

Chapter 6

The local dimension to SME and entrepreneurship policy in Italy

Italy exhibits strong regional disparities, especially between the economically advanced North and the less developed South, and a decentralised governance structure, where most economic development competences are shared by the national and regional governments. The co-ordination of policy between national and regional authorities and the responsiveness of national programmes to differing local conditions are therefore very important in Italy. The State-Region Conference has proven to be a useful tool to coordinate national and regional programmes co-financed by the EU. However, there needs to be greater coordination among national and regional initiatives which aim at the same groups of enterprises. Some national programmes are also unequally distributed across regions, calling for mechanisms to distribute resources in better proportion to the target firm base. Regional authorities also have important responsibilities for business regulation, and the best strategies for administrative simplification should be rolled out at this level.

Regional differences

Strong and persistent economic disparities between the North and the South

Italy is a very heterogeneous country from an economic point of view. This is not only related to the underdevelopment of the South, but also to differences in economic structure and performance among the regions in the North. While there are common issues across all these regions related to support of SMEs and entrepreneurship (for example because basic laws and regulations are common to the whole territory), some of the detailed opportunities, barriers, and support needs vary and SME and entrepreneurship policies and programmes may therefore need to be tailored on a local or regional basis.

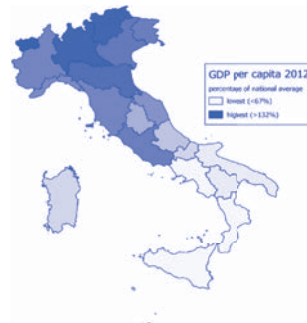
One of the most conspicuous features of the Italian economy is its long-standing North-South divide. Regions in the South (the *Mezzogiorno*) have levels of GDP per capita only slightly more than one-half of those of the most prosperous northern regions, with GDP ranging from less than 70% of the national average in the southern regions of Campania, Calabria, Puglia and Sicily, to more than 120% of the national average in the northern regions of Valle d'Aosta, Lombardy, Trentino-Alto Adige and Emilia-Romagna (Figure 6.1). As a result, Italy is one of the OECD countries with the highest income inequality, twice as high as other countries with comparable GDP per capita (e.g. Spain, Germany, Japan and the UK) (Iuzzolino et al., 2011).

This split between North and South is also evident in figures related to employment. Participation rates are much lower in the South, whilst rates of unemployment, and particularly youth unemployment, are much higher (Figure 6.2).

There are also significant differences in industry composition (Figure 6.3). For example, agriculture accounts for 4.9% of employment in the country as a whole, but more than 10% in three regions of the South (Apulia, Calabria and Basilicata). Manufacturing accounts for 22.7% of employment overall, varying between 7.1% (Calabria in the South) and 32.3% (Veneto in the North), although below average figures are to be found not only in the South, but also in northern regions including Trentino-Alto Adige (16.5%) and Liguria (13.6%). Service employment averages 47.3% with the highest percentages in Lazio (61.8%), Val D'Aosta (56.9%), Liguria (55.3%) and Campania (53.1%), while the lowest figure is for Marche (39.5%). In addition, companies in the South are much less open to international markets, with a difference relative to the North and Centre consistently around 15% measured as an export to GDP ratio, tend to be of smaller size, and are more likely to be engaged in traditional sectors (Bronzini et al., 2013; Montanari, 2011). Access to credit also varies geographically, with credit rationing much more pronounced in southern regions (Costa et al., 2013).

Regional disparities have been persistent in Italy for several decades, and although there has been some convergence in the past, it has largely come to a halt during the last 20 years. Between 1991 and 2007, GDP per capita in the South as a share of that in the North rose by a mere 2 percentage points, from 59.6% to 61.6%, whilst the overall contribution of

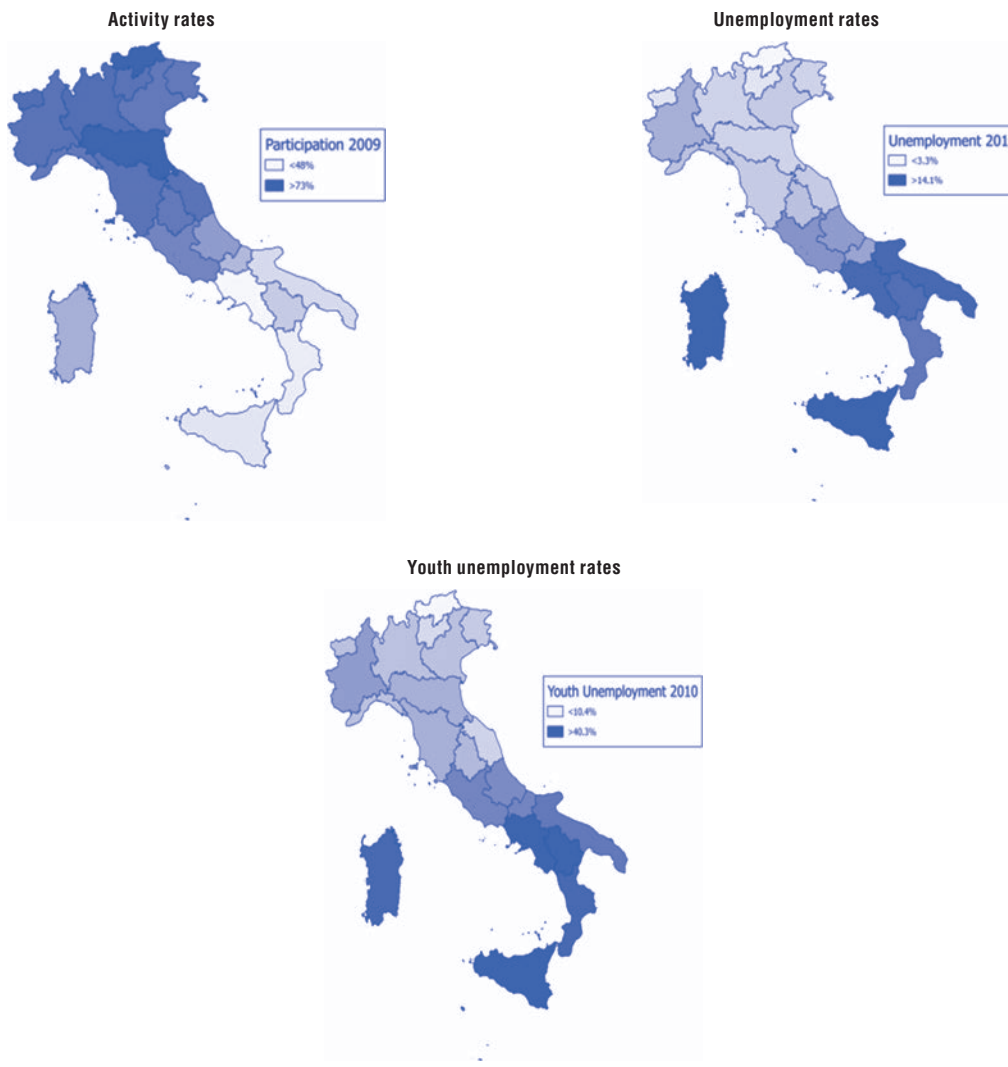
Figure 6.1. **GDP per capita by region, 2012**
Percentage of national average (Italy=100)



