

ITALY

1. Introduction

The Italian business environment continues to experience major challenges, such as limited access to finance, burdensome administrative procedures, fast changing regulations, low levels of entrepreneurship, and limited access to specialised workers. Despite these difficulties, Italian SMEs are performing well in innovation and are relatively successful in international markets.

The COVID-19 pandemic, combined with the policy decisions taken in response to it, significantly affected SMEs in Italy. In 2020, SME value added and employment fell rapidly, by 11.5% and 2.6%, respectively¹. All sectors experienced a contraction in SME value added. The downturn was most pronounced for SMEs in the *accommodation and food services* sector, dropping by 41.4% in value added and by 8.7% in employment. Another sector particularly affected was *transportation and storage*, declining by 17.2% in value added and 1.4% in employment.

A partial recovery is expected in 2021, with SME value added growth of 3.5%. In contrast, SME employment is forecast to fall by 1.1% during the same period. SME value added and employment in 2021 are expected to remain 8.4% and 3.6% below their respective 2019 levels.

SMEs play an important role in Italy's 'non-financial business economy'. In 2020, they generated 64.3% of total value added and 76.1% of total employment, exceeding the respective EU averages by roughly 11 percentage points. The average productivity of Italian SMEs, calculated as value added per person employed, was approximately EUR 38 300 in 2020, slightly below the EU average of EUR 40 000. The average of 3.1 people employed by Italian SMEs was also slightly below the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020



	Number of enterprises			Number of persons employed			Value added		
	Italy		EU-27	Italy		EU-27	Italy		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	3 421 083	94.7%	93.3%	6 280 394	42.5%	29.6%	170.2	25.4%	18.7%
Small	169 725	4.7%	5.7%	3 027 699	20.5%	19.7%	144.3	21.5%	17.0%
Medium-sized	20 069	0.6%	0.9%	1 943 988	13.2%	15.8%	116.6	17.4%	17.3%
SMEs	3 610 877	99.9%	99.8%	11 252 081	76.1%	65.2%	431.1	64.3%	53.0%
Large	3 481	0.1%	0.2%	3 528 042	23.9%	34.8%	239.2	35.7%	47.0%
Total	3 614 358	100.0%	100.0%	14 780 123	100.0%	100.0%	670.3	100.0%	100.0%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial 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 following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

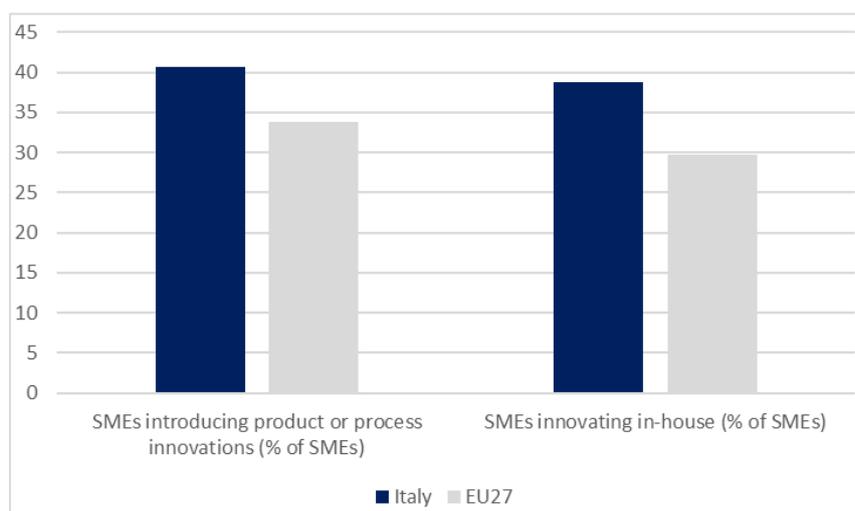
Italy performs above the EU average for the share of SMEs innovating in-house

While many Italian SMEs are active in traditional sectors, such as agri-food and fashion, they still rely on a combination of craftsmanship, manufacturing ability, entrepreneurial vocation and innovation to develop their activities², along with a flexibility to adapt to technological and market developments³.

