



ANNEX 4.13 TO THE JRC TECHNICAL REPORT

High Growth Enterprises:

demographics,
finance &
policy measures

FACTSHEET - ITALY (IT)

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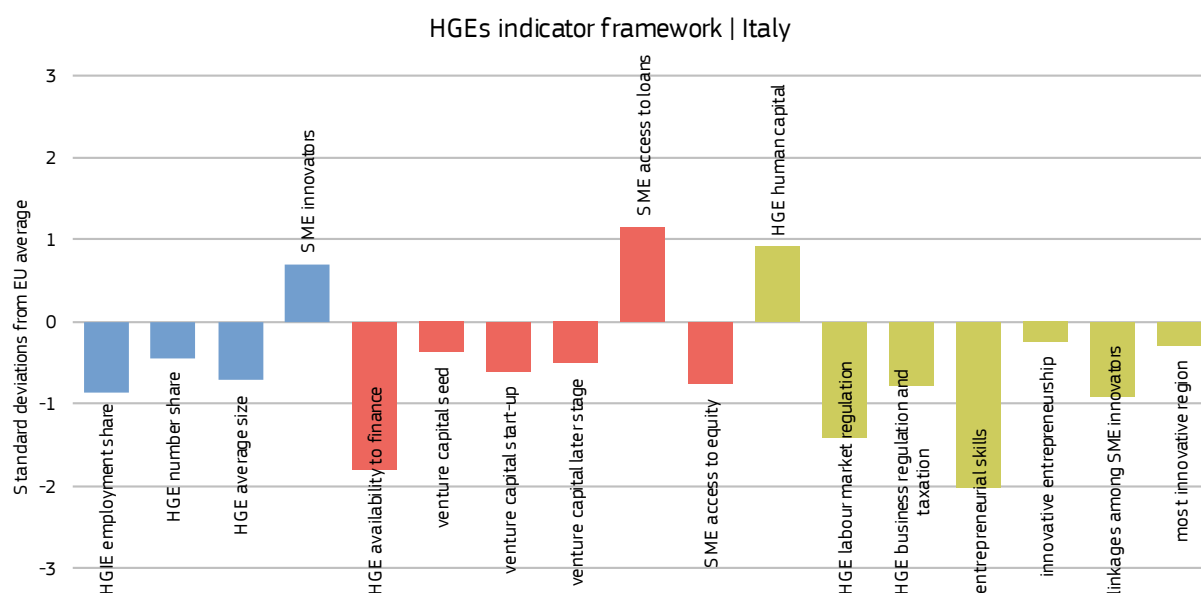
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1. Executive summary

IT overall performance in factors determining the development of high growth enterprises* (HGEs) appears **dissatisfactory**. The share of innovative SMEs and access to human capital in IT is not far from the EU average whereas the generally weak performance of the innovation ecosystem in IT does not facilitate the development of HGEs. The emergence of HGEs is also impaired by the scarce accessibility to finance for this specific category of firms. This is also reflected in the overall stable and below EU-average trend in venture capital (VC) available in IT during recent years, thereby partly addressing previous shortcomings in equity finance. The sectoral distribution of VC investments is diversified, but certain sectors stand out, such as manufacturing, ICT, financial and insurance activities. There is a strong concentration of venture capital in Lombardy across all stages of financing, which may also be related to the relatively strong innovation performance vis-à-vis other IT regions. The venture capital markets in IT is small and underdeveloped, especially in comparison to the UK or DE.

The conditions for HGEs could further improve by supporting the development of relevant entrepreneurial skills. The availability of staff with the right skills is considered an obstacle for investments by HGEs. IT performs far below the EU average for this indicator. The lack of adequate skills is also reflected by the low proportion of the working-age population who believe they have the required skills and knowledge to start a business. In recent years Italy's R&I policies have not deployed the resources and energies needed for the challenges facing the country. The challenges for Italy's R&I system and the problems for HGEs are mainly of structural nature; in the short term, the budget constraints for public expenditure and the stagnation of GDP, demand and investment make it difficult to expect significant changes in the country's economic performance and policy outlook.

