



# **Economic Challenges of Lagging Regions**

*Annex 2*

*Task 2 - Country report ITALY*

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# Economic Challenges of Lagging Regions

Annex 2

Task 2 - Country report ITALY



A joint effort by

- › The Vienna Institute for International Economic Studies  
Wiener Institut für Internationale Wirtschaftsvergleiche
- › Cambridge Econometrics
- › Applica Sprl.

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## Preliminary note

The Country Reports are concerned with identifying the main structural imbalances in each of the 8 Member States on the basis of a broad range of data from various sources with regard to the 6 reform areas that has been identified as likely to most influence investment decisions and which are:

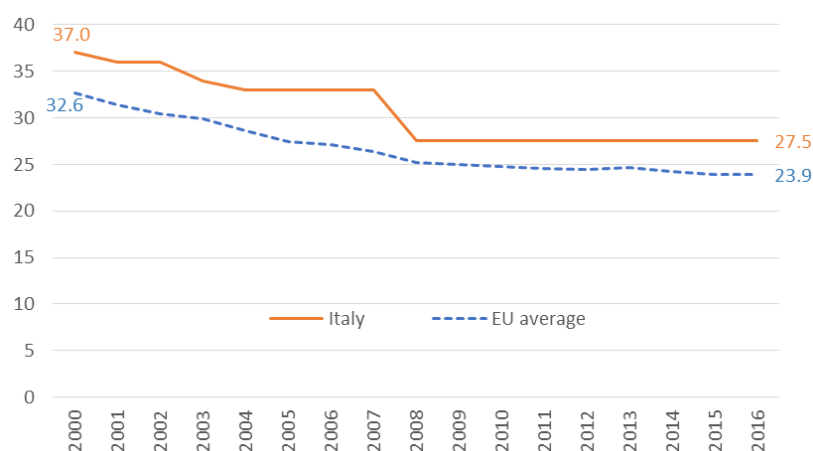
1. Corporate taxation
2. Banking and Access to finance
3. Labour market
4. Education
5. Business environment including product markets, research and innovation
6. Governance

The approach is to compare, for each structural variable, the situation in the country concerned and, so far as possible, in the lagging (NUTS 2) regions where data are available with the EU average, used as a benchmark. The findings are then confronted with the reforms recommended and implemented so to identify areas still in need of reform.

A summary of the main findings coming out from the detailed analysis provided in the Country Reports is included in the main report.

## 1. CORPORATE TAXATION

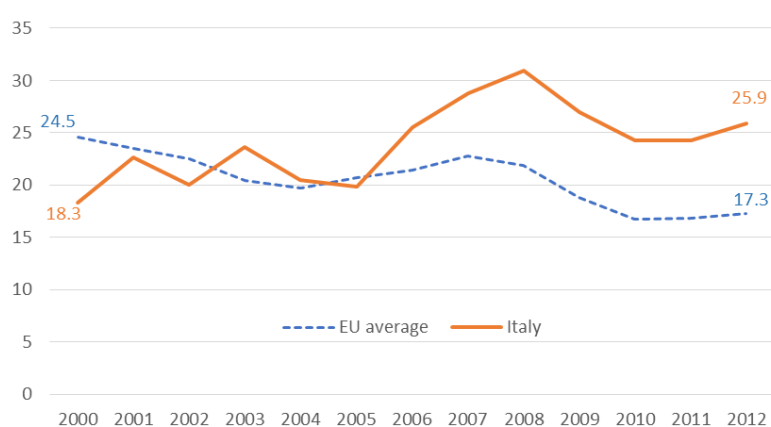
**Figure 1.1 – Corporate income tax rate in Italy, 2000-2016**



Source: OECD Tax Database.

Notes: The data presented is the combined corporate income tax rate imposed by central government and regional or local governments. The EU average does not include BG, LT, LV, MT, HR and RO.

**Figure 1.2 – Implicit tax rate on capital and business income of corporations in Italy, 2000-2012**



Source: Eurostat, Government statistics [gov\_a\_tax\_itr].

Note: the EU average does not include BG, DK, DE, IE, EL, HR, LU, MT, RO and IS.

CORPORATE TAXATION in Italy	
Country-specific recommendations, 2011-2015	
2011-2015	None.
Structural reforms carried out, 2011-2015	
2013	The Government introduced a Fund for Productivity to encourage the productivity of businesses through measures such as tax reduction on corporate income.
2016	Stability Law provides for tax incentives on new investments for 2016 (possibility to deduct 140% of the amount spent) and a reduction in the corporate income tax from 2017 (from 27.5% to 24%).

Outstanding challenges	
	High tax burden on productive factors (especially labour).

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 78 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

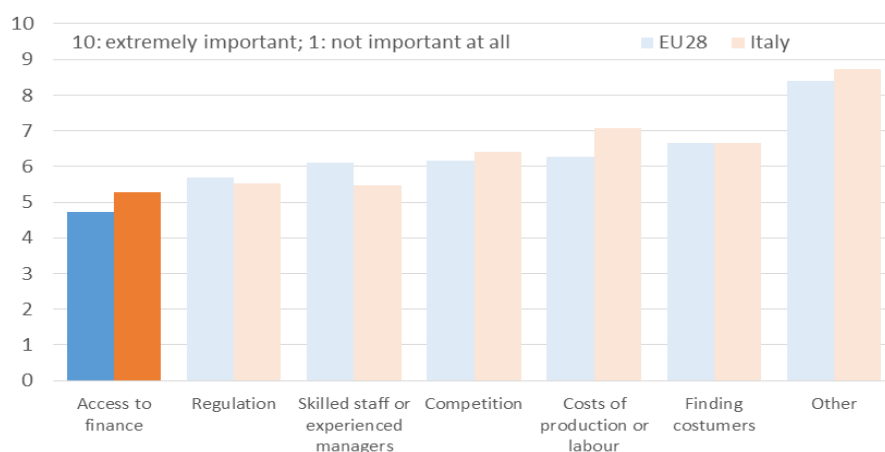
The corporate income tax rate in Italy has gradually been reduced since 2000 and was cut more significantly in 2008 with the adoption of the Budgetary Law. The rate was brought down from 37% to 27.5%. Since then, it remained at that level which is about 4 percentage points higher than the EU average.

While the tax rate on corporate income has been brought down as mentioned above, the effective (or implicit) tax rate on company income tended to increase over the period considered unlike in the EU on average. In 2008 it reached a peak of over 30% and remained since then higher by 8 percentage points than the EU average.

Despite the fact that no country specific recommendations have been made in relation to taxes on business, the high tax burden on productive factors, in particular labour, remains an outstanding challenge to be tackled for Italy's investment environment.

## 2. ACCESS OF ENTERPRISES TO FINANCE

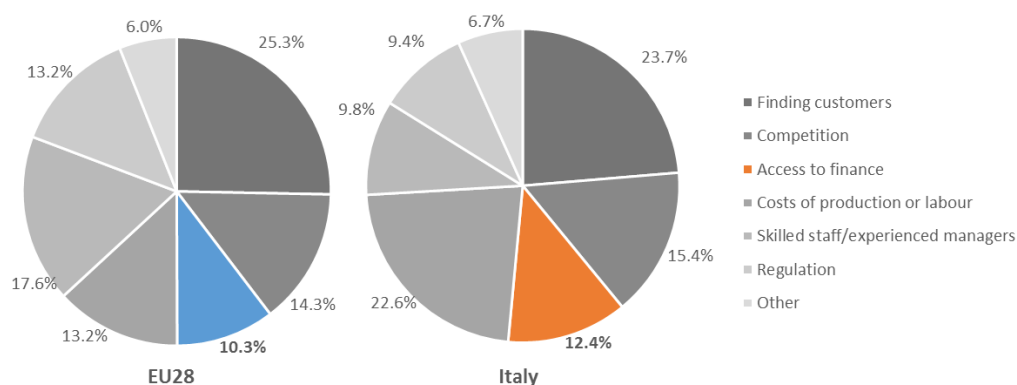
**Figure 2.1 – Problems faced by enterprises in the past 6 months in Italy, 2015**



Source: SAFE, wave 13.

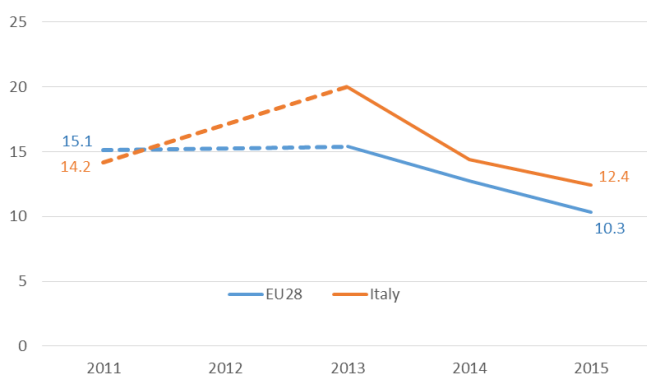
**Figure 2.2 – Current most important problem for enterprises in Italy, 2015**





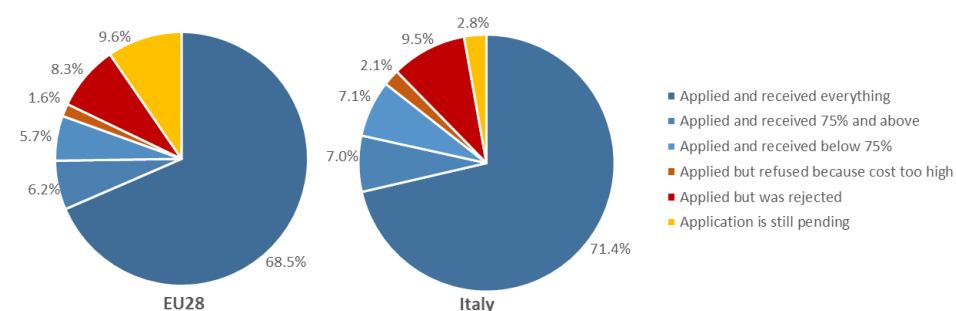
Source: SAFE, wave 13.

**Figure 2.3 – Share of responding enterprises that said that access to finance was the current most important problem for them in Italy, 2011-2015**



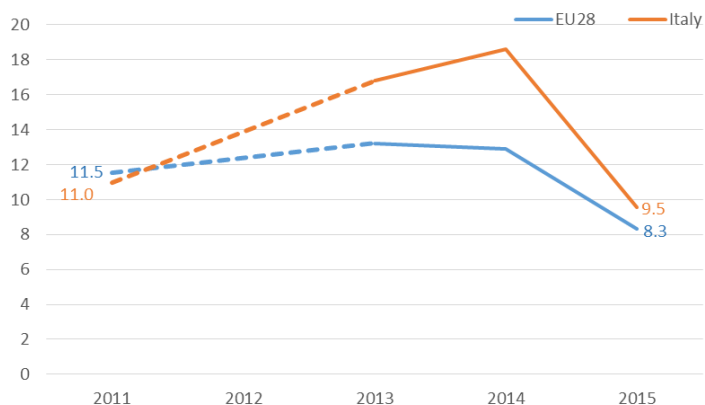
Source: SAFE, waves 5, 9, 11 and 13.

**Figure 2.4 – Outcome of applications by enterprises for bank loans in Italy, 2015**



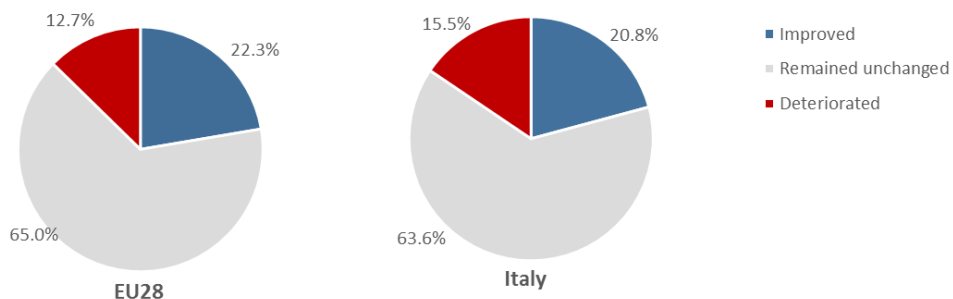
Source: SAFE, wave 13.

**Figure 2.5 – Share of responding enterprises that applied for a bank loan but saw their application rejected in Italy, 2011-2015**



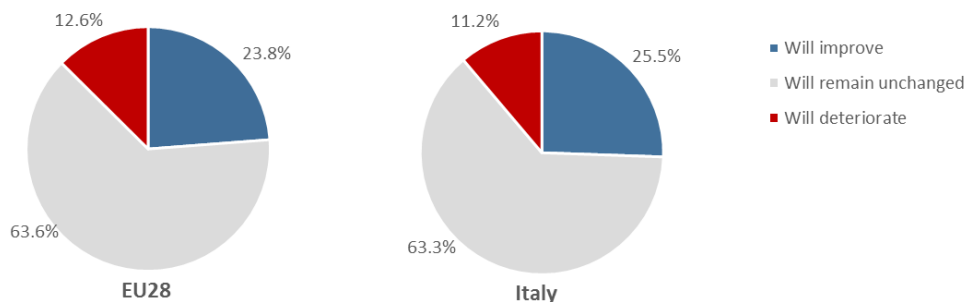
Source: SAFE, waves 5, 9, 11 and 13.