Indeed, figures on SME innovation in the country sustain this view. Italy scores above the EU average in SME-related innovation indicators: 39% of Italian SMEs are innovating in-house and 41% of them are introducing innovative products or processes – well above the EU average in both cases. Italian SMEs are also slightly more likely to introduce marketing and organisational innovations than the EU average. Since 2014, these three indicators have been improving⁴.

According to the European Innovation Scoreboard, the country also performs above the EU average in other innovation-related indicators, such as intellectual assets – measuring the number of trademark and patent applications – as well as in the number of design applications⁵.

Figure 2: SMEs introducing product or process innovations (% of SMEs) and SMEs innovating in-house (% of SMEs)



Source: Community Innovation Survey, 2016⁶

In recent years, innovation has been a major policy priority for the Italian government, which has launched policy measures to modernise relevant traditional industries and companies. A national 'Industry 4.0' strategy (*Industria 4.0*) – launched in late 2016, the name of which changed to 'Company 4.0' (*Impresa 4.0*) in 2017 and then subsequently to 'Transition 4.0' in 2020 – introduced several measures and incentives to boost private investments in innovation and digitalisation. Other recent industry modernisation policies (*Nuova Sabatini*, *Nuovi Macchinari*, *Design+*), have benefited almost 26 000 firms with a total investment of EUR 8.3 billion. The Italian government has also launched several support measures to promote innovation and develop intangible assets valorisation (e.g., *Startup Act*⁷, *Brevetti+*, *Patent Box*, *Voucher 3I*).

Italian SMEs rely on high-quality products to compete, which underpin its success in international markets

71% of Italian SMEs with more than 10 employees mention quality as their main competitive advantage⁸. This underpins their success in international markets – 15% of Italian SMEs export goods outside the EU, significantly above the EU average of 10%⁹.

Since 2014, the Italian government has been working to consolidate the national support system for export and internationalisation of SMEs – setting the main priorities (*Special Plan for 'Made in Italy'*), streamlining support schemes (*SACE-SIMEST under the Cassa e Depositi umbrella*) and introducing more focused instruments and incentives (*Nuovi Macchinari*, *Temporary Export Management*). Growing investments and tax incentives have also helped dynamise exports.

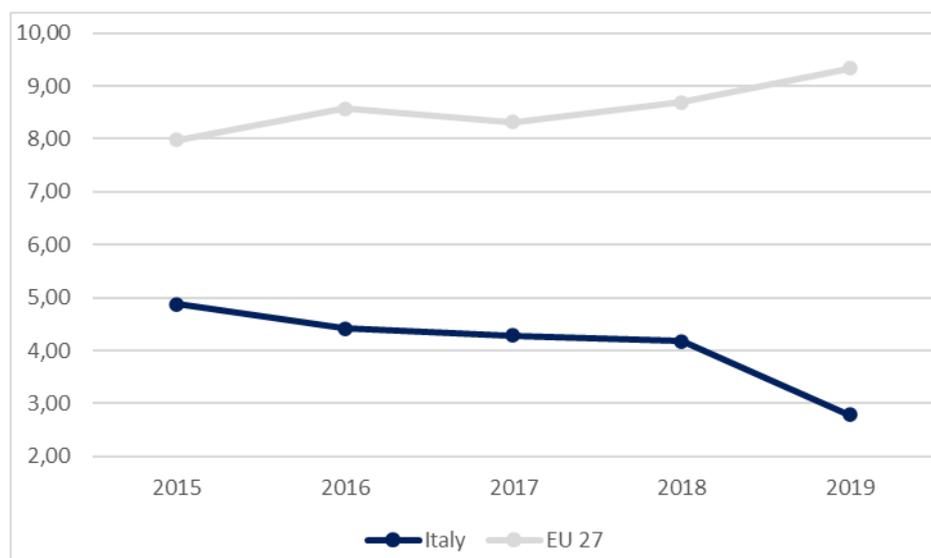
3. Key challenges

Italy performs well below the EU average in entrepreneurship

Early-stage entrepreneurial activity – both in general and for female entrepreneurship – is the lowest in the EU, with the difference between the Italian percentage and the EU average having widened in 2015-2019 period. In 2019, only 6.2% of the population intended to start a business

in the next 3 years, against an EU average of 15.6%¹⁰. In addition, perceptions around entrepreneurship are the least positive in the EU¹¹.

