunding*	*M&A and investment incentives*	*Government business training initiatives*	*Specific programmes*
UNITED KINGDOM	🟢	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟡
GERMANY	🟢	🟢	🟢	🟢	🟡	🟢	🟢	🟡	🟢
FRANCE	🟢	🟡	🟢	🟢	🟢	🟡	🟢	🟢	🟢
SWITZERLAND	🟡	🟢	🟢	🟢	🟢	🔴	🟡	🟢	🔴
ISRAEL	🟡	🟢	🟢	🟢	🟡	🔴	🟢	🔴	🔴
UNITED STATES	🟢	🟢	🟢	🟢	🟢	🟢	🟡	🟢	🔴
CHILE	🟡	🟡	🟢	🔴	🟡	🔴	🔴	🟢	🔴
ITALY	🟡	🔴	🟡	🟡	🔴	🔴	🔴	🟡	🟡
RESTART, ITALIA!	🟢	🟢	🟡	🟢	🟢	🟢	🟢	🟢	🟢

🟢 *Favourable measures for startups* 🟡 *Some pro-startup measures exist* 🔴 *Lack of pro-startup measures*

If the Italian Government will be forward-looking and strong enough to take this path, it will stand by the side of key actors for the creation of new businesses: from research centres to those producing new technologies; from business culture networks to funding systems in support of innovative enterprises; from the media that witness this renewal to the regions, for which helping innovators has become a strategic mission.

We are aware that the Report drawn up by this Task Force is incomplete, in spite of being the result of the work of a very motivated group and of hundreds of contributions from experts in the field of innovation in Italy. We are also aware that this Report will be put to a real test only when the ideas it contains will be put into practice.

We firmly believe that our country has now been given a historic opportunity and it can achieve great things – provided that startups are not dealt with by making cosmetic changes to this or that law. And provided that we go by the pace of innovation and business making, not by the pace of bureaucracy.

Today we need to make an effort that is as big as our ambitions. Institutions – the Government and the Parliament, as well as regional and local authorities – must be brave and creative. They must understand that it is not possible to sustain innovation with a 1900s mindset, nor is it possible to promote innovation by making compromises.

Today the institutions and their leaders need to be just as "madly sane" as those who take risks, those who start doubting in their convictions. Innovators want attention and resources. But most of all they want institutions and politicians to understand what they are betting on.

Innovators are asking institutions, big enterprises, banks, universities, families and associations to take the risk with them. They have understood that it is useless to fiercely defend a position in society.

They have understood that nowadays there is no future without change.

To sum up, Italian innovators are asking the whole country to move in synchrony and be on the same wavelength.

To feel the same excitement they feel – and to act accordingly.

Not later. Now.

Annexes

Annex I What about other countries?

The grid offers a comparison of the main factors which favour the creation and development of startups in some countries considered to be reference models for the field of startups.
This grid was used to draw up the chart in the *Conclusions* section. The chart provides us with clear visual information on the situation in different countries, using "a traffic-light" model: *red* indicates lack of or insufficient pro-startup measures; *yellow* is used if some pro-startup measures exist; *green* indicates favourable measures for startups.
In the last two lines of the chart, we compare the current situation in Italy with the situation which might occur if *RESTART, ITALIA!* – the package of measures included in this Report – is implemented fully.

United Kingdom

LAUNCH	
Simplified establishment of business	The company is established online; minimum capital 1 GBP http://www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml
Pro-startup provisions of labour law	There are no measures in place specifically for startups. Competitive tax rates. Legislation does not provide for simplified employment contracts. http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	£2,500 individual loans for young people between 18 and 24 years of age (3-5 years, 3% interest APR) for business projects plans. The Enterprise Finance Guarantee (EFG): "lending scheme" secured by the British Government to facilitate access to credit worth from £ 1,000 up to £ 1 million. http://www.startupbritain.org/loans/ http://www.bis.gov.uk/efg
Public (co)-investments	Capital for Enterprise: a private law investment fund, which is fully supervised by the British Department for Business Innovation and Skills Since 2008 it has invested more than £ 4 billion; it currently has 1,2 billion assets under management. http://www.capitalforenterprise.gov.uk/about
Tax concessions for startups	Tax deductions on income, investment in R&D and sources of income apply, following a fixed system of income brackets. These are in inverse proportion to the income earned.
Crowdfunding	Different platforms already exist (e.g.http://www.seedrs.com/) but crowdfunding is not provided for by law.
MATURITY	
Taxation system and VC/M&A incentives	Enterprise Investment Scheme: deductions of up to 30% for investments of up to £1 million and tax exemption on capital gain. http://www.hmrc.gov.uk/eis/part1/1-2.htm
AWARENESS	
Government business training initiatives	Startup Britain http://businessinyou.bis.gov.uk/ http://www.startupbritain.org/
REGIONS	
Specific programmes	Tech Digital City (Newcastle). http://www.dcbusiness.eu/