Source: OECD based on ISTAT National Accounts database

StatLink <http://dx.doi.org/10.1787/888933147597>

Figure 6.2. **Key regional labour market indicators, 2009 and 2010**
Percentage values



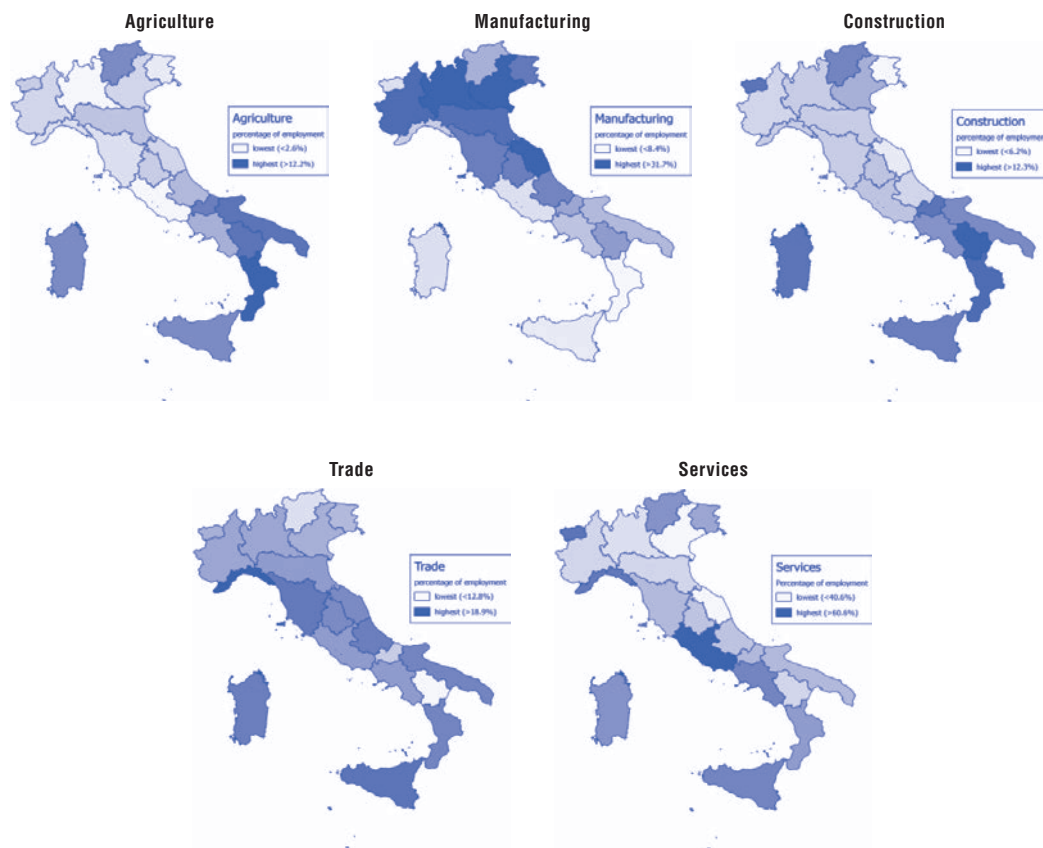
Note: Figures for youth unemployment for Bolzano and Liguria relate to 2009

Source: OECD based on OECD Regional Labour Statistics database

StatLink <http://dx.doi.org/10.1787/888933147600>

Figure 6.3. **Employment rates by sector and by region in Italy, 2012**

Percentage values



Source: OECD based on ISTAT National Accounts Statistics database

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the South to national GDP fell by 1 percentage point, from 33.8% to 32.7%. In the same period, the number of full-time equivalent workers in the South fell from 40.2% to 36.6% of the national total, and unemployment rates increased more rapidly than elsewhere. Southern Italy has also lost ground in international comparative terms; its per capita output was 79% of that in the EU27 in 1995, but only 70% in 2008. The recent economic crisis exacerbated the divide. Between 2007 and 2011, value added contracted by 6.8% in the South compared with 3.8% in the North and manufacturing employment dropped by 11.1% compared with 5.1%. The credit crunch following the sovereign debt crisis also disproportionately impacted on southern firms.

Significant local variations in SME and entrepreneurship performance

As might be expected in this context, there are also significant geographical differences in SME and entrepreneurship activities. In particular, many of the lowest SME densities are in the southern provinces, which also tend to have lower business churn rates (Figure 6.4). This illustrates a relative lack of entrepreneurial dynamism in the South that needs to be addressed if regional disparities are to be reduced and national growth potential increased.

Nonetheless, there are also areas of excellence in the South, such as the export-oriented industrial clusters in the regions of Apulia and Campania (Intesa San Paolo, 2013).

competences; innovation, research and competitiveness) and strategic priorities for the improvement of contextual factors (security and legality; rule of law; public administration; local financing system; targeted and streamlined business support). However, while the contextual factors can be seen as key enablers of entrepreneurship and SME development, they are unlikely to do much to address the key structural weaknesses of southern SMEs in the short run (e.g. smaller size, lower profitability, lower exposure to innovation and internationalisation and low domestic demand). Substantial direct support for building the capability of southern enterprises is also needed.

The Plan has a number of instruments at its disposal in this respect. Tax credits for innovation, research and competitiveness are one of the key instruments. Experience from the US federal R&D tax credits suggests that this type of approach can be effective: the US programme has succeeded in making firms more R&D-oriented than before, not only in the short- but also in the long-term, especially in the case of new and small firms (Rao, 2013). At the same time, the Italian tax credits should be properly designed. If they are too automatic and generous they may quickly run out of resources. Law 388/2000 is an example of the problem, in that it awarded tax credits for investment in the South irrespective of nature, sector, or size (Viesti, 2011). On the other hand, if the credits are too complex and difficult to access they may discourage applications, and thus investments, because of high intermediation costs and uncertainty among SMEs about the final outcome of the application process. Unfortunately, there have been many changes in the rules for tax incentives for businesses in the South. Attention should therefore be paid to ensuring that the tax credits have clear and consistent rules and are of sufficient duration to enable a long-term change in the investment decisions of firms towards the objectives of policy makers.

