Italy is Back
Opportunities and new paradigm in doing business with the United States

In collaboration with:
Italian Business & Investment Initiative
Why Italy Matters to the World
Index

1 Introduction

2 Executive Summary

3 Italian economic overview
   - Growth
   - GDP and trade balance
   - Role of Italy in the world trade
   - M&A

4 Update on structural reforms
   - Constitutional reform
   - Public Administration reform
   - Civil justice reform
   - The Tax reform
   - The Labor Market reform
   - Innovation Performance in Italy

5 The Italian Banking Market

6 Italy’s presence in the US and American presence in Italy

7 Digital, new paradigms of innovation and how to create new entrepreneurship
Introduction

At the time when we write this introduction, Americans casted their last ballot. Donald Trump’s victory represents a discontinuity if compared to a “softer” hand-over in case Hillary Clinton had prevailed. We will not dwell upon the likely turn in American politics, economy and the global repercussions. We believe that working for a common ground in foreign relationships – as President Trump mentioned in his victory speech – plays favorably for Italy. We wish to continue the long-lasting positive dialogue that is fundamental for both countries. This collaboration, moreover, will increase the attractiveness for potential investors; some recent and well-known cases of expansions as well as greenfield investments, illustrated herein after, cast a positive light on the future, as they may act as potential drivers for new and successful deals.

One of the goals of this new study is to foster this continuity: we aim at providing foreign investors, particularly Americans, with an updated yet independent view of Italy’s most important reforms. We believe that the business environment is bettering as are the tangible and intangible constrains that hampered Italy’s visibility on foreign investors’ radar screens, chiefly the US ones. Italy’s positive trajectory endures, though its speed varies by sector. The building blocks are, however, firm, even if some turbulence ahead is expected due to a potential political instability caused by domestic as well as European happenings.

This report will illustrate the key points of the reforms: Public Administration, Civil Justice, Tax, Labor Market, Infrastructure and Transportation. It will focus, furthermore, on the Digital Agenda, Industry 4.0 and the Constitutional Referendum. The analysis of the banking system, both from a regulatory and market perspective, represents, indeed, a strategic topic given the relevance of Italian banks in providing business credit.

To boost competitiveness and attractiveness, this report will analyze the impact of the digital transformation that will turn around the public and the private worlds, industries, and citizens.

To ignite a robust growth, Italy must embrace this revolution by understanding and mastering its complexity, favoring collaboration and acting without hesitation. The speed at which digital creates new rules in business and relationships requires resolution. Italy must act seamlessly in several interrelated areas: infrastructures, education – by investing on competencies – and mindset, especially within enterprises. The average medium-size Italian enterprise has yet to realize the breadth and the depth of such a revolution and why it cannot be missed.

Henceforth, the study has a special focus on innovation and on its paradigms in addition to the scenario analysis. The team interviewed a number of prominent leaders from corporations that, factually, implement such an innovation process, to understand what is working well and the obstacles that have yet to be removed. There is a sense of urgency, in our view, in developing an innovation ecosystem, supported by institutions to achieve an adequate critical mass to increase competitiveness and to, ultimately, ignite economic growth.
Introduction

Last but not least, an announcement. In our roles, we tend to frame a single country within a larger context that, in the Italian case, starts from the Mediterranean Region and expands to the European Union and to the rest of world. Globalization, far from being irreversible, might accelerate or slow down depending on the President elect upcoming policies. It is, henceforth, of paramount importance to keep a wider leading-edge perspective. In the current geopolitical scenario, it becomes important to measure a country positioning in world affairs according to quantitative and impartial parameters. This to go beyond the mere concept of “ranking” and to introduce an holistic understanding and action plan on what can be done to improve ones standing to become more Influential internationally and attractive for investors. The adopted parameters utilized are, in fact, levers that help increase influence globally, supporting the country to stand out with positive implications for the Italian economy and businesses; the parameters encompass, furthermore, domestic Relevance and trust, necessary to encourage both Italian and foreign citizens and enterprises to invest, hire and buy in Italy. The logical consequence is economic Growth. It is on these three pillars “Influence, Relevance & Growth” that EY and Italian Business and Investment Initiative are designing the new index that we will present on February 14, 2017 in our traditional New York City event: an “action-oriented” index for countries, cities, industries and corporations.

Meanwhile, the auguries are that this study will represent a useful tool to support, foreign investors in their decision making as well as the internationalization of Italian companies. It is, lastly, meant to encourage the Government to continue with the reforms process to further enhance the ease of “doing business in Italy”. 
Italy is experiencing some growth since 2015 after three years of recession. The slow but steady recovery is expected to go on in the next few years, and so do export, which is a cornerstone of the economy, accounting for 25% of the GDP and with a positive trend also when net exports are concerned.

Vitality of the market is also confirmed by the M&A activities, that peaked in 2015 with over 50% of the total deal value by foreign investors.

The Italian Government’s structural reforms agenda launched three years ago is well on track. The approach calls for a swift implementation of each reform once approved. Some of them, like Job Market’s, are operational and results measurable; others, such as Public Administration and Tax are well into phase 2; some are brand new, e.g. the National Plan «Industry 4.0», that allocates 13.7bn in seven years of public resources to enable the necessary industrial transformation.

The financial crisis led to a deterioration of banks’ balance sheets and a surge in Non-Performing loans. As the economic environment ameliorates, so is the recovery in lending to business and households.

The combined effect of EU and local regulations together with the need to reach greater efficiency should lead over the medium term to a market consolidation, that would partly fix the historical fragmentation.

A cornerstone of our country’s economic, political and trade strategy, is the relationship with the US. It continues to present great opportunities for our companies to trade and internationalize. There is however a considerable room for growth both in terms of trade as well as in FDIs.
Digital, new paradigms of innovation and how to create new entrepreneurship

Historically a land of innovators, Italy have lost ground to its main competitors. But something has changed in recent years, getting the Italian local ecosystem to burst innovation rates and startup. Cooperation between local networks is now a fact, family businesses are moving their first steps in digitalization, and large enterprises are starting to consider collaboration with startups and incubator as a new and effective way to innovate.

The Influence, Relevance & Growth Index

A country attractiveness and growth goes hand in hand with its ability to be an influent and relevant player globally. The new EY and IB&II Index that will be presented in the first quarter of 2017, measures for the first time those two aspects, that are, in turn, enablers of economic growth. A number of traditional well-known indexes are embedded in the analysis that aims at being a tool to gain insights and to plan for action.
Italy is experiencing some growth since 2015 after years of recession

**Italy at glance**

<table>
<thead>
<tr>
<th>Year 2015</th>
<th></th>
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<tbody>
<tr>
<td>Population</td>
<td>60.9m</td>
</tr>
<tr>
<td>GDP</td>
<td>EUR 1,642bn</td>
</tr>
<tr>
<td>CAGR 2015-2020</td>
<td>0.94%</td>
</tr>
</tbody>
</table>

- Italy is the world’s 8th largest economy, with total GDP of EUR 1,642bn in 2015
- GDP growth of 0.7% was registered in 2015, while 0.8% and 0.9% growth is expected in 2016 and 2017 respectively
- Italy’s population is expected to slightly grow in the next few years. In 2015, about 69% of Italy’s population resides in urban areas

**GDP growth estimates**

- 2014A: 0.1%
- 2015A: 0.7%
- 2016E: 0.8%
- 2017E: 0.9%
- 2018E: 1.0%
- 2019E: 1.0%
- 2020E: 1.0%

Source: ISTAT, International Monetary Fund, Oxford Economics and EU Commission
Italy is the 2nd largest European manufacturing economy, after Germany, and the 8th in the world. Manufacturing accounts for almost 25% of Italian GDP.

The Services sector accounts for 74.3% of total GDP and employs almost 75% of total employable people.

The most export-driven regions in Italy are typically the most industrialized and densely populated, i.e., the Northern regions of Lombardy (export value of EUR 111.2bn in 2015), Emilia Romagna (EUR 55.3bn), Veneto (EUR 57.5bn), Piedmont (EUR 45.7bn) and Tuscany (EUR 33.1bn), as well as the Lazio region (EUR 20.2 bn), where Rome is located.

Source: ISTAT, International Monetary Fund, Ministry of Foreign Affairs, Secondary sources
Italy GDP, export and import trends

^ In 2015 export and import showed an increase of 3.8% and 3.3% respectively, as compared to 2014

^ Germany is Italy’s main trading partner, with EUR 56.8bn Italian import and EUR 51bn Italian export value registered in 2015

^ Since the country’s manufacturing sectors are specialized in high-quality goods, Italy plays an important role in the global market of premium quality goods. The country’s main export categories are mechanical machinery and equipment, which account for around of total exports, as well as motor vehicles and components, clothing and footwear, pharmaceutical products and food & beverage

^ Italy’s main imports are fuels due to the country’s lack of natural resources, which makes it highly dependent on energy imports. Other imports include machinery and components, raw materials and food

Source: ISTAT, Oxford Economics
Italy ranks 10th in the world among major exporting countries

Italy net export trend

- Italy shows an increasingly positive commercial balance since 2012, due to both Euro depreciation and increasing competitiveness.
- ‘Made in Italy’ sectors are those of main interest for foreign buyers: these are traditional sectors such as food & beverage, fashion & textiles, metal products, industrial machinery & equipment and interior design.
- Domestic demand fell significantly after the economic crisis, as high uncertainty, tight financing conditions and the impact of fiscal consolidation hit consumption and investment. Still import recorded positive growth in 2015, after three years of stagnation. Export increased in the last few years, on the back of sustained demand from non-EU trade partners.
- In 2015, Italy posted a EUR 45.2bn trade surplus, as exports and imports recorded EUR 413.9bn and EUR 368.7bn respectively. Net export is forecasted to lower in 2016 by 2.7%, mainly due to relatively higher import recover, and increase by 5% in 2017.
- Between January and August 2016, Italian trade surplus reached EUR 33.6bn (EUR 50bn excluding import of energy supply).

Source: ISTAT, Oxford Economics
Role of Italy in the world trade

Germany, France and United States are amongst the top nations where Italian goods are exported...

Italy’s role in the World Trade

- 66% of Italian exports was addressed to 15 main trading partners

- Italy’s top exports 2015 by value (EUR bn)

- Germany 51.0
- France 42.5
- United States 39.6
- United Kingdom 22.5
- Spain 19.9
- Switzerland 19.2
- Belgium 14.6
- Poland 10.9
- China 10.4
- Turkey 10.0
- Netherlands 9.6
- Austria 8.5
- Russia 7.1
- Romania 6.7
- United Arab Emirates 6.2

- Italy accounts for 2.8% of the world export
- In 2015, almost two-thirds (66%) of Italian export was delivered to 15 main trading partners
- The 28 European Union member countries accounted for almost 55% of Italian export in value terms

Source: ISTAT, U.S. Census
Italy's role in the World Trade

70% of Italian import was addressed to 15 main trading partners

- Germany: 15%
- France: 9%
- China: 8%
- United States: 6%
- Spain: 5%
- Netherlands: 5%
- Belgium: 4%
- Russia: 4%
- Turkey: 3%
- United Kingdom: 3%
- Poland: 2%
- Austria: 2%
- Switzerland: 2%
- Czech Republic: 2%
- Romania: 2%
- Other: 6%

- Italy accounts for 2.4% of the world import
- In 2015, 70% of Italian import was delivered to 15 main trading partners
- The 28 European Union member countries accounted for 58.5% of Italian import in value terms

Source: ISTAT, U.S. Census

...whereas its imports are sourced mainly from Germany, France and China.
The value of M&A transactions on the Italian market reached the peak of EUR 56.4bn in 2015

Among main drivers of sustained M&A activity in Italy in 2015, we can mention: (i) consolidation of world sector leaders by external growth; (ii) strategy of reorganization and core business focus, undertaken by major Italian groups, with non-core asset disposal; (iii) fundraising of private equity and venture capital investors in Italy rose by 85% and investment by 50% y-o-y, with almost half of fundraising by international players

Out of a total of 583 M&A operations in 2015, 201 acquisitions for total value EUR 32.1bn were realised by foreign players. US remains the most acquisitive country in Italy, recording 46 deals, followed by Germany (23), France (21), UK (21) and China (15)

In the period from January to September 2016, Italy recorded 370 M&A deals, for a total value of EUR 37.2bn

Source: MergerMarket, Secondary source
Introduction

In the last years the Italian Government has launched a challenging agenda of comprehensive and ambitious structural reforms with the final aim of improving Italy’s long-term growth prospects and supporting job creation. The reform programme was built along three key areas:

- Ensuring a productivity increase through human capital development;
- Reducing the indirect costs of businesses associated with bureaucracy and the activity of the Public Administration by cutting the red tape and increasing administrative transparency;
- Reducing the margins of uncertainty for some sectors, from the general discipline perspective as well as from the point of the tools that can ensure their successful implementation.