Germany

LAUNCH	
Simplified establishment of business	Limited Liability Entrepreneurial Company ("Mini GmbH"), minimum capital of 1 euro. http://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/Establishing-a-company/company-forms,did=6338.html
Pro-startup provisions of labour law	There are no measures in place specifically for startups. Competitive tax rates. There are no simplified contracts. http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	EXIST Business Start-Up Grant: 800-2,500 euro/month + 10,000/17,000 euro for equipment + 5,000 euro for coaching. http://www.exist.de/englische_version/index.php) http://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/Incentive-programs/cash-incentives-for-investments,did=7152.html
Public (co)-investments	ERP START-UP FUND: KfW grants up to 50% of the investment (matching with a private lead investor). High-Tech Gründerfonds: initial funding from the agency of up to 500k (15% of equity) with the possibility of having 1,5 million in follow on operations; the startup needs to contribute 20% of the amount granted (up to half of this amount can be contributed by investors). http://www.kfw.de/kfw/en/Domestic_Promotion/Our_offers/Housing47068.jsp#ERPParticipationProgramme http://www.en.high-tech-gruenderfonds.de/financing/financingterms/
Tax concessions for startups	
Crowdfunding	https://www.seedmatch.de and https://www.gruenderplus.de, have been put in place recently the maximum investment allowed by law is of 100,000 euro. http://gigaom.com/2012/03/23/grunderplus-a-german-crowdfunding-platform-with-a-twist/
MATURITY	
Taxation system and VC/M&A incentives	
AWARENESS	
Government business training initiatives	No comprehensive plan is in place, only coaching programmes and support mechanisms for young entrepreneurs, such as the KFW. https://gruenden.kfw.de/html/finanzierungsangebote/gruendercoaching-gcd/?kfwmc=VT.SbS.GCD
REGIONS	
Specific programmes	BioRegio http://www.research-in-germany.de/main/research-areas/biotechnology/2-nr-1-programmes-initiatives/42162/3-nr-6-bioregio-und-bioprofile.html

France

LAUNCH	
Simplified establishment of business	No minimum capital: Société anonyme à responsabilitée limitée (SARL) and Société par actions simplifiée (SAS) capital 37,000 euro. http://www.invest-in-france.org/Medias/Publications/1221/doing-business-france-italien-dec-2010.pdf
Pro-startup privisions of labour law	High taxation on labour on average, no simplified contracts. http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	OSEO (public holding aimed at facilitating enterprises in accessing funds), it covers by up to 50% of a startups' financial needs with grants (1/3 of all operations) and loans (2/3) by up to 50% of a startup's financial needs. Tax credit for research equals to 30% of the expenses (50% in the first year and 40% for the second year). http://www.invest-in-france.org/Medias/Publications/1221/doing-business-france-italien-dec-2010.pdf
Public (co)-investments	Le Fonds National D'Amorçage (400 million euros) operates as a Fund of funds. http://www.cdcentreprises.fr/FNA-Appel-a-candidature.php
Tax concessions for startups	http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1073791420&type=RESOURCES
Crowdfunding	In France, there are http://www.wiseed.fr/ and some other smaller platforms, but there are no specific regulations. http://www.slideshare.net/myofibre/financer-votre-entreprise-avec-le-crowd-funding
MATURITY	
Taxation system and VC/M&A incentives	Tax exemption on capital gain for business angels (SUIR) for a period of 10 years; taxation applies to the capital gain of funds (FCPR) only in case of distribution of profits (not in case of conversion into cash): exemptions apply if the capital gain is re-invested or the share kept in portfolio for more than 5 years. http://www.lowtax.net/lowtax/html/offon/france/fravent.html http://cl.ly/0b3R2Z0e3i0V
AWARENESS	
Government business training initiatives	http://siliconsentier.org/
REGIONS	
Specific programmes	Poles de competitivité http://competitivite.gouv.fr/

Switzerland

LAUNCH	
Simplified establishment of business	Startups are established online. Limited companies:minimum capital 100k CHF, start-up costs: 3-5k CHF; SAGL (the Swiss equivalent of a joint-stock company): minimum capital 20k CHF. https://www.startbiz.ch
Pro-startup provisions of labour law	There are no specific provisions for startups Competitive taxation No simplified contracts http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	CTI invest (100 billion CHF) offers loans of CHF 500,000 for R&D projects, which could be marketed. http://www.kti.admin.ch/index.html?lang=it
Public (co)-investments	Fondazione Agire (7 billion CHF, in Canton Ticino) for direct equity investments in startups. http://www.agire.ch/
Tax concessions for startups	
Crowdfunding	
MATURITY	
Taxation system and VC/M&A incentives	
AWARENESS	
Government business training initiatives	CTI Startup Coaches, Venturelab (mentoring) http://www.news.admin.ch/message/index.html?lang=it&msg-id=43506
REGIONS	
Specific programmes	