There is also a range of other traditional business incentives available to support enterprise development in the South. One of the strengths of the Plan is that it is now bringing about a rationalisation and simplification of the incentive system, including a stated intention to cross out 30 of over 100 different types of business incentives currently existing at national level.¹ It is also planned to set up a common support framework through which automatic vouchers will become the main entry point for entrepreneurs seeking public support. The main merit of vouchers consists in their automatic nature and simplicity of use, which reduce market distortions and make them easily accessible to SMEs. On the other hand, given their small value, they may not be sufficient to change the long-term behaviour of firms.

Rather than a lack of available financial instruments for enterprise development, the obstacle is a relative lack of spending on these types of supports compared to the needs, or to building the framework for business activity more generally. Thus, information on the recent programming of EU funds shows that the two most relevant headings with respect to SMEs and entrepreneurship have received relatively little funding in Italy in comparison with other larger countries in Western Europe (Table 6.1). In addition, there have been operational constraints at the regional level in spending the European and national resources available for local development, which affects SME and entrepreneurship support as well as other programme areas. In the 8 regions of southern Italy only 38% of available national resources (EUR 16 billion) and 7% of European resources for the 2007-13 programming period had been spent at the end of 2011, which raises a concern about the effective capacity of local policy makers in the South to make use of the available resources in time.


In addition, national programmes which are distributed on the basis of the demand expressed by eligible companies do not appear to have clear visions of regional focus. For example the Central Guarantee Fund established under Law 662/96 is disproportionately concentrated on a few regions. More than 20% of operations and value are in Piemonte, which represents around 7% of the population, while less than 2% by number and value are in Lazio, which represents 9% of the population (Mistrulli and Vacca, 2011). Spending on the national Network Contracts and Innovative Start-Up programmes is also relatively weighted to the North, partly reflecting the way the programmes are designed to support the most innovative companies, which tend to be more present in the most prosperous regions. There is scope for greater targeting of such resources on the basis of national spatial development objectives through monitoring and adjusting spending and re-designing programmes to increase take up in the South.

Table 6.1. **Share of EU Structural Fund spending on entrepreneurship related activity in selected countries, 2007-2013**

Percentage values

	United Kingdom	Germany	France	Spain	Italy
Research and technological development, innovation and entrepreneurship (% of European Regional Development Fund allocation)	58.0	46.9	36.9	30.1	29.5
Increasing the adaptability of workers and firms, enterprises and entrepreneurs (% of European Social Fund allocation)	30.0	16.4	17.6	21.5	15.2

Source: OECD based on European Commission (2008), Cohesion Policy 2007-13: National Strategic Reference Frameworks, Brussels.

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Further emphasis could be placed on direct support to southern enterprises for increasing their efficiency and innovation by increasing the draw-down of national and European resources that can be directed to SME and entrepreneurship development. This could include initiatives for entrepreneurial finance, such as equity investment support, mentoring and consultancy support for business innovation and internationalisation and support for regional innovation networks, for example by establishing regional centres of excellence in research and research commercialisation in the South based on an analysis of industry and academic strengths and proximity to the major university centres. Box 6.1 outlines a potential model programme from Germany that was designed to support the development of innovation networks in lagging regions with a weak base of SME innovation.

Notwithstanding the relative lack of direct support for enterprise development in the South, the activities for research and innovation are well thought-out in general. Spending is appropriately directed towards a few technologies (ICT, nanotechnologies, biotechnologies and materials science) that are relevant to the future industrial development of the South and permit both the development of critical mass in ‘centres of excellence’ and the cross-over of knowledge into related sectors.

At the same time, the Plan for the Development of the South contains a proposal for developing a new Bank for the South in order to ease constraints in local SME credit markets. The main goals of this new institution will be: i) developing medium and long-term credit for SMEs by partnering with cooperative banks and savings banks at local level; ii) strengthening the credit guarantee system by acting as a guarantor bank and by encouraging aggregations in the system of *Confidi* (local mutual guarantee associations);

Box 6.1. **International inspiring practice: Regional innovation support through InnoRegio, Germany**

Description of the Approach

The East German economy has lagged behind the rest of the country since reunification. At the end of the 1990s, its business and research landscape was marked by a predominance of SMEs, low innovation capacity, a dearth of employment and training positions and the out-migration of young people to the rest of the country. In this context, it would be difficult for East Germany to access and benefit from traditional national innovation policies that pre-suppose a high innovation capacity. The Federal government therefore introduced the InnoRegion programme in 1999 aimed specifically at building up new innovation capacities in the regions of East Germany by stimulating the emergence of local innovation networks involving SMEs, training and research establishments based on some specific local competences that could be directed to new and growing markets.

The programme was set up as a broad, open-themed competition that would provide support over and above existing innovation financing for research and innovation in winning projects, which were to create potentially sustainable innovation networks with long-term competitive ability. A national jury selected 23 networks for support from a total of 444 applications from alliances of companies, educational and research institutions encompassing greatly varying industries and with a diverse array of focuses. It ran from 2000-2006.

An evaluation of the programme led by the German Institute for Economic Research (DIW) in Berlin showed that during 2000-04 the number of employees in InnoRegio companies rose by 11%. Some 44% of the participating companies applied for patents and 40% introduced entirely new products as a result of the support (BMBF, 2005). A later evaluation (Brenner et al, 2013) showed continuing effects after the programme finished in 2006, suggesting that the ambition of self-sustaining networks has been realised to some degree.

Factors for success

The programme focused resources on developing what were judged to be the most promising innovation networks in the targeted regions rather than fragmenting funding and actions over a wide range of projects. This was achieved through a competitive approach that offered flexibility in the selection of networks for funding. To achieve this, the competition guidelines were left very wide: there were no stipulations regarding the composition of the groups of applicants or the size and organisation of the localities from which they were drawn. Localities were not defined on an administrative basis and entire regional states (*Länder*) were specifically *not* recognised as localities from the point of view of the competition.

Obstacles and responses

Despite the fact that this was a new competition, most networks developed from old relationships and there was therefore some danger of exclusion and inertia. The fact that the competition was very open and dependent on the interpretation of the jury increased fears that the usual beneficiaries would receive support. It was therefore important that the jury making the decisions had credibility and that the programme was monitored and evaluated appropriately.

Box 6.1. **International inspiring practice: Regional innovation support through InnoRegio, Germany** (cont.)

Relevance to Italy

The need to stimulate innovation in the South of Italy is a longstanding challenge, but successive approaches have met with limited success. This model shows another way of working, through stimulating new networks by a competitive bid, which has been used successfully not only in Germany but also copied in different ways in a number of other countries (for example *Vinnväxt* in Sweden).