In line with the recommendations of the major European and international economic institutions, planning of reforms has been followed by an increased focus on rapid implementation. Planned interventions are affecting many areas - including the Public Administration, the judicial system, the labor market, the tax system - and are accompanied by a renewed attention of the Government to the adoption of subsidiary legislation (~73% of the backlog of subsidiary legislation resulting from previous Governments), to the implementation of a Digital Agenda aimed at reducing the digital divide, to the technological innovation and transformation of the manufacturing sector in order to elevate it to state of the art models of Industry 4.0 and to the renewal of the institutional system through the approval of a constitutional law which will be subjected to a popular referendum next December.

Some reforms have already been adopted and helped Italy in making significant steps toward the upper part of the World Bank Doing Business ranking. Others had a less clear impact on the attractiveness of the country for businesses or have been contested by some part of the civil society. Further measures still have to be implemented and are on the pipeline.

"I will not give up. Like it or not, we are going to get these reforms done." This is how Italian Prime Minister Matteo Renzi addressed the issue of reforms during a conversation with an American journalist in 2014. The following paragraphs intend to offer a wholesome picture of the current status of the reform programme two years after that straightforward statement.
<table>
<thead>
<tr>
<th>Reform</th>
<th>Relevance for business</th>
<th>Status</th>
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<tbody>
<tr>
<td>The Constitutional reform</td>
<td></td>
<td>Constitutional law approved on April, referendum to be held on the 4th of December 2016</td>
</tr>
<tr>
<td>Reform of the Public Administration</td>
<td></td>
<td>Last implementation decrees of the first phase approved in August 2016. Presented some decree schemes for the second phase that will end in February</td>
</tr>
<tr>
<td>Reform of the Civil Justice system</td>
<td></td>
<td>Adopted in October 2016 the “Justice Decree”. According to news leak new decree on pipeline</td>
</tr>
<tr>
<td>The Tax reform</td>
<td></td>
<td>Last implementation decrees of the first phase adopted in September 2015. New measures presented in the October 2017 Stability Law</td>
</tr>
<tr>
<td>Infrastructures and transportation</td>
<td></td>
<td>Rationalization measures concerning the harbors and logistics’ reform approved in August 2016. Allocation of extra investments for the Italian Railway Lines and Highways</td>
</tr>
<tr>
<td>The Digital Agenda</td>
<td></td>
<td>Digital Agenda signed on 2012. Unlocking of EU Funds for the implementation of the Italian Digital Growth program in October 2016</td>
</tr>
<tr>
<td>The National Plan “Industry 4.0”</td>
<td></td>
<td>Plan presented on the 21st of September 2016</td>
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Constitutional Reform

After the Chamber of Deputies’ approval, on April 15, 2016, the Gazzetta Ufficiale, the official journal of record of the Italian Government, published the final text for the constitutional reform that will be subject to referendum on December 4, 2016. Overall, the reform foresees arrangements to surpass Italy’s perfect bicameral structure, the reduction in the number of members of parliament, the containment of costs related to institutional functioning, the abolishment of The National Council on Economy and Labour (CNEL), and the review of the constitution’s part III, Title V.

Senate Reform, the end of Italy’s perfect bicamerality

The constitutional reform foresees arrangements to surpass the perfect bicameral structure that characterizes Italy’s institutional arrangement. Currently, all laws, be they ordinary or constitutional, have to be previously approved by both chambers, the Senate and the Chamber of Deputies.

With the constitutional reform, however, this drastically changes. Italy’s Chamber of Deputies becomes the only elected institution that will have the power to approve ordinary and financial laws, and will be the only body with the power to hold a no-confidence vote. On the other hand, the Senate becomes the Senate of Regions, a representative institution of the autonomous regions, formed by a hundred (instead of the current 315) senators that will no longer be directly elected by citizens but will be selected proportionally by regional councils. The senators will be chosen among elected majors (one per each region/autonomous province), and regional counselors (74 senators distributed proportionally to the population, with a minimum of two per region). These 95 senators will be appointed for all their office duration as local administrators and will receive only the administrator’s salary. The remaining five senators will instead be appointed by Italy’s President of the Republic, for a total of seven years each.

The reformed Senate will be able to express its opinion on Draft Laws previously approved by the Chamber of Deputies and can suggest changes, however these will not be binding. The new Senate will keep its legislative function only in a limited number of areas (ex. Constitutional reform, electoral legislation, Municipalities and Metropolitan Cities’ fundamental functions etc.). The Senate’s main role will be to act as a crossroad between the State and other constitutive entities, and ultimately between these and the European Union.

The President of the Republic’s Election

Only Chambers with a common assembly will participate in the President’s election. The quorum necessary for the fourth and fifth vote changes from simple majority to a three-fifths majority, whereas the one needed for the sixth vote on will shift from the three-fifths majority of those who have the right to vote, to a three-fifths majority of those who do vote.

Abolishment of Provinces and of National Counsel for Labor and Economy (CNEL)

With the revision of the Constitutions’ art.114, Provinces will be officially abolished. In its new version, the article will state the following: “The Italian Republic is formed by Municipalities, by Metropolitan Cities, by Regions, and by the State”. The reform also foresees the abolishment of The National Council on Economy and Labour (CNEL), an entity that currently has an advisory function with regards to economic and labor laws, and has legislative power on the economic subject.

Competencies distributed between the State and the Regions

The constitutional reform law rewrites article 117, which divides competencies between the State and the Regions. With the reform, around 20 subjects fall back under competence of the State. Among these: environmental laws, harbors and airports’ management, transports and navigation, production and distribution of energy, employment laws, work security, management of professions.

Abrogative Referendum and the people’s initiative laws

The quorum of an abrogative referendum becomes the 50% plus one of those who voted in the last political elections if the citizens that propose the consultation are 800.000. The quorum stays 50% plus one of those who have the right to vote if instead 500.000 to 800.000 citizens propose the consultation. In order to propose a people’s initiative law, the amount of signatures needed shifts from 50.000 to 150.000.

Public Administration reform

What has been said and done

"The reform of Public Administration represents the most important reform of the near horizon of economic policy. If we talk about Industry 4.0 we ought to reply with a public administration 4.0, by adapting services to firms and families' needs and starting with a drastic simplification of procedures."

With these words, the Italian Minister of Economic Affairs and Finances introduced the Law no. 124 drafted on the 7th August 2015, concerning the reorganization of the Italian Public Administration (the so-called “Madia Reform” after the name of the lady Minister). The measure contained legislative powers to be exercised primarily in the twelve months following its approval and aimed at rearranging Public Administration, carrying on and improving public administration’s digitalization processes, reorganizing all tools settled to simplify administrative procedures and establishing unique texts of dispositions regarding areas covered by legislative stratifications.

By early 2016, the government presented the frameworks of the main implementing decrees that, on the 22nd of January 2016, had been adopted throughout the Legislative Decree no. 10 (the so-called "Law Trimmer Decree/Decreto taglia leggi") which takes repeal and amendment of all laws entered into force between the 1th January 2012 and 28th August 2015 and providing non-legislative implementing measures.

What is new?

During the summer of 2016, the first implementation stage of the "Madia Reform" has been completed - with the final approval of the implementing decrees by the Council of Ministers. The Italian Government is now expected to steer the second implementation stage concerning the legislative powers that, according to the original decree and the following adopted extensions, are going to expire in February 2017.

In the following paragraphs are depicted the main changes introduced so far, that simplify the way firms and citizens interact with the Public Administration and significantly speed up the administrative processes that affect them.

Digital citizenship

Implementing art. 1 of the delegation law, the Digital Government Code¹ (so-called CAD) has been amended and integrated by reaffirming the centrality of citizens' rights in their relationship with the Public Administration. The digitalization of the relationship between citizens and public authorities rests on four key elements:

- **Digital domicile**, the certified e-mail address by which a citizen can communicate with Public Administrations;
- **Digital Identity Public System** (so-called Spid), through which it will be possible to access to all Public Administrations' online services by 2018;
- The public servant obligation to collect all the documents needed for an administrative procedure if already in the disposal of the proceeding Administration or of others Administrations - even through the interoperability of informative systems of the various parties involved;

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¹ Law no. 82/2005
Unlocking proceedings

Implementing art. 4 of the delegation law, it has been introduced the possibility for local authorities - by the 31th of January of each year - and for the Presidency of the Council of Ministers to select a list of key strategic projects identified through economic and social impact assessments.

The Presidency of the Council of Ministers will annually adopt a measure that will cut the maximum terms stated by the law for the conclusion of the administrative proceedings for the choice of the site, the design and the realization of activities or for the establishment of manufacturing plants, up to a maximum of half of the terms originally stated by the law.

In addition, in case of inaction of the proceeding Administrations, after the deadline - whether they are the original one referred to Article 2 of the Law no. 241 of the 7th August 1990, or the new one redefined - the Prime Minister, after the decision of the Council of Ministers, will adopt the related acts on the basis of its replacement power.

Issuing permits

The reform has significantly simplified the procedures for the submission of certified reporting of starting activity (so-called SCIA), transferring to the administration a number of obligations which were previously in the hands of citizens. It will be possible to submit the application for the launch of new businesses and building activities at a single office nationwide, even electronically, by filling out only a single form. This office will have the task of interacting with all other offices and administrations involved.

Furthermore, the reform introduced the obligation for Administration to provide an official answer to citizens within specific deadlines, after which the rule of opt-out occur; an 18-month limit for the State to intervene in a proceeding in the name of the public interest; the possibility for the Administration to adopt a suspending measure for ongoing activities only in cases of false declarations or involvement of sensitive interests (environmental issues, historical sites preservation issues, etc.); the expressed prohibition for Administration to ask to citizens more documents than those stated by the law.

Conferenza dei servizi

The reform introduced the simplified conference as the ordinary procedure to carry out the Conferenza dei servizi. It is characterized by the absence of physical meetings between the representatives of Public Administrations but just on the digital transmission of documents. In limited cases stated in the law it will be possible to turn to the simultaneous conference, with telematics meetings. In any case, during the conference, National Authorities, Regions and Municipalities speak with only one voice through a single representative and the opinion of administrations that have not expressed their position is considered as obtained.

The second stage of the reform

In the next months it will begin the second stage of Madia Reform’s implementation, which will consist in the adoption by February 2017 - following the extension occurred with the art. 1 c. 2 of the Law no.131 of the 14th July 2016 - of the decrees related to the Consolidated Law on Civil Servants, the reform of Public Management, the reorganization of the Presidency of the Council of Ministers, of government offices and monitoring authorities, the reform of Prefectures and of Chambers of Commerce, the simplification of public research institutions activities, the reorganization of the Public Registry of Vehicles (PRA), the spin-off of the Italian Paralympic Committee from the Italian Olympic Committee (CONI) with its conversion in a body governed by public law, the measures for the reconciliation of living and working in public administration and the criteria for the recognition of all public functions and competencies. In particular, all the measures related to civil service and reorganization of public administration will hopefully enhance the efficiency of the public machine.