Figure 3: Total early-stage entrepreneurial activity (TEA)



Source: Global Entrepreneurship Report, 2019¹²

SME growth is hindered by low market capitalisation and limited access to finance

Italian SMEs face several barriers in accessing capital to finance their growth, such as a risk-averse attitude from banks and traditional lending institutions¹³. Other factors are the modest role played by the equity capital markets – which accounted for only a total of EUR 6.7 billion in 2019¹⁴ – and the absence of a vibrant business angel and venture capital investment community¹⁵. Access to public financial support is also among the lowest in the EU¹⁶.

However, several instruments were introduced to improve access to finance for SMEs and start-ups in recent years. These include an additional financing for the Guarantee Fund for SMEs (*Fondo di Garanzia per le PMI*), new guaranteed loans and the creation of public venture capital funds. Favourable regulation for equity crowdfunding and fiscal incentives for investments in innovative start-ups and SMEs are also in place.

Although the public sector's performance in making payments on time appears to have improved compared to previous years, excessive payment delays by public administrations are still persistent at both central and regional level. In 2020, the payment delays were on average between 13 and 62 days at ministerial level. For local authorities, payment delays were on average between 63 days (municipality of Rome) and 365 days (municipality of Naples)¹⁷.

Burdensome administrative procedures, unclear regulation and frequent regulatory changes continue to hamper Italian SMEs

The daily operations of SMEs are still hampered by burdensome administrative requirements (more than 300 hours/year spent on bureaucracy¹⁸) and frequent changes in the regulatory framework as well as tax pressure (up to 64% of company turnover¹⁹). The cost and number of procedures required to start a business are also among the highest in the EU²⁰.

Although recent policy efforts have been made to address these issues – including a rationalisation of compliance rules, a reduction of the administrative burden, the creation of public online portals and electronic platforms, and a labour market reform – there is still significant room for improvement.

Italian SMEs have limited access to specialised, skilled workers

With a low number of university graduates²¹, limited access to managerial and technical skills is a major issue for Italian SMEs. Italy is also lagging behind in digital skills – in 2016 only 29% of the workforce had digital skills, compared to 37% in the EU²².

Educational and labour market reforms have been introduced to align training/education with the market demand for skills, such as a tax credit for Education 4.0 or the New Competence Fund (*Fondo Nuove Competenze*).

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

It is estimated that 72% of Italian SMEs were badly affected by the COVID-19 pandemic, with those in tourism, fashion, and retail trade experiencing the highest fall in demand²³. The government provided for direct transfers and deferrals in tax payments, and imposed a ban on redundancies and layoffs.



SCALE-UP ENVIRONMENT

Despite the country's poor performance in entrepreneurship, Italy's SMEs and start-ups are performing relatively well in terms of growth. Having up to 120 scale-ups²⁴, Italy's ranks 10th in the EU Tech Scaleup Country Index²⁵. In 2019, a total of EUR 672 million was invested in Italian scale-ups. However, in 2020 the scale-up scene was badly affected by COVID-19, with investments in the first half of 2020 decreasing 23% against the same period in 2019²⁶.



GREEN TRANSITION OF SMES

Italy performs below EU average on the environment. Attention to environmental sustainability increases with company size. 91% of SMEs with 50 or more employees separate their waste collection, 71% control their use of energy and 56% control their use of water²⁷. Several measures related to environmental sustainability were adopted, such as a Green New Deal²⁸ and the National Integrated Plan for Energy and Climate (*Piano Nazionale Integrato per l'Energia e il Clima*). Favourable fiscal arrangements for antipollution strategies (*Regime fiscale agevolato per strategie antinquinamento*) were also adopted, although implementation rules are still missing.