Further information

BMBF (2005), *Das BMBF-Förderprogramm InnoRegio – Ergebnisse der Begleitforschung*, BMBF

Brenner T. et al (2013), “Regional Effects of a Cluster-oriented Policy Measure - The Case of the InnoRegio program in Germany”, *University of Marburg Working Papers on Innovation and Space*, 2013-05.

InnoRegio programme website: www.unternehmen-region.de/en/159.php

and iii) offering advice and support to SMEs interested in the use of business incentives. Although the new Bank would help address an important problem, its proposed functions resemble more those of a support agency than those of a real bank. Two of its three objectives concern advice and mentoring to partner banks and business enterprises, while the third could involve overlapping with the task of Central Guarantee Fund. In addition, the proposed focus is too strongly weighted to debt finance as opposed to equity finance, which is likely to accentuate the prevailing loan culture in the region. It may be more advisable to include a range of relevant activities for SME and entrepreneurship finance support in the South within the remit of a new national agency or financial institution for SME and entrepreneurship development in Italy, both to secure a diversity of support approaches and to improve policy co-ordination within the country as a whole.

Policy co-ordination

A decentralised governance system

Italy is a relatively decentralised country (ISMERI, 2010), which raises issues of ensuring that policies and programmes are co-ordinated across the national and regional levels and among the regional governments. The country is divided into 20 regions, of varying sizes, consisting of 15 “ordinary” regions and 5 autonomous regions (all of the latter being on the periphery). Autonomous regions can keep a proportion of tax revenues (from 60-100%), while ordinary regions have more limited control over their budgets. All regions have their own economic development strategies, can establish their own economic development programmes and can raise some of their own funds to support their interventions (depending on their level of autonomy). European Union funding is an important component of support for SME and entrepreneurship development in the regions, with funds largely spent through regional operational programmes. Both types of regions are also able to enact local regulations affecting economic development.

Article 117 of the Constitution defines the competences of regions and the national government. Some items are the exclusive competence of the national government (for example state taxation) whilst a number of areas are stated to be “concurring competences”, where the competence resides with the region, but the State is responsible for producing guiding principles. Such areas include: scientific and technological research and innovation

support for productive sectors; enhancement of cultural and environmental properties, including the promotion and organisation of cultural activities; savings banks, rural banks, regional credit institutions. Areas outside those specifically defined can be seen as joint competences with both parties able to create legislation and policies.

Italy has two further administrative subdivisions; provinces and municipalities. In practice, however, economic development policy is elaborated at the regional level, although the provinces have responsibility for vocational education and local planning, and a number of business organisations (specifically the Chambers of Commerce) are organised at the provincial level. There have been a number of proposals to abolish provinces and this is already agreed in some regions (for example Sicily).

As part of a process of policy decentralisation to the regions that has been underway over the past 20 years, a statutory body has been formed to co-ordinate relations between the State and the Regions called the State-Regional Conference (*Conferenza Stato Regioni*) (Ruggiu, 2013). The Conference has been used effectively, for example, in programming EU funds. The National Strategic Reference Framework for 2007-13 was proposed by the State (in consultation with stakeholders) and then agreed by the State-Region Conference resulting in guidelines for the regions in producing regional strategies and operational programmes. The same approach is being adopted for the current financing period (2014-20), where the coordinating document is now called the Partnership Contract. This appears to be an effective way of co-ordinating policy. However, it has been limited to the framework in which EU funds operate and therefore has not included programmes which are not co-financed by the EU, policies which relate to tax incentives, and inter-regional cooperation (except where this relates to sectoral operational programmes funded by the EU, although all of these are in the South).

The regions (and the two autonomous provinces) have established a second voluntary body (the *Conferenza delle Regioni e delle Province Autonome*) which seeks to reinforce inter-regional co-ordination of policy. This conference attempts to find common positions for the regions, to represent their views to central government, and to act as a discussion forum for common issues and inter-regional problems. However, since it does not have a statutory nature, it has mainly acted as a forum for discussions, with the power remaining with the regions themselves. As a result there is no possibility to come to decisions binding on all regions unless there is consensus.

An array of heterogeneous regional and local SME and entrepreneurship initiatives

Many SME and entrepreneurship programmes in Italy are designed, funded and implemented purely at a regional or local level. These include policy actions organised and funded by regional governments and local governments (for example through provinces and municipalities) as well as those supported by organisations outside the public sector, for example chambers of commerce (generally organised at the provincial level), independent development organisations (innovation centres etc.), and those organised around clusters, which are a responsibility of the regions.

The result is a very diverse picture of SME and entrepreneurship policy actions at regional and local level with the following characteristics:

- A wide variety of different incentives, typically direct financial subsidies, which often depend on specific eligibility criteria related to sector or location. Even in Lombardy, which has a reputation for being well organised and has a specific organisation

(SBALombardiaLAB) aimed at improving the business environment and animating the current debate on policies to support SMEs, an OECD analysis concludes that: “There are many agencies and associations representing different regional interests. The rationale for this number of organisations is historical and while such tradition has strength and community of interest spirit, there is a need to promote a more unified economic development platform and framework.” (OECD, 2012)

- A lack of coherence across adjoining regions both in terms of incentives and support structures (for example innovation networks, support through private consultants). For example, different regions have taken different approaches to supporting innovation: Aster in Emilia-Romagna assists enterprises to find the best support from a variety of existing sources, while Vega in Veneto has sought to create centres of excellence and deliver support itself.
- A tendency towards direct support rather than improvement of the business environment, owing to the nature of regional powers and funding.
- Poor consistency with national initiatives, for example in defining specific target groups for support (e.g. definition of high growth companies and sectors).

A few national actions have been taken to assist local co-ordination through place-based national policy and to encourage neighbouring localities to co-operate. Specifically such actions include:

- *Territorial Pacts*. These are development plans agreed between local governments and representatives of civil society (mainly entrepreneurs and trade unions) from a number of neighbouring municipalities, which are subsequently endorsed by the central government. The agreements detail a series of co-ordinated private and public investments for the territories involved.
- *Planning Contracts (Contratti di Programma)*. These are intended to stimulate industrialisation in lagging areas. Planning Contracts involve an agreement between the central government and private firms (SMEs and large firms) for investments in plants and employment in target localities. Public money follows the approval of a full-fledged industrial plan for the area.

Unfortunately evaluations of both of these actions suggest that they have had limited impact – see Accenturo et al (2011), Gastaldi (2003), Andini and De Blasio (2013). On the other hand, the variety of approaches at local level does not appear to significantly impede the delivery of appropriate SME and entrepreneurship development support. More important issues appear to be to increase national-regional and inter-regional co-operation.

