In a nutshell

The SME sector in Italy was hit hard by the global recession of 2008-09. It experienced a brief period of recovery afterwards, but it lost momentum in 2012. Micro enterprises, which constitute the vast majority of Italian companies, found it comparatively harder to adjust than small and medium-sized companies. Given these underlying structural trends, the Italian government took action to improve the general framework conditions for Italian SMEs, notably to make the administration more responsive to the needs of businesses and to improve the conditions for companies to aggregate and internationalise their activities. Nevertheless, the country’s overall performance on the SBA grid continues to be below the EU-average in terms of exporting internationally and the single market, and there is the possibility that the implementation of SBA-related initiatives announced in 2011 and 2012 will be stalled. The single most important issue to be monitored for Italy’s future SBA performance is the swift implementation of these measures.

About the SBA Fact Sheets

The Small Business Act for Europe (SBA) is the EU’s flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around ten principles ranging from ‘entrepreneurship’ and ‘responsive administration’ to ‘internationalisation’. In order to improve the governance of the SBA, the 2011 review of the Act called for improved monitoring. The SBA Fact Sheets are published annually and aim to improve understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.
1. SMEs in Italy — basic figures

<table>
<thead>
<tr>
<th>Number of enterprises</th>
<th>Number of employees</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Italy</td>
<td>EU27</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
</tr>
<tr>
<td>Micro</td>
<td>3,491,826</td>
<td>94.4%</td>
</tr>
<tr>
<td>Small</td>
<td>183,198</td>
<td>5.0%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>19,265</td>
<td>0.5%</td>
</tr>
<tr>
<td>SMEs</td>
<td>3,694,288</td>
<td>99.9%</td>
</tr>
<tr>
<td>Large</td>
<td>3,196</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total</td>
<td>3,697,484</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

These are estimates for 2012 produced by London Economics, based on 2008-10 figures from the Structural Business Statistics Database (Eurostat). The data cover the ‘business economy’, which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

Italy’s SME sector has a higher proportion of micro enterprises employing fewer than ten persons, compared to the EU average (Italy: 94 %, EU: 92 %). Micro firms therefore contribute more to employment and value-added than elsewhere in the EU: nearly half of total employment and one-third of value added. However, trends show that micro enterprises stagnated both in terms of numbers and added value as compared to the average of the SME sector, whereas small and medium-size companies were more resilient to the crisis in recent years, and the latter are better able to tap into emerging markets’ growth. Under these circumstances, the predominance of micro-enterprises is likely to affect significantly the rate of growth of the Italian SME sector. This is particularly so for knowledge intensive services and high tech manufacturing sectors, where Italian SMEs of all sizes are below the EU average, especially in terms of added value. Micro enterprises concentrate in low to medium technology and in less knowledge-intensive services.

Just like for the EU, on the whole, the crisis has had a very negative impact on the SME sector in Italy, both in terms of added value and employment, which is still recovering. On the other hand, large enterprises (LEs) have handled the crisis better than the SME sector as a whole. The value added of SMEs shrank by 10% between 2008 and 2012, the number of employees by 5% and the number of firms by 2%. In LEs, value added has returned to pre-crisis levels, with the only slight decrease in the number of employees. Hence, LEs outperformed SMEs, which were hit harder by the economic and financial crisis. This is particularly evident in the construction sector, where value added and employment has fallen respectively by about 30% and 15%, between 2008 and 2012. The crisis-induced difficulties in accessing credit for firms in this sector were compounded by the boom period coming to an end. It had started in 2000 when capital was readily available, real estate investments were profitable and expenditure on public works was strong. The sector is now in deep transition, mostly affecting SMEs, and it remains to be seen whether they will succeed in adjusting to the new conditions.

At the same time, there is still a strong SME dominance in the manufacturing sector. Although only 10% of all Italian SMEs are active in this sector, one out of four employees in the SME sector work in manufacturing, compared to one in five for the EU average. Almost one-third of value added is generated by SMEs, compared to one fifth in the EU. Manufacturing therefore plays a decisive role for Italian SMEs.