MARKET ACCESS

Regulatory burden hampers the internationalisation of Italian SMEs²⁹. The number of documents required to import and export are among the highest in the EU³⁰. A strong policy framework with incentives (training, export kits, online tools) and subsidised finance is in place to help SMEs export.



START-UP ENVIRONMENT

The Italian 'Startup Act' has been regulating and promoting the start-up environment since 2012, although significant room for improvement remains in this area. More than 12 000 innovative start-ups are currently listed in the Trade Register³¹.



DIGITALISATION OF SMES

Italy has had mixed results in SME digitalisation. Nearly 80% of SMEs do not invest in ICT and Industry 4.0 technologies³². However, e-commerce is increasing, with SMEs accounting for 56.1% of total national online sales³³.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (EUROSTAT).
- ² Business People (2018), *Pmi: l'innovazione passa dalla flessibilità*, available at: <http://www.businesspeople.it/Business/Economia/pmi-flessibilita-innovazione-104586>
- ³ Preti, P. (2012), *Il meglio del piccolo. L'Italia delle PMI*, available at: <https://www.ibs.it/meglio-del-piccolo-italia-delle-ebook-paolo-preti/e/9788823872455>
- ⁴ Eurostat (2016), Community innovation survey, available at: http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en
- ⁵ European Commission (2020), European Innovation Scoreboard, available at: https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en
- ⁶ Ibid.
- ⁷ Ministry of Economic Development (2020), *La strategia nazionale per le startup e le PMI innovative*, available at: https://www.mise.gov.it/images/stories/documenti/Scheda_di_sintesi_aggiornata_startup_2020.PDF
- ⁸ ISTAT (2020), *Censimento permanente delle imprese 2019*, available at: <https://www.istat.it/it/censimenti-permanenti/imprese>
- ⁹ European Commission (2017), *Comext, International trade by enterprise characteristics*, available at: <http://epp.eurostat.ec.europa.eu/newxtweb/setupdimselection.do>
- ¹⁰ Global Entrepreneurship Monitor (2019), Global Entrepreneurship Report, available at: <http://www.gemconsortium.org/data/key-aps>
- ¹¹ Ibid.
- ¹² Ibid.
- ¹³ Banca de Italia (2020), *Rapporto sulla stabilità finanziaria*, available at: https://www.bancaditalia.it/pubblicazioni/rapporto-stabilita/2020-1/RSF_1_2020.pdf
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- ¹⁶ European Commission (2020), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
- ¹⁷ https://www.repubblica.it/economia/2020/10/10/news/pagamenti_della_pa_la_cgia_lamenta_undici_ministeri_su_dodici_sono_in_ritardo-270087429/
<https://quifinanza.it/soldi/pagamenti-p-a-ritardi-potrebbero-costare-una-maximulta-di-2-miliardi/350519/>
- ¹⁸ Bureacracy Index (2020), Italy, available at: <https://bureacracyindex.org/>
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- ²¹ European Commission (2018), *Education and Training Monitor 2018*, available at: https://ec.europa.eu/education/sites/default/files/document-library-docs/et-monitor-factsheet-2018-italy_en.pdf
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- ³⁰ See Note 20.
- ³¹ Start-up Registro imprese (2020), Italia, available at: <https://startup.registroimprese.it/isin/static/startup/index.html?slideJump=32>
- ³² ISTAT (2020), *Censimenti Permanenti Imprese, Digitalizzazione e tecnologia nelle imprese italiane*, available at: https://www.istat.it/it/files/2020/08/REPORT_DIGITALIZZAZIONE_CENSIMPRESA_PC.pdf

³³ NetComm, The European House – Ambrosetti (2020), *Il ruolo e il contributo dell'e-commerce e del digital retail alla crescita e alla trasformazione digitale*, available at:
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