**Figure 2.6 – Availability of bank loans over the past 6 months in Italy, 2015**



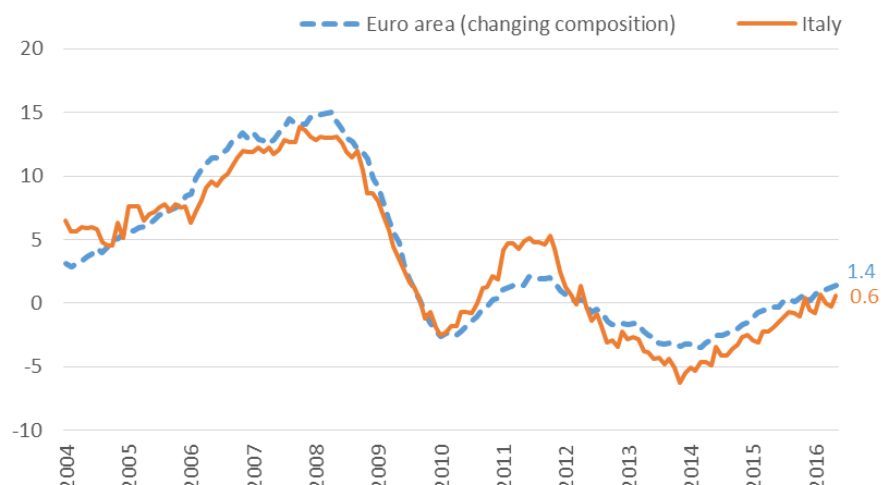
Source: SAFE, wave 13.

**Figure 2.7 – Evolution of the availability of bank loans for the future in Italy, 2015**



Source: SAFE, wave 13.

**Figure 2.8 – Annual growth rate of monetary financial institutions loans to non-financial corporations, 2004-2016 in Italy, 2015**



Source: European Central Bank, Balance Sheet Items, 2010-2016

Notes: Annual growth rate of loans adjusted for sales and securitisation to euro area non-financial corporates (NFC), data neither seasonally nor working day adjusted. Index of Notional Stocks.

<b>ACCESS TO FINANCE in Italy</b>	
<b>Country-specific recommendations, 2011-2015</b>	
2011	Further strengthen actions to promote access of SMEs to capital markets by removing regulatory obstacles and reducing costs.
2012	Improve access to financial instruments (in particular equity) to finance growing businesses and innovation.
2013	Promote further the development of capital markets to diversify and enhance firms' access to finance especially into equity and in turn foster their innovation capacity and growth.
2014	Foster non-bank access to finance for firms. Continue to promote and monitor efficient corporate governance practices in the banking sector.
2015	By end-2015 introduce binding measures to tackle remaining weaknesses in the corporate governance of banks and take measures to accelerate the broad-based reduction of non-performing loans.
<b>Structural reforms carried out, 2011-2015</b>	
2011	Creation of Banca del Mezzogiorno, a bank specialised in credit for firms operating in Southern Italy. To improve firms' capitalisation and diversify access to finance, the government has introduced an allowance for corporate equity to reduce the tax bias towards debt finance. Law 2014/2011: The Central Guarantee Fund is intended to facilitate access to credit for SMEs (in particular those located in the south) and to stimulate investments and innovation. Every year a specific amount is made available to the fund (e.g. EUR 670 million in 2014). In addition, a special guarantee called 'Major Research and Innovation Projects' is now included as part of the Fund.
2013	The system of collective-loan guarantee consortiums (Confidi) was strengthened to improve the financial situation of the SMEs.
2014	Funding of start-ups in the Mezzogiorno is now available with the 'Start and Smart' project through the National Agency for Inward Investment Promotion and Enterprise Development. A fund and a preferential interest rate were introduced for SMEs for the purchase of machinery, equipment, capital goods, hardware, software and digital technologies. The funds are provided by CDP (Cassa Depositi e Prestiti). The Italian securities regulator (CONSOB) has published guidelines for the use of equity crowd-funding (i.e. raising finance through online portals in order to support newly created innovative businesses). Italy is the first country in Europe to adopt such regulations. The range of financing options for businesses has been expanded and now includes: i) new markets

	for risk capital, specifically dedicated to SMEs, ii) mini-bonds that provide for favourable tax treatment; iii) financial bills of exchange; and iv) credit guarantee consortiums (Confidi).
<b>Outstanding challenges</b>	
	The growing stock of non-performing loans weighs on the provision of new credit by Italian banks by absorbing regulatory capital and diverting resources to the work-out of the non-performing assets.
	The strengthening of banks' corporate governance may lead to a more optimal allocation of credit, in line with the implementation of recent measures.
	Capital markets could be further developed beyond the scope of recent measures to increase access to finance, in particular for SMEs.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

According to the SAFE for 2015, access to finance is not the most important issue for Italian entrepreneurs. They are more concerned about the cost of production or of labour and about finding customers. It is nevertheless the case that the share of entrepreneurs considering access to finance as the most important problem in 2015 was higher than in the EU despite the fact that this share has shrunk since 2013 (when about one fifth of the Italian enterprises considered access to finance as the most important problem).

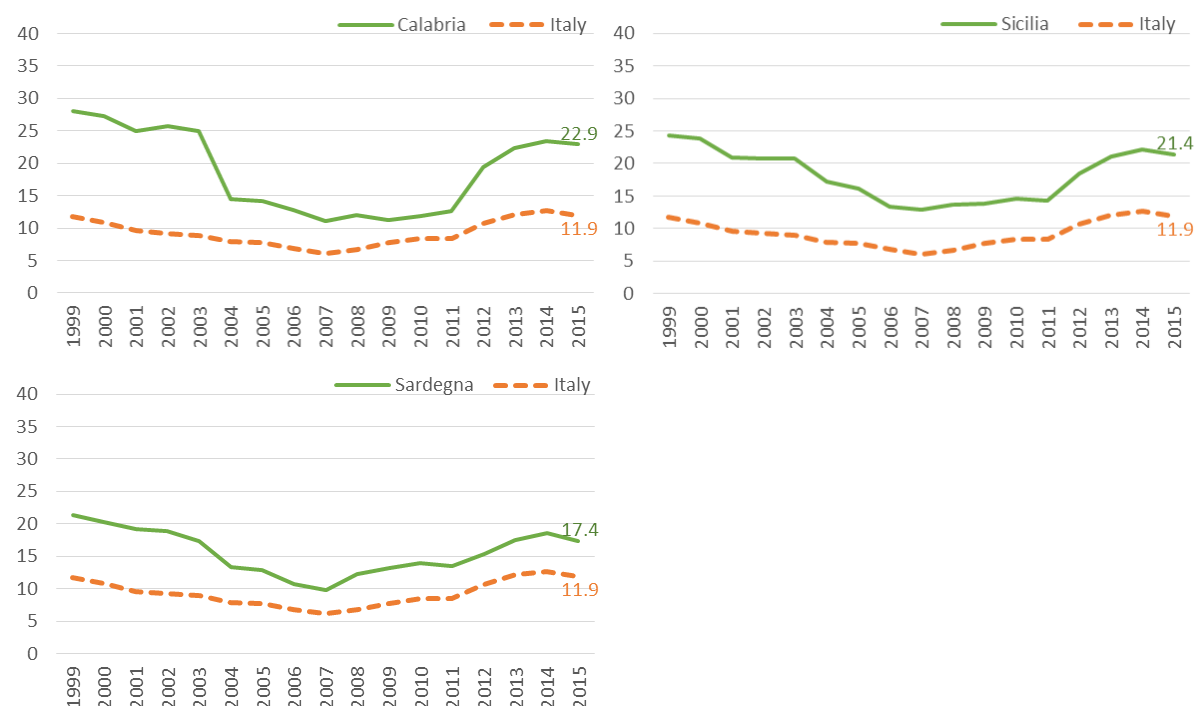
Data on the outcome of bank loan applications in 2015 tend to confirm - at least in part - that access to finance is slightly more difficult in Italy than in the EU on average. Italy had indeed a higher share of applications for bank loans rejected. Nonetheless, in 2015 the share of rejected application was only half of that in 2014 suggesting improvements in bank loan availability. This is also reflected in the higher confidence among Italian companies about the future availability of bank loans. In sum therefore, access to capital is nowadays less of a concern for Italian enterprises.

The European Central Bank indicator on the growth rate of the stock of loans to non-financial corporations confirms the observation that access to capital is now less of a concern than in previous years. While there was negative growth in 2009-2010 and in the period 2012-2015, it has again become positive in 2016 as in the EU area on average.

However there seem to be significant regional differences in the possibility of getting finance. Data from Banca d'Italia for 2013 show for instance that interest rates on loans to firms were higher in the lagging regions than in the rest of Italy for both short and long-term loans. Among the lagging regions, Calabria was the one where the highest interest rates were applied, while Basilicata and Puglia had the lowest interest rates for the short- and long-term respectively.

The country-specific recommendations have focused on promoting both bank and non-bank access to finance for SMEs and innovative business, as well as on taking measures to tackle remaining weaknesses in the corporate governance of banks and to reduce non-performing loans in the Italian banks. In 2011 the Italian government created the Banca del Mezzogiorno, an institution specialized in providing credit to firms in Southern Italy. It also established the Central Guarantee Fund to ease access to credit for SMEs and stimulate investment in innovation. Several other measures have been taken with the aim of providing new sources of funding for SMEs and start-ups (e.g. the system of collective-loan guarantee consortium, grants to fund new enterprises, preferential interest rates for





Source: Eurostat, LFS [lfst\_r\_lfu3rt].

**Table 3.1 – Unemployment rate in Italy, 2015**

Region	Unemployment rate, 15 and over (%)
Abruzzo	12.6
Molise	14.3
Campania	19.8
Puglia	19.7
Basilicata	13.7
Calabria	22.9
Sicilia	21.4
Sardegna	17.4
<b>Italy</b>	<b>11.9</b>
EU average	9.4

Source: Eurostat, LFS [lfst\_r\_lfu3rt].

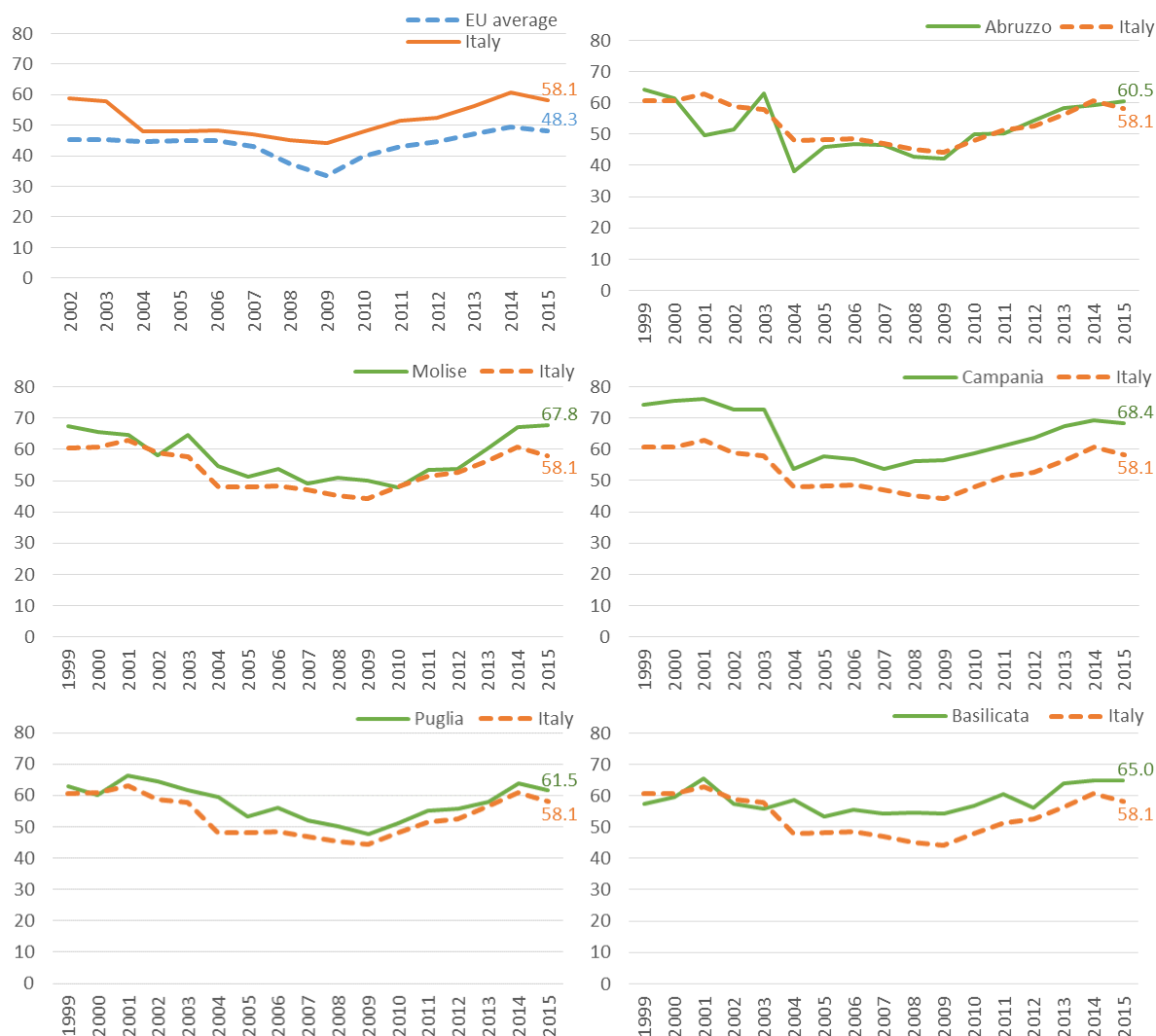
Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