Between 2008 and 2010, Italian exports within the EU decreased by 12% in total for all enterprises, bringing the export/import ratio to around 104 % in 2010. This indicates a deterioration of the competitiveness of Italian firms within the single market. In line with the EU average, the main export sectors are trade and manufacturing, accounting for almost 98% of all exports inside the EU in 2010,
consequently they are the most affected by this negative development. However, SMEs and LEs have performed rather differently. In manufacturing, exports within the EU fell by about 15% for SMEs, but only about 10% for LEs, with SMEs maintaining an export share of 50% of all EU exports in 2010. Manufacturing SMEs are at a disadvantage compared to LEs in accessing non-EU markets and tapping the potential of growing foreign markets. In the trade sector, exports within the EU from SMEs also fell by 15%, but LEs increased their exports by 15%. The export share of the wholesale and retail trade sector of LEs increased from 13% to 17% overall.
SME trends in Italy

Number of enterprises
(Index: 2008=100, estimations as from 2011 onwards)

Number of employees
(Index: 2008=100, estimations as from 2011 onwards)

Value added
(Index: 2008=100, estimations as from 2011 onwards)

SBA Fact Sheet 2013 — Italy
2. Italy’s SBA profile

Italy’s SBA profile is catching up with the EU average, as it has made major progress over the last 12 months in terms of policy and legislative reforms in most SBA aspects. No fewer than five decrees were converted into law in 2012, each containing important measures for SMEs.

This progress was needed as Italy’s SBA profile still lags behind the EU average, especially on access to finance and the single market, which are critical aspects of Italy’s SBA performance. Some stakeholders consulted for this exercise identified the crucial need not to stall administrative implementation of the approved reforms. Swift implementation of the announced measures is the single most important issue to be monitored for Italy’s SBA performance, as no new initiatives were planned for the first months of 2013, due to the current uncertain political context. This concern is corroborated by the delay in implementing a number of measures that were announced in 2011 and 2012, in particular the tax credit for enterprises to hire young researchers and the Unique Environmental Authorisation for SMEs (AUA). In addition, the annual law for SMEs (Article 18 of the Statute of the Enterprises) was drafted for 2013 but put on hold due to last February’s general elections.

The latest developments do not detract from the fact that most of the SBA-related measures have been adopted, in line with Italy’s strategy to implement the SBA, which is carried out by the Ministry of Economic Development. This Ministry supports the work of the Italian SME envoy and of the SME Guarantor, and also hosts the Network Contract Observatory and the SME Region Observatory, monitoring SBA implementation at national, regional and local level.
Italy’s SBA performance: Status quo and development over 2008-2013

Performance

(Distance from the EU average, in standard deviations, EU avg.=0)

Legend:
1. Entrepreneurship
2. Second chance
3. Think small first
4. Responsive administration
5. State aid & public procurement
6. Access to finance
7. Single market
8. Skills and innovation
9. Environment
10. Internationalization

Note: Due to a lack of data, it is not possible to calculate the progress rate for Area 9 - Environment. In the graph to the left, the progress rate was set to 0% by default, for all countries.
I. Entrepreneurship

Overall, Italy’s performance on entrepreneurship is below the EU average, although it made modest progress, especially on the media attention to the issue of entrepreneurship, which shot up lately. For the two core indicators measuring more directly the level of entrepreneurial activity — the entrepreneurship rate and the rate of opportunity entrepreneurship (those for whom running their own business was the first career choice) — Italy’s performance remains close to the EU average. On the policy front, Italy took a number of measures, most notably Decree Law No 1 of 24 January 2012 (converted by Law No 27/2012) introducing a ‘reduced capital’ company with limited liability, which can be set up with minimum social capital, less than €10000. Network contracts were streamlined in order to promote the entrepreneurial capabilities of SMEs (see best practice section below). The digital signature facility was brought in to simplify procedures, potentially bringing down business costs.