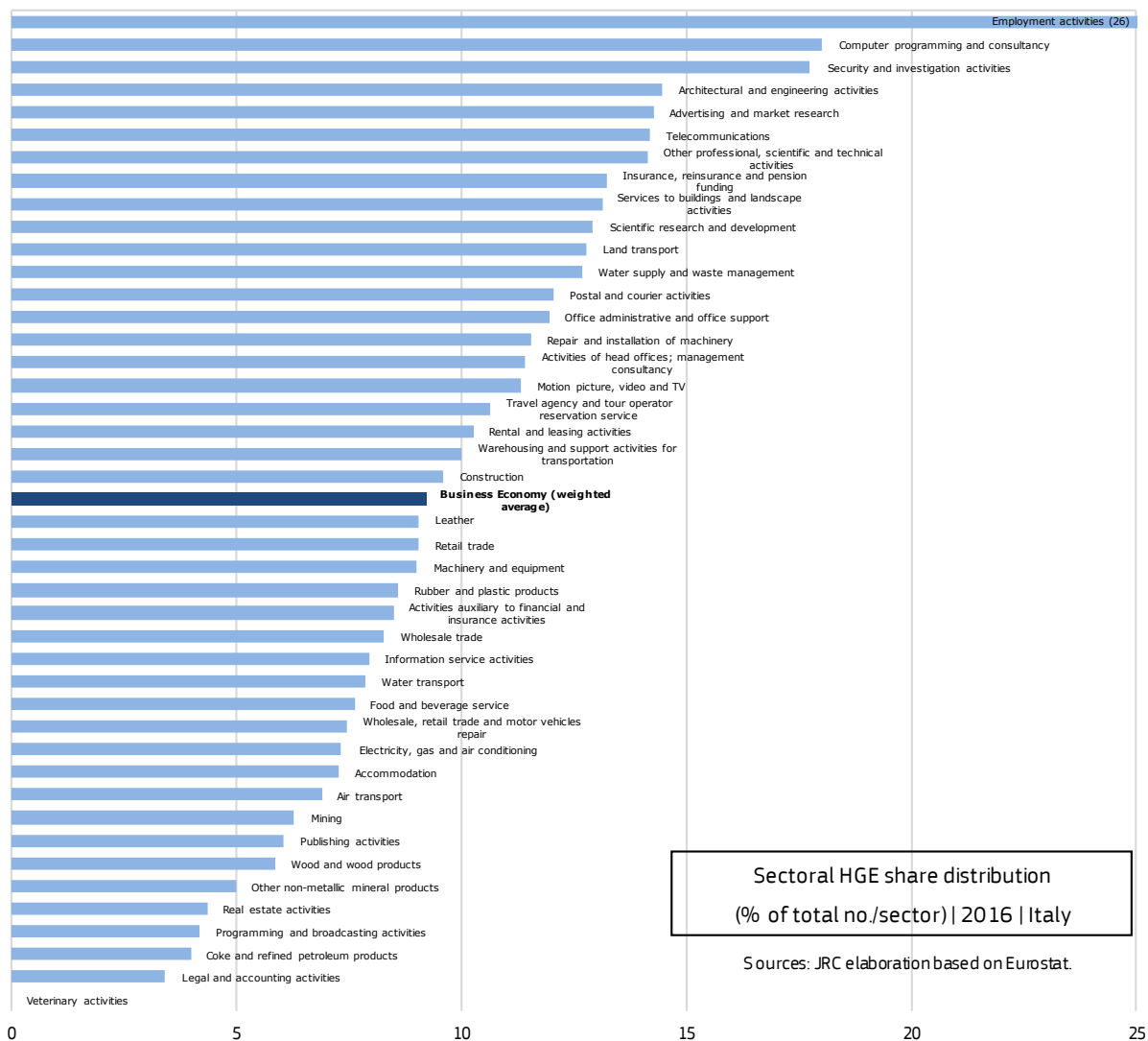
2. HGEs indicator framework (see Annex for details on indicators)