Policy coordination between national and regional levels is a challenge

In the current stage of decentralisation, while some aspects of SME and entrepreneurship policy (for example tax) are defined to be the competence of either the national or the regional level of government, the majority of significant policy areas are ones of concurrent or joint competence under Article 117 of the constitution, meaning that policy actions can take place at the national or regional level or both. Joint scope for action is common across OECD countries under a range of different governance systems and it is typical to have some combination of highly-specific regional programmes together with a set of programmes that are national and seek to ensure a common standard of support across the whole country. However, there needs to be clarity in the strategy for division of competences, even if the detail can be negotiated.

The growing role of EU programmes in funding regional development policies, including for the convergence of European lagging regions such as the South of Italy, also raises issues of policy co-ordination. The majority of EU Structural Fund programmes in Italy are designed and implemented at regional level through a decentralised and participative approach involving regional governments, local authorities and social partners. This enables strong tailoring of approaches to differing regional needs, but does open up the possibility of a lack of co-ordination among projects in different regions and limited control by the central government on their strategic impact.

In practice, in the areas where EU funds are decisive, the current system of coordination (notably the planning system for EU funding and the statutory position of the State-Regional Conference) appears to be effective and to create programmes which are coherent and consistent and fit into both regional and national frameworks (though it should be noted that this does not necessarily extend to coordination of implementation). The existing system is no doubt generally adequate for the new EU funding round and new Structural Funds procedures.

Outside the necessary coordination imposed by the EU funding regime (where public co-financing is defined in the planning documents), there does not appear to be a clear vision of how the system of support for SME and entrepreneurship development should operate. Some actions are national, some national programmes are open to competition for access from regional organisations, and some actions are purely regional or local. To a large extent, national and regional programmes are funded separately, perhaps exacerbated by the fact that a number of national programmes are related to tax incentives rather than direct funding. Thus beyond EU programmes, the overlapping of economic development responsibilities between national and regional governments has led to a number of co-ordination problems and the lack of an overall framework for SME and entrepreneurship development.

Firstly, there needs to be a clear mechanism for implementation of national actions which seeks to provide a minimum level of business development services in all regions. The recent introduction of a one-stop-shop approach in Italy has demonstrated the possibilities but could be taken much further. At the same time, the implementation of national business support measures at the regional level through a unified national system should not entail the elimination of regional specialisation and funding. The Canada Business Network (see Box 6.2) is an example of how national government can ensure that certain national services are delivered in all regions while coordinating with other decentralised business support activities and decentralised governance to ensure flexibility of services in meeting local needs. A similar action could be introduced in Italy, based on an extension of the functions of the one-stop shops to include regional as well as national business development services. It would, however, require the upgrading of the digital network connecting chambers of commerce among each other and with the national and regional public administration, and adequate training of the staff employed in the revamped one-stop shops.

Secondly, there should be better coordination of regionally-funded initiatives (possibly co-financed by EU Structural Funds) with national incentives policies (such as tax breaks). For example, there are policies and actions to support high-growth firms at both national and regional levels but owing to lack of a common definition and coordination it is not clear that they are in fact targeting the same companies and therefore some impact may well be lost.

Box 6.2. International inspiring practice: Canada Business Network's co-ordination of national and local initiatives

This model demonstrates how a national network of business development support services can effectively be co-ordinated with regional business support structures through a process of negotiation and co-financing.

Description of the approach

Canada Business Service Centres (CBCSCs) were first established in 1995 as “one-stop shops” to improve services to new entrepreneurs and small businesses and make it easier for them to access information about government programmes and services. They are now referred to as Canada Business Centres and managed as part of the federal government's Canada Business Initiative under the Ministry of Industry. There are 13 Canada Business Centres, one in every province and territory, and upwards of 500 Regional Access Partners (e.g. provincial and municipal governments, business associations, Chambers of Commerce, community economic development organisations) which increase accessibility to the services across Canada.

Staff working in the Centres provide information on government services, programmes and regulations, answer questions about starting a business or improving an existing one, including in areas of business planning and market research, and make referrals to other support organisations and services. The Centres act as the main point of entry to a dense network of government departments, agencies and non-governmental organisations offering advisory services to SMEs, and refer clients to various network members depending on their needs.

The Canada Business Initiative is a co-operative arrangement among federal business departments, provincial and territorial governments, and in some cases, the private sector, business associations and the academic and research communities. Collaborative agreements with these partners ensure provision of information for entrepreneurs and SMEs and co-operation in meeting their needs. Cost-sharing and co-location arrangements are in place with the provincial governments.

The Canada Business National Secretariat, housed in the Ministry of Industry, is responsible for developing policies, standards and practices to promote a consistent national network operation across the Centres, and for maintaining the technical network, information databases and products and the national website. The regional development agencies are accountable for federal management of Centres located in the provinces within their jurisdictions and are required to report annually to Parliament through their departmental Reports on Plans and Priorities and Departmental Performance Reports.

These lead agencies co-ordinate their activities nationally through the Canada Business Managing Partner Committee composed of senior officials from each organisation and from the Ministry of Industry (Industry Canada). This Committee is instrumental in developing consensus on major operational decisions as well as in defining core services, new services and products, and national standards.

The network makes use of a Client Tracking System to collect meaningful data on clients that helps the network better target its messages and improve service offerings. The majority of Canada Business clients are potential and new entrepreneurs in the start-up and new business phases. Over time, the Centres have attempted to improve their appeal to existing SMEs by marketing value-added services, such as seminars and mentorship/advisor programmes. A further innovation in Centres' offerings is BizPal, a web-based platform for identifying all of the permits and licenses required when starting or operating businesses of different types. Development of new products and services and improvements in service standards are based on client satisfaction studies and research.

Box 6.2. International inspiring practice: Canada Business Network's co-ordination of national and local initiatives (cont.)

The Canada Business Network has been funded federally since 1994 at an average rate of CDN 15 million per year. Cost-sharing arrangements with different provincial and territorial governments vary across the country and contribute to funding at the local level. Core services are offered free of charge, although some centres charge for supplementary services.

Factors for success

The success of the Canada Business Centres network is accounted for by the commitment to federal partnerships with provincial and territorial governments (co-location, shared services, co-funding), the outreach to other regional SME support organisations (i.e. Regional Access Partners), training and on-going professional development of Centre staff, innovations in the use of information technology platforms to amass a variety of business-related government databases and disseminate information and services, and responsiveness to the needs of entrepreneurs and SMEs as identified in client usage and satisfaction surveys.

Obstacles and responses

One of the initial challenges of the federal government was convincing some of the provincial governments to partner with them on the initiative, especially in cost-sharing arrangements. In these cases of reticence, the federal government moved ahead anyway and eventually, all provincial and territorial governments realised the benefits of co-operation.