II. Second chance

Italy’s overall performance on second chance remains below the EU average, mainly driven by one indicator, the cost of recovering debt, which is particularly and
persistently high in Italy at 22% of the debtor’s estate (EU: 10%). In terms of policy measures, the bankruptcy law, dating from 1942, has been revised in three main areas: arrangements with creditors, debt restructuring agreements and action plans. This reform is qualitatively important as it goes in the direction of protecting debtors’ assets and gives more scope to finance a company in crisis, following the US model.

III. Think small first

Overall, Italy’s performance in this area is in line with the EU average, even though the indicators are rather divergent. 2012 data from the World Economic Forum (WEF) on the ‘burden of government regulations’, confirm that the Italian business environment is comparatively more burdensome than its EU peers. Other indicators, concerning ‘licences and permits’ and ‘communication and simplification of rules and procedures’, based on a 2008 survey, show comparatively positive results. Unfortunately, no more updated values are available to measure possible changes. On the policy front, public administrations are required to measure the administrative burdens introduced by new measures, and not to increase it by cutting other burdens, if necessary. For instance, the obligation for businesses to draw up and keep up-to-date the Security Planning Document (SPD) has been suspended in order to relieve companies from superfluous privacy requirements. The ‘think small first’ principle is being extended to administrative procedures, as a single administrative contact point was created for the construction sector.
IV. Responsive administration

Italy’s overall performance in this area is below the EU average, but it has not worsened compared to previous years. This is mainly caused by the cost of starting a business, which is six times more expensive than the EU average, and the cost of enforcing contracts and the time required to comply with major tax obligations. On the other hand, it takes less time to start a business in Italy than elsewhere in the EU, on the basis of self-reported data. Italian SMEs also use e-government services more than the EU average.

In terms of these two aspects, as far as policy is concerned, problematic administrative procedures for SMEs can be reported via the new single online portal of the Guarantor for SMEs (www.garantepmi.gov.it). The government has announced the online public administration will be implemented in 2014, making exclusive use of electronic channels to provide services to companies. For instance, the Anti-mafia certification and Compliance with Social Security Payments (DURC) will be issued directly by the public administration. Even more importantly, improvements were made to the administrative requirements for new businesses, reducing the number of checks and inspections needed.
V. State aid & public procurement

Italy’s performance in this area is deteriorating, almost departing from the EU average. The indicators show an uneven picture, with the best results for State aid earmarked for the SME sector and the worst result for the average time taken to receive payments from public authorities. Substantial and persistent problems remain with the significant delays in being paid by public authorities, making Italy trail all other EU countries (90 days, EU: 29 days).

On the policy front, a new measure aims to reduce the proportion of the performance guarantee (from 25% to 20%) that cannot be released when a contract is in progress and is now automatically released at least one year after completion of the work. In addition, a formal test is no longer required in order to complete the contract, freeing up available money for the company. A new database for public contracts has been created to reduce the administrative burdens for tendering companies, shifting the burden of verification to the public administration concerning the company’s compliance with tender requirements. In addition, the late payment directive was transposed into Italian law on 1 January and a new decree-law should ensure that part of the public administration debt is paid over the next two years.
VI. Access to finance

This is one of the most problematic areas for the Italian SME sector. Italy performs well below the EU average, with signs of increasing deterioration. Banks are less willing to provide loans to SMEs, and this, together with higher rejection and unacceptable loan rates, signals a drying up of private-sector financial support, compounded by diminished access to public-sector financial support, either national or European. In line with the long payment times for public authorities discussed in the previous section, the total invoice payments time remains one of the longest in Europe (117 days), double the EU average (53 days). Problems persist in the wider interest rate spreads between small and large loans and the absence of venture capital for early-stage investments for promising Italian SMEs.