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Civil justice reform

What has been said and done

The chronic slowness of Italian civil justice has been considered, over the years, one of the largest obstacles for the inflow of foreign private investments in the country and it has become a privileged target for the reforms of the Italian Government.

On the 30th of June 2014, the Prime Minister and the Minister of Justice introduced the main features of the so-called “Orlando reform” on civil justice, which, once completed, should lead to the reorganization of the entire Italian judicial system, in terms of efficiency and simplification.

By the early 2016, the reorganization of the courts (whose number fell from 1.398 offices to about 650) has been already implemented and it was registered a decrease of both the backlog practices (from 5.2 million on the 31st of December 2013 to less than 4.5 million on the 31st of December 2015) and of the average duration of cases (-13% between 2014 and 2015 for the ordinary civil court, -7% for the Court of Appeal, -8% for commercial controversy) 1.

What has already been done has also contributed to the clear improvement in the last year of the Italian position in World Bank Doing Business ranking: as far as the aspect of “contracts enforcement” is concerned, the country registered an increase of 3.62 points in 2016 (compared to 2015), gaining 13 positions in the ranking and “making it easier to enforce contracts with the introduction of acts’ telematic mandatory notification, by simplifying the rules of digital process and automating the execution process” 2.

However, the same ranking still places Italy 111th in the world, with an average estimated time for the resolution of disputes amounting to almost twice the average of the high-income OECD countries 3. A recent research by ISTAT mirrors this situation: 52% of Italian citizens who have had a direct experience with civil justice declare themselves far from satisfied with the service 4. The Italians are not the only ones thinking this: US Ambassador John R. Phillips has repeatedly stated that “the judicial system is the first reason why [many potential investors] decide not to invest in Italy” 5.

What is new?

On the 19th of October 2016, the Senate approved the law for the conversion of the decree regarding the efficiency of the courts, the so-called “Justice Decree” 6 in the version already approved by the Chamber of Deputies.

The decree establishes a series of measures that will further accelerate the settlement of disputes and reduce the amount of backlog currently affecting the Italian judicial system. Here below, the main changes introduced by the decree:

► It is attributed to the first president of the Supreme Court of Cassation the power to create a task force of judges to get rid of backlog - in order to ensure a speedy definition of pending legal proceedings- using also additional magistrates from back-office for performing judicial functions;

► Measures to strengthen the staff of justice administration are introduced, including: the green light to new internship, "extraordinarily" shortened to 12 months and also extended to judges and prosecutors of the Supreme Court offices; the extension of retirement for judges having senior, upper management and management positions in the Supreme Court of Cassation; a 10% increase of places available for the recruitment of the winners of public examinations of the years 2014-2015 and the stop of the migration of the staff from the civil justice system to other administrations.

According to press reports, a number of measures constituting a “mini-reform” of the civil process - that would hopefully allow a further speeding up of procedures - have been removed at last from the reform. These measures will probably land up in a future and more organic legislative intervention in the coming months 7.

3. Italian 1.230 day compared to 583.3 days, average of the high-income OECD countries. World Bank, Doing Business 2016 - Italy, http://www.doingbusiness.org/reforms/overview/economy/Italy
6. Law no. 168 of the 31st August 2016, n. 168, concerning urgent measures for the settlement of the dispute at the Court of Cassation, for the efficiency of the courts, as well as for administrative justice.
The Tax Reform

What has been said and done

Over the years, Italy’s taxation system has never particularly awestruck its European neighbors neither for its level of efficiency and operability, nor for its effects on the overall Italian economic system. Italian tax authorities have often been described as overly complex. The World Bank estimated an average of 267 hours needed per year to complete bureaucratic steps to pay taxes in Italy; quite striking if compared to the 175 hours needed by an equivalent taxpayer in the U.S., even more so if compared to the mere 12 hours required in the UAE.

The tax reform carried out and successfully implemented by the Italian Government in September 2015, had the pledged goal of defining a fairer taxation system in terms of transparency, simplification and orientation to growth. This was pursued via the creation of a recovery system that encourages spontaneous compliance with tax payment duties, mainly through the activation of more flexible installment mechanisms.

The reform presented several advantages for companies in particular: simplification of tax collection, improvement of interaction with tax authorities, lower tax burden via cuts in both corporate taxes IRAP and IRES, sanction’s system rationalization and the certainty of a tax regime for companies that operate in an international context.

What is new?

More than a year after the adoption of the last decrees, the tax reform is being further implemented and integrated in the Italian’s taxation system in order to continue the simplification of compliance procedures with tax payment duties and the lowering of tax burdens.

Bye Bye Equitalia

As of June 2016, Equitalia, the Italian authority responsible for tax collection, is obliged to communicate all tax payment duties to companies and professionals only via certified email accounts, the so-called PEC (posta elettronica certificata) accounts.

Additionally, the tax collector, since July 2016, is sending tax payment duties for debts up to 50,000 euro that already foresee an installment plan of 50 euro per month. These “friendly folders” aim at improving and easing the relationship between tax authorities and citizens, in a long-term perspective of radically changing the way Italy deals with tax collection.

The Italian Prime Minister Matteo Renzi is greatly determined in making this happen as quickly and effectively as possible. When presenting the new plan for the 2017 Stability Law in mid-October, the Italian PM has declared that Equitalia will be fully abolished already by the end of 2016, and no longer by 2018 as previously stated over the summer. It has been estimated that shutting down Equitalia will increase the State’s revenues by 4 billion euro, as a result of a sort of amnesty agreement between the two parties. By closing Equitalia, State savings will also increase as a result of the employee’s contracts going from private to public. On the other hand, however, a possible negative outcome of Equitalia’s closure could be the decrease in resources allocated to battle against tax evasion.

Although it is still not clear how the tax collection authority will be substituted or reformed, there is no doubt that the long term aim of the government is to severely cut down bureaucratic delays in tax payments and bring about simplification and accessibility.

2. EY, Italy, a new deal, a better future. Influence, Relevance, Growth. Italy’s opportunity and new paradigm, February 2016
4. Ibidem
Tax cuts

The structural tax reduction started with the 2015 tax reform is continuing to take place. After several cuts and easies, such as the income tax (IRPEF) bonus, the elimination of the public goods tax (TASI) on the first home owned, and the discounts on the municipal tax (IMU), taxes will be further reduced with the Stability Law for 20175. The next Stability Law will also focus on simplifying tax deadlines and cutting down one third of enterprises’ compliance duties. The government will take these measures in order to ultimately increase fiscal compliance particularly for SMEs. Luigi Cesaro, the Italian economic vice minister, has declared that “in four years I would like to say that I have been capable of reducing the hours needed to complete tax payments for enterprises from the 262 currently required to 160”6. This new compliance approach towards SMEs might also foresee, if the tax authority were to find any irregularity, a preventive consultation with the enterprise before issuing sanctions7.

Although it is not possible to assess the overall impact deriving from the tax reform yet, something can be said with regards to enterprises and tax cuts. As a matter of fact, according to the ISTAT study carried out in April 2016, the overall impact of the 2015 tax reform on enterprises in 2016 will be an 11% reduction in the corporate taxes IRES and IRAP, equal to 3.5 billion euro8.

The Labor Market Reform

What has been said and done

In 2014, the European Union made its opinion on the Italian labor market very clear: “The Italian labor market continues to be segmented and characterized by low participation, particularly for women and young people”. In response, the Italian Parliament approved the Jobs Act reform in December 2014, with the goal of redefining the rules of its labor market. With the approval of the last decrees in September 2015, the Italian government fully implemented the reform.

The effects on the economy were rapid: 764,000 new contracts were registered in 2015, while the number of temporary contracts and apprenticeships decreased significantly. The Jobs Act presented thus several advantages for companies and employees: clearer and simpler rules for recruitment, tax breaks on hiring indefinitely in order to reduce costs, increased regulation in the event of employment termination and increased flexibility through the introduction, for example, of less rigid working hours.

What is new?

As of August 2016, the Italian Ministry of Labor confirms an overall improvement in the labor market compared to the previous year. In particular, 253,000 more workers were hired permanently, whereas inactive individuals have decreased by 300,000.

Approved by the Council of Ministries and signed by Italy’s Head of State, on October 7, 2016 the Italian government officially adopted the Jobs Act Corrective Decree. The document appoints a total of 375 billion euro to pay for social security cushions adopted throughout 2016. Particularly, to the 85 billions that have already been appointed to cover for unemployment assistance, another 150 billion will be added to cover the same critical areas. It has been estimated that around 35 to 40 thousand workers will be affected by this measure.

The main modified measures adopted in the Jobs Act Corrective Decree are the following:

- **Traceability of vouchers**
  Occasional work vouchers have been made more traceable in order to decrease the occurrence of unregulated working hours. In particular, the employer has to declare to the National Work Inspectorate, via sms or email, 60 minutes before the start of the work performance, the personal data of the temporary employee, along with details regarding the work performance (location, time, start and end dates). This measure has been taken in order to combat tax evasion and unregulated employment.

- **Apprenticeship contract for high education and research formation**
  New standards have been defined for the apprenticeship contract for high education and research formation, which have to be applied to all the Italian national territory.

- **Unemployment benefits**
  Important changes have been made regarding social security cushions and solidarity contracts, which changed from “defensive” to “expansory”, in order to improve the way difficult social conditions are handled.

- **Disabled workers regulations**
  Stricter sanctions have been issued to punish working-rights violations towards disabled employees.

- **Online resignation procedure**
  Work consultants can act as intermediaries and send resignation letters via email on behalf of the employee to the employer.

- **National Work Inspectorate**
  The organization and managing of the National Work Inspectorate has been improved. The office has been moved to one of the Ministry of Labor’s buildings.

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1. EY, Italy, a new deal, a better future. Influence, Relevance, Growth. Italy’s opportunity and new paradigm, February 2016
2. EY, Italy, a new deal, a better future. Influence, Relevance, Growth. Italy’s opportunity and new paradigm, February 2016
Italy is Back
Opportunities and new paradigm in doing business with the United States

Update on structural reforms

Focus box: retirement

Italy’s next Stability Law will include some crucial changes in retirement policies. Concerning early retirement (APE), the Italian government has decided to activate a special loan, which will allow workers who already turned 63 years old to retire 3 years and 7 months before the deadline. Depending on the worker’s background and work experience accumulated, the costs of the early retirement will either fall entirely on the State or be partially assigned to the worker or the company. Some other changes will also be brought forward with regards to retirement contributions and taxes. The overall aim is to reward and support with more flexible and adequate measures those workers that have accumulated a sufficient amount of work experience regardless of their age and create workplaces for the younger generation. The Italian Minister of Labor, Giuliano Poletti, has recently announced that, in the upcoming three years, the government will give the retirement package a total of 6 billion euro.

Italy is therefore committed to a double-ended goal: improving the elderly’s retirement perspectives in both the short and long term, and creating more work opportunities for the younger generation.

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Infrastructures and transportation

What has been said and done

The Unlock Italy decree, approved in 2014, foresees urgent measures for the revival and enhancement of the public transport and logistics system throughout the country. By focusing on uncompleted public projects, railway, bus, and highway lines, airports and harbors, the government is working to rationalize the concentration and coordination of resources in order to be in line with international and European standards. A noteworthy example of these unlocking maneuvers is the decision taken by the Italian government to partially privatize the Italian State Railways over the course of 2017, maximum beginning of 2018.

What is new?

In 2016, the Italian government has put in extra effort to unlock resources particularly for the public transport system and simplify the overall organization of its airports and harbors.

As of August 2016, more details were given regarding the allocation of the Cohesion Funds (Fsc), made available for the 2014 Unlock Italy decree. In addition to the 13.4 billion euro that were allotted for the overall improvement of the south of the country (Patti per il Sud), the government has distributed the remaining 15 billion Fsc funds over “thematic areas”, particularly 11.5 billion for transport infrastructure improvement and 2 billion for environmental issues. Concerning transport infrastructures, the funds will be allotted in the following way: 6 billion for roads, 2.1 for railway lines, 300 million for regional railways’ security measures, 1 billion for public transport.