Since Canada Business is a network with considerable regional variation in funding and service priorities, it faces a continual challenge to maintain a cohesive and consistent level of service. To achieve this, considerable investment is made to facilitate communications through a variety of committees and communities of practice. This contributes to a shared vision and sense of purpose and allows the network to share good practices and exploit efficiencies.

In addition, there is a need to ensure that Centre staff is knowledgeable about all information products and services and competent to assist clients. For this purpose, the regional managers deliver staff training and professional development opportunities on a continuous basis.

Relevance to Italy

This programme shows an effective partnership between national and regional levels of government to create a unified service across the whole country in the presence of existing business development services at regional level and strong regional decentralisation of economic development powers. It is a possible solution to some of the issues related to national-regional coordination of SME and entrepreneurship support in Italy.

Further information

"Canada Business Network Operations Service Delivery and Partnerships" website: <http://canadabusiness.ca>

Thirdly, there is insufficient coordination of regional business support with national policies for innovation and cluster development. In the area of innovation, there are important national policies but a large proportion of interactions between research and business occur at regional or local level, implying the need for local elements to the policy approach, which should be worked out through co-operation between national and regional

governments. By contrast, clusters have traditionally been identified and supported at regional level but increasingly operate across more than one region, requiring some form of complementary national strategy to guide them which is currently lacking. For example, recent work by the Ministry of Education, Universities and Research (Decreto Direttoriale 14 dicembre 2012 n. 18) has resulted in the identification of 8 national clusters as a priority for pre-competitive research, but there does not appear to be co-ordination between this initiative and more general support for clusters at the regional level.

EU Smart Specialisation Strategies require stronger inter-regional co-operation

While there are good examples of economic development coordination among regions, they are generally based on *ad hoc* co-operation rather than systemic approaches. For example *friendeurope.it* is a consortium of organisations from three regions (Veneto, Friuli-Venezia Giulia and Trentino-Alto Adige) set up to deliver actions under the Enterprise Europe Network, but this appears to have been developed for a single specific purpose and does not form a model or framework onto which other co-operation can be built. More could be done to increase inter-regional co-operation in the design of policies in this field.

In particular, although the system for programming EU funds allows for inter-regional operational programmes, for the period 2007-13, the only ones which were created related to the regions in the South where there was in any case a degree of unity in co-financing arrangements. This situation comes with some dangers of fragmentation and lack of coordination of actions which should logically span several regions, particularly with respect to support for innovation and clusters under the “smart specialisation” approach to be promoted in the 2014-20 EU Structural Fund programming period.

Smart specialisation is a strategic approach to economic development through targeted support to research and innovation at regional level. It will be the basis for Structural Fund investments as part of the future Cohesion Policy’s contribution to the Europe 2020 jobs and growth agenda. Smart specialisation involves a process of developing a vision, identifying competitive advantage, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of any region, strong or weak, high-tech or low-tech (European Commission, 2012). The increased emphasis on this type of approach to business development support in the new programming period gives rise to the danger that with the current co-operation structures in place in Italy, possible synergies that might be achieved where a cluster or a sectoral supply chain covers several regions (e.g. in the automotive industry) will not be realised, while many regions may choose the same generic specialisations and effectively enter into competition with each other.

In order to mitigate these problems, a national approach should be developed to co-ordinate smart specialisation strategies in order to gain the most for inter-regional supply chains, and avoid competition between regions with the same apparent specialism. The Finnish OSKE programme offers a possible model for co-ordinating cluster development policies across regions (see Box 6.3).

Box 6.3. **International inspiring practice: Centres of Expertise Programme (OSKE), Finland**

This programme offers a model for how to co-ordinate regional innovation support structures and programmes with the development of clusters of national significance.

Description of the approach

The Centre of Expertise Programme forms part of the Finnish national innovation strategy. It promotes joint innovation projects between business and research that are relevant to the development of internationally-competitive clusters and based on the exploitation of specialised regional innovation infrastructures. The programme co-ordinates and networks the activities of regional, national and international innovation actors around projects to develop nationally-important clusters. It brings to bear research and training infrastructures and funding from bodies such as Centres for Economic Development, Transport and the Environment (ELY-centres), Strategic Centres of Expertise (SHOK) and TEKES programmes.

The programme directs resources to a set of overlapping Centres of Expertise and Competence Clusters. The principle is that there should be one Centre of Expertise in each region, based on regional strengths defined on the basis of sector, technology, expertise or application. Each Competence Cluster should be supported by at least two Centres of Expertise situated in different regions, thus drawing on a broad range of expertise and promoting interregional collaboration.

The programme currently consists of 21 regional Centres of Expertise which support 13 national Competence Clusters. A Centre of Expertise is an innovation hub of national significance in a field of expertise relevant to one or more of the clusters and may contain several fields of expertise belonging to different clusters. Most of the Centres of Expertise are situated on Science Parks. They bring together a network of regional operators and cluster actors including regional businesses, higher education institutions, research institutes and technology centres and pursue innovation measures that they define collectively on behalf of the region and the national cluster.

Competence Clusters do not comprise entire industry sectors, but innovation-intensive sub-areas of more functional clusters, or promising new cluster sub-areas with the potential to develop the competitiveness and business activity of the cluster as a whole.

The Centres of Expertise and Competence Clusters were initially selected and funded through a competitive bidding process. Although there is a bias towards high technology, some are in other areas such as tourism and culture. The programme has been running in different phases since 1994 and has been positively evaluated on a number of occasions.

Factors for success

Important factors for success include:

- The programme provides a long-term framework that combines national innovation support and regional specialisation.
- A wide range of stakeholders have been involved at all levels and the programme works on the basis of partnership. This has allowed the definition of clusters and the nature of the participation by Centres of Expertise to be largely consensual across research, government, and the private sector.
- The approach of defining Centres and Clusters by a process of competitive applications has allowed structures and ways of working to be built from the bottom up even within a nationally-defined framework and objectives.

Obstacles and responses

There are some inherent contradictions between national innovation policy (which implies a concentration on national priorities and competences and the location of actions where there is the biggest concentration of expertise, often Helsinki) and regional policy (which stresses support for lagging regions to catch up with the leading ones). This tension has not been eliminated by the programme, although the approach

Box 6.3. **International inspiring practice: Centres of Expertise Programme (OSKE), Finland (Cont.)**

does offer a forum where the issues can be discussed. Overall, the programme has been more successful at supporting innovation than supporting lagging regions, particularly because some of the regions do not have strong expertise on a national level. As a result there has been some suggestion that instruments for regional development and for innovation should be more clearly divided.

The emphasis on regional centres has to some degree caused the programme to become inward looking, although effective innovation requires internationalisation. In the latest phase, each cluster has a single coordinator who is specifically responsible not only for creating shared aims within the cluster, but also for stimulating cooperation outside it, including with other countries. Clusters were chosen with internationalisation potential as one of the criteria.