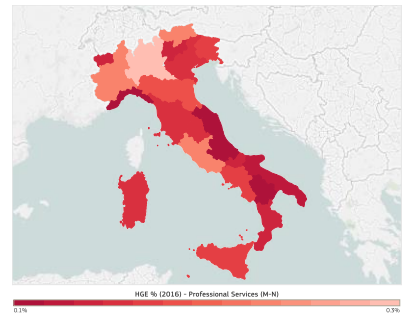
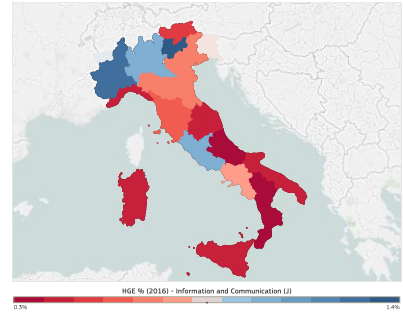
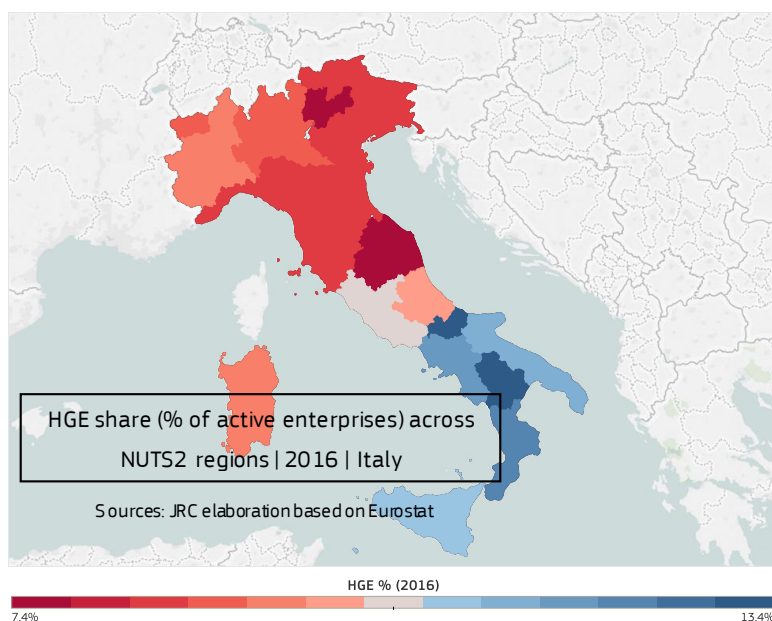
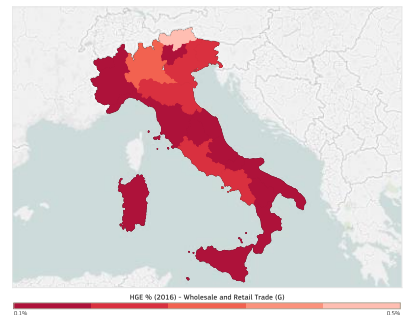
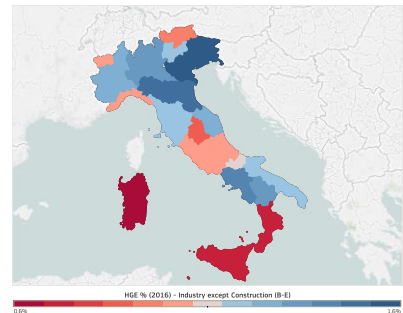
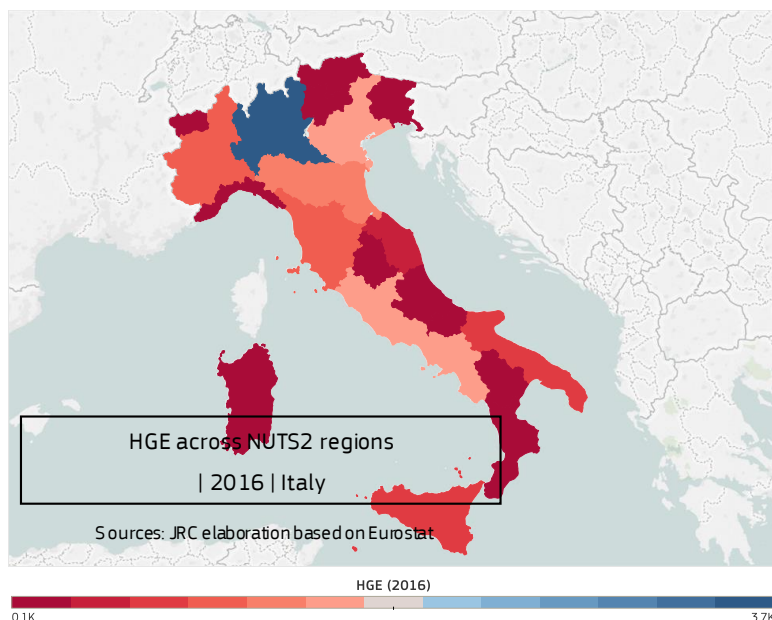
- IT performs below the EU average in several indicators, especially in terms of HGE employment share and availability to Finance, SME access to equity, entrepreneurial skills, HGE labour market regulation and linkages among SME innovators.
- The share of innovative SMEs, their access to loans and human capital can support the emergence of HGEs in IT.
- IT could further improve the conditions for HGEs by supporting the access and availability of finance related to HGEs and enhance the overall entrepreneurial skills available across the working-age population.