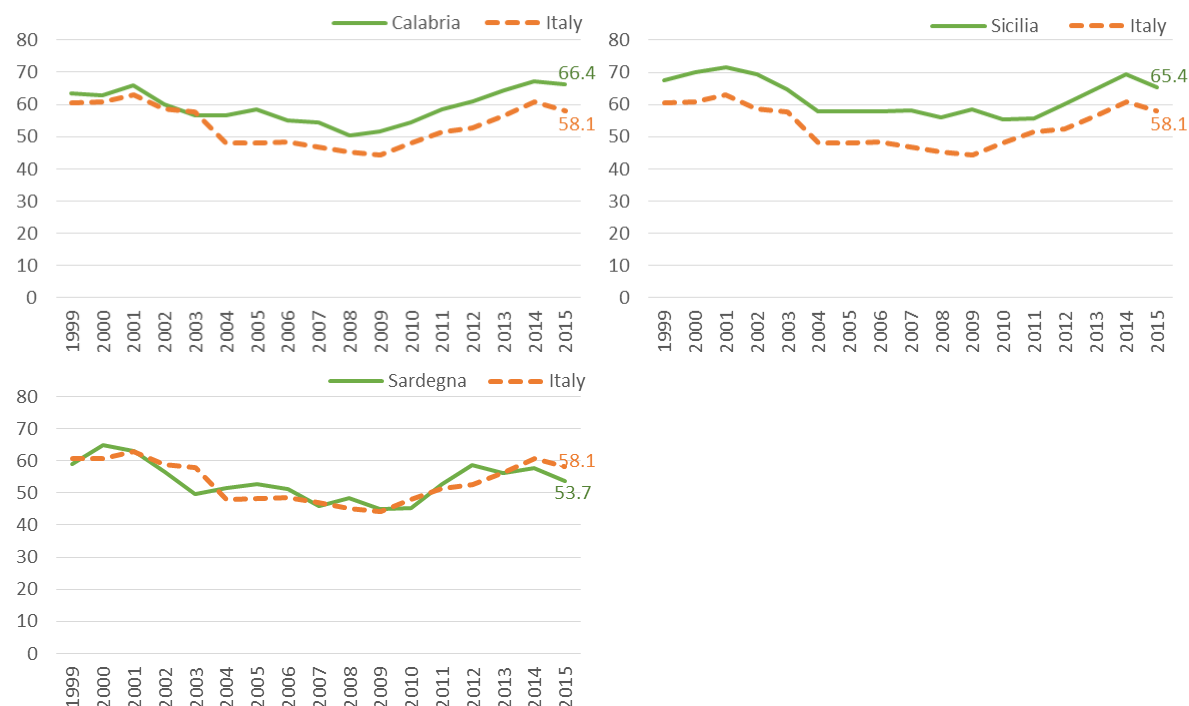
**Commentary**

The unemployment rate in Italy was slightly above the EU average in 2015, as it was in the previous four years. Before 2011, the rate tracked the EU average relatively closely being constantly below it. In all the lagging regions the unemployment rate is higher than in Italy on average. The distance with the national level is highest in Calabria and Sicilia where the unemployment rate is twice as high (over 20%), but also in Campania and Puglia (just under 20%). There was no reduction in the distance over the period considered. Only in Abruzzo, and to a lesser extent in Basilicata and Molise, is the

unemployment rate approaching the national value. Job shortages, therefore, seem to be a particular problem in the lagging regions of Italy. Calabria, Sicilia, Campania and Puglia are the most affected lagging regions.

**Figure 3.2 – Long-term unemployment in Italy, 2002-2015, % of total unemployed**





Source: Eurostat, LFS [lfst\_r\_lfu2ltu].

**Table 3.2 – Long-term unemployment in Italy, 2015**

Region	LTU rate (% of total unemployed)
Abruzzo	60.5
Molise	67.8
Campania	68.4
Puglia	61.5
Basilicata	65.0
Calabria	66.4
Sicilia	65.4
Sardegna	53.7
<b>Italy</b>	<b>58.1</b>
EU average	48.3

Source: Eurostat, LFS [lfst\_r\_lfu2ltu]

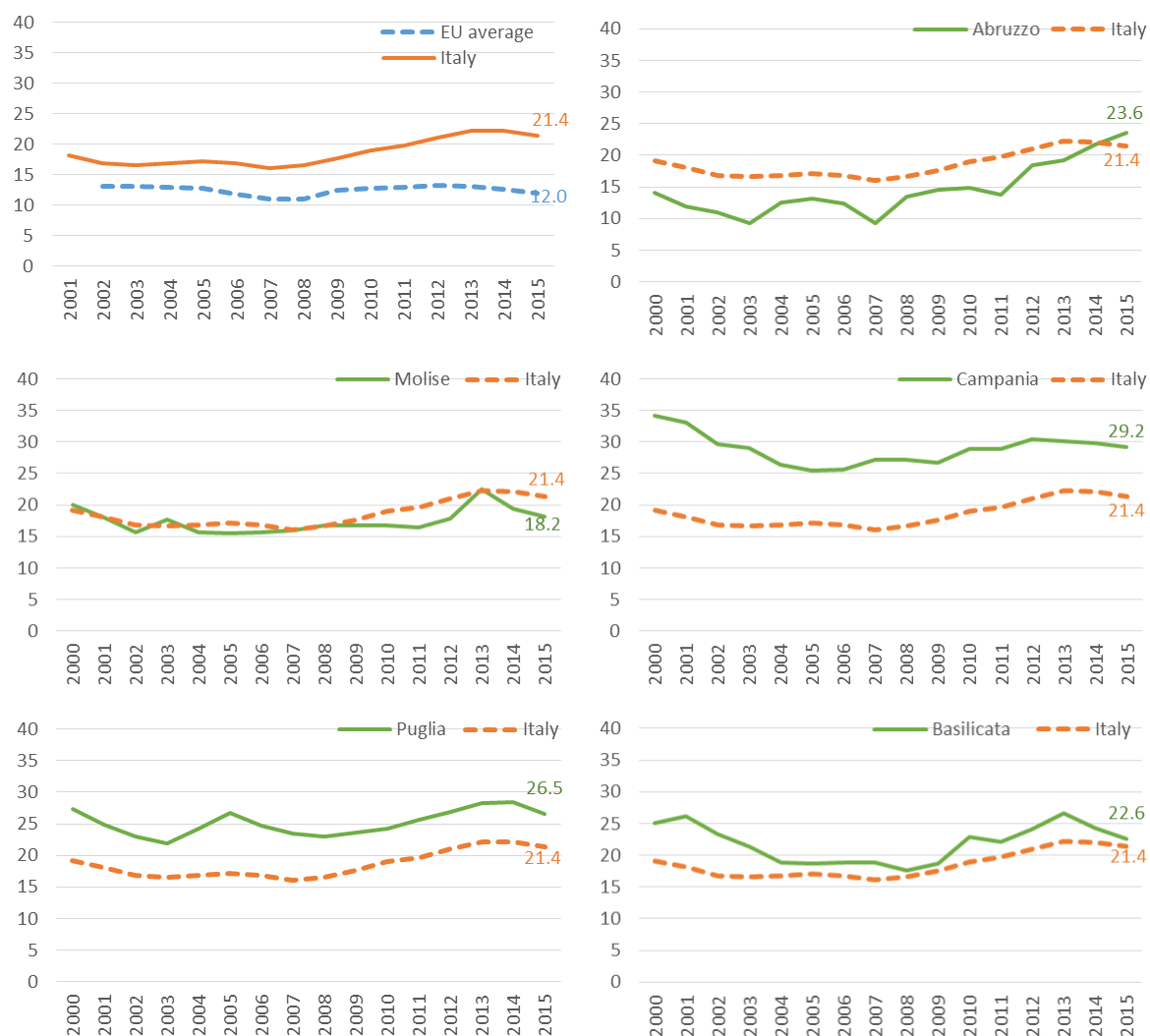
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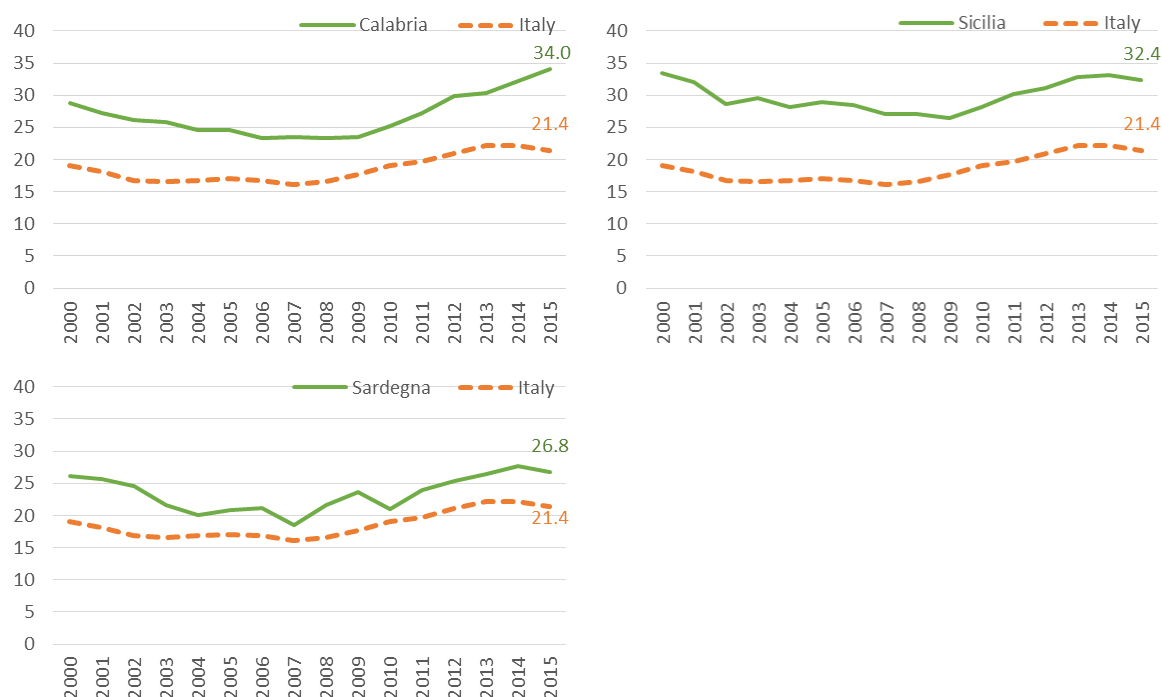
### Commentary

The share of the unemployed out of work for a year or more – i.e. long-term unemployment – was much larger in Italy in 2015 than the EU average as it was over the whole period considered. In all the lagging regions was the share of long term unemployed higher than the national average with the exception of Sardegna where it was however still higher than in the EU. The distance with the national average is highest in Campania, Molise and Calabria. Structural unemployment is therefore a particular problem in most of the lagging regions.



**Figure 3.3 – Proportion of young people aged 15-24 neither in employment nor in education and training in Italy, 2001-2015**





Source: Eurostat, LFS [edat\_lfse\_22].

**Table 3.3 – NEET rate in Italy, 2015**

Region	NEET rate (15-24), % 2015
Abruzzo	23.6
Molise	18.2
Campania	29.2
Puglia	26.5
Basilicata	22.6
Calabria	34.0
Sicilia	32.4
Sardegna	26.8
<b>Italy</b>	<b>21.4</b>
EU average	12.0

Source: Eurostat, LFS.