Many policy measures have been brought in in 2012 to ease the access of SMEs to credit and capital markets, improve the capital increase within firms and reinforce the guarantee system. However, despite the efforts made to launch the new instruments (aid to economic growth, project and mini-bonds, moratorium for debts), and reinforce existing instruments (the guarantee fund for SMEs, renewal of credit for SMEs), and extensive use of traditional mechanisms (fiscal incentives, use of credits towards the public administration as leverage to obtain liquidity for companies), Italian SMEs still suffer from a chronic and structurally difficult access to finance. The increased administrative rigidity of banks in providing loans and guarantees to SMEs is coupled with higher differential rates between LEs and SMEs than elsewhere, due to the persistence of economic crisis and cuts in public and private-sector consumption and investment, which undermine SMEs in particular. In addition, some of the adopted measures are poorly implemented due to scarce liquidity in the public administration (e.g. obligation to pay SMEs for commercial debts within a maximum period).
VII. Single market

Italy’s performance in this area remains below the EU average. One main drag is due to the number of directives which were neither transposed nor notified, as the rate increased over previous year. On the upside, Italy is successfully catching up in dealing with overdue directives. On the downside, Italian SMEs still trade less within the single market than the average EU SME. The low scores in terms of imports and exports are due to the high share of micro enterprises, which are less likely to pursue internationalisation strategies than larger firms. On the policy side, no significant policy measures on the single market were announced or implemented in the reference period.

VIII. Skills & innovation

Italy ranks below average in this area, covering both skills and innovation aspects. It performs best on
some of the core indicators measuring firms’ internal innovative drive (share of SMEs innovating in-house, SMEs innovating in products, processes, marketing or organisational aspects) but business innovation capacity does not translate into outward innovation, either in collaborating with other firms, participating in EU-funded research or selling innovative products. These trends are confirmed by the latest data provided by the Community Innovation Survey, for 2010. On ICT innovation indicators, Italian SMEs lag behind the EU average either in purchasing or selling online. The indicator on training shows a positive performance, but only because the EU average of enterprises providing training fell dramatically, whilst Italian SMEs maintained their training offer. In addition, micro enterprises continue to trail the EU average in terms of the share of their employees receiving education and training.

On the policy front, a series of new measures were passed to spread innovation across different levels. The Fund for Sustainable Growth was created to promote strategic research projects and to boost production. The Agency for the Digital Agenda was launched together with a pervasive national digital agenda strategy, which promotes technical institutes and professional poles and ensures that ICT systems are interoperable in line with European parameters. A new regulation for innovative start-ups was introduced to provide benefits and incentives for the first four years to facilitate business creation and growth. This includes fiscal incentives, reduced start-up costs, simplified procedures and investment incentives, coupled with a certification scheme for incubators of start-ups in line with the definition laid down in this regulatory measure.

IX. Environment

As there were no updated values available for these indicators, it remains one of the areas where Italy’s performance is in line with the EU average. This is mainly due to the willingness of Italian SMEs, in spite of their having less access to public-sector support than their EU peers, to take measures to improve their resource efficiency and to specialise in the provision of green products and services.

On the policy front, some announced measures entered in force in July 2013 for energy efficiency, providing a fixed fiscal deduction for renovations of 36% of eligible expenses. SMEs are not specifically targeted, but they are expected to benefit from this measure, directly or indirectly. In addition, at the beginning of 2013, new incentives were introduced under the form of funding for companies developing new R&D/investment projects and employing young people in the green economy. Easy credit terms funding (at a fixed rate) for companies are planned for R&D and investment projects in the green economy and for sectors related to territorial security (seismic...
Italy continues to lag behind the EU average in this policy area, with no significant progress captured by available indicators. Although fewer documents are now needed to import or export, the SME sector still contends with higher costs and longer delays than the EU average. This may — at least partly — explain the below-than-average proportion of SMEs that trade outside the EU. The Italian SME sector is dominated by micro enterprises, which tend to be less international due to their size and lack of resources. On the policy front, the Start-Up Fund for internationalisation started to function on a revolving basis as of October 2012. A new single coordination point (Desk Italy) was announced for all foreign potential investors. A new national Export Plan for the period 2013-2015 was launched together with a reorganisation of entities in charge of trade promotion and tourism attractiveness (ICE and ENIT). The rationale behind this array of measures is to restructure in a coordinated way the existing mechanisms, financial instruments and entities supporting internationalisation as part of the ‘Made in Italy’ productive system.
3. Good practice