Relevance for Italy

The programme is relevant to the problems of regional–national coordination in Italy and in particular the difficulties of coordinating regional innovation strategies when clusters and supply chains fall across several regions. An Italian adaptation of the programme would not necessarily be as costly as the Finnish example (where long term funding for the Centres of Expertise is provided by central government) since centres of innovation already exist in most Italian regions, although they are organised in a variety of ways. A particular emphasis could be put on supporting centres of excellence in the South (as part of the Plan for the South).

This is also an example of a national programme constructed by competitive applications in order to favour bottom-up approaches within a national framework. The competitive bidding approach has not been used extensively in Italy, but could be used to enhance effective cooperation between regional and national levels.

Further information

Ministry of Employment and the Economy [of Finland] (2009), *Evaluation of the Finnish National Innovation System*, Helsinki.

Ministry of Employment and the Economy [of Finland] (2010), *Osaamiskeskusohjelman (2007-2013) väliarviointi [Centres of Expertise Mid-term Review]*, Chapter 4.2 “The OSKE Programme in International Perspective”.

The Research and Innovation Council of Finland (2010), *Research and Innovation Policy Guidelines for 2011–2015*, Helsinki.

Centre of Expertise Programme Website: www.oske.net

Local business regulation

Administrative complexity varies by region

There is significant geographical differentiation in the government regulation of new and small businesses in Italy, reflecting the responsibilities that regions have in regulating business registrations, dealing with construction permits, registering property and enforcing contracts. As indicated in Table 6.2, there are a considerable number of regional laws and regulations which businesses have to abide by, despite a national effort at administrative simplification, and it is important that the effort to reduce the burden of regulation is also rolled out at regional level. The number of regional laws and regulations affecting business varies significantly by region. For example, whereas Lombardy has only 632 regional laws affecting business regulation, Abruzzi has more than 2 700.

The number of laws and regulations at regional level is not the only issue, however. The impact on SMEs and entrepreneurs also relates to the coherence of laws and regulations and the way in which they are implemented. When examining the actual impacts of regulation on businesses some clear differences emerge across regions. For example, whereas in Milan

Table 6.2. **Number of regional laws and regulations, 2008**

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

Note: * These data refer to the provisions issued and not to those now in force, because no data is available on the ones repealed.

Source: Ministry of Economic Development (2011), *Small Business Act: Support Initiatives for Micro, Small and Medium Enterprises in Italy – Report 2011*, Rome.

StatLink  <http://dx.doi.org/10.1787/888933147755>

and Rome it takes 6 days on average to start a business, it takes 13 in Naples. Similarly, it takes an average of 316 days to obtain a construction permit in Palermo, compared with 151 days in Milan and 164 days in Bologna (World Bank, 2013).

Overall, data on the performance of 13 larger cities across Italy from the World Bank Doing Business report (World Bank, 2013) and rankings from a survey undertaken in 2008-09 to estimate the effects of the “Single Communication Act” simplifying business start-up (Bianco and Bripi, 2010), reveal that:

- Although there is a general tendency for regions in the South to perform relatively poorly, this is by no means always the case. For example, the longest periods required for dealing with the administrative procedures for enforcing contracts were in the cities of Milan, Bologna, Padua, and Bari, the first three of which are in the North.
- The cost of a construction permit relative to per capita income is almost twice as much in the North East and North West macro-regions as in the other three macro-regions. On the other hand, the average time to obtain a construction permit is approximately twice as long in the Islands macro-region as in the other four.²
- Rankings in different domains are not consistent, suggesting that there are different bottlenecks in different regions.
- The best-performing regions have administrative efficiency comparable with the best European regions; for example, starting a business in Milan, Padua or Rome is as fast as in Denmark and in the United States (World Bank, 2013).

Three main areas of policy improvements can be implemented at regional level to reduce the burden of regulation. First, there is room to consolidate regional laws and regulations and to simplify them to make them more consistent and comprehensible. Lombardy is an example of good practice in this respect and shows how far this can be done with relatively limited resources (Box 6.4). Second, better information can be provided to SMEs and entrepreneurs and single points of contact can be instituted. Third, adoption

Box 6.4. Italian good practice: Administrative simplification in Lombardy

Description

This initiative aims to unify all regional legislative provisions relevant to a specific issue in one consolidated, clear and organised set of rules. The process does not necessarily alter the regulations, but rather makes them more understandable and easier both to administer and to adhere to.

The consolidation approach involves the following process:

- Upon its entry into force, each consolidated law explicitly repeals other provisions related to the same business regulation issue that are either superseded by the new text or dropped.
- Any provisions in force covering the same area or sector that have not been repealed by the consolidated law continue to apply in their own right but are explicitly mentioned in the consolidated law.
- Future repeals or amendments must be incorporated directly in the consolidated law.
- Subsequent measures concerning the area or sector covered by the consolidated text can only be introduced via amendments or additions to the consolidated law itself.

The drafting of consolidated laws is entrusted to an *ad hoc* body made up – in equal numbers – of technical experts from the regional government and the regional council.

This process was introduced by regional law 7/2006 (regarding the simplification process). By 2010, ten consolidated laws had been adopted, repealing 270 previous laws and regulations. This was a pilot for a new regional initiative for the period 2011-15 called “Simplifying Lombardy: Minimising bureaucracy, improving institutions” (Agenda Lombardia Semplice), which is an integrated approach towards administrative simplification, aiming at redefining procedures and organisational models. The initiative will gradually extend to address all regional legislation.

Key Factors for Success

The approach has been successful due to a number of factors:

- A clear strategic framework.
- A system which by its nature simplifies the system (consolidating laws and ensuring that they are consistent makes it easier for enterprises to follow them, even if the content remains unchanged).
- A long term commitment to make comprehensive changes.
- Significant involvement of stakeholders even though the process is clearly directed by the regional government.

There are no evident barriers to using this approach in other Italian regions.

Further information

Lombardy's regional government website: www.semplificazione.regione.lombardia.it

of e-government would make dealing with administration quicker and easier for firms, for example by allowing direct applications for permits etc. There have been a number of local initiatives in this respect in Italy. A more comprehensive approach has been taken in Barcelona, which suggests some potential areas for improvements (Box 6.5). Sharing best practices among regional authorities on steps taken in each of these areas would help them in designing and implementing new approaches.

Box 6.5. International inspiring practice: E-Government, Barcelona, Spain

Description of the approach

E-Tramits is an electronic service platform operating through a web portal, which was introduced by Barcelona City Council with a view to becoming its main communication channel addressing citizens and businesses. The service facilitates access to over 1,000 municipal and other government office procedures, while allowing Barcelona-based citizens and companies to complete online, through a digital certificate, about 90 administrative procedures, i.e. 80% of the volume of procedures handled by the Council.