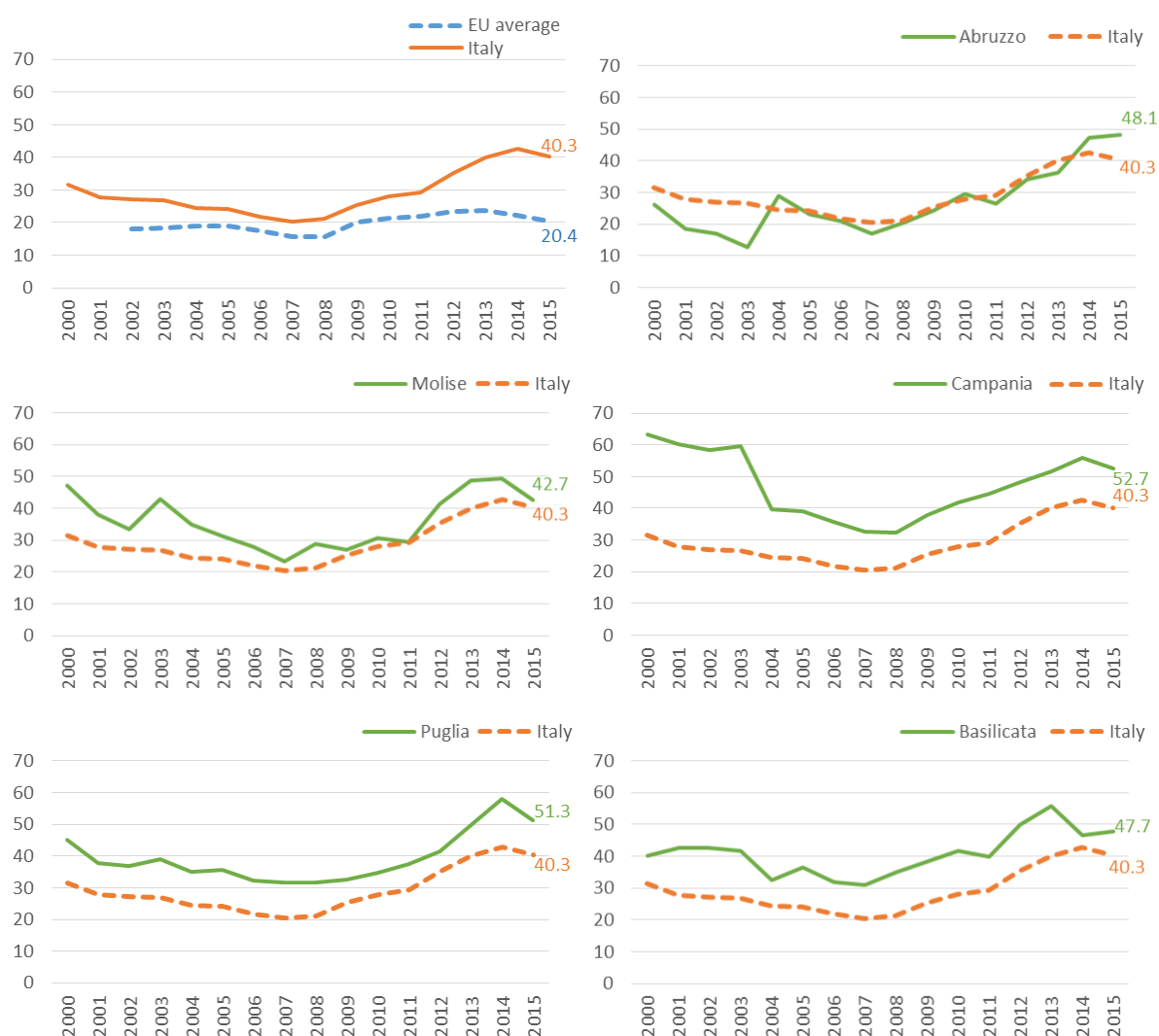
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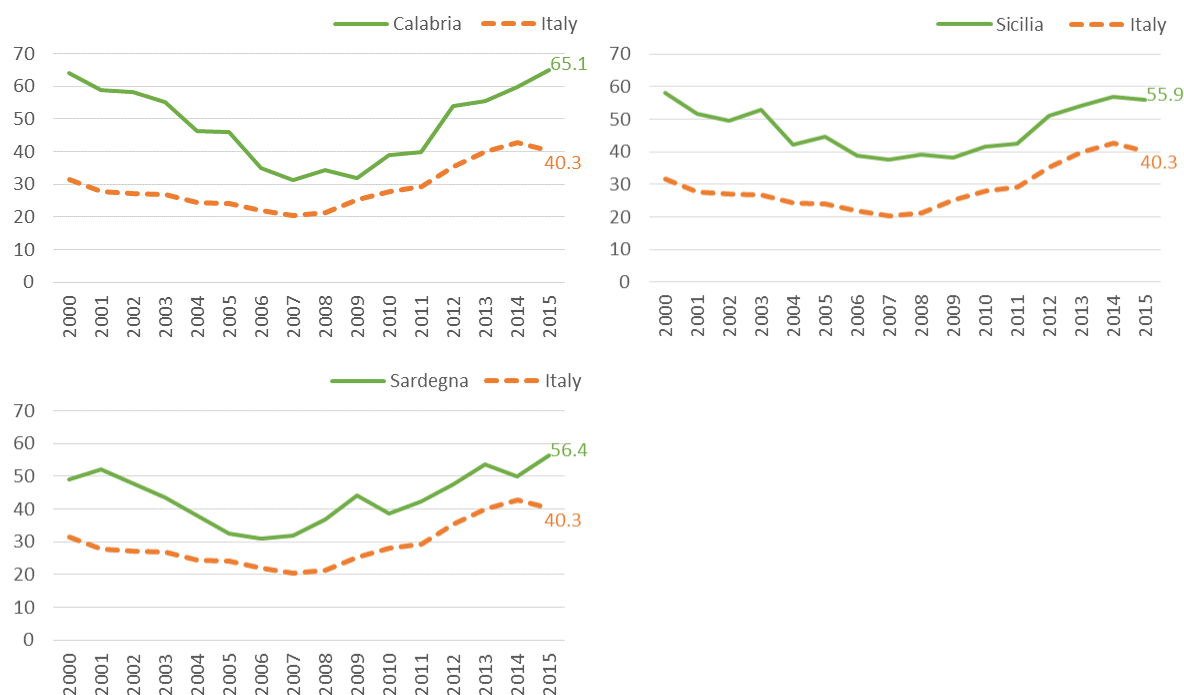
### Commentary

The NEET rate of young people aged 15-24 in Italy is nearly twice the rate in the EU. Over the period considered (2001-2015) there was a strong increase of young NEETs in Italy. This has gradually widened the gap with the EU average.

In the lagging regions, the rate was below or close to the national average over the period considered only in Molise, in all other regions it was above. In Abruzzo, it used to be lower than the national average but rose beyond it in 2015. In Basilicata, it used to be higher but went down in the two last years to approach the national average. In the other five lagging regions - Puglia, Sardegna, Campania, Sicilia, Calabria - the NEET rate was much higher than the national one, especially in Sicilia and Calabria, where a third of those aged 15-24 are not in education, employment or training. The absence of jobs for young people and/or their limited participation in education or initial vocational training are therefore particularly acute problems in nearly all lagging regions of Italy and particularly in Calabria and Sicilia.

**Figure 3.4 – Unemployment rate (15-24 years) in Italy, 2000-2015**





Source: Eurostat, LFS [lfst\_r\_lfu3rt].

**Table 3.4 – Youth unemployment rate in Italy, 2015**

Region	Unemployment rate (15-24), % 2015
Abruzzo	48.1
Molise	42.7
Campania	52.7
Puglia	51.3
Basilicata	47.7
Calabria	65.1
Sicilia	55.9
Sardegna	56.4
<b>Italy</b>	<b>40.3</b>
EU average	20.4

Source: Eurostat, LFS.

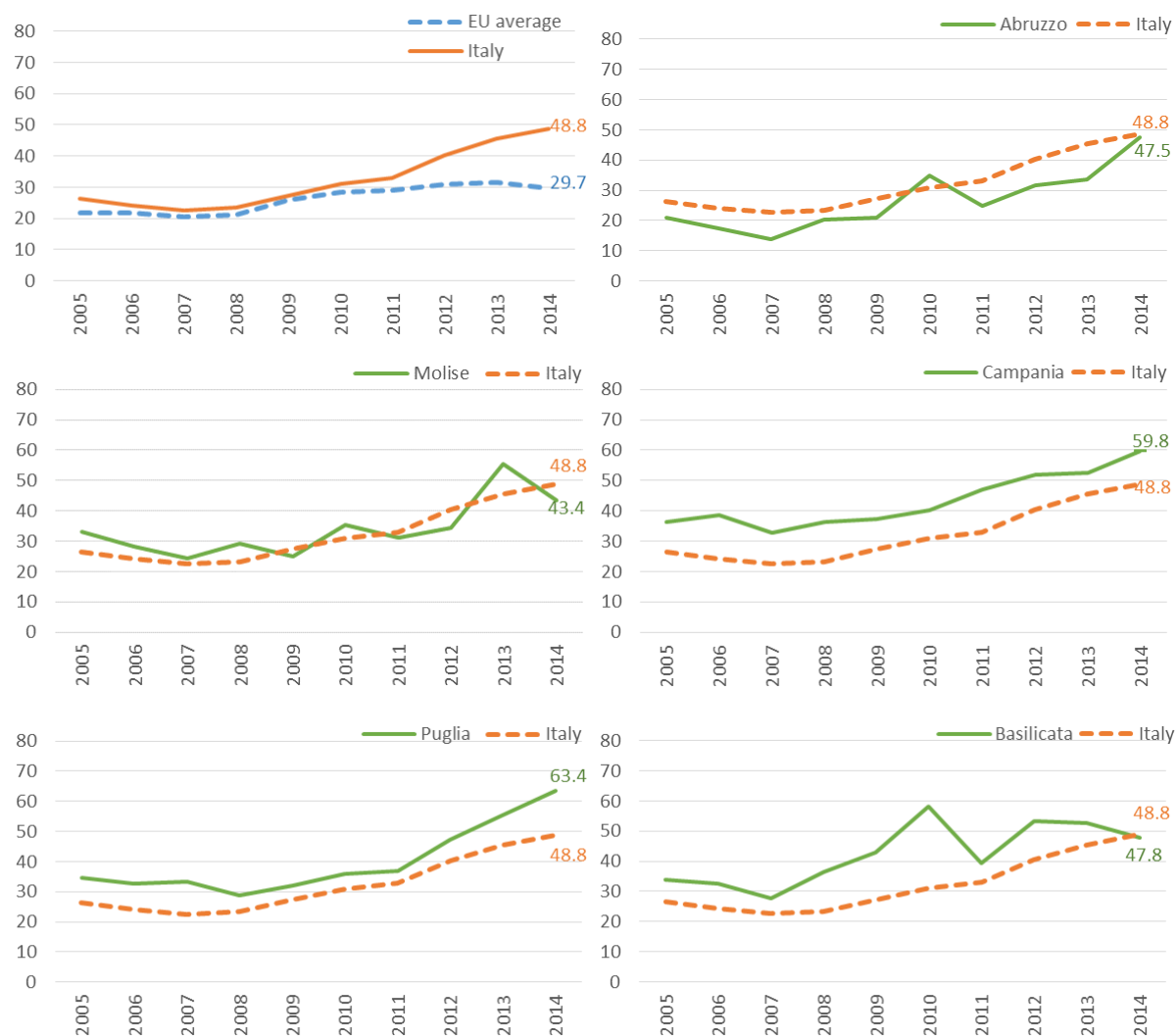
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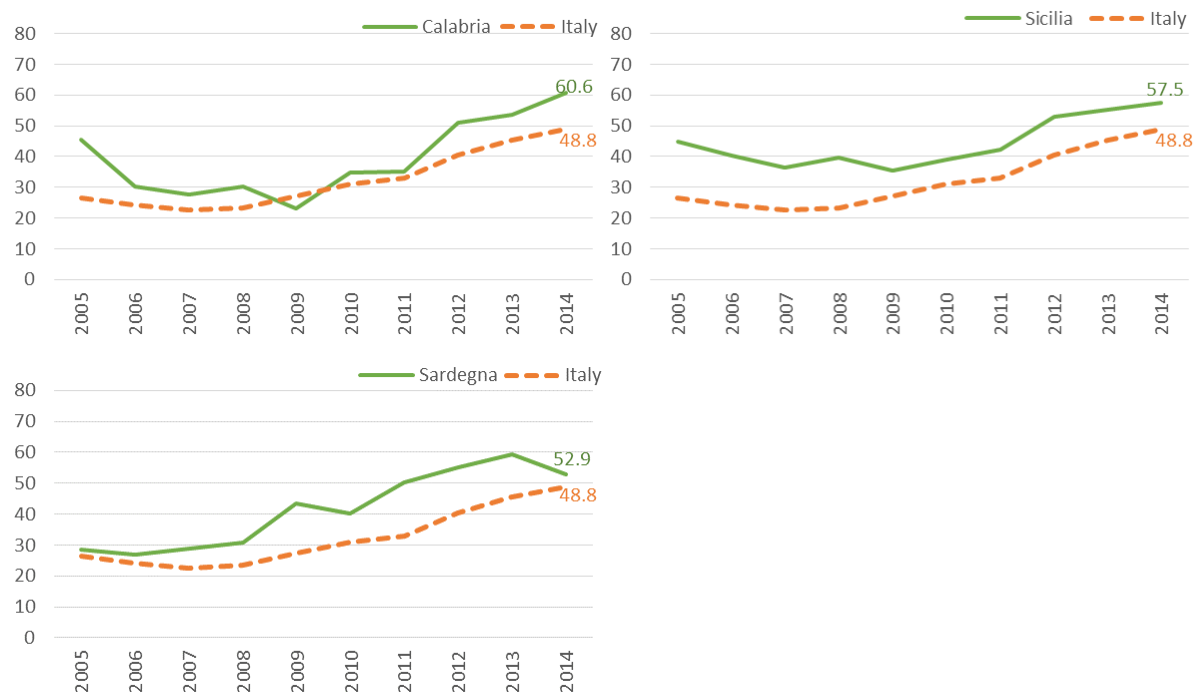
### Commentary

The unemployment rate of young people in Italy was 40% in 2015 which is twice the rate in the EU on average. Youth unemployment in Italy has increased significantly more during the years of the crisis and the recession than in the EU and this has widened the gap with the latter. 2015 was the first year to record a reduction.

In all lagging regions the unemployment rate of young people is higher than in Italy. The difference with the national rate is largest in Calabria where the rate reaches 65% and in Sardegna, Sicilia Campania and Puglia where it is over 50%. It is smallest in Molise, Basilicata and Abruzzo. As at national level, there was a reduction in 2015 in the unemployment rate of young people in Molise, Campania, Puglia and Sicilia. In Calabria and Sardegna where the problem is most severe, there was however a further increase. This was also the case in Abruzzo and in Basilicata.