* In line with Eurostat, HGEs are defined in this factsheet (unless otherwise stated) as enterprises having (i) experienced an annualised average employment growth rate of 10% per year over a three-year period and (ii) at least 10 employees at the beginning of the growth period. The importance of HGEs is directly linked to their substantial contribution to employment growth, productivity improvements, economic renewal and innovativeness.

3. Firm demographics and sectoral decomposition: HGEs fine-grained

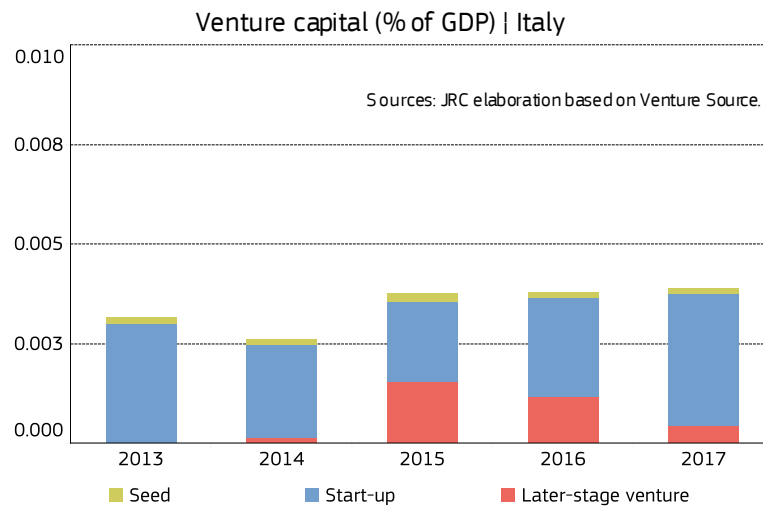


- The average share of HGEs in IT is 9.2% across the business economy, ranging from 3.4% in legal and accounting activities to a remarkable 25.8% in employment activities.
- The highest shares of HGEs are found not only in knowledge-intensive and medium-high tech manufacturing industries, such as computer programming, telecommunications and scientific research, but also in less knowledge intensive sectors such as services to buildings and landscape, postal and office support activities, rental and leasing.

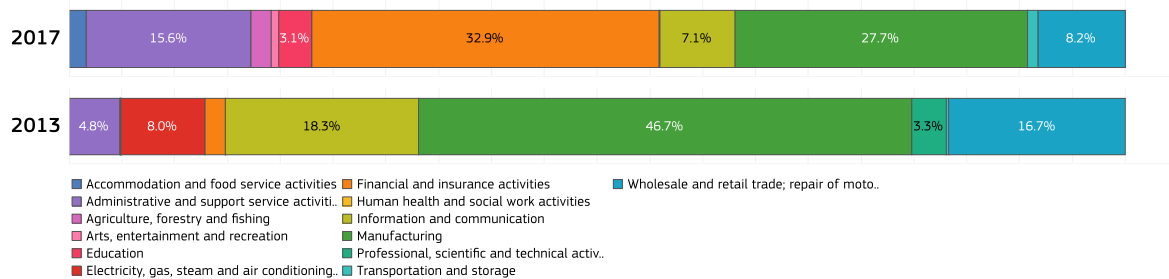


- HGEs are mostly clustered in the region of Lombardia with large disparities with respect to other areas, particularly in the South of Italy.
- Looking at the proportion of HGE with respect to other firms in the same region, the highest share of HGEs among all active enterprises is instead concentrated in the southern regions, particularly Basilicata and Molise.
- 'High-Growth' appears therefore as a signal of enterprise resilience in southern regions, which are characterised by an overall lower number of enterprises. The ability to grow fast is what distinguishes firms enduring in those regions.
- Investigating further the size of the HGE phenomenon by looking at regional breakdown of sectoral developments, Southern IT regions present far less favourable shares of HGEs with respect to Northern counterparts.
- In Southern IT regions, services and human capital-intensive industries perform worse in terms of the proportion of HGEs over all active companies, while manufacturing-related industries are those presenting a relatively higher share of HGEs.