The e-governance portal is aimed at a wide range of stakeholders (businesses, self-employed professionals, residents and non-residents). However, a key element of the system is that it offers customised services to each group, based on their specific needs. For that purpose, different folders have been created within the portal to facilitate transactions with citizens and with companies or entities. The system combines user friendliness with strong accessibility elements, including among other things: an online call centre support service; several secure payment options; use of electronic signatures; a database of electronic documents; and a registration service.

The project also includes a large restructuring effort addressing internal processes. This has involved linking the web portal with the back office and simplifying and streamlining procedures to facilitate electronic processing, as well as training municipal staff and implementing a communication plan. The initiative is part of a multi-channel public access strategy that also includes Citizen Attention Offices for face-to-face transactions and a telephone centre.

E-Tramits has quickly achieved wide recognition among the target groups, with the portal receiving over 100 000 requests concerning administrative procedures on a monthly basis, by both citizens and businesses. In 2007, there were about 15 million annual visitors to the web portal with 39 million web accesses serving 1.2 million online procedures through 362 million page visits. These figures show that a substantial part of the administrative workload has been shifted towards electronic transactions. Indeed, in 2007 more procedures and searches were processed through the Internet than in person or by telephone. The system has reduced the time required to process administrative applications; the average time for granting building licenses, for example, has dropped by 52%, to 38 days (from 79 days), while other planning permissions, which previously required months to be issued, now need only a few minutes.

Factors for success

The successful implementation of this e-government programme required considerable restructuring of back-office procedures and institutions and a long term commitment to the approach.

Box 6.5. International inspiring practice: E-Government, Barcelona, Spain
(cont.)

Obstacles and responses

It was clear that the greatest benefits would come from a comprehensive change, including not only online access to services but also a comprehensive change to back-office functions. This required considerable expenditures over some period of time before the benefits became evident. Fortunately at the time of implementation, the regional government was able to fund this.

Relevance to Italy

It is clear that there is scope for administrative simplification at a regional level in Italy and e-government could be part of this process, provided that there are adequate funds to implement a comprehensive system and appetite for a substantial change in ways of working.

Further information

Practice E-Services Platform of the Barcelona City Council: www.epractice.eu/en/cases/etramits

Conclusions and recommendations

There are continued wide disparities in regional economic performance between the North and South of Italy, which include weaker performance in the South with respect to entrepreneurship and SME development. There are long-standing national policy efforts to support development in the South, but they have not been fully effective given an emphasis on traditional subsidies for investment and infrastructure development rather than new instruments for building the capabilities for SMEs and start-ups such as initiatives for entrepreneurial finance, regional innovation networks, and mentoring and consultancy for business growth. Furthermore, within the current system of coordination of regional operational programmes funded in collaboration with the EU, there has been relatively little emphasis on actions that include innovation, entrepreneurship and adaptability of enterprises. However, these funds offer an important opportunity for improving entrepreneurship and SME competitiveness and productivity at regional level. There is also evidence of insufficient capacities at regional level to develop programmes that will draw down available EU funding into SME and entrepreneurship development programmes and that some flagship national government initiatives such as network contracts and innovative start-ups have largely been taken up by firms in the North, because their design is less suited to the productive structure of the South.

Given Italy's decentralised economic development system, it is important to achieve coherence between national and regional SME and entrepreneurship programmes and among the initiatives of the various regions where there is room for synergies and spillovers. Italy's programme level coordination of European Union Structural Funds has been effective, and there is a clear framework within which plans are made and policies developed at national and regional levels with good linkages between them. However, there are no similarly effective coordination mechanisms for other SME and entrepreneurship policy actions that are designed and funded by national and regional governments outside of the EU funding regime and the State-Region Conference that supports it in Italy. There is no framework document showing the division of responsibilities between national and regional governments, nor key principles which can be used as the basis of coordination. In particular, there is a danger that if cluster policy is developed only at the regional level, then opportunities to link together actions for clusters of national importance may be lost.

Finally, there is an important administrative burden on SMEs and entrepreneurs at the regional level. A number of regions have started to take actions to reduce this burden including in reducing the number of regional laws and regulations and increasing the ease of firms to interact with regional governments such as through e-governance platforms and one-stop shops. There is scope to share best practice across regions to help roll out the administrative simplification effort in the country.

The following recommendations are offered to strengthen the local dimension of Italy's SME and entrepreneurship policies and programmes:

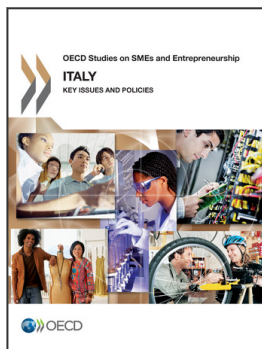
- Increase the emphasis on developing the innovative and competitive capabilities of SMEs and entrepreneurs in the strategy for development of the South of Italy, including increasing the draw-down of EU funds and the share of spending of EU funds on such initiatives.
- Increase the emphasis on SME and entrepreneurship programmes in the annual National Plan for the Development of the South and the use of 2014-20 EU Structural Fund resources for regional development, by reweighting support towards programmes for training, consultancy, finance and innovation in SMEs and start-ups, and building local capacities to manage programme actions for SMEs and entrepreneurship.
- Introduce tailoring and monitoring mechanisms for key national SME and entrepreneurship programmes in order to ensure that southern SMEs are proportionally represented among recipients and that they are effective for supporting economic development in the South as well as the North.
- Ensure that the rules of business incentives for the South are clear and consistent over time.
- Strengthen coordination between national and regional government programmes where they target the same types of company, including a written agreement stating clearly how competences are divided and co-funding organised between national and regional levels with regard to entrepreneurship and SME policy.
- Widen the remit of the national one-stop shops network to include business development services offered by the regional level as well as national government, perhaps through individual agreements with the regions and co-financing to ensure that there is a base level of service across the whole country.
- Identify clusters of national importance and establish a mechanism for support when the clusters operate in multiple regions, considering the use of national competitions as a way of targeting resources.
- Consolidate regional business laws and regulations and provide better information and contact points, including through e-government platforms at regional level. Support regional administrative simplification through formulation of a set of national guiding principles, publication of comparisons of administrative efficiency between regions, evaluation of the impact of various regional administrative simplification initiatives, and exchange of information on good practices.

Notes

1. There remain, however, approximately 1 400 different forms of business incentives at regional level, which also need to be reduced and streamlined to make the rationalisation of the business support framework effective.
2. The five macro regions are: North West, North East, Centre, South and Islands.

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