Italian Railway Lines

A branch of the Italian Counsel of Ministers (CIPE) has approved at the beginning of October 2016 the allocation of an extra 8.9 billion euro, taken directly from the 2016 Stability Law budget, to improve the effectiveness of Italian railway lines.

The Italian State Railways, Ferrovie dello Stato, has also approved a decennial investment plan that will foresee the issuing of a total of 94 billions to improve both railway and bus lines in the next ten years.

Finally, there has been a slight change in the Italian State Railways privatization maneuver, which has decreased to 30%, 10% less than what was initially announced in 2015. This decision has been taken in order to keep state railways as public as possible.

Italian Highways

The Italian Counsel of Ministers’ branch (CIPE) has also agreed to invest 1.4 billions on ten different projects regarding highways’ enhancement. According to the Minister for Transports and Infrastructures, Graziano Delrio, Italy’s PM Matteo Renzi will be able to officially announce that the Salerno-Reggio Calabria line, one of the most important infrastructure projects for the south, will be entirely completed by December 22, 2016.

Italian Harbors and Logistics

At the beginning of 2016, the Italian government approved a decree that significantly affects the organization and rationalization of the main Italian harbors, in order to increase their global competitiveness and relaunch Italy’s role in the Mediterranean Sea as the main European logistics hub. Essentially, the decree reduces the number of operative harbor control centers from 24 to 15, thus simplifying the overall administration system and rationalizing available resources. In August 2016, the government approved ulterior rationalization measures concerning the harbors and logistics’ reform (decree n°169, August 4, 2016) in order to fully implement and activate the previous decree.

1. EY, Italy, a new deal, a better future. Influence, Relevance, Growth. Italy’s opportunity and new paradigm, February 2016
2. Patti per il Sud is a governmental package of measures directed towards the improvement of the 8 southern regions in Italy (Abruzzo, Molise, Campania, Basilicata, Puglia, Calabria, Sicilia, Sardegna). This masterplan identifies the main priorities and challenges of each region in order to bring about future policy actions.
5. Particularly, 648 million euro will be assigned to support and improve security measures, whereas 343 millions will be allocated to the implementation of new technologies that enable a more rapid and operative circulation.
11. http://www.govcono.it/approfondimento/patti-il-sud/4621
15. http://www.govcono.it/approfondimento/patti-il-sud/4621
17. http://www.govcono.it/approfondimento/patti-il-sud/4621
Innovation is vital to Italian and European competitiveness in the global economy. As a matter of fact, the EU is implementing policies and programs that support the development of innovation to increase investment in research and development, and to better convert research into improved goods, services, or processes for the market. The European Commission provides various tools that map, monitor and assess the EU’s performance in different innovation areas. Particularly, the European Innovation Scoreboard tool assesses the relative strengths and weaknesses of national research and innovation systems, and helps countries identify the areas they need to address.\

Concerning Italy’s 2016 innovation performance assessment, the European Innovation Scoreboard defines Italy as a Moderate Innovator. Its innovation performance increased steadily until 2011, experienced a decline in 2012, and increased again in 2013-2014. Performance declined slightly in 2015. Italy has been increasing its innovation performance relative to the EU from 78% in 2008 to almost 83% in 2015.

Growth has been strong in the dimension of Open, excellent and attractive research systems (7.4%), due to performance improvements in Non-EU doctorate students (14%) and International scientific co-publications (6.9%). Performance has also increased strongly in License and patent revenues from abroad (19%). It has been, thus, proven that, in the Innovators dimension, Italy performs better than the EU average.

Within this framework, the European Innovation Scoreboard identifies also several dimensions that require extra effort for further improvement. Particularly, it has emerged that Italy needs to better address the Finance and Support dimension and Firm investments.

To work on and improve its research and innovation sector, in line with EU recommendations, Italy is currently busy with two main initiatives: the Italian Digital Growth program and the National Industry 4.0 plan.

Furthermore, in February 2016, the Italian National Committee for the Stock Market, CONSOB, significantly simplified online equity crowdfunding procedures. The introduction of these procedures marks a positive note for investors who are active in alternative finance and who are keen to finance innovative ideas.

CONSOB procedures indeed, have been adopted in order to foster and enhance investments in innovative start-ups, granting two new categories the possibility of taking part in equity crowdfunding, in order to expand the investors’ pool: (1) “temporary professional investors”, as defined by the European MiFid framework; (2) “investors in support of innovation”, identified by CONSOB based on objective criteria.
The Digital Agenda

The digital agenda is one of the seven major initiatives identified in the wider EU 2020 Strategy, presented by the European Commission on May 1, 2010, which aims at the Union’s smart and sustainable growth. Within the EU 2020 Digital Strategy framework, Italy has formulated its own Digital Growth program, aimed at significantly enhancing the way Italian citizens engage with the digital world. As a matter of fact, it has been estimated that 73.7% of Italians currently use daily internet and the web (95.9% are not yet 30 years old). Furthermore, between 2014 and 2015, there has been a 2.8% increase in internet’s penetration⁴.

For Italian companies particularly, the Digital Agenda program will have two main advantages: (1) faster access to Public Administration services by decreasing administrative burdens; (2) facilitated ultra-broadband investments.

The General Director of Italy’s Digital Growth Agency, Antonio Samaritani, pointed out that: “those 1.2 billions were the missing piece. We now have all the necessary resources to launch our chief digital project⁵”.

The unlocked European funds will be distributed among regional and national projects in the following way: 862 millions for regional projects; 338.5 millions for national projects.

With regards particularly to national projects, 95.7 millions will be allotted to the Governance and Institutional Capability sector, 151.9 millions for the Metropolitan Cities plan, 90.7 millions for legal procedures. The main projects that will be funded are the Public System for Connectivity (the new connection line for public administration) along with Wi-Fi connection in all public offices (both amount to 1.4 billion of euro), the digital Health system (740 million euro), the rationalization of the public informatics patrimony (650 million euro).

Also noteworthy is the Italia Login project (350 million euro) which will make the public administration digital service more user-friendly. Among other things, there are also 420 millions for smart city, 350 millions for Digital Schools, 45 millions for the Digital Identity Public System, 74 millions for the Digital Civil Registry. What is still missing for now is an improved coordination in the utilization of public expenses for regional digital projects, in order to avoid wasting or losing resources. This will be the main focus in the upcoming months⁶.

The National Industry 4.0 plan

On September 21, 2016, the Italian Minister for Economic Development, Carlo Calenda, presented the National Industry 4.0 plan⁷. With an overall engagement of 13.7 billion euro of public resources, it is the most ambitious European plan in this field, also compared to its equivalent French and German versions. The Italian government will put forward horizontal rather than sectorial actions by emphasizing the industrial transformation’s enabling factors. These actions have been planned based on the peculiar characteristics of the Italian entrepreneurial sector, largely focused on SMEs, and based on the key role played by universities and research excellence centers in developing and innovating production and products. The main aim is to promote the use of existing tools in order to bring about technological progress and enhance productivity. This will be carried out by coordinating the main stakeholders, in order to avoid State interference in the production processes and in the overall economic development.

The plan’s governance

A monitoring cabin that will meet twice a year will be in charge of supervising the plan’s implementation and developments. It will also be responsible for verifying inefficiencies and modifying them in order to be in line with the established indicators. The monitoring cabin will have a public-private governmental structure formed by the following entities: Presidency of the Counsel of Ministers, Ministry of Economic Development, Ministry of Education, University and Research, Ministry of Economy and Finance, Ministry of Labor, Ministry of Agriculture and Forestry, Ministry of Environment, Polytechnics of Bari, Milan and Turin, Sant’Anna of Pisa High School, Polo of Nord-est Universities, Federico II of Milan University, Conference of Italian Universities’ Presidents CRUI, Research Centers, the Economic and Entrepreneurial world, Labor organizations and the Treasury for Deposits and Loans.
The plan's directives

The plan is based on two main directives (innovative investments and competencies), along with a few complementary ones:

Innovative Investments

Concerning the innovative investments' directive, the main aim is to incentivize private investment on technologies and 4.0 goods, to increase private spending on research, development and innovation, and to strengthen innovative firm and start-up's finance and support.

With regards to private investment incentives, the value of the superamortization at 140% has already proved to be effective and will be extended for a year. It will be accompanied by the possibility of a iperamortization at 250% for goods related to the 4.0 domain. Furthermore, the Enterprises' Rotating Fund will include a section dedicated to investments 4.0.

At the same time, to enhance private spending for research, development and innovation, the tax credit for R&D investments will be doubled and will shift from 25% to 50% for all type of expenses, with an annual maximum per each recipient that will increase from 5 to 20 millions.

Finally, with regards to Finance and Support, the plan foresees tax deductions up to 30% for investments in startups and innovative SMEs that reach 1 million euro, and the possibility that the sponsoring society takes on the startup's first four years of losses. The Treasury for Deposits and Loans (CDP) will also be involved in providing and supporting firms' accelerators, along with funds to industrialize ideas, high-tech patents, and venture capital funds for the 4.0 industry.

The plan is defined by "a substantial change: abandoning the logic of ad hoc incentives that characterized a time when the government wanted to decide where and how industries had to invest. We are not dealing with horizontal fiscal incentives, chosen from the ones that best worked in the past, directed towards a communal plan: the digital transformation of our industry".

This change of perspective has been greatly embraced also by enterprises and their associations, that are thus in favor of the measures.

The plan foresees to increase private investments by 10 billion euro each year, shifting from 80 to 90 billion total, already in 2017. During the plan's overall duration, 2017-2020, private spending for research and development should increase by 11.3 billion with a greater focus on industry 4.0 technologies. Early stage investments, also supported by a relieve package for venture capital, should increase in the duration period by 2.6 billion.

Competencies

The other main directive is the one regarding competencies. The key projects involved are Digital School and School-Work Alternation, the development of 4.0 competencies in Universities, financing 4.0 research by enhancing related Clusters and PhDs, creating Competence Centers and Digital Innovation Hubs.

To support the digital transformation, selected national Competence Centers will be created at the beginning of 2017 by involving Universities of excellence (Politecnici of Milan, Bari and Turin, Sant’Anna of Pisa High School, the Federico II of Naples and the Polo of the Nord-est Universities) and big private players related to this field. The aim of these Competence Centers I4.0 is to provide the necessary formation and awareness on I4.0 and promote live demo on new technologies. Furthermore, they will directly support SMEs with expert and specific consultancy services, in order to aid them with the launch and acceleration of innovative projects related to technological development. Finally, they will support the experimentation and production of new technologies 4.0 and will coordinate with other European competence centers on these matters.

The plan also includes the creation of the Technological Clusters “Fabbrica Intelligente” and “Agrifood” and the coordination with other clusters and industrial stakeholders, along with the creation of the Digital Innovation Hub, in such a way building a bridge between enterprises, research and finance. These centers will also assist and mentor firms in planning activities for innovative investments.

With this Competencies plan, the government plans to be able to form 200.000 university students and 3.000 specialized managers on subjects related to I4.0. Furthermore, it plans to create 1.400 research PhDs with a focus on I4.0. National Competence Centers are fundamental for the plan’s implementation.

Enabling infrastructures
The National Industry 4.0 plan also foresees the creation of some enabling infrastructures. Specifically, the plan aims at ensuring adequate network infrastructures with the Ultra-Band plan and collaborate to define standard and criteria for the Internet of Things (IoT).

The main goal in this case is being able to cover 100% of Italian industries at 30Mbps within 2020, 50% of Italian industries covered at 100Mbps within 2020, and the creation of 6 consortiums related to IoT starting in 2017.

Public tools for support
The public support tools aim at guaranteeing private investments, support large innovative investments, strengthen and innovate international market protection, and support the wage-productivity exchange via decentralized enterprise negotiations. The main measures in this field are: the reform and financing of the Central Guarantee Fund in 2017 with a focus on 4.0 investment coverage, a strong investment on digital selling chains, an increase in SMEs’ support, the negotiation and distribution of personalized funding based on the firms’ specific needs with a priority on 4.0 projects, and the strengthening of the wages-productivity exchange.

Awareness
The awareness dimension consists in the ability to spread planned interventions in order to make sure enterprises are able to use them. This is the aim of the “Assistance for high potentials” project. It supports SMEs with a high potential in implementing 4.0 transformation plans and foresees the creation of a 4.0 Road Show aimed at raising awareness on the topic. The Road Show “tour” will have several events from North to South with enterprises and universities, to educate SMEs regarding digital innovation and 4.0[9].

Overview

Following the burst of the financial crisis, a prolonged period of recession has tested the resilience of Italian corporates and consumers, setting the background for a deterioration of banks’ balance-sheets and a surge in Non-Performing loans. The economic environment appears today more benign, following the first signs of a gradual recovery and the stabilization of asset quality and lending trends.

Lending Trends

After a prolonged decline, lending by banks and financial institutions has shown signs of steadying. Since the end of 2013, the lending trend to the non-financial private sector, although remaining negative on a year-on-year change basis, has been improving, despite a focus of banks in optimizing their balance sheets (Figure 1-a). Lending to household is increasing while that to firms is mainly being affected by continued risk demand.

In particular, loans are increasing for firms whose economic and financial conditions are relatively sound, while credit to small firms has continued to contract. With respect to sector activity, the pace of lending has been stronger for companies in the services sector and for large firms (Figure 1-b).

According to the Italian banks interviewed in June’s quarterly euro-area bank lending survey, the demand for business loans has been supported by low interest rates and higher funding requirements for stock and working capital. Most of the liquidity obtained through TLTRO2 was utilized to extend credit to firms and this trend is expected to persist also with future long-term refinancing operations. Demand for fixed investments as well as for inventories and working capital has registered a sharp inversion into positive territory (Figure 2).
Capital

Overall, Italian banks report capitalization levels well above ECB SREP requirements and in line with market expectations, also in light of the recently launched capital increases (Figure 3).

On July 29th, 2016 the European Banking Authority (EBA) published the outcomes of the stress test performed on the leading European banks. Four out of the five largest Italian banks showed good resilience to adverse economic shocks, notwithstanding the stringent nature of the exercise. In the adverse scenario, the weighted impact on the CET1 ratio was 4.1 percentage points compared to the EBA sample wide average of 3.8 per cent (Figure 4).

The results do not contain any pass/fail thresholds for banks and, at the individual level, will inform supervisory discussions in the SREP to understand each banks’ resilience to shocks, after taking into account their specific circumstances.

Market Consolidation

The Italian banking system has been historically deeply fragmented with few sizeable banking groups and is still one of the most over-branched countries in Europe, as population per branch is very low. Top five banks account for approximately 60 per cent of the total number of branches, with the remaining share split amongst a broad group of smaller players. In addition, Italy lags behind other countries in terms of online banking development.

A significant improvement in efficiency could be driven by a more extensive use of technology and M&A transactions that could help optimizing central structures and distribution networks, accelerating banks’ transformation. A review of business models and distribution networks have already started and is expected to strengthen following a new consolidation phase.

In fact, over the last few years, Italian banks have started to implement a restructuring of their networks reducing progressively the number of branches (Figure 5). Nonetheless, an increasing focus on multichannel strategies and cost reduction could change significantly the traditional distribution networks.

The ownership structure of Popolari and Cooperative banks (characterized by the “one-person-one-vote” mechanism) has historically represented an obstacle to M&A so far. In this respect, the recent Popolari reform acts as a catalyst for consolidation. In fact, on January 2015 the Italian Government proposed the “Investment Compact” Decree Law to reform Popolari banks. On March of the same year, the Decree became law: all Popolari banks with consolidated total assets above Euro 8 billion (approximately 90 per cent in terms of total assets) will have to convert their status to S.p.A. (i.e. Joint Stock Companies).

As a consequence, a new wave of consolidation is expected in the Italian banking system over the medium term.

3. Latest Consolidated Financial Statements
4. EBA, “EU-wide Stress Test Results”, July 2016
A reform of the cooperative banks has also been recently approved with the Law 49/2016. The reform introduces in the Consolidated Law on Banking (TUB) the concept of the mutual banking group, consisting of a parent company incorporated as a joint stock company with net assets of at least Euro 1 billion and the mutual banks (BCCs) affiliated to it under a cohesion contract.

6. Structure of the Italian Banking Landscape

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Ownership Structure</th>
<th># Banks (as of June 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual (Banche di credito cooperativo)</td>
<td>Individual shareholder voting rights: 1 person, 1 vote Typically small and working under the cooperative banks network</td>
<td>355</td>
</tr>
<tr>
<td>Joint Stock Companies (S.p.A.)</td>
<td>Shareholder voting rights proportional to the number of shares held</td>
<td>167</td>
</tr>
<tr>
<td>Branches of foreign banks</td>
<td>Usually fully owned by international banking groups</td>
<td>84</td>
</tr>
<tr>
<td>Cooperative (Banche Popolari)</td>
<td>Individual shareholder voting rights: 1 person, 1 vote</td>
<td>29</td>
</tr>
</tbody>
</table>
Key Regulatory Aspects

With respect to the recent evolution of the European governance and its impacts on the Italian banking system, the following aspects have been playing a key role and need to be mentioned:

► **Bank Recovery and Resolution Directive (BRRD):** in November 2015 the EU Bank Recovery and Resolution Directive (BRRD) was transposed into the Italian law. It allows supervisors to intervene at the first signs of a deterioration in the financial situation of banks; during a crisis it aims at ensuring the continuity of essential services, limit the use of taxpayers’ resources, and protect depositors (up to Euro 100k) and investors. The new directive also provides for the full shoudering of costs by shareholders and some categories of creditor (bail-in) according to a pre-defined hierarchy. Use of public resources is limited to extraordinary circumstances and as a rule subject to the application of a minimum bail-in.

► **ECB Guidance to Banks on Non-performing Loans:** in September 2016 the ECB released a draft guidance aimed at clarifying the supervisory expectations regarding NPL identification, management, measurement and write-offs in areas where current regulation does not exist or lacks specificity. It addresses key aspects and best practices to successfully resolve NPLs. This NPL guidance is currently non-binding in nature. However, banks should explain and substantiate any deviations upon supervisory request. This guidance is addressed to credit institutions within the meaning of Article 4(1) of Regulation (EU) 575/2013 (CRR). It is generally applicable to all significant institutions supervised directly under the Single Supervisory Mechanism (SSM), including their international subsidiaries. Banks with NPL ratio above EU average are asked to reduce them within a time horizon to a level to be defined by the regulator and to implement NPL strategies, adopting proper organizational / IT infrastructures. When more urgent, as in case of some Italian banks, this process has already started.

► **Capital Conservation Buffer (CCB):** the Bank of Italy has recently published a legal proposal to unwind its front-loading of the Capital Conservation Buffer and to move it back to the phased approach, which was originally provided by CRD IV. In fact, unlike most European banks, back in May 2015 the Bank of Italy fully loaded the 2.5 per cent CCB. This decision is coherent with the SSM approach to minimize differences in the prudential discipline of EU banks. If approved, the 2017 add-on to capital will be 1.25 per cent rather than 2.5 per cent.

Asset Quality

The Italian banking system, traditionally focused on lending to SMEs, has been deeply affected by the economic downturn stemming from the international financial crisis. Since 2009, the total amount of gross Non Performing Exposures (NPEs) of Italian banks has more than tripled, from approximately Euro 133 billion in the end of 2009 to Euro 331 billion in June 2016 (Figure 7). The ratio of total gross deteriorated assets on loans to clients (defined as NPE ratio) has constantly increased from 9.5 per cent in 2009 to approximately 18.1 per cent in 2015\(^6\). NPLs (the Italian “sofferenze”) represent the greater portion of the entire stock, reaching a record level of Euro 200 billion gross of provisioning as of year-end 2015 (from 60 billion in 2009).

As shown in Figure 7, in the first half of 2016, this trend has slightly reverted and, over the medium term, the total gross amount is expected to continue to decline in light of lower inflows and NPE disposals. In fact, the negative trend that has characterized the asset quality of Italian banks over the years has recently reversed, also thanks to a mild economic recovery. According to the latest survey carried on by ABI-Cerved, the entry rate of new bad loans for Italian non-financial institutions is expected to decrease from 3.7 per cent in 2015 to approximately 2.4 per cent in 2017\(^7\).

Most importantly, the coverage ratio of NPEs has constantly improved to 45.4 per cent for the entire banking system (from 41.2 per cent in 2009), well above the European average of 43.8 per cent, as reported by the European Banking Authority\(^8\). The data reaches approximately 57 per cent considering only bad loans, whose net amount totalled Euro 84 billion in June 2016, down from Euro 89 billion in December 2015 (Figure 8).

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\(^7\) ABI-Cerved, “Outlook ABI-Cerved sulle nuove sofferenze delle imprese”, May 2016
\(^8\) EBA, “Risk dashboard - Data as of 04 2015”
With respect to gross Non Performing Exposures, the amount of loans secured by collaterals amounts to Euro 160 billion, approximately 50 per cent of the entire stock. Specifically, looking exclusively at bad loans, Italian banks hold Euro 85 billion of collaterals and 37 billion of personal guarantees, almost 1.5 times greater than the net book value of the loans.

Over the last year, the Italian authorities have enacted a series of reforms to solve the NPLs issue and support banks to free up resources. In June 2015, the Italian government approved a Decree Law called “Giustizia per la crescita” (Justice for the growth). The proposed decree contemplates a set of measures aimed at accelerating the workout of companies in liquidation, including facilitation of creditor agreements and prioritizing out of court settlements. The above framework has been recently integrated with a new decree called “Decreto Banche” that introduces further measures to seize assets more quickly, improve court procedures' transparency and simplify the guarantee system. Early this year, the GACS scheme was approved to help banks in offloading their stock of NPLs through securitizations. The Atlante fund will further contribute to trigger NPLs market transactions by co-investing in notes of GACS securitizations and recently, Quaestio Capital Management SGR (the promoter of the fund) has announced a second round of fund raising for the establishment of Atlante 2, a fund that will invest only in equity/Mezzanine tranches of NPL vehicles.

Below a brief overview of the new laws promoted so far:

- **Law 132/2015 (Giustizia per la crescita):** aimed at reforming the bankruptcy private and civil laws to facilitate the turnaround of Italian distressed companies, alongside increasing NPL disposals;
- **Law 59/2016 (Decreto banche):** introduces further measures to speed up repossessions procedures and attempts to improve data transparency and availability for NPL investors;
- **Law 49/2016 (GACS scheme):** introduction of a government guarantee scheme on the Senior notes of NPLs securitizations.

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Considerations

► The disposal of NPLs portfolios to external specialized investors (typically credit funds) may represent the fastest way to clean the bank’s balance sheet and possibly release capital. This in turn would improve lending conditions towards non-financial corporations.

► The GACS scheme, coupled with new available instruments provided by the recently approved Laws 132/2015 and 59/2016, which are aimed at optimizing credit management and accelerating foreclosures as well as time to recovery of bad loans, is expected to create improved conditions for NPL transactions in the Italian market. In particular, the reform leaves room for narrowing the bid-ask spread, enables the transformation of illiquid NPL assets and could introduce a market for NPL financing, which has traditionally been difficult.

► According to a survey\(^\text{12}\) contained in the latest version of the EY Banking Barometer 2016, lending policies to the energy sector are set to be more restrictive in all European markets except France and Italy, while lending to commercial real estate and construction are expected to tighten in most markets:
According to the same survey, many bankers also anticipate retail and consumer lending to be less restrictive over the next 12 months:

In terms of M&A, when asked “To what extent do you anticipate consolidation of the banking industry in your market over the next 12 months and within the next 3 years?”, bankers expect the most significant consolidation in Austria, Germany, Poland and Italy:
Italy’s presence in the US and American presence in Italy

The relationship between Italy and the United States has historically been one of the cornerstones of our country’s economic, political, and trade strategy. Since the post-war period, when the Marshall Plan contributed to the reconstruction of Italy’s industrial and entrepreneurial structure, which had been greatly weakened by the Second World War, this relationship has always been based on strong cooperation. However, the hindering factors mentioned above do not allow Italy to be at the center of US investors’ attention, despite the significant US presence in our country, as proven by the over 1,900 companies on our soil.

In trade terms, according to the US Census, in 2015 Italy was the 10th largest partner of the United States, with exports worth 44.0 billion dollars – marking a 4.6% increase on 2014 – while the imports from the United States amounted to 16.2 billion dollars – down by 4.3% – leading to a positive trade balance of 27.8 billion dollars.

Such a figure proves how well the “Made in Italy” concept is perceived across the ocean.

It’s worth noting that Italy is a transformational economy, i.e. a high value-added one, but deeply dependent on raw materials and energy imports. This dependency, in the investors’ perception, makes Italy a risky country especially about energy (i.e. low diversification). From this point of view, the entrance of the US could be a useful element to bring prices down and weaken the oligopoly that currently runs the gas market.

Source: U.S. Census
Main trade partners of US in 2015 (source: U.S. Census)

<table>
<thead>
<tr>
<th>Country</th>
<th>US$ BLN</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Countries</td>
<td>2,241.1</td>
<td>100.0%</td>
</tr>
<tr>
<td>China</td>
<td>481.9</td>
<td>21.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>295.2</td>
<td>13.2%</td>
</tr>
<tr>
<td>Mexico</td>
<td>294.7</td>
<td>13.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>131.1</td>
<td>5.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>124.1</td>
<td>5.5%</td>
</tr>
<tr>
<td>South Korea</td>
<td>71.8</td>
<td>3.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>57.8</td>
<td>2.6%</td>
</tr>
<tr>
<td>France</td>
<td>47.6</td>
<td>2.1%</td>
</tr>
<tr>
<td>India</td>
<td>44.7</td>
<td>2.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>44.0</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

According to the US Census data, the five states of the US that import most from Italy are New Jersey (13.4%), New York (13.1%), California (8.3%), Michigan (7.8%), and Texas (6.6%), accounting for almost 50% of the total that is imported from our country. On the basis of the NAICS 3 (three-digit North American Industry Classification System), the top 10 products exported from Italy to the United States are detailed below:

Top 10 products imported from Italy (source: US Census)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value 2015 ($'000)</th>
<th>% Share</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery, Except Electrical</td>
<td>7,707,795</td>
<td>17.5%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>6,504,404</td>
<td>14.8%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5,558,756</td>
<td>12.6%</td>
<td>18.1%</td>
</tr>
<tr>
<td>Leather &amp; Allied Products</td>
<td>2,522,775</td>
<td>5.7%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Fabricated Metal Products, NESOI</td>
<td>2,499,311</td>
<td>5.7%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Miscellaneous Manufactured Commodities</td>
<td>2,255,466</td>
<td>5.1%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco Products</td>
<td>2,164,191</td>
<td>4.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Food &amp; Kindred Products</td>
<td>2,077,117</td>
<td>4.7%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Apparel &amp; Accessories</td>
<td>1,622,113</td>
<td>3.7%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Primary Metal Mfg</td>
<td>1,545,721</td>
<td>3.5%</td>
<td>-20.4%</td>
</tr>
</tbody>
</table>
While trade is flourishing, the same level of dynamism in this relationship cannot be found when one focuses on investments. Despite a sound growth of US investments in Italy over the years, our country’s presence on the US radar is not a central one, further confirming the theory whereby there are factors hindering a greater influx of investments. Last year was not, as a matter of fact, particularly brilliant.

Over the last 12 years, from 2003 to 2015, US investment in Italy has decreased by 2.6%, from $23.1 billion (2003) to 22.5 in 2015 (down by 7.5% in 2014).

In the opposite direction of this Transatlantic axis, Italian investments in the United States have experienced significant increase, from $6.9 billion in 2003 to $28.65 billion in 2015 (up 19.0% on 2014), with a 312.6% increase in this timeframe, demonstrating that several Italian companies consider it strategic within their business development strategy to open a production facility and/or purchase a US company.
Analysis by sector of US FDIs in Italy

- Mining: 17.2%
- Wholesale Trade: 1.2%
- Depository Inst.: 1.7%
- Scientific: 2.1%
- Other Industries: 11.7%
- Manufacturing: 5.2%
- Information: 10.1%
- Finance: 16.9%
- Holding Companies: 33.9%

Analysis by sector of US manufacturing FDIs in Italy

- Food: 32.7%
- Chemicals: 14.0%
- Primary & Fab. Metals: 8.1%
- Machinery: 10.9%
- Computer & Electronics: 5.9%
- Transport Equipment: 20.1%
- Other Industries: 8.3%

Analysis by sector of Italian FDIs in US

- Manufacturing: 32.2%
- Wholesale Trade: 60.3%
- Information: 0.6%
- Retail Trade: 9.7%
- Real Estate: 23.8%
- Other Industries: 0.6%

Analysis by sector of Italian manufacturing FDIs in US

- Food: 6.5%
- Chemicals: 13.8%
- Primary & Fab. Metals: 5.7%
- Machinery: 22.4%
- Other Manufacturing: 0.1%
- Electrical Equipment: 51.5%

Source: Bureau of Economic Analysis
Italy is Back
Opportunities and new paradigm in doing business with the United States

Italy on the US radar (source: Bureau of Economic Analysis)

<table>
<thead>
<tr>
<th>#1</th>
<th>FDI from USA to Europe</th>
<th>Total 2015 $ BN</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Europe</td>
<td>2,949.2</td>
<td>100.0%</td>
</tr>
<tr>
<td>1</td>
<td>Netherlands</td>
<td>858.1</td>
<td>29.1%</td>
</tr>
<tr>
<td>2</td>
<td>United Kingdom</td>
<td>593.0</td>
<td>20.1%</td>
</tr>
<tr>
<td>3</td>
<td>Luxembourg</td>
<td>503.0</td>
<td>17.1%</td>
</tr>
<tr>
<td>4</td>
<td>Ireland</td>
<td>343.4</td>
<td>11.6%</td>
</tr>
<tr>
<td>5</td>
<td>Switzerland</td>
<td>155.2</td>
<td>5.3%</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>108.1</td>
<td>3.7%</td>
</tr>
<tr>
<td>7</td>
<td>France</td>
<td>78.3</td>
<td>2.7%</td>
</tr>
<tr>
<td>8</td>
<td>Gibraltar</td>
<td>50.2</td>
<td>1.7%</td>
</tr>
<tr>
<td>9</td>
<td>Belgium</td>
<td>45.1</td>
<td>1.5%</td>
</tr>
<tr>
<td>10</td>
<td>Spain</td>
<td>35.8</td>
<td>1.2%</td>
</tr>
<tr>
<td>11</td>
<td>Norway</td>
<td>33.6</td>
<td>1.1%</td>
</tr>
<tr>
<td>12</td>
<td>Sweden</td>
<td>25.0</td>
<td>0.8%</td>
</tr>
<tr>
<td>13</td>
<td>Italy</td>
<td>22.5</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

These figures reveal that Italy only attracts 1% of the US FDIs in Europe, and 0.4% of the ones worldwide, while it accounts for 0.9% of those attracted by the US at a global level.

One hopes that the reforms that have been initiated by the government and the ones that are being approved and/or implemented can act as a driving force to increase the confidence of investors in our country, also increasing the number of investments that are attracted. This notwithstanding, several US multinational corporations have put their trust in Italy, deciding to invest in new plants, expansions, research centres and/or in the takeover of companies, earmarking considerable financial resources, thus contributing to improving Italy’s industrial assets.

The US on the Italian radar (source: Bureau of Economic Analysis)

<table>
<thead>
<tr>
<th>#1</th>
<th>FDI from Europe to USA</th>
<th>Total 2015 $ BN</th>
<th>Total %</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Europe</td>
<td>2,162.8</td>
<td>100.0%</td>
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<tr>
<td>1</td>
<td>United Kingdom</td>
<td>483.8</td>
<td>22.4%</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg</td>
<td>328.4</td>
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<td>3</td>
<td>Netherlands</td>
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<tr>
<td>4</td>
<td>Switzerland</td>
<td>257.9</td>
<td>11.9%</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>255.5</td>
<td>11.8%</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>233.8</td>
<td>10.8%</td>
</tr>
<tr>
<td>7</td>
<td>Belgium</td>
<td>80.1</td>
<td>3.7%</td>
</tr>
<tr>
<td>8</td>
<td>Spain</td>
<td>61.9</td>
<td>2.9%</td>
</tr>
<tr>
<td>9</td>
<td>Sweden</td>
<td>46.9</td>
<td>2.2%</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>28.6</td>
<td>1.3%</td>
</tr>
<tr>
<td>11</td>
<td>Norway</td>
<td>20.8</td>
<td>1.0%</td>
</tr>
<tr>
<td>12</td>
<td>Denmark</td>
<td>14.3</td>
<td>0.7%</td>
</tr>
<tr>
<td>13</td>
<td>Ireland</td>
<td>13.5</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Below is a short but significant list of US investments in Italy made in the last few years:

**Main US Investments in Italy (source: EY, AmCham Italy)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Bidder Company</th>
<th>Type</th>
<th>Industry</th>
<th>Target Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Starbucks</td>
<td>Investments</td>
<td>Food&amp;Beverage</td>
<td>Princi</td>
</tr>
<tr>
<td>2016</td>
<td>Domino's Pizza</td>
<td>Investments</td>
<td>Food&amp;Beverage</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>KFC</td>
<td>Investments</td>
<td>Food&amp;Beverage</td>
<td></td>
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<tr>
<td>2016</td>
<td>IBM</td>
<td>Greenfield</td>
<td>ICT</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>Microsoft</td>
<td>M&amp;A</td>
<td>ICT</td>
<td>Solair</td>
</tr>
<tr>
<td>2016</td>
<td>Dover</td>
<td>M&amp;A</td>
<td>Manufacturing</td>
<td>Ravaglioli</td>
</tr>
<tr>
<td>2016</td>
<td>Medtronic</td>
<td>M&amp;A</td>
<td>Medical Devices</td>
<td>Belco</td>
</tr>
<tr>
<td>2016</td>
<td>UPMC</td>
<td>R&amp;D Investment</td>
<td>Pharma &amp; R&amp;S</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>UTC</td>
<td>M&amp;A</td>
<td>Machinery</td>
<td>Riello Group</td>
</tr>
<tr>
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<td>Babcock &amp; Wilcox</td>
<td>M&amp;A</td>
<td>Machinery</td>
<td>SPIG</td>
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<tr>
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<td>Watts Industries</td>
<td>Greenfield</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>Apple</td>
<td>Greenfield</td>
<td>ICT</td>
<td></td>
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<tr>
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<td>Cisco</td>
<td>Greenfield</td>
<td>ICT</td>
<td></td>
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<td>Bunge</td>
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<td>Hines</td>
<td>M&amp;A</td>
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<td>Hyster-Yale Handling</td>
<td>M&amp;A</td>
<td>Forklifts Attachments</td>
<td>Bozoni</td>
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<tr>
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<td>Amazon</td>
<td>Greenfield</td>
<td>Logistics</td>
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<td>Amazon</td>
<td>M&amp;A</td>
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<td>Nice</td>
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<td>2015</td>
<td>Dow</td>
<td>Greenfield</td>
<td>Chemicals</td>
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<td>EFI</td>
<td>M&amp;A</td>
<td>Machinery</td>
<td>Reggiani Macchine</td>
</tr>
<tr>
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<td>IBM</td>
<td>Greenfield</td>
<td>ICT</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Victoria’s Secret</td>
<td>Greenfield</td>
<td>Apparel</td>
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<tr>
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<td>DTZ</td>
<td>M&amp;A</td>
<td>Real Estate</td>
<td>Cushman &amp; Wakefield</td>
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<tr>
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<td>M&amp;A</td>
<td>Pharmaceuticals</td>
<td>Sigma Tau</td>
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<td>Haworth</td>
<td>M&amp;A</td>
<td>Leather Goods</td>
<td>Poltrona Frau</td>
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<td>Avis</td>
<td>M&amp;A</td>
<td>Automotive Rent</td>
<td>Maggiore Group</td>
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<td>2014</td>
<td>BlackRock</td>
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<td>Tengram Capital</td>
<td>M&amp;A</td>
<td>Luxury Apparel</td>
<td>Luciano Barbera</td>
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<td>M&amp;A</td>
<td>Printing services</td>
<td>Pixartprinting</td>
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<tr>
<td>2014</td>
<td>Lincolnshire</td>
<td>M&amp;A</td>
<td>Packaging Machinery</td>
<td>Gruppo Fabbri</td>
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<tr>
<td>2013</td>
<td>Mohawk</td>
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<td>Tiles</td>
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<td>2011</td>
<td>Constellation Brands</td>
<td>M&amp;A</td>
<td>Food&amp;Beverage</td>
<td>Ruffino</td>
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<td>2011</td>
<td>Eli Lilly</td>
<td>Greenfield</td>
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<tr>
<td>2011</td>
<td>Cisco</td>
<td>Investments</td>
<td>ICT</td>
<td></td>
</tr>
</tbody>
</table>
Our entrepreneurs consider the US not only one of the most important and promising market in terms of growth and opportunities for development, but also as a very attractive destination where to open new production sites. This is due to the American “manufacturing renaissance”, the competitive cost of energy and the subsidies granted by the States to attract FDIs and increase employment locally.

The growing centrality of this aspect emerges from the analysis of which Italian companies have chosen this path in the last few years, with significative investments both from a financial and an industrial perspective.

Below is a short but significant list of US investments in Italy made in the last few years (source: EY, AmCham Italy)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bidder Company</th>
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<th>Industry</th>
<th>Target Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Agrati Group</td>
<td>M&amp;A</td>
<td>Automotive</td>
<td>Continental Midland Group</td>
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<tr>
<td>2016</td>
<td>Italmatch Chemicals</td>
<td>M&amp;A</td>
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<td>Compass Chemical</td>
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<tr>
<td>2016</td>
<td>DiaSorin</td>
<td>R&amp;D</td>
<td>Diagnostics</td>
<td>Focus Diagnostics</td>
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<td>2016</td>
<td>De Rigo</td>
<td>M&amp;A</td>
<td>Eyewear</td>
<td>REM Eyewear</td>
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<td>2016</td>
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<td>Greenfield</td>
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<td>Pietro Rosa TBM</td>
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<td>M&amp;A</td>
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<td>Firearms</td>
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<td>Metals &amp; Manufacturing</td>
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<td>Greenfield</td>
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<td>M&amp;A</td>
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<td>Carnelutti</td>
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<td>Law Services</td>
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<td>Exor</td>
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<td>Insurance</td>
<td>Partner RE</td>
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<td>Salini-Impregilo</td>
<td>M&amp;A</td>
<td>Construction</td>
<td>Lane Industries</td>
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<tr>
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<td>Gavio Group</td>
<td>M&amp;A</td>
<td>Yachting</td>
<td>Bertram</td>
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<td>2015</td>
<td>Barilla</td>
<td>Expansion</td>
<td>Food&amp;Beverage</td>
<td>-</td>
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<tr>
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<td>Ali Group</td>
<td>M&amp;A</td>
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<td>Bicycle Manufacturer</td>
<td>-</td>
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<tr>
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<td>Ritrama</td>
<td>Greenfield</td>
<td>Chemicals</td>
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<tr>
<td>2014</td>
<td>Provides</td>
<td>Greenfield</td>
<td>HVAC components</td>
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<tr>
<td>2014</td>
<td>Zapi</td>
<td>Greenfield</td>
<td>ICT</td>
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Foreign investments are an important driving force for growth, given that they entail the transfer of technology, greater competitiveness, renewal and improvement in company governance, and increased productivity. As such, they are actively pursued by countries, even more so in a context such as the current one, where deleveraging and contraction of bank credits, as well as the limitations imposed by the need to restore public finances, have made finding investments more difficult and onerous for several economies, even advanced ones.

According to this remark, which is taken from a Bank of Italy analysis document, FDIs therefore play a key role in a country’s economic and occupational growth, also considering that “a multinational corporation, when deciding where to base an affiliate company, takes into consideration a broad range of factors, and can decide not only on the basis of the specific features of a plant and of the sector at hand, but also of the general ones of the country it invests in.”

It is therefore necessary to identify the key success factors that establish a country’s desirability, in such a way as to identify its strengths and weaknesses, so as to promote the former, while planning solutions that can act effectively on the latter.

<table>
<thead>
<tr>
<th>Year</th>
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<th>Type</th>
<th>Industry</th>
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<td>Greenfield</td>
<td>Iron Tubes</td>
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<td>M&amp;A</td>
<td>Real Estate</td>
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<td>Food&amp;Beverage</td>
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<td>Investments</td>
<td>Construction</td>
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<td>Campari</td>
<td>M&amp;A</td>
<td>Hearing Aids</td>
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<td>Kedrion</td>
<td>Investments</td>
<td>Plasma-derived products</td>
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<td>Landi Renzo</td>
<td>M&amp;A</td>
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<td>2011</td>
<td>Lavazza</td>
<td>JV Investment</td>
<td>Food&amp;Beverage</td>
<td>Green Mountain Coffee Roasters</td>
</tr>
</tbody>
</table>
In depth: the impact of the TTIP on the Italian economy

The TTIP (Transatlantic Trade and Investment Partnership) is the free trade agreement that is being negotiated between the European Union and the United States of America. So far, 12 negotiation rounds have taken place, alternating between Europe and the United States, with the aim of achieving a far-reaching agreement on the proposals regarding the 24 chapters this Treaty is constituted by.

This agreement’s main goals can be summed up as follows:

1. Abolishing the tariffs that are in place between the two areas
2. Harmonizing quality and regulatory standards in aid of the free circulation of goods and services
3. Creating the world’s largest free trade area

The importance of this agreement does not only consist in the economic benefits connected to it, as documented by several studies that have been conducted on this topic, but even more so in the possibility of being rule-makers within the framework of a global review process of global economic governance, and not rule-takers, which is what would happen if other agreements of this magnitude and capable of influencing global dynamics were to be developed, such as the TPP – signed by the United States with 11 countries of the Pacific area – and the Regional Comprehensive Economic Partnership, in which China, Russia, and India play a very prominent role.

It is therefore necessary to consider not only the economic and trade aspects of this Treaty, but also the geopolitical implications, a factor that is increasingly key for countries when defining their political, economic, and trade strategies.

By analysing the data on the latest study on the TTIP by the WTI (World Trade Institute, Swiss think tank based in Geneva), the following economic improvements between the European Union and the United States emerge:

**UE**
- GDP: 0.5% yearly increase
- Economic benefit: 119 billion euros
- Total exports increase: 6%
- Increase in exports to US: 28%, for 187 billion euros

**USA**
- GDP: 0.4% yearly increase
- Economic benefit: 95 billion euros
- Total exports increase: 6%
- Increase in exports to EU: 37%, for 160 billion euro

By focusing on the effect that the TTIP would have on Italy alone, the estimates are:
- GDP: 0.5% yearly increase
- Total exports increase: 21%
- Increase in exports of goods to US: 16.5%
- Increase in exports of services to US: 26.5%
- Increase in jobs connected to production to be exported to US: 1.5%
- Increase in investments: 0.5% yearly
The sectors that would benefit most in terms of exports would be the manufacturing sector, motor vehicles, and chemical and pharmaceutical products; in terms of production, we underscore manufacturing, machinery, and water transportation.

Finally, there is a geopolitical reflection to be made: neither the European Union nor Italy have a FTA (Free Trade Agreement) with the United States, which is surprising, considering the close cooperation between the two areas in economic and political terms.

The TTIP therefore is the best tool for filling this void and regain leadership in terms of global governance, with the aim of defining the loftiest and most satisfactory framework for the parties, protecting the interests and the security of both European and American consumers.

According to a U.S. Chamber of Commerce study, in the first five years from the entry into force of the FTAs signed by the United States (20 overall) there has been an 18% increase in exports (to an average of 6.4%) and the creation of 5.4 million jobs.

When FTAs are signed, the US Government itself provides for Trade Adjustment Assistance, a federal fund that acts on three areas (workers, firms, farmers) in order to mitigate the potential negative impact on some sectors of the economy that may stem from the signing of a Free Trade Agreement.

Generally, one may think that the rejection of this Treaty - as in the US there is a strong opposition to the TPP (Trans-Pacific Partnership) - and of the Free Trade Agreements originates from the fear that a stronger globalization process will lead to more inequalities. The “protectionist” solution, quite “en vogue” in these days, is a logical and simplified one, that can give psychological reassurance to citizens. In reality, globalization is an unstoppable process, whose negative effects, that one cannot deny up to a certain point, are not imputable to the process itself, but to a lack of governance of this historical shift by the political and economic leaders.

Rebuilding a global and efficient economic governance, recognizing the validity of this issues and answering pragmatically and not ideologically to them are the only way to win back the citizens trust towards these agreements. They are useful “tools” to support internationalization and maintain a strong euro-american leadership in the global economic scenario.
Digital, new paradigms of innovation and how to create new entrepreneurship

Introduction

Italy has always been seen as the “Land of Innovators”, having given birth to some of the most breakthrough innovators that mankind can think of: Galileo, Leonardo, Marconi, Volta, Meucci. Nevertheless, Italy’s attempt to strive for innovation leadership worldwide has failed over the past decades and currently the “Country of Inventors” is lagging far behind other National models which are incentivizing innovation: US, Germany, Nordics, Israel.

But something has changed over the last 5 years, getting the Italian local ecosystem to burst innovation rates and start-up KPIS: 2.3% GDP into R&D in 2015; 300.000 new start-ups (2010-2016), 5.4B€ equity funds raised, public investments through Direct owned public vehicles, 16 local clusters of start-ups at local level, 52 mapped incubators across the Country. Italy seems to have come back to its original innovative attitude, and finally fundamentals are proving it.

Practically speaking, the environment has changed: cooperation between local networks is now a fact, and is generating substantial interesting Intellectual capital sold cross-border; Mid-Cap companies, Italian’s nervous system, are investing first hand in digitalization, finally understanding that it is mandatory to survive; large Enterprises are acting as incubators, scouting for breakthrough innovations to incorporate into changing business models; a boost in cultural shift towards innovation and digitalization is a must in every company, and all entrepreneurs have now put it in their corporate agenda.

The models have changed, and the paradigms are on a move: has Italy really come back?
To find out the answer, we asked to four business leaders to share with us their thoughts on innovation.

We met:

**Ernesto Ciorra**
Head of Innovation and Sustainability, Enel

**Luca Colombo**
Country Manager, Facebook Italy

**Alberto Fioravanti**
Founder and Executive President, Digital Magics

**Fabio Fregi**
Italy and France Country Manager, Google Cloud
What virtuous processes support the creation of innovation in your organization?

The key driver of innovation is certainly the ability of being open towards the outside.

Particularly, I am referring to startups that propose new solutions, universities, centers of research, individual innovators, venture capital funds that collaborate with us, and so on up to our suppliers. The collection of structured inputs from all these channels must follow.

We have designed some processes that allow, through a dedicated team, such a collection, who then analyze the inputs and share them through the most appropriate channels within the organization.

Nonetheless, as innovation players can be found also among our people we encourage all our colleagues to share their ideas, and it is important to manage everything through a clear process and a well-designed governance.

For some time we have been developing initiatives that aim at making our colleagues “potential innovators”, or even entrepreneurs, as in a project that we launched during last year. The “Enel Innovation World Cup” gives everyone the opportunity to propose new business models. The most interesting ones pass the selection stage and receive funds, then the prototype is developed and the test stage is supported until its real launch on the market. Every participant, individually or as a member of a team, during the first stage of the program can dedicate a day a week for six months to develop his/her entrepreneurial idea, and that time can grow up to 50% of the total time for six more months in case he/she wins.

Two years ago, we also launched the “Enel idea Factory” project: a team highly-specialized in creative techniques organize sessions in every country and every business lines with a specific problem to solve, stimulating the generation of ideas by colleagues and external participants and monitors the different stages that lead to implement the best contribution.

As I mentioned before, to make everything work you need to define a clear governance, so that people know from the start who they can contact, what processes are being implemented and the timing. What is destructured on purpose at the beginning must be then analyzed thoroughly, because innovation does not mean chaos.

How can a company like Enel develop innovation processes that can have a positive impact for the area where it works?

I draw on what I said before: Enel innovates also through the dialogue with the outside world, listening to it and catching inputs also from its own suppliers and other communities. We prefer projects that create “Shared Value”, matching innovation and sustainability and trying to answer to big questions (i.e. bring energy where it does not arrive in a sustainable way).

We believe that in this way we can generate a positive, and most of all sustainable and long lasting impact in the areas where we operate, leveraging the entire supply chain, hence the importance to involve also suppliers or other players from different contexts than ours.
Which factors can, your opinion, support the development of new entrepreneurship?

Personally, I see five key elements that we can consider as enabling factors from the external context:

1. The attention and interest of large corporations that are willing to support small entrepreneurial initiatives in their industrialization process
2. The availability of funds and of investors who are interested in “betting” and risking with the entrepreneurs
3. A clear exit strategy from the supporting stage along the road to industrialization of the product or service
4. The development of something that is not yet widespread in Italy: the entrepreneurial culture especially in young people. This culture requires a certain attitude toward risk and the ability to see failing not a personal disgrace but on the contrary a mistake to learn from
5. A regulatory environment that supports this kind of initiatives. A lot has been done so far and the road is the right one, but we now need to accelerate

What is your actual experience of innovation in Italy?

As mentioned, the road is the right one. Today we are more aware of the value of innovation, of what it takes to make it live, and we gained a more entrepreneurial attitude. Sadly, there not as many big corporations that have embraced open innovation yet, letting external players in, or venture capitalists willing to invest with clear exit goals in mind.

In my opinion, we have to work more from a supply chain perspective: that means large corporations “outsourcing” Research & Development to their suppliers, to universities, to centers of research and startups, managing change by incentivizing creativity and the generation of ideas, founded on clear processes and governance.
What virtuous processes support the creation of innovation in your organization?

Corporate culture is the key to support the virtuous processes that generate innovation. Common values must inspire to follow new and undiscovered paths, also accepting the possibility of a failure – i.e. “Fail harder”. An error may trigger improvement mechanisms that lead to consider what went wrong and what we have to do differently. Those mechanisms fuel the attitude towards risk and consequently enable innovation.

Another key element of our corporate culture is the empowerment of every single resource. It’s a matter of accountability, that allows to shorten processes, develop more autonomy, work on the ability to prioritize and focus on the evaluation of the impacts. All these things support the generation of innovation without necessarily bind it to established processes and procedures that, for their own nature, could represent a barrier.

It’s about a culture that is founded upon an open attitude towards what’s new, knowledge sharing and the ability to interact with different mindsets and cultures. To foster this philosophy within companies, Facebook last October made Workplace available for every organization. It’s a corporate version of the platform, designed to help companies to share a sense of openness, engagement and scope.

How can a company like Facebook develop innovation processes that can have a positive impact for the area where it works?

In Facebook’s culture and mission there is undoubtedly the will to support culture and learning of companies by fostering collaboration and innovation. From this point of view it can indirectly influence the economic development of our country. The culture of constant change, considering the speed and dynamism of the market, the change that affected industrial districts and the continuous development of very open sharing platforms, influence the development process of companies in the areas where they work.

Which factors can, your opinion, support the development of new entrepreneurship?

As I mentioned before, the speed of change of the market has completely eradicated the usual paradigms of economic development, the work world and the concept of entrepreneurship itself. The ability to take on risks may be fundamental for growth, and from this it comes out that the biggest impulse to growth will come from new initiative by startups and incubators. But the Italian environment must actually make progress in order to make associations, media and corporates itself support and promote this initiatives. Several initiatives are already in progress and the Government plan on Industry 4.0 goes also in that direction. The road is marked, now it’s time for everybody to make it real.

Corporate development and growth need also knowledge and, to provide information to make decisions at every level, Facebook, in partnership with OECD and World Bank, has launched in February “Future of Business Survey”, a monthly survey that provides with a panoramic view on the current and future economic scenarios for business.

What is your actual experience of innovation in Italy?

We are observing and experimenting that the constant process of education and learning that we are bringing on with several companies, also by best practices, can help the whole innovation process especially in terms of culture and corporate values. Bridging different realities, stimulating the discussion and the generation of ideas and opportunities, is the first way to generate innovation and testing.
What virtuous processes support the creation of innovation in your organization?

To innovate is what we were born for, and we do by creating value in new digital startups, helping entrepreneurs to make a company out of a good idea. We operate in the seed stage, the earliest in a company’s life.

When we founded the incubator Digital Magics, we realized that a weakness for venture capital was the new economic environment, that was no longer able to foster and enable the creation of new companies, after many years during which it could. We noticed that there wasn’t a lot of available capital and there were very few opportunities for new entrepreneurs to get help. A private player was what they needed, someone who, together with others in a systemic way, would make them able to take the necessary leap. Working side by side with innovative startups as co-founder with Italian talents was then the first pillar, followed by the ability to activate business angels and family offices capital in the early stage. They’ve always been there, but less than what the potentiality requires.

How can your organization collaborate with companies to incentive the culture and day-by-day application of open innovation?

We’ve always thought that startups first need clients, and one of our goals is to “push” them toward the real world, not only by insisting on the development of their idea up to an advanced stage, but by helping them to test themselves and understand if those ideas are not only good but also well implemented and if they’re ready to collaborate with bigger Italian companies.

To create synergies and commercial relationships between startups and established companies may also lead to corporate venture capital, i.e. direct investments or acquisitions, that represent a win-win situation, with undisputable advantages on both sides. The cornerstone of a truly virtuous collaboration is a supportive environment, and in order to create it is important to collaborate also with who is in constant touch with companies, 25/7/365. This is why we started a partnership with EY, that guarantees a deep knowledge of companies, to drive them to the open innovation “shores”.

Going on with the nautical metaphor, there is a need of “ports” where startups can “dock”, because they may get lost in those where big ships do.

The collaboration between EY and Digital Magics leads also to minimize risk: we know the startups, EY knows the companies and together we make a convergence, reducing time and maximizing the chances of success.

What external factors can support the development of new entrepreneurship?

We need an adequate, constant regulatory and institutional impulse. From this perspective, the Industry 4.0 plan by Hon. Carlo Calenda, Minister of the Economic Development, raises hopes, because it approaches the development issue as a real industrial plan for the country, with a keen eye also on startups. Measures like the “super depreciation” or the funds for excellence hubs and universities are worth noting, but there are also some others specific for this area, like fiscal deduction up to 30% for investments of up to a million euros in startups.

Very interesting are also the specific funds to create new venture capital and aim finally at making the sector take that leap. There are already positive signals: in the first nine months of 2016, 136 million euros were raised, up from an average of 120-130 million in the last years, but we are still very far from the Government’s goal, set to 1,000 million in 2020: a really big change of scale.

It will be vital, as mentioned, the continuity of action and implementation of the Governmental plan. It’s also worth highlighting the interest that our startups raise to foreign venture capitalists, especially American ones. They are perceived as very “low cost”, but with the right characteristics they may thrive even in a complex market as the United States. The challenge is to design them as global from the start, not limited to Italy. We have great talents and, for example, good technical engineers that cost 2-3 times less than in the US: it means, practically, the opportunity to create organizations with Research & Development in Italy and the headquarter and commercial department overseas, optimizing the budgets for the two functions.
But the real challenge is on medium enterprises: we talked about startups, on the other hand the big corporations are already fitted and receptive, because they already live innovation, but the hard work is on a cultural change in medium enterprises. Sometimes they should look outside to obviate the lack of internal R&D departments, or, on the contrary, recognize that there are other ways to innovate than those they followed, maybe, for decades. Medium enterprises are the backbone of Italian economy, and they are so many that if 5% of them would open up to collaboration with startups it would be enough to fulfill the entire demand of this ecosystem.

**What is your actual experience of innovation in Italy?**

The keyword is, again, collaboration: we’ve always worked, and we will go on working, with Italian industrial partner with specific sector know how and who can help to find mentors and advisors in order to support startups, but experienced enough to enable synergies on the same goal. We’ve been promoting open innovation for years, also through initiatives like the six GIOIN events (GIOIN is the first Italian open innovation network dedicated to enterprises and founded by Enrico Gasperini). Among them, the Open Innovation Summit 2016, where we involved all the players of the ecosystem, competitor included, and I have to say that during the last year in Italy there has been a focus on open innovation like never before. We are working on many projects, and there is a lot of interest around them. Maybe it takes a while to start, but 9 companies out of 10 follow us and go on; if this common path leads to an exit we are happy of course, because our business model is based on “work for equity” for startups, towards a possible successful exit.
What virtuous processes support the creation of innovation in your organization?

Innovation is Google’s core business. From its birth, eighteen years ago, Google made a cornerstone out of the innovative approach to the business and to our organization. In terms of Research & Development, there is a specific company within the group, Google X, dedicated to experiment and create new solutions.

Apart from Google X, operatively there are three elements that distinguish Google:

- **Hiring:** we make sure to hire the best “all round” talents: it means that they not only have to have excellent CVs and technical competences, but also “lateral” and creative thinking.

- Once hired, as they are the best ones, we make them accountable and “free to move”, so to speak. We do it without looking at ranks, but “empowering” them so that they can fully express themselves without worrying about such things.

- Consistently with this approach, we avoid to design processes that are too structured and rigid, in order to not make the resources forced to respect them. In this way, we don’t waste energy and time in activities that, besides, limit the individual creativity, leading to a less creative uniformity.

- In many organizations, such approach may seem too risky and make management difficult, but I think that our figures speak for us: we have been growing steadily far from day-1 and we have now the world’s highest market capitalization, 70bn dollars revenues and 70,000 people. On the market, products like the search engine, Chrome, Play, YouTube, Maps and Android are part of the daily life of at least 1bn people. Make employees accountable only create problems to those companies that do not.

How can your organization collaborate with companies to incentivize the culture and day-by-day application of open innovation?

Through collaboration tools for document management, platforms, solutions, audio/video, GMail, and Drive that undoubtedly promote open innovation. I am talking about tools that are particularly suitable for SMEs, because they are cloud-based and they can be used even at low budgets. The innovation culture can be proposed to the market only if SMEs can live it daily within their organization.

Which factors can, your opinion, support the development of new entrepreneurship?

In my opinion the key enabler is being aware of the opportunity that digital offers and that it is already necessary to succeed, or even to survive. In my role, I also lead the French market and I have to say that I can perceive a certain gap, but I know that it is getting narrower too. We are starting to realize what is going on, and seeing that something is moving within institutions is positive.

Previously, digital was not a priority in the Government agenda, but now it is. The “Industry 4.0” plan is a clear and recent example, remarkable for its contents and intentions.

What is your actual experience of innovation in Italy?

Italy can accelerate, for sure, but we have already seen very positive experiences in large companies like OVS and Autogrill, and in public organizations like ACI. They can be considered cases of excellence and encourage, together with other important experiences that we contributed to, the innovation ecosystem to grow: a necessary leap to regain competitiveness as we all hope for.
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