4. Financing HGEs and start-ups: the role of venture capital

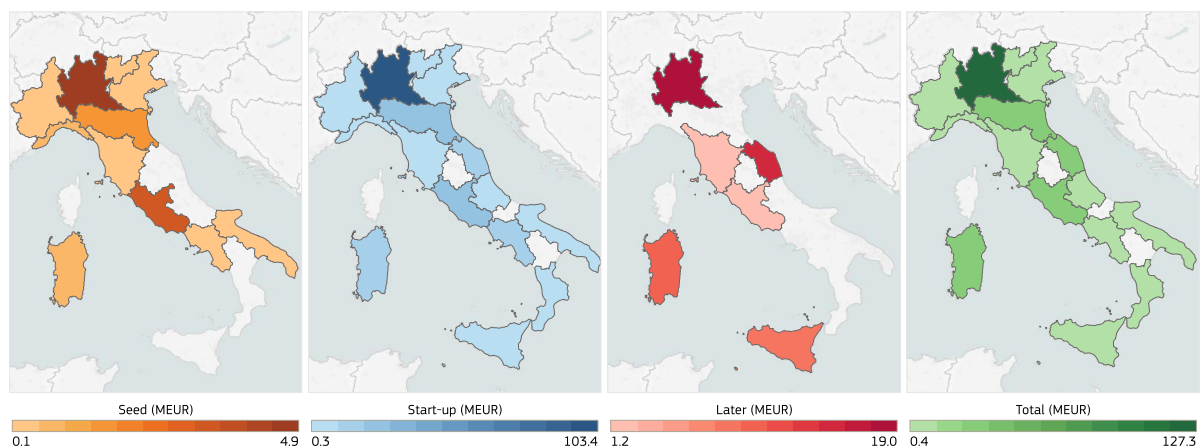


- IT has maintained a rather stable share of GDP in venture capital investments since 2013, with a slight increase since 2015.
- The share of later-stage ventures has substantially increased in IT despite a recent drop in 2017. The size of investments in seed companies is increasing in line with the EU average but remains relatively modest.



- The sectoral distribution of venture capital investments is diversified, but certain sectors receive most investments, such as manufacturing, ICT, financial and insurance activities, wholesale and retail trade, and administrative and support services.
- The sectoral distribution of venture capital investments appears to change substantially across time (2017 vis-à-vis 2013).

Regional distribution of VC investment by stage of financing



- Over the period 2013-2017, there is a strong concentration of venture capital in Lombardy across all stages of financing.
- The start-up stage funding is most distributed across regions in IT, whereas Later stage venture capital is most concentrated within a few regions.

5. Finance-related policy measures

Policy Measure	Year	Target	Value (€)
2019 Budget law	2019	Firms, SMEs	TBC (simplification and indirect incentives for VC and business angels)
New Fondo Nazionale Innovazione	2019	Firms	€1b (public fund for VC)
Tax credit for the training activities	2019	Firms	€250m
Smart&Start Italia	2017	Firms, SMEs	€95m in 2017 budget law
Industria 4.0 / Impresa 4.0	2016	Firms	€2.3 billion in 2018 and around €4 billion in 2019-2020
DL 69/2013 'New Sabatini Law'	2013	Firms, SMEs	2014-2021: €385.8m. Refinancing of €48m in 2019, €96m for each year until 2023 and €48m in 2024
Fondo centrale di garanzia per le piccole e medie imprese	2013	Firms with some streamlined access for Start-ups, innovative SMEs, incubators	From 2013 €950m for start-ups; €93m for innovative SMEs; €12m for incubators
Investment compact law 2015 n.33	2015	Firms, SMEs (Innovative SMEs, incubators, patent box)	N/A
Start up Law 17 december 2012 n.221	2012	Firms, SMEs	N/A
Contratti di sviluppo	2011	Firms	2011-2019: €2.4b ; then €1.1m in 2019, €41m in 2020 and €70.4m in 2021