Israel

LAUNCH	
Simplified establishment of business	The minimum capital for a limited company is $ 0,23 , but a company can only be set up via an Israeli lawyer. http://www.moital.gov.il/NR/rdonlyres/F4B1FA21-B58E-4BC5-B8E7-93E4D383514F/0/ThingstoConsiderWhenStartingaBusinessinIsrael.pdf
Pro-startup provisions of labour law	There are no specific provisions for startups Competitive taxation No simplified contracts http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	There are different grants for applied research; the most specific one for startups is the Technological Incubators Program: up to 600k euros divided in public funds (covering 85% of the needs) given in the form of grants, the remaining 15% is the incubator's investment. http://www.incubators.org.il/category.aspx?id=606
Public (co)-investments	The Fund of funds Yozma ($170 million, operates as a traditional investor). Seed fund Heznek (matching of private investments). http://yozma.com/home/ http://www.moit.gov.il/NR/exeres/2F9931BD-7695-4FAD-9A54-950A1E99B3F8.htm
Tax concessions for startups	Jeune Entreprise Innovante (JEI): tax exemptions for the first three financial years with profits, total exemption from the "Annual Minimum Tax", a 7-year exemption from the "Local Business Tax".
Crowdfunding	
MATURITY	
Taxation system and VC/M&A incentives	Investments considered as capital loss; capital gains are exempt from tax, privatisation of incubators, tax incentives for angel investors, (Law for the Encouragement of Capital Investments), deductions of up to $5 Million for investors in startups based in Israel. http://www.arnon.co.il/files/e3b84790d602b8d3179de6a92b2be89a/Angel%20Law_memo%20for%20clients%20DOCX.pdf http://www.jewishpolicycenter.org/221/israels-high-tech-boom http://www.financeisrael.mof.gov.il/FinanceIsrael/Docs/En/legislation/FiscalIssues/5719-1959_Encouragement_of_Capital_ Investments_Law.pdf
AWARENESS	
Government business training initiatives	
REGIONS	
Specific programmes	

United States

LAUNCH	
Simplified establishment of business	Startups are established online, minimum capital: $1. http://www.usa.gov/Business/Incorporate.shtml
Pro-startup provisions of labour law	There are no provisions in place specifically for startups. Competitive taxation. No simplified contracts. http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	The main programme in support of R&D is the SBIR (Small Business Innovation Research), which offers funding by way of awards. It has been in place since 1982 and, to this date, it has disbursed almost $ 27 billion. Funds cover R&D costs by up to $ 1 million. http://www.sbir.gov/about/about-sbir
Public (co)-investments	The Small Business Administration has granted up to $2 billion for matching operations involving private investment in startups with high growth potential. http://www.sba.gov/content/sbic-program-0 http://www.sba.gov/startupamerica/
Tax concessions for startups	
Crowdfunding	Up to $ 1 million, some limitations in terms of requirements apply to investors. http://www.govtrack.us/congress/bills/112/hr3606/text
MATURITY	
Taxation system and VC/M&A incentives	Taxation is regulated by the Federal States and there are no specific provisions aimed at incentivising investments in startups or their acquisition; taxation rates on capital gain are rather competitive (15%). http://www.treasury.gov/connect/blog/Pages/Startup-America-How-a-Small-Business-Tax-Cut-will-Support-Innovative,-High-Growth-Companies.aspx http://www.usa-investment-tax.com/US_tax_regime.asp http://www.irs.gov/businesses/small/article/0,,id=98966,00.html
AWARENESS	
Government business training initiatives	Startup America s.co http://www.whitehouse.gov/startup-america-fact-sheet
REGIONS	
Specific programmes	

Chile

LAUNCH	
Simplified establishment of business	Sociedad Anonima (SA), Sociedad por Acciones (SpA) and Sociedad de Responsabilidad Limitada do not have minimum capital requirements; start-up expenses are of $1,000 on average and it takes at least 30 days to establish a startup http://startupchile.org/chile/doing-business-in-chile/
Pro-startup provisions of labour law	No provisions specifically for startups. Taxes and social welfare contributions are mainly paid by the employee. There are no simplified employment contracts. http://www.pwc.com/gx/en/paying-taxes/pdf/paying-taxes-2011.pdf
GROWTH	
Direct public funding	Start-up Chile offers a non-repayable grant in installments of 40,000 $; The programme has a total budget of $40 million. http://startupchile.org/
Public (co)-investments	
Tax concessions for startups	http://investincotedazur.com/tca_documents/young_innovative_companies_english.pdf
Crowdfunding	
MATURITY	
Taxation system and VC/M&A incentives	Startup Chile http://startupchile.org/
AWARENESS	
Government business training initiatives	
REGIONS	
Specific programmes	

Annex 2 List of Tables included in the Report

Annex 3 The work of the Task Force

Between April and July 2012, the members of the Task Force met on eight occasions (16th April, 23rd April, 7th May, 21st May, 4th June, 19th June, 9th July). All the meetings took place in Rome at the Ministry of Economic Development, except for the meeting on 19th June that took place in Bari, in the Puglia Region headquarters. On that occasion the Task Force was the guest of Nichi Vendola, the Region's President.
On 7th May, on the occasion of the annual visit of International Monetary Fund (FMI) to Italy, the members of the Task Force met with some experts from this institution in order to exchange information and views on the possible macroeconomic impact of support measures for startups and on the main areas of intervention.

On its last meeting on 9th July, the Task Force presented the results of its work to Minister Corrado Passera, who wanted to have in-depth information on some parts of the document.

The Report's final version was made public on 13th September 2012.

The work of the Task Force was enriched with the ideas and proposals from new startups, players in the field, for example venture capitalists, investors, associations, individuals linked to incubators and accelerators, national and multinational companies and citizens. Their contributions were sent to an e-mail address created especially for this purpose (startup@sviluppoeconomico.gov.it). In total, more than 300 e-mails were sent to this address.

Furthermore, the Task Force was able to draw information from the findings of a number of consultations. The first one took place in Ca' Tron (Treviso) on 26th of May and was organised at the H-Farm incubator by the association *Italia Start Up*. The event was attended by Minister Corrado Passera and more than 250 players in the startup environment.
The second consultation was organised on 29th May at the Ministry of Economic Development. It involved Minister Corrado Passera and the representatives of youth groups from all the main associations of entrepreneurs (Confindustria, ANCE, Confapi, CNA, Confartigianato, Confcommercio, Confesercenti, Cia, Coldiretti, Confagricoltura, Confcooperative and Legacoop). Lastly, a third consultation took place online, in the beginning of July (its main findings are presented in Attachment 4). The consultation was carried out by means of an open questionnaire. Around 300 stakeholders took part in it: opinion leaders, entrepreneurs, academics, experts in the sector, venture capitalists, business angels, founders of incubators and startupers themselves.

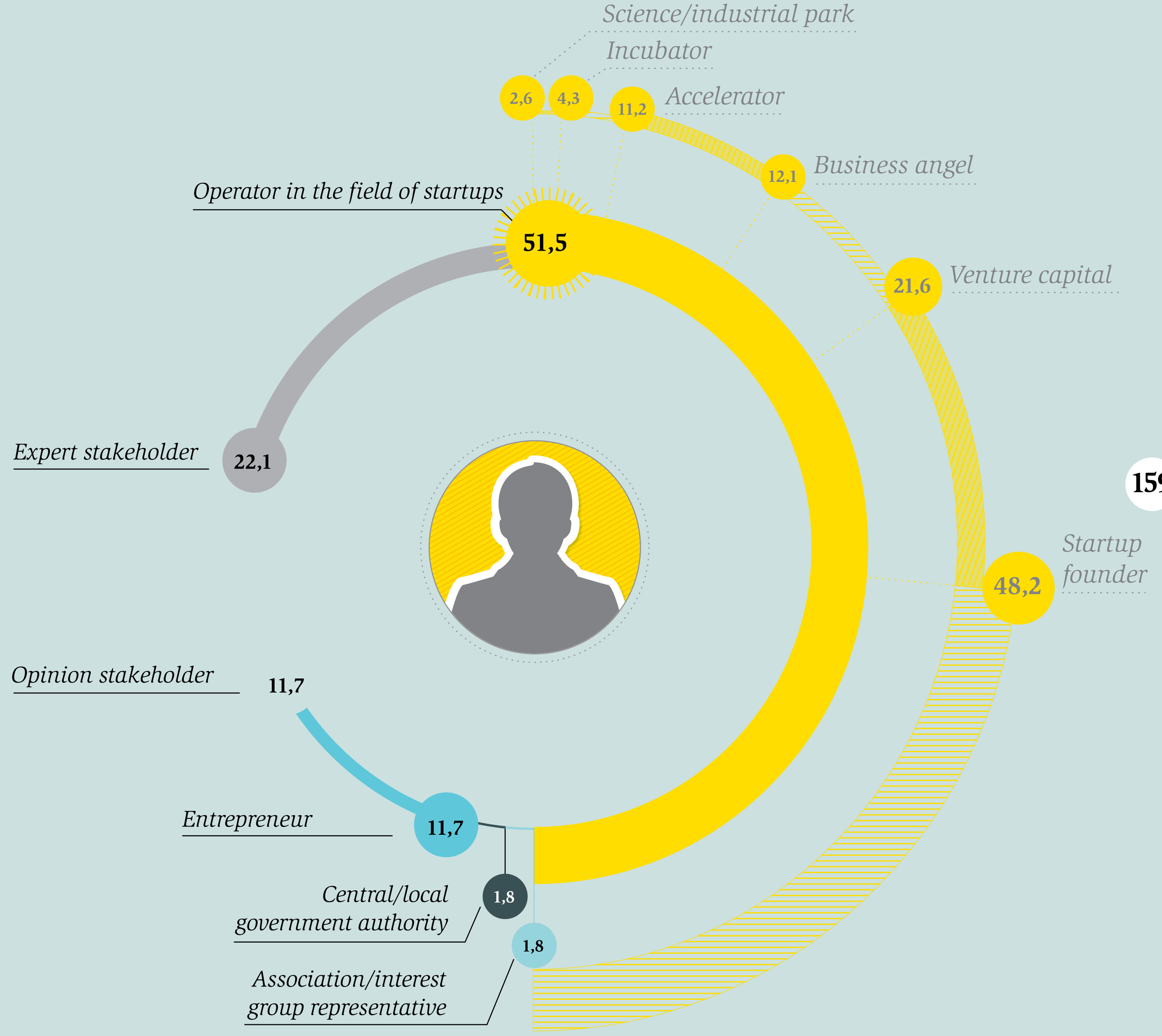
Annex 4 Key findings of the online consultation

THE KEY FINDINGS OF THE ONLINE CONSULTATION

WHO WHERE THE PARTICIPANTS?

More than half of the responses came from operators in the field of startups (51.5%), 22.1% came from expert stakeholders and 11.7% from opinion stakeholders.

The participants from the startup sector are mainly startup founders (48.2%), followed by venture capitalists (21.6%), business angels (12.1%) and accelerators (11.2%).

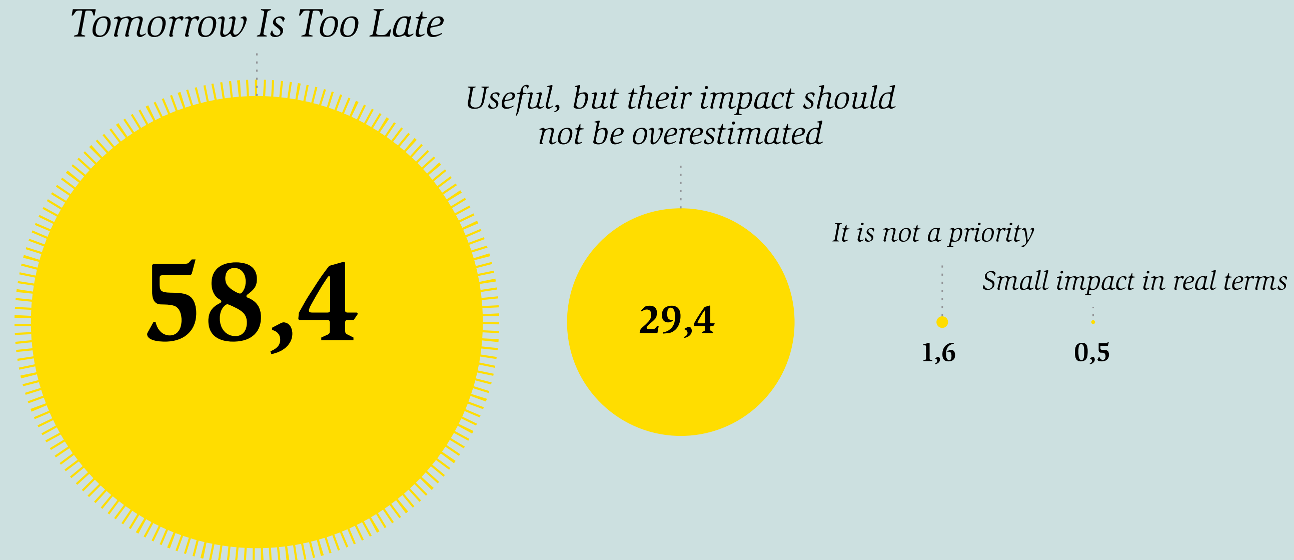


1

DO YOU THINK THE GOVERNMENT AND THE MINISTRY OF ECONOMIC DEVELOPMENT SHOULD TAKE IMMEDIATE ACTION TO SUPPORT STARTUPS?

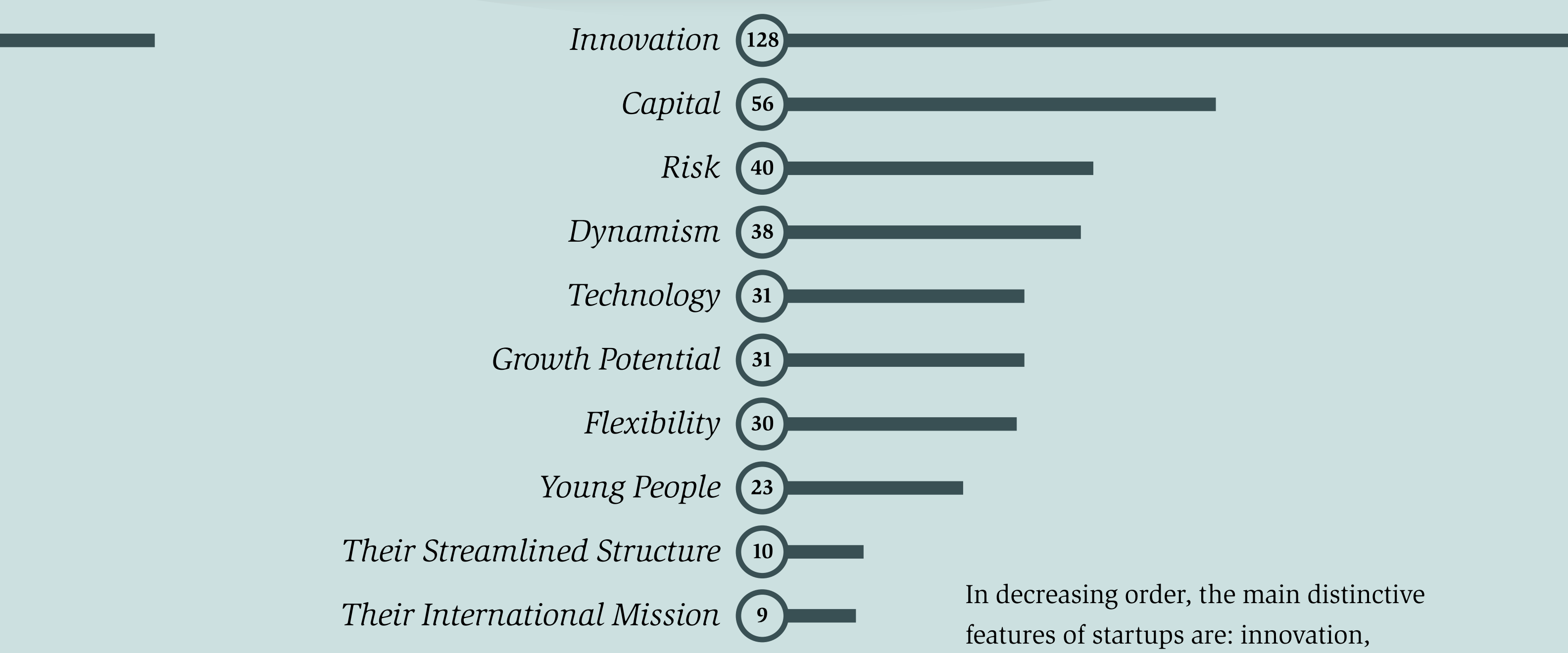
7 respondents out of 10 think strong intervention is needed immediately (“tomorrow is too late”).

However, 3 respondents out of 10 were of the opinion that the impact of startup support measures will not be immediate.



2

IN YOUR OPINION, WHAT MAKES STARTUPS DIFFERENT FROM OTHER COMPANIES?



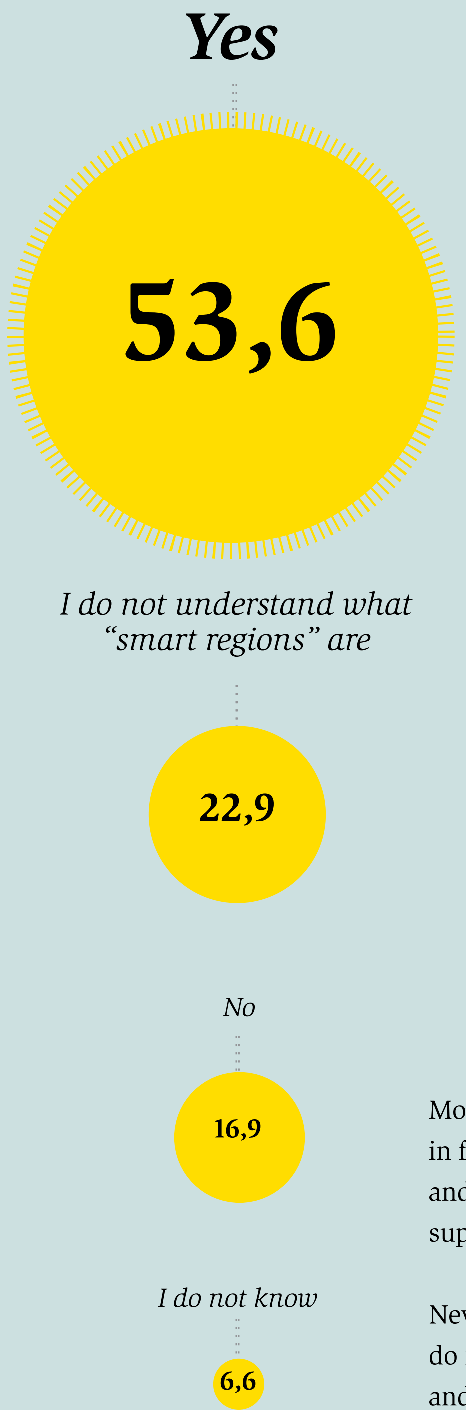
In decreasing order, the main distinctive features of startups are: innovation, capital, risk, dynamism, technology, growth and flexibility.

3

TO FACILITATE THE CREATION AND GROWTH OF STARTUPS WE CAN INTERVENE ON A NUMBER OF DIFFERENT LEVELS. IN YOUR OPINION, WHICH INTERVENTIONS ARE PARAMOUNT?

In decreasing order, the most important interventions are: capital investment, tax concessions, less red tape, flexible working relations and training.

DO YOU THINK THAT CREATING "SMART REGIONS WITH A SPECIAL STATUTE" COULD FAVOUR THE CREATION OF INNOVATIVE STARTUPS?



More than half of the respondents are in favour of creating smart regions and see them as one of the main support measures for startups.

Nevertheless, 22.9% of the respondents do not know what "smart regions" are and 16.9% is of the opinion that will not have an impact on the creation of startups in Italy.

WHICH SHOULD BE THE CHARACTERISTICS OF THESE "SMART REGIONS"? SMART REGIONS SHOULD:

The main characteristics of "smart regions" are related to attracting capital, offering services, infrastructure, training and tax incentives.

Annex 5 The members of the Task Force

Andrea DI CAMILLO

(Biella, 1970) is an investor and serial entrepreneur who has always worked in the digital field. In 1997 he took part in the launch of Kiwi I, the first Italian venture capital fund. In 1999, thanks to his experience as entrepreneur, Andrea was among the founders of Vitaminic, a company which was listed on the Italian Stock Exchange the following year. In 2006, he co-founded Banzai, one of the main web companies in Italy. Since 2011 he has been the manager and partner of Principia SGR and of the Boox accelerator.

Annibale D'ELIA

(Milan, 1970) lives and works in Bari. Since 2007 he has been working at Bollenti Spiriti, the youth programme initiated by the Regional Government of Apulia. He is an expert on youth policies, education and vocational guidance and has collaborated with the main European networks in these fields (Eurodesk, Euroguidance). He has been working on 2.0 practices and strategies to improve public policies in southern Italy for several years now.

Donatella SOLDA-KUTZMANN

(Lecce, 1970) is a consultant on innovation policies at the Ministry of Education, University and Research. She is involved in research activities in relation to media law and economics, communication law and international contracts law. She is also a lecturer in IT law, European law and media law.

Enrico POZZI

(Rome, 1946) has been a lecturer in social psychology in Rome and Boston for many years now. He has written more than 60 articles and books on topics related to social and clinical psychology as well as sociology. In addition to his academic activities, he has also been working on business initiatives related to the creation of a strategic identity in complex organisations and big companies. Furthermore, he has been carrying out initiatives related to the measurement and evaluation of brand, product and individual identities – both in the press and on the web – making use of proprietary tools.

Giorgio CARCANO

(Como, 1942) has been the president of the Scientific and Technological Park ComoNExT since its founding. He has a long career as an industrialist in the engineering sector. From 2003 to 2007, he presided over the Como Industrialists' Union. Since 2005 he has been a member of the Como Chamber of Commerce. He is the president of the CSRV (Center for the Development of Virtual Reality) and councillor at the Como Social Theatre and UCID (Christian Union of Entrepreneurs and Managers).

Giuseppe RAGUSA

(Palermo, 1975) is a an assistant professor in econometrics and statistics at the LUISS Guido Carli University in Rome and research fellow at the Center for Labor and Growth and at LuissLab. In 2005, he obtained a PhD from the University of California, San Diego. Giuseppe is an assistant professor in Rutgers University and then at the University of California. In 2009, he moved back to Italy.

Luca DE BIASE

(Verona, 1956) is editor at Il Sole 24 Ore. In 2005, he founded Nova24, which he directed until 2011. He is also lecturer in journalism and new media at IULM in Milan; copy editor of Problemi dell'informazione; lecturer on the Master's degree course in Public Affairs at Sciences Po, Paris; president of Fondazione Ahref, a research centre on the quality of information in the social media; scientific director at Digital Accademia, a centre for the development of digital culture.

Mario MARIANI

(Cagliari, 1967) founded The Net Value (2009), a venture incubator which carries out seed investments and offers management support to startups in the Digital Media space. Between 1998 and 2006, he took part in the launch of Tiscali, first as marketing and communication director and later as SVP Media and VAS on a European level. He has also worked on the creation of Tiscali LABS, an internal laboratory for innovation. From 2006 to 2008, he was CEO of Tiscali Italia S.p.a.

Massimiliano MAGRINI

(Rimini, 1968) was Altavista's country manager for Italy (2001-2002) and Google's country manager for Italy, Spain and Portugal (2002-2009). He is the founder of Annapurna Ventures, an incubator aimed at launching technological startups, and a board member of the American Chamber of Commerce. He is also a consultant for large enterprises, which he assists in the process of defining their digital strategy.

Paolo BARBERIS

(La Spezia, 1967) is the cofounder of the Nana Bianca accelerator in Florence. In 1994, he created Dada, which still is a company of reference in Europe in the following sectors: web, mobile, domain, hosting, online advertising. Dada has branches the world over and more than 700 employees. In June 2000, at the age of 32, Paolo became the youngest president of a company listed on the Stock Exchange, thanks to his company Dada. Dada.it (1995), Supereva.it (1999), Register.it (2001) are only some of the services he has developed. More than 30 million private users and 500,000 companies from 11 different countries have been making use of these services.

Riccardo DONADON

(Treviso 1967) founded H-FARM – the first ever private venture incubator in Italy – in January 2005. Currently, H-FARM also operates in Seattle and Mumbai. In 1995, Riccardo created the first virtual shopping centre in Italy – the Mall Lab – which was successfully remised to Infostrada in 1999. After leaving Benetton in 1998, Riccardo gave life to E-TREE, which within a couple of months became a company of reference for Internet services in Italy.

Task Force coordinator

Selene BIFFI

(Monza, 1982) is a social entrepreneur and a consultant on topics related to social innovation. She has founded four different dynamic and innovative startups. One of these, Plain Ink, creates comics and educational stories in Italy, India and Afghanistan. Selene has been a consultant for the UN and is now Young Global Leader at the World Economic Forum. She has also written on social innovation and technology for media outlets such as WIRED and The Washington Post. She holds a degree from Bocconi University and a Master's degree on Humanitarian Operations from University College Dublin. In addition, she was awarded diplomas from INSEAD and Harvard.

Alessandro FUSACCHIA

(Rieti, 1978) is Advisor on European Affairs, Youth and Innovation to the Italian Minister of Economic Development. In the past, he worked as a ghostwriter for the Italian Minister of International Trade and was a member of the Italian Prime Minister's G8 Office. More recently, he worked at the General Secretariat of the Council of the European Union in Brussels. He is a lecturer at the Institute of Political Studies in Paris and at the School of Government of the LUISS University in Rome. He holds a PhD from the European University Institute in Florence. Between 2007 and 2011, he was the President of RENA, an Italian association of young professionals. He has published two novels.

Notes

1* ___The Central Credit Register is an information system on the debt of the customers of the banks and financial companies supervised by the Bank of Italy.

2* ___Istituto Nazionale della Previdenza Sociale (INPS), the Italian Social Security Organisation.

3* ___Istituto Nazionale per l'Assicurazione Contro gli Infortuni sul Lavoro (INAIL), the Italian Workers' Compensation Authority.

4* ___The online official business register of the Italian Chambers of Commerce.

5* ___The S.s.r.l. (Società semplificata a responsabilità limitata) is the rough equivalent of a simplified limited liability company.

6* ___Società di Gestione del Risparmio (SGR) corresponds roughly to an Asset Management Company (AMC).

7* ___Società di Gestione del Risparmio (SGR) corresponds approximately to an Asset Management Company (AMC).

8* ___Commissione nazionale per le società e la borsa (CONSOB) is the Italian Securities and Exchange Commission (SEC).

9* ___Imposta sul reddito delle società (IRES) is the Italian corporate income tax.

10* ___Italian acronym for "Imposta Regionale sulle Attività Produttive".

11* ___Cassa Depositi e Prestiti (CDP) is a joint-stock company under public control, with the Italian government holding 70% and a broad group of bank foundations holding the remaining 30%.

12* ___Commissione nazionale per le società e la borsa (CONSOB) is the Italian Securities and Exchange Commission (SEC).

13* ___Confidi is an Italian guarantee consortium.

14* ___Agenzia per la promozione all'estero e l'internazionalizzazione delle imprese italiane.

15* ___Cassa Depositi e Prestiti (CDP) is a joint-stock company under public control, with the Italian Government holding 70% and a broad group of bank foundations holding the remaining 30%.