**Figure 3.5 – Unemployment rate of young people aged 15-24 with low education in Italy, 2005-2014**





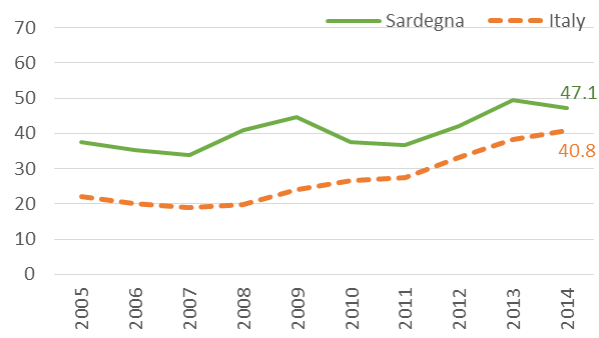
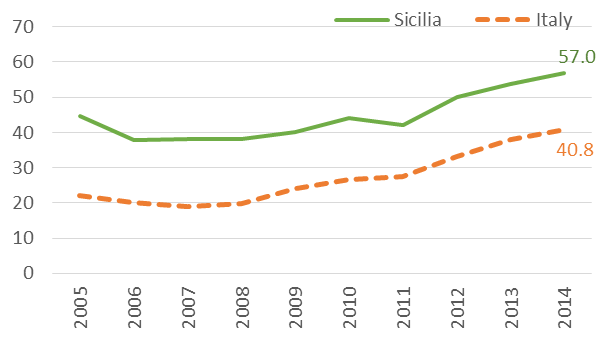
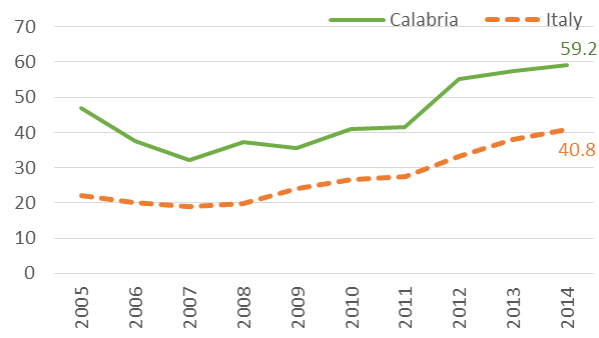
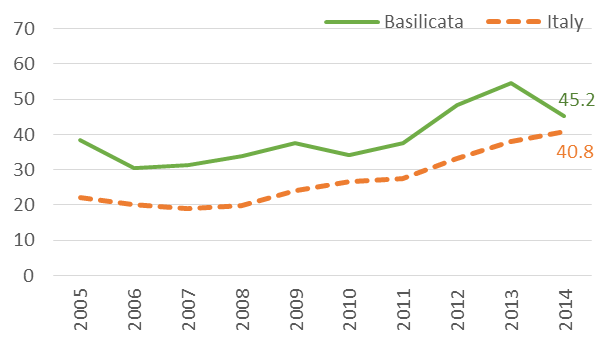
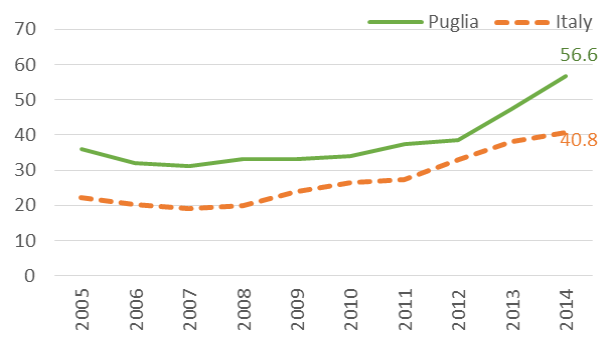
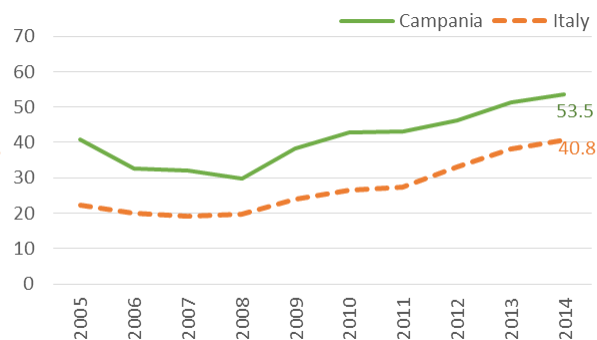
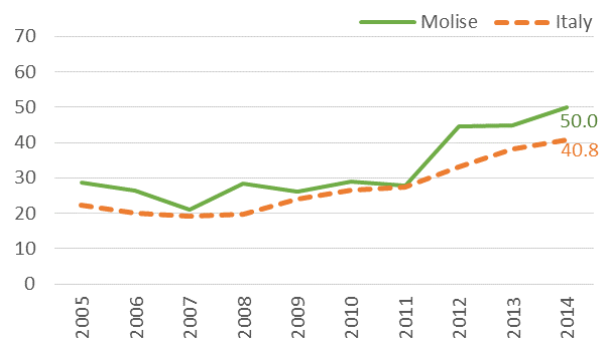
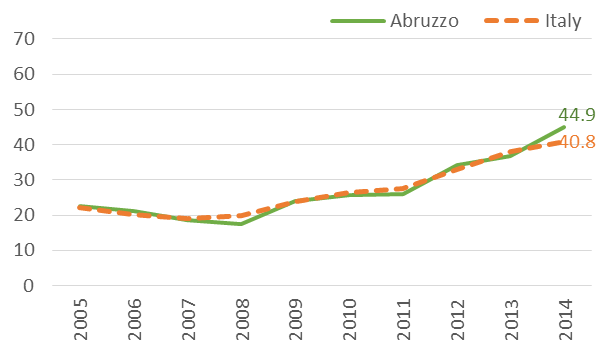
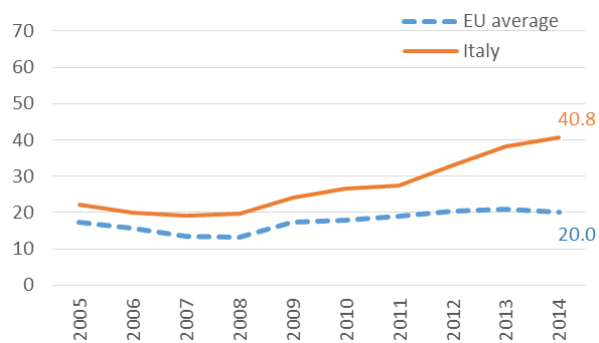
Source: Eurostat, LFS microdata.

### Commentary

Since the unemployment rate of young people in Italy is twice the rate in the EU, it is not surprising that the unemployment rate for those with only basic education is equally higher. The distance between the Italian and the EU rates has essentially widened after 2011. It can be noted that proportionally to the unemployment rate of young, the unemployment rate of young with low education is not higher in Italy than in the EU.

At the regional level, the problem of young people not finding employment was particularly acute in Puglia and Calabria, where over 60% of those aged 15-24 with low level of education are unemployed. The rate was also above the national average in Sicilia and Campania, whereas in Abruzzo, Molise and Basilicata the rate was lower. Again, proportionally to the unemployment rate of young people the unemployment problem of young people with low education in these regions is not more severe than in Italy or in the EU on average.

**Figure 3.6 – Unemployment rate of young people aged 15-24 with medium education in Italy, 2005-2014**

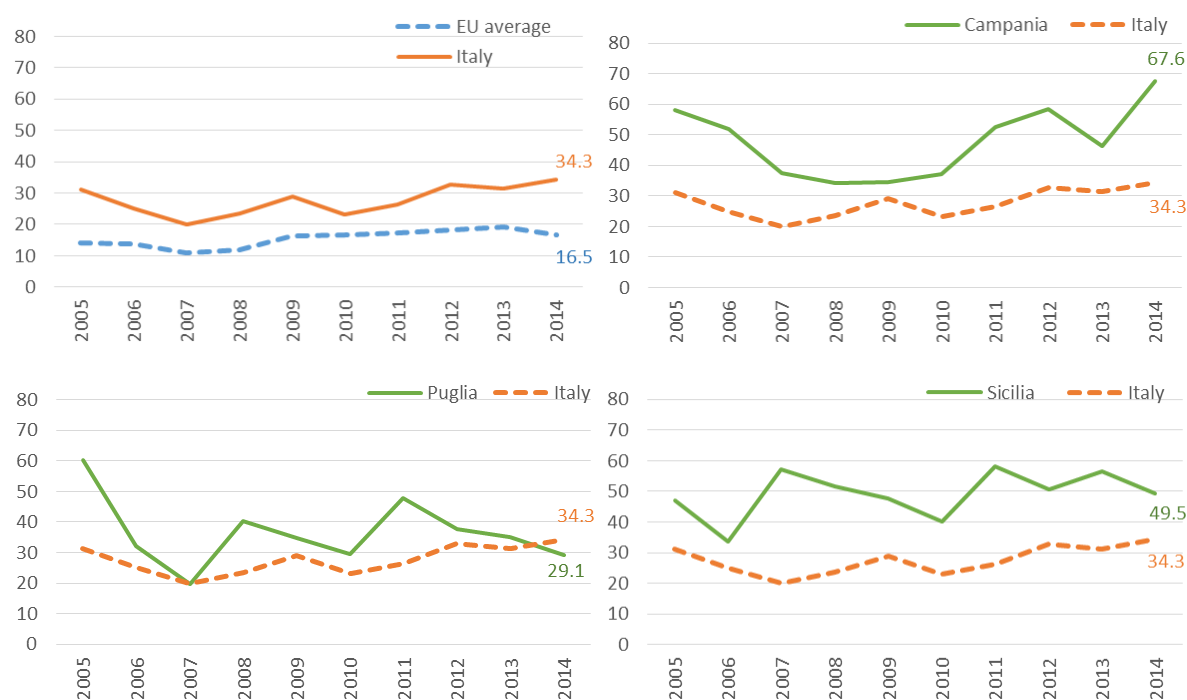


Source: Eurostat, LFS microdata.

### Commentary

The unemployment rate in Italy was also above the EU average for young people with upper secondary education. In 2014, the rate was twice the rate in the EU and nearly the same as for the age group as a whole i.e. without breakdown by educational attainment levels. Unlike in the case of the unemployment rate of young people with low education, the unemployment rate of young people with secondary education proportionally to the unemployment rate of young people is higher in Italy than in the EU. In all lagging regions moreover is the unemployment rate of young people with upper secondary education higher than in Italy on average. The problem is particularly severe in Calabria and Sicilia.

**Figure 3.7 – Unemployment rate of young people aged 15-24 with high education in Italy, 2005-2014**



Source: Eurostat, LFS microdata.

Notes: Unemployment rates of people with high education for some regions cannot be published for many the lagging regions because of the insufficient number of observations.

**Table 3.5 – Youth unemployment rate by education attainment level in Italy, 2014**

Region	Unemployment rate, 15-24, %		
	Isced 0-2	Isced 3-4	Isced 5-8
Abruzzo	47.5	44.9	80.2*
Molise	43.4	50.0	:
Campania	59.8	53.5	67.6
Puglia	63.4	56.6	29.1
Basilicata	47.8	45.2	:



Calabria**	60.6	59.2	29.8
Sicilia	57.5	57.0	49.5
Sardegna**	52.9	47.1	20.8
<b>Italy</b>	<b>48.8</b>	<b>40.8</b>	<b>34.3</b>
EU average	29.7	20.0	16.5

Source: Eurostat, LFS.

Notes: \* Due to the small size of the sample, data related to tertiary education for Abruzzo are subject to statistical uncertainty and therefore need to be interpreted with care.

\*\*Unemployment rate of people with high education for Calabria relates to 2013 and 2011 for Sardegna.

Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

### Commentary

In 2015, over 34% of the young with tertiary education were unemployed. While this is a lower rate than for the other young people of the same age group it is nevertheless over twice the rate observed on average in the EU. Proportionally to the unemployment rate of the age group as a whole i.e. without breakdown by educational attainments, the unemployment problem of those with tertiary education in Italy is more severe than in the EU on average. Unemployment among tertiary-educated young people was highest in Abruzzo (80% - though this result need to be interpreted with care given the relatively low reliability of the data), Campania (68%) and Sicilia (50%). There are no reliable data for Calabria and Sardegna for 2014 and for 2005-2014 for Molise and Basilicata but it can be assumed that some of these regions are severely affected by unemployment of young with tertiary education. Puglia is the only lagging region where in 2014, the rate was below the national average as a result of a substantial 'catching up' (from an unemployment rate of 50% to 29%) over the previous three years.

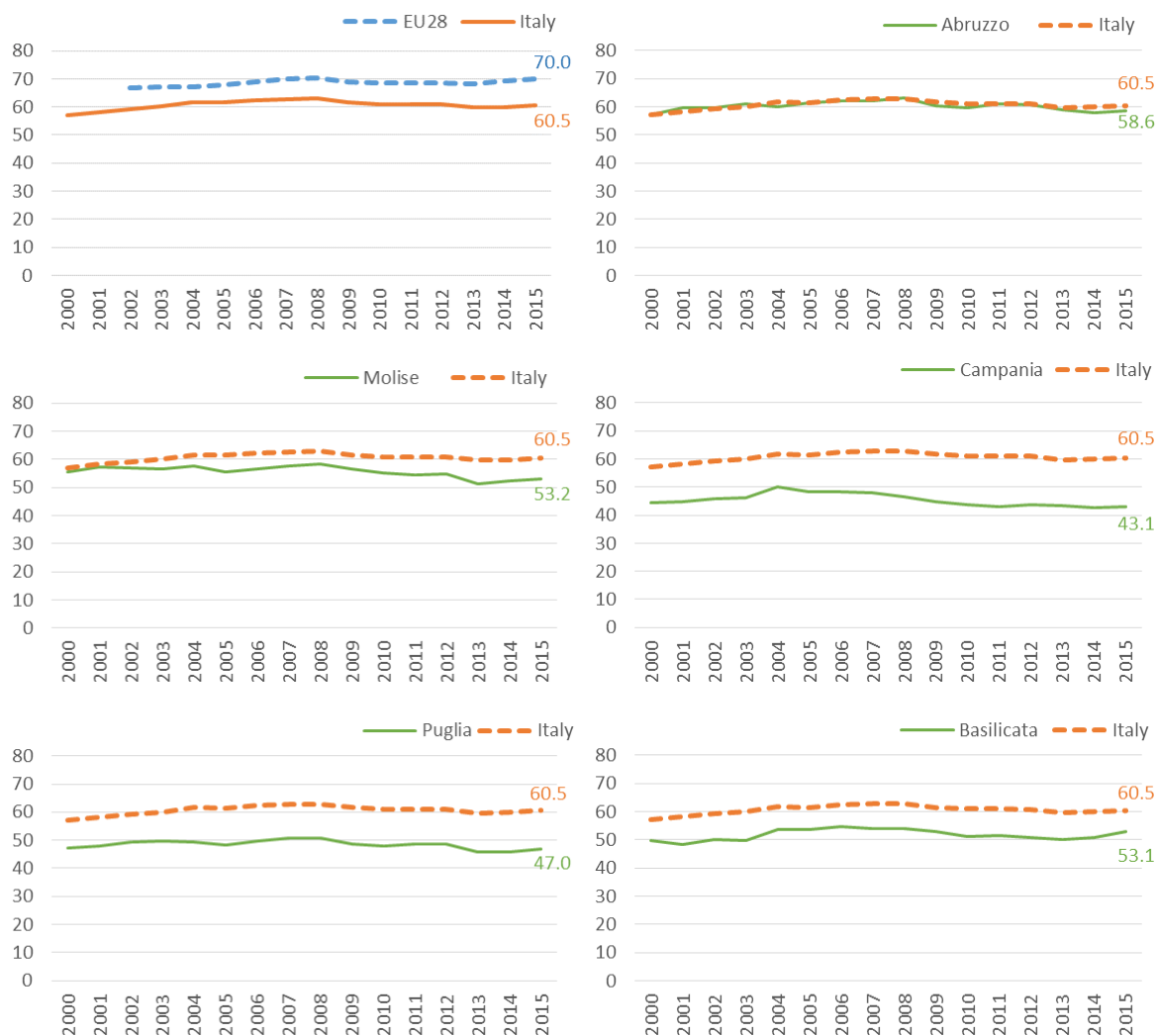
In sum, since the unemployment rate of young people in Italy is twice as high as in the EU, it is not surprising that the same is observed in regard to the unemployment rates of young people broken down by educational attainment. For all levels of educational attainment therefore the unemployment rate of young people is much higher in Italy than in the EU. However, proportionally to the unemployment of the age group as a whole (i.e. without breakdown by educational attainment levels), unemployment of young people with secondary and tertiary education seems to be a more critical problem in Italy than in the EU than the unemployment of young people with only basic education.

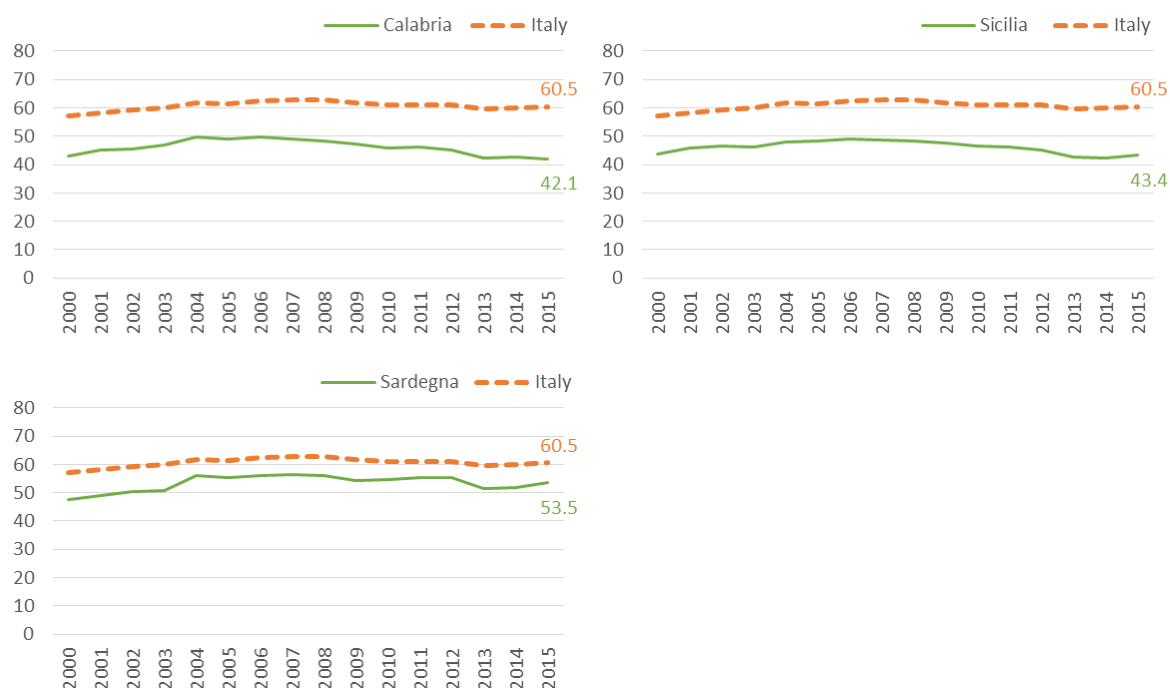
The unemployment rate of young people was higher than the national average (which itself is twice as high as the EU average) in Campania and Sicilia for all the three levels of education i.e. basic schooling, secondary education and tertiary education. In these regions, therefore, irrespective of their level of education, there was a severe shortage of jobs for young people entering the labour market.

In Puglia, Calabria and Sardegna, the unemployment rate of young people was above the national average, except for those with tertiary education. In Abruzzo, the unemployment rate of young people was below the national average only for those with basic schooling. In both Molise and Basilicata, the unemployment rate was below the national average for young people with basic

schooling but not for those with upper secondary education (reliable data for those with tertiary education are not available in these regions).

**Figure 3.8 – Employment rate (20-64 years) in Italy, 2000-2015**





Source: Eurostat, LFS [lfst\_r\_lfe2emprr].

**Table 3.6 – Employment rate in Italy, 2015**

Region	Employment rate (20-64 years), % 2015
Abruzzo	58.6
Molise	53.2
Campania	43.1
Puglia	47.0
Basilicata	53.1
Calabria	42.1
Sicilia	43.4
Sardegna	53.5
<b>Italy</b>	<b>60.5</b>
EU average	70.0

Source: Eurostat, LFS.

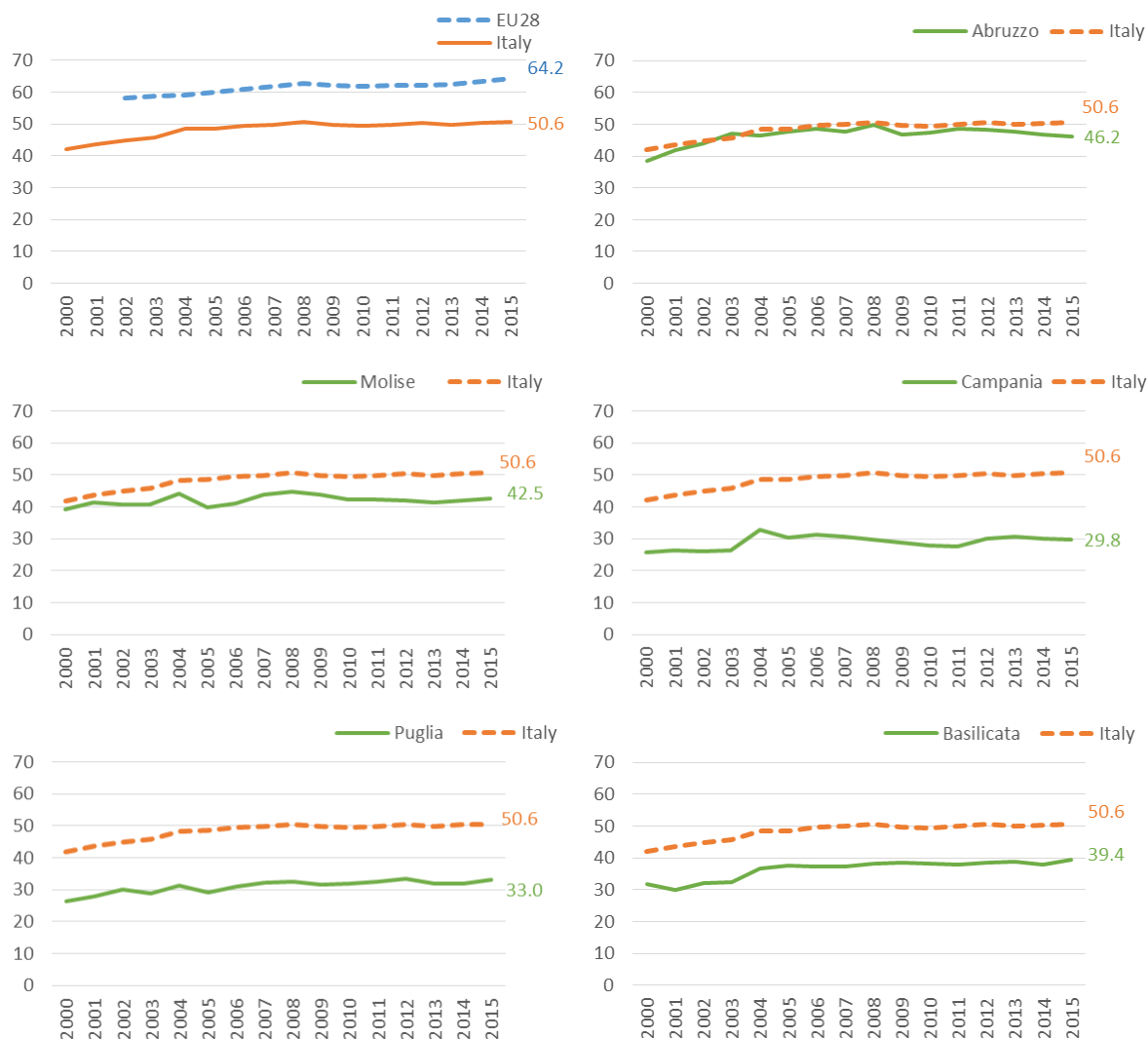
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

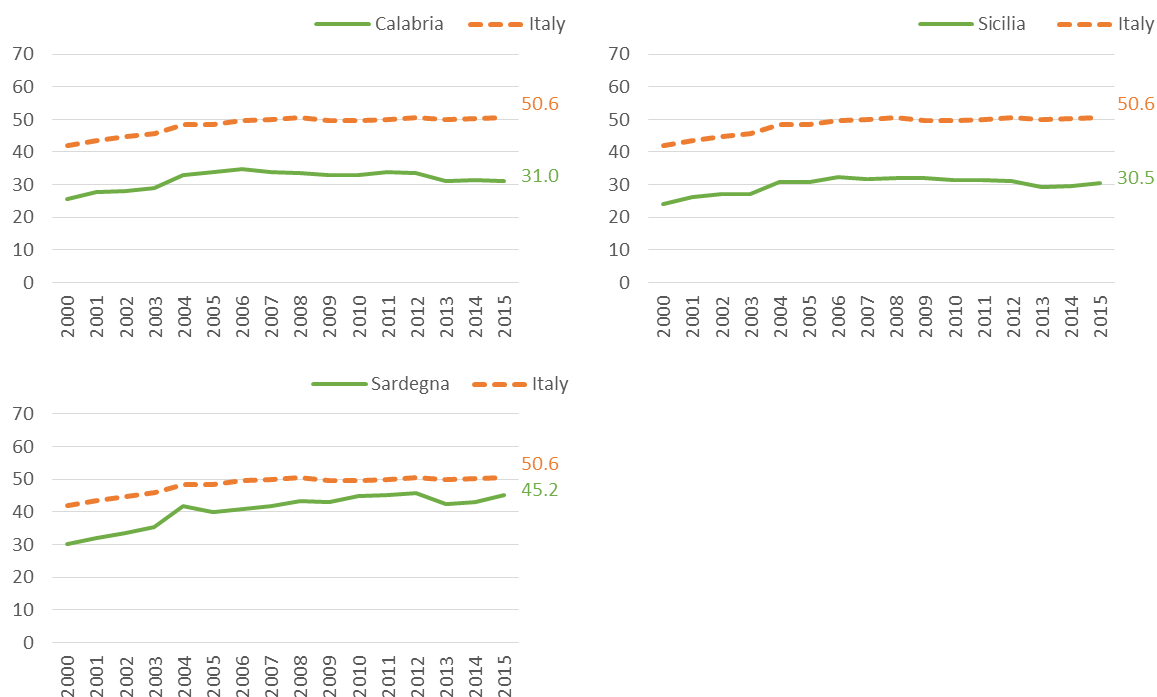
### Commentary

The employment rate in Italy oscillated at around 60% of the working-age population (20-64 years) over the period considered and has continuously been below the EU average by around 10 percentage points.

In all the lagging regions, is the employment rate below the national average, though only slightly so in Abruzzo, where over the period considered it was much the same as the national figure. In Molise, Sardegna and Basilicata, the rate was also below the national rate over the period 2008-2015 but at above 50% of the working-age population. On the other hand, the employment rate was below 50% of the working-age population in Sicilia, Campania, Puglia and Calabria. This observation is in line with the high unemployment rate observed in these regions (twice the national rate in 2015).

**Figure 3.9 – Employment rate of women (20-64) in Italy, 2000-2015**





Source: Eurostat, LFS [lfst\_r\_lfe2emprr].

**Table 3.7 – Employment rate of women in Italy, 2015**

Region	Female employment rate (20-64 years), % 2015
Abruzzo	46.2
Molise	42.5
Campania	29.8
Puglia	33.0
Basilicata	39.4
Calabria	31.0
Sicilia	30.5
Sardegna	45.2
<b>Italy</b>	<b>50.6</b>
EU average	64.2

Source: Eurostat, LFS.

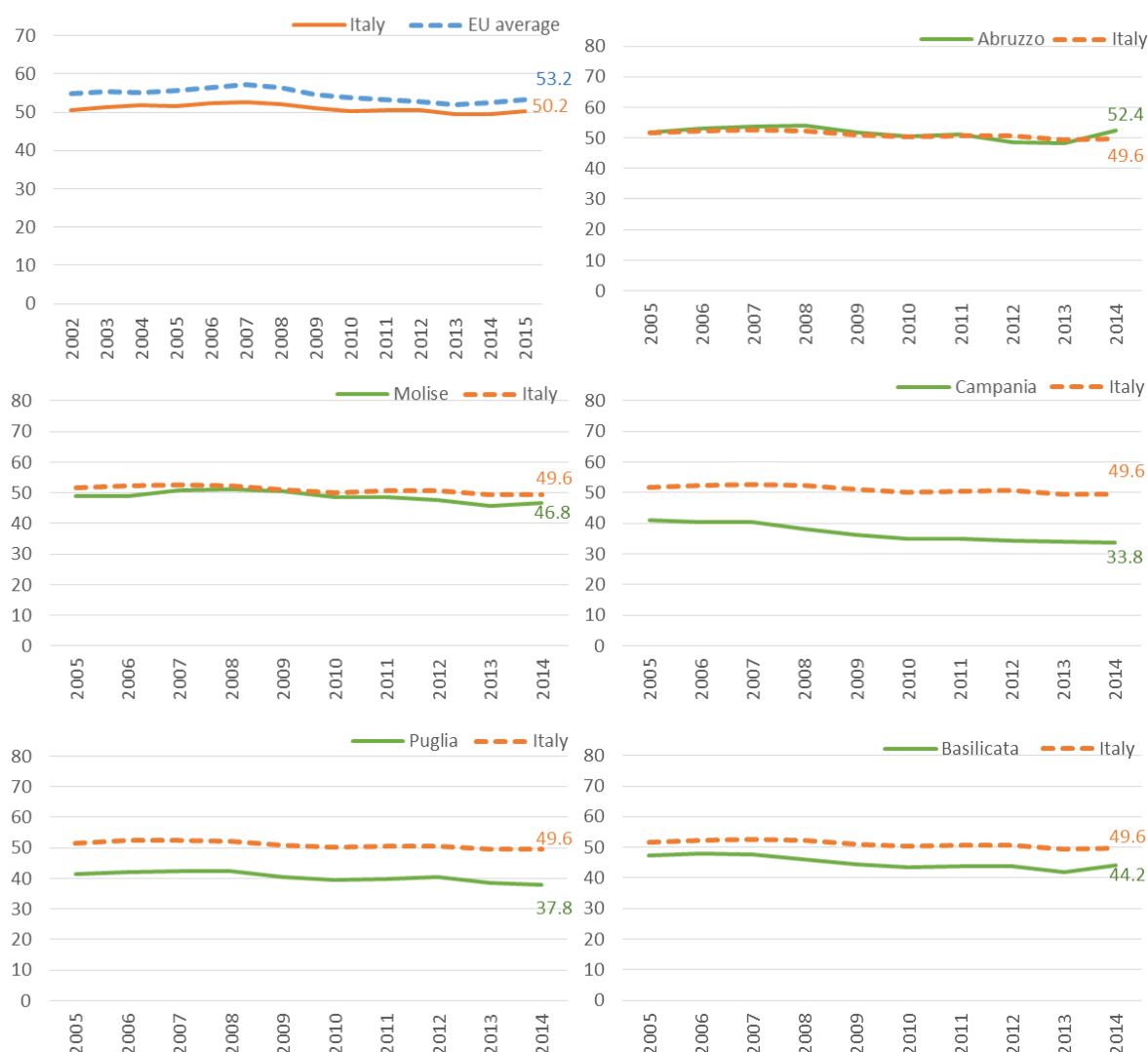
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

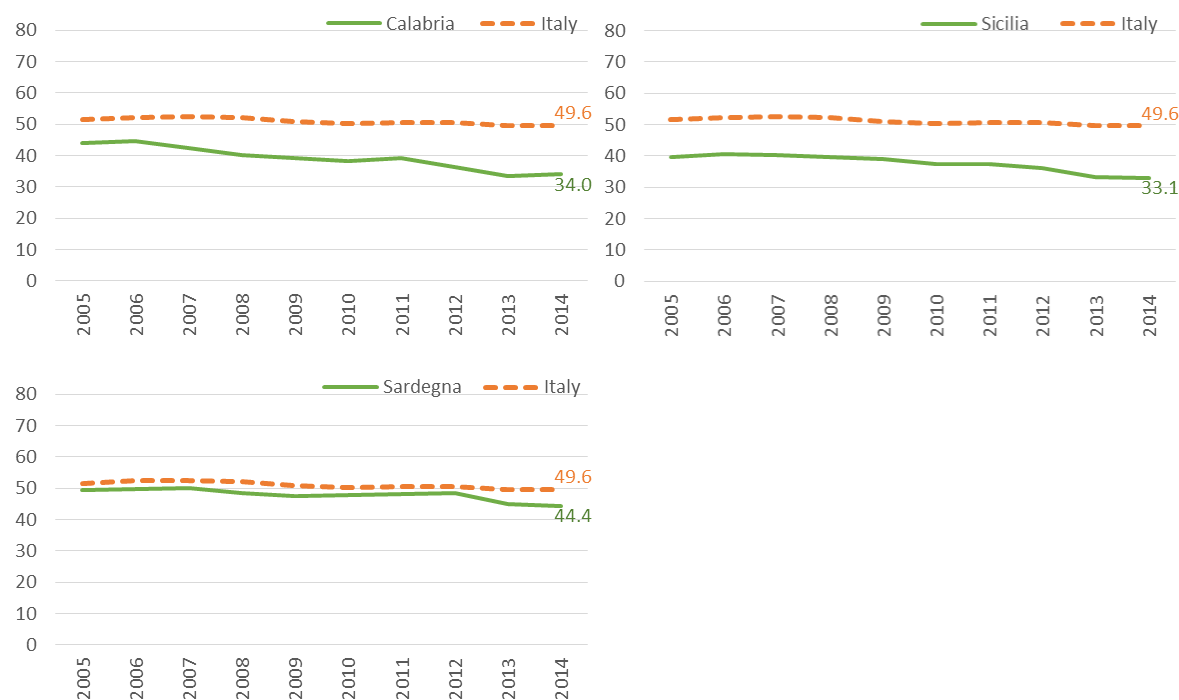
### Commentary

The employment rate of women in Italy is even further below the EU average than the overall rate, reflecting the lower participation of women in the work force. Just 50% of women of working-age (20-64 years) were in employment in 2015 against 64% in the EU.

In all lagging regions is the employment rate of women lower than at national level. There was no significant change over the period considered in the gap between the female employment rates in these regions and the national benchmark. As for the case of the overall employment rate, the rate for women was only slightly below the national average in Abruzzo. In Sardegna and Molise, the rate was below the national average by no more than 10 percentage points. In the remaining lagging regions, the employment rate of women was much lower. In Campania and Sicilia it corresponded to less than a third of women. Women, therefore, seem to face additional difficulties of finding employment compared to men in most lagging regions, though their participation rates are also relatively low, which might reflect a shortage of jobs as much as a reluctance to be in paid employment.

**Figure 3.10 – Employment rates of those aged 25-64 with low education in Italy in 2002-2015 and lagging regions in 2005-2014**





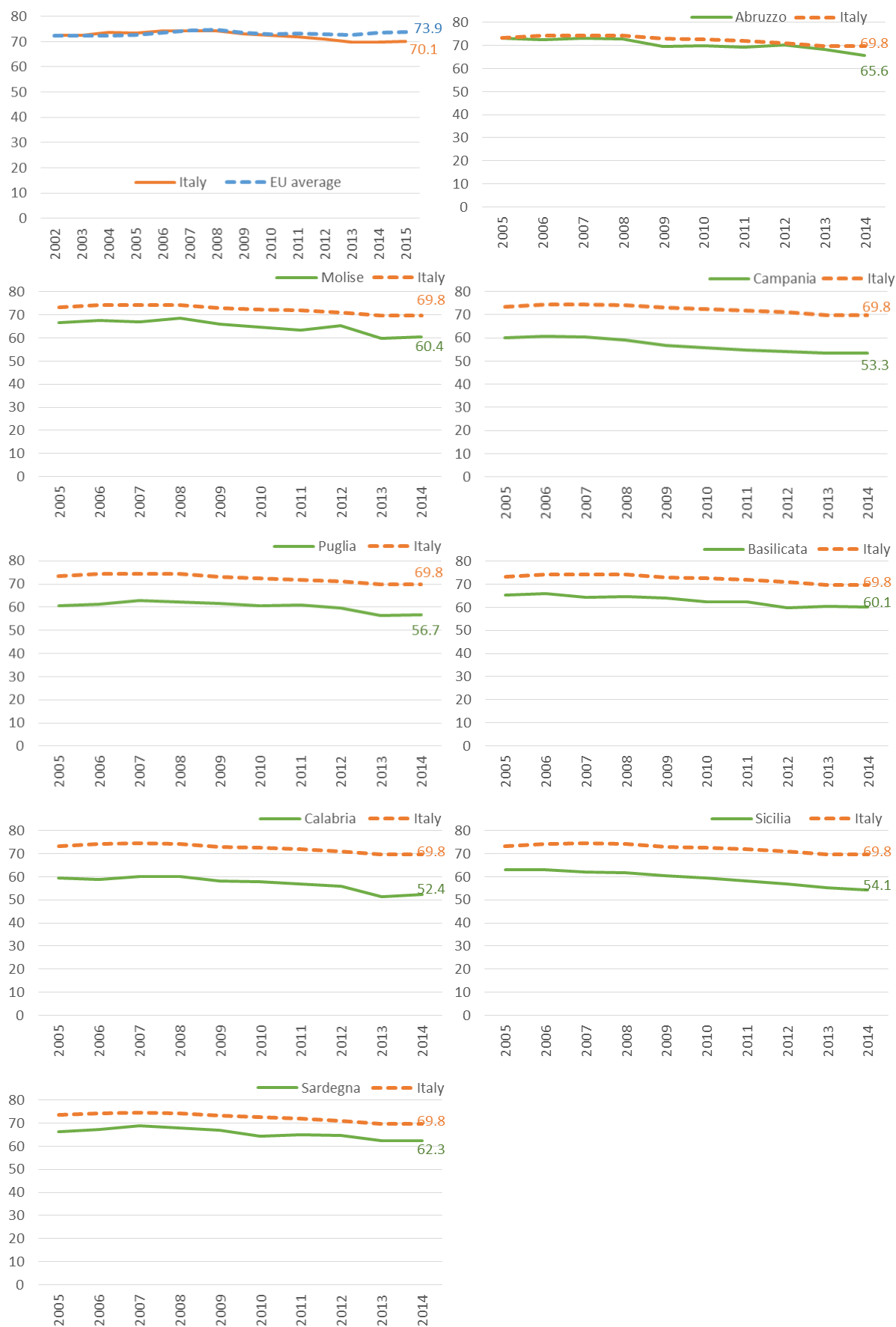
Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

### Commentary

The employment rate of those aged 25-64 with only basic schooling in Italy was below the EU average in 2015 though not significantly and this has been the case over the whole period considered.

The employment rate of low educated in the lagging regions is smaller than in Italy except in Abruzzo. While in Molise, Basilicata and Sardegna it is only slightly smaller, it is significantly so in Puglia, Campania, Sicilia and Calabria.

**Figure 3.11 – Employment rate of people aged 25-64 with medium education in Italy in 2002-2015 and its lagging regions in 2005-2014**





Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

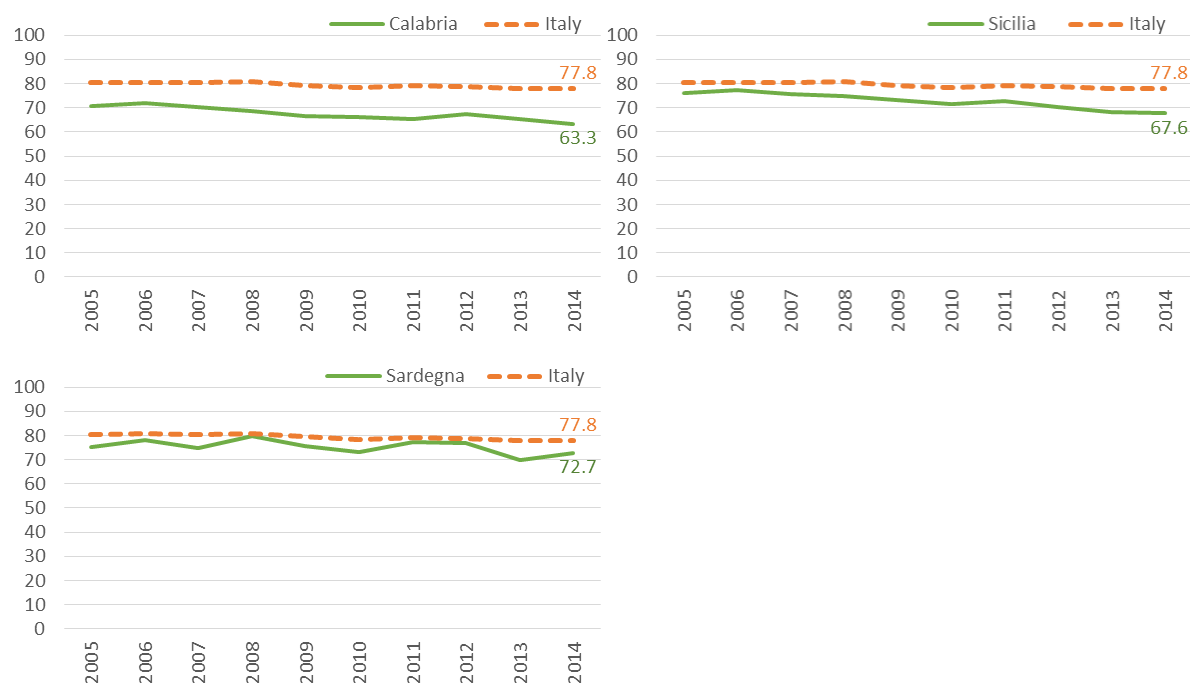
### Commentary

The employment rate of those with upper secondary education in Italy was also below the EU average. The distance from the EU benchmark is larger than for those with basic schooling.

The employment rate of people with up to secondary education was below the national average in all the lagging regions. The distance with the national average is largest in Calabria, Campagna, Sicilia and Puglia.

**Figure 3.12 – Employment rate of people aged 25-64 with high education in Italy in 2002-2015 and its lagging regions in 2005-2014**





Source: Eurostat, LFS [lfst\_r\_lfe2eedu] and LFS microdata for the regional data.

### Commentary

Similarly with the employment rates for the low educated and those with upper secondary education, the rate for those with tertiary education in Italy was lower than the EU average in 2015 and over the whole period considered. The distance from the EU benchmark is larger for the employment rate of highly educated than for those with basic schooling or secondary education which suggests that highly educated in Italy face bigger difficulties of finding a job than in the EU on average presumably because the demand for those with high level of education is lower.

The employment rate of people with tertiary education was in all lagging regions smaller than the national average. Calabria, Molise, Campania and Basilicata have the smallest rates.

**Table 3.8 – Employment rate by education attainment level in Italy, 2014**

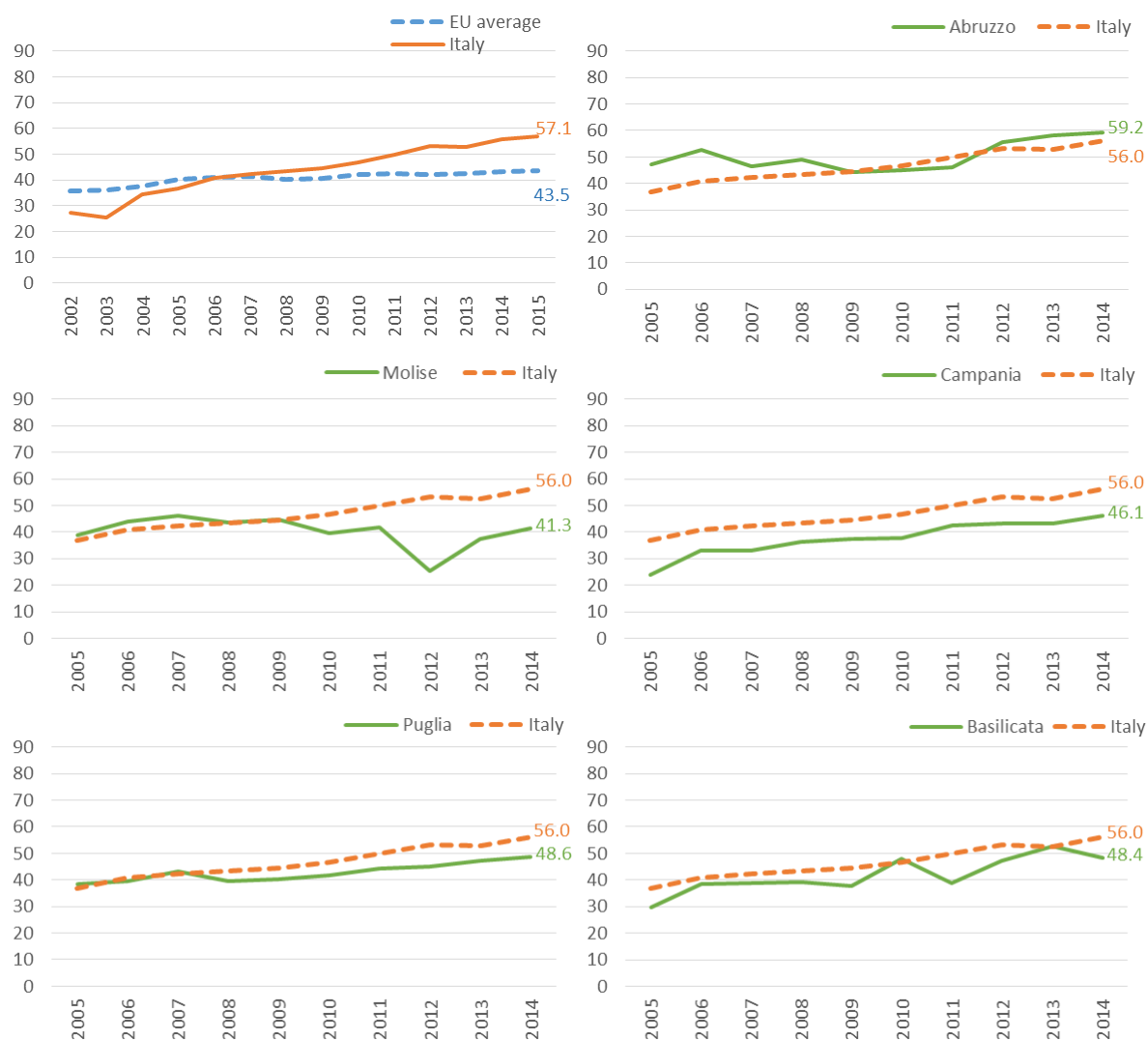
Region	Employment rate (25-64), % 2014		
	ISCED 0-2	ISCED 3-4	ISCED 5-8
Abruzzo	52.4	65.6	69.9
Molise	46.8	60.4	65.3
Campania	33.8	53.3	66.8
Puglia	37.8	56.7	67.8
Basilicata	44.2	60.1	66.1
Calabria	34.0	52.4	63.3
Sicilia	33.1	54.1	67.6
Sardegna	44.4	62.3	72.7
<b>Italy</b>	<b>49.6</b>	<b>69.8</b>	<b>77.8</b>

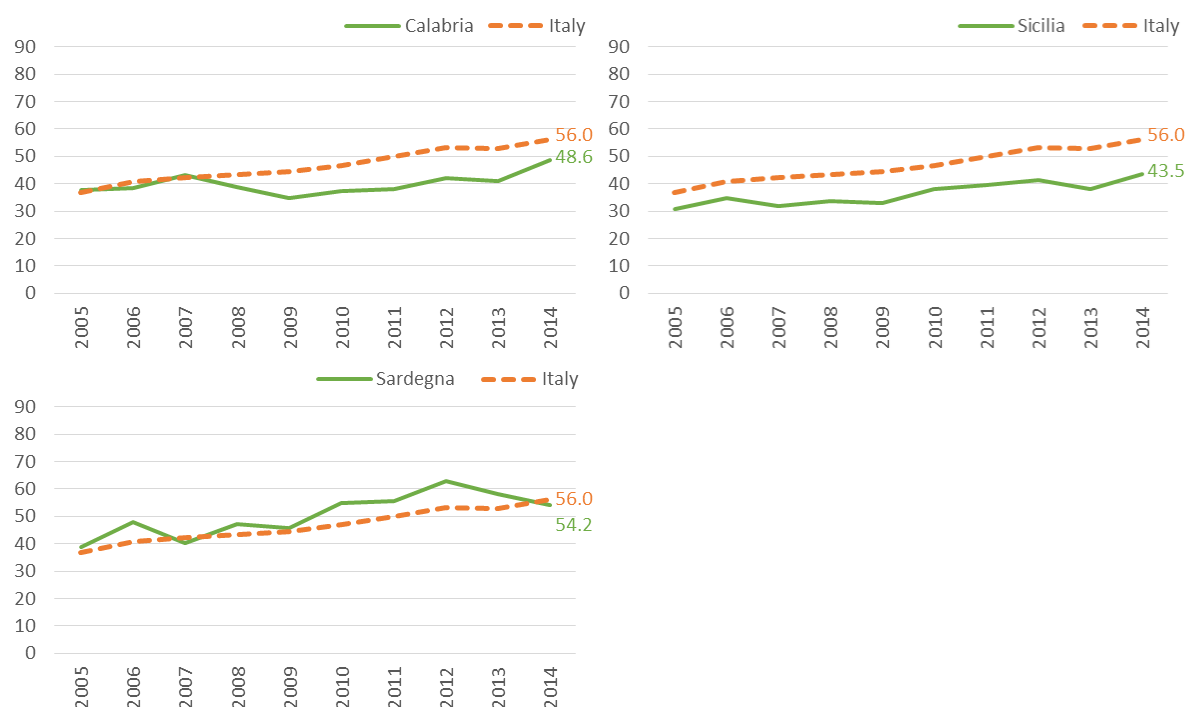
EU average	52.8	73.4	83.6
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Source: Eurostat, LFS.

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

**Figure 3.13 – Temporary employment (% of total employees aged 15-24) in Italy in 2002-2015 and its lagging regions in 2005-2014**





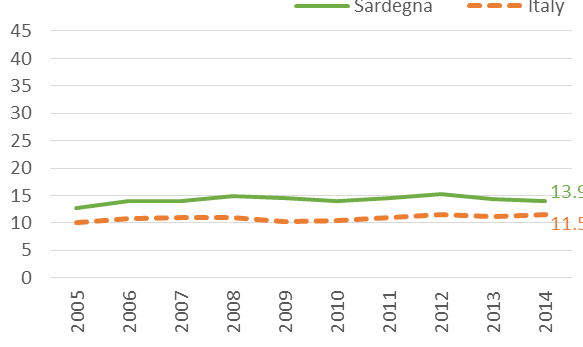
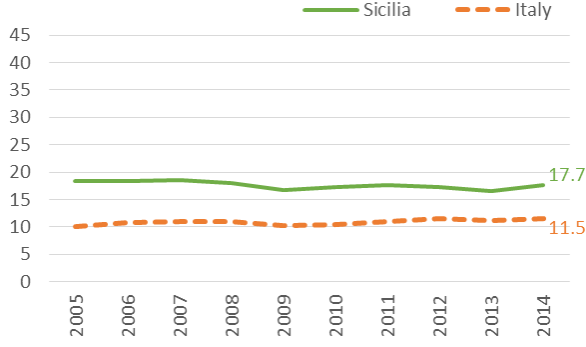
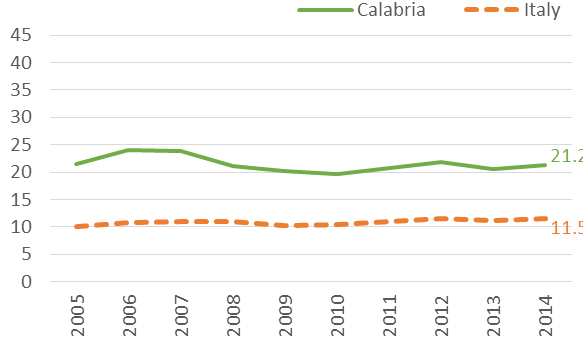
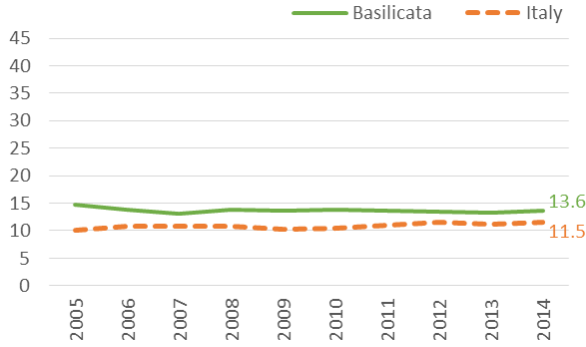