- In Italy the difficulty to access risk capital is a persistent limitation for the scaling-up of firms and venture capital plays a limited, but growing role.
- The main traditional policy tool to grant access to credit to SMEs is the '*Fondo centrale di garanzia per le piccole e medie imprese*' a public fund offering guarantees for loans by private banks to SMEs. The fund provides collateral and other instruments allowing SMEs and micro-firms to fund their investment through bank loans.
 - In the period 2008-2014 the fund made available €32b of collateral (of which €17.6b for manufacturing firms) triggering €56b of new investment (of which €31.2b in manufacturing) mainly by firms located in Northern regions. In 2014 €8.3b of collateral has led to €12.9b of new investments.
 - The fund relevant is also for the start-ups and innovative SMEs. The amendments to the start-up law in 2015 and in the 2017 stability law provided a guarantee scheme covering 80% of bank debts of SMEs up to €2.5m earmarked for innovative SMEs.
- The most important policy effort towards firm's productivity in recent years has focused on indirect tax incentives to firms for a wide range of activities, including R&D, patents, human capital, investment in machinery and in the digital technologies of the Industry 4.0 programme.
 - Measures of 'Industry 4.0' have mainly focused on allowances for accelerated depreciation of the cost of acquisition of advanced machinery. In addition, a range of measures for R&D tax credits and tax incentives on investment have been introduced, offered to all firms. The targets of such policy included €10 billion of expected additional private investments in 2017-2018; €11.3 billion of expected R&D and innovation expenditure by business in 2017-2020; €2.6 billion of expected early stage investments in new firms in 2017-2020.
 - For 'Industry 4.0' an ISTAT study found that in the first year of the programme mainly large, technologically advanced firms benefitted from such measures; the impact on additional investment is estimated at 0,1% only (ISTAT, 2018). Larger effects may be anticipated in later years.
- ISTAT has carried out an assessment of the R&D tax credit showing that in 2015 7,993 private businesses benefitted from the tax credit for around €590m; average per firm is modest (less than €75,000), three quarters of recipients

are located in Northern regions and no additionality of the tax credit measure was found (ISTAT, 2018[†]). In a context of low demand and stagnating GDP, potential effects of tax incentives for R&D and innovation have been limited.

[†] ISTAT (2018f) Statistiche report. I profili dei nuovi imprenditori e delle imprese a elevata crescita, Anno 2016, Roma, 14/12/2018.

Annex: HGEs Indicator Framework details

Indicators	Details	Motivation
HGEs indicators		
HGE employment share	Percentage share of employees among HGEs in 50% 'most innovative' industries relative to total employment (EIS; 2018)	Measures contribution of HGEs to employment creation
HGE number share	Percentage share of HGEs of total enterprises with at least 10 employees (Eurostat; 2016)	Measures how many firms are HGEs
HGE average size	Average size of HGEs (employment definition); employees divided by number of HGEs (Eurostat; 2016)	Measures average size of HGEs, an indication for future job growth potential
SME innovators	Share of SMEs with product, process, marketing or organisational innovations or innovating in-house among all SMEs (EIS; 2018)	Existing SME innovativeness as predictor for future innovations
Financing HGEs indicators		
HGE availability of finance	Percentage of HGEs considering the availability of finance is not an investment barrier (EIBIS; 2016-2018)	HGEs access to finance is considered a precondition for the development of HGEs
Venture capital seed	Share of seed venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital start-up	Share of start-up venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital later stage	Share of later stage venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
SME access to loans	EIF SME Access to Finance Sub-index for loans, comprising the use and cost of loans (EIF; 2018).	SME access to loans is an important framework condition indicating the access to loans for HGEs
SME access to equity	EIF SME Access to Finance Sub-index for equity, comprising use of equity and the sophistication of the equity market (EIF; 2018)	SME access to equity is an important framework condition indicating the access to equity for HGEs
HGEs framework conditions indicators		
HGE human capital	Percentage of HGEs considering the availability of staff with the right skills is not an investment barrier (EIBIS; 2016-2018)	HGEs access to human capital is essential for the development of HGEs
HGE labour market regulation	Percentage of HGEs considering the labour market regulation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing labour market regulation
HGE business regulation and taxation	Percentage of HGEs considering the business regulation (e.g., licences, permits, bankruptcy) and taxation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing business regulation
Entrepreneurial skills	Percentage of 18-64 population who believe to have the required skills and knowledge to start a business (GEM; 2018)	HGEs may require entrepreneurial spirit, skills and knowledge
Innovative entrepreneurship	Ratio between improvement-driven and necessity-driven entrepreneurship (EIS; 2018)	Countries with high relative prevalence of improvement-driven opportunity, and entrepreneurship tend to be primarily innovation-driven, thus conducive for HGEs
Linkages among SME innovators	Innovative SMEs collaborating with others, public-private co-publications and private co-funding of public R&D expenditures (EIS; 2018).	Quality of innovations increases with collaboration and provides information on sophistication of SME innovation ecosystem, thus related to HGEs.
Most innovative region	Relative performance of most advanced region in the Regional Innovation Scoreboard within each Member State vis-à-vis the best performing regions across all other Member States (RIS; 2017).	HGEs innovation ecosystems tend to be concentrated in most innovative regions/centres.

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