Below is an example of good practice from Italy to show what governments can do to support SMEs:

The Business Network Contract is a private agreement between two or more companies to jointly carry out projects to increase their potential for innovation and competitiveness. Companies simply sign a contract (‘contratto di rete’/business network), that is registered by a notary and recorded in the companies’ general register. All companies are eligible and are free to define the main objectives, how it will be developed and how they plan to reach their objectives. They can even include businesses from other countries. The measure is designed to help entrepreneurs cooperate with others, in order to exchange industrial, technical, and commercial information or services, or to jointly implement projects in their field, in order to boost their individual and collective competitiveness. Companies will maintain their autonomy, even if they are included in a network programme. The main added value of this initiative is to overcome one of the structural problems of the Italian SME sector: its fragmentation, which reduces the scope for economies of scale for most SMEs. The specific characteristic of the measure is to allow enterprises to join forces while maintaining their autonomy, to establish a collective legal contract, maintaining the independence of each individual company, to favour aggregation among micro enterprises and SMEs, creating a critical mass to operate on the market with the strength of a medium/large enterprise. As an incentive, Italian companies involved in a business network get a tax deferral for three years. They can invest through EIB credit specific to business networks of €100 million. Moreover, the measure provides tax, administrative and financial incentives to individual businesses involved in a network contract, including a favourable fiscal regime for funds ring-fenced to constitute a ‘collective guarantee’ when applying for public-sector contributions and a streamlined procedure for networked businesses to apply for such contributions.

The policy measure is not new. It was brought in for the first time in 2009, amended in 2010 and boosted again in 2012 by the administrative simplification work. Network contracts have become a very popular form of aggregation, positively welcomed by entrepreneurs. Since its creation, 800 business networks involving 4000 enterprises have been created, covering all types of sectors, with the main objectives being internationalisation, marketing, research & innovation, branding for high quality products and promoting local areas. The real take-up of the measure by SMEs occurred in 2012, two years after it was first implemented. Companies that joined a network in 2012 reported a 25% increase in their export sales.

Reference: www.retimpresa.it

RetImpresa is the Agency of Confindustria for the development of business networks in Italy.

Important remarks

The Small Business Act (SBA) Fact Sheets are produced by DG Enterprise as part of the SME Performance Review (SPR), which is its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information for the 28 EU Member States and nine non-EU countries which also contribute to the EU’s Competitiveness and Innovation Framework Programme (CIP). Produced annually, the Fact Sheets help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member States’ policies but should be regarded as an additional source of information designed to improve evidence-based policy-making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please also see the end notes overleaf.
For more information

SME Performance Review:

Small Business Act:

The European Small Business Portal:
http://ec.europa.eu/small-business/index_en.htm

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1 The 2013 SBA Fact Sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

2 The three graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2011, the graphs show estimates of the development over time, produced by London Economics Ltd on the basis of 2008-10 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

3 The policy measures presented in this SBA Fact Sheet represent only a selection of the measures taken by the government in 2012 and the first quarter of 2013. The selection was made by the SME policy country expert contracted by CARSA Spain (DG ENTR’s lead contractor for the 2013 Fact Sheets). The experts were asked only to select those measures that, in their view, were the most important, i.e. were expected to have the highest impact in the specific SBA area. The complete range of measures that the experts compiled in the framework of producing this year’s Fact Sheets will be published in the form of a policy database on the DG ENTR website alongside the Fact Sheets.

4 The quadrant chart combines two sets of information: first, it shows the status quo performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for EU-27. The vertical corridor marked by the dotted lines defines the EU average. Secondly, it reveals progress over time, i.e. the average annual growth rates for 2008-13. The growth rates are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the rest of the EU at a given point in time, but also about the extent of progress made in 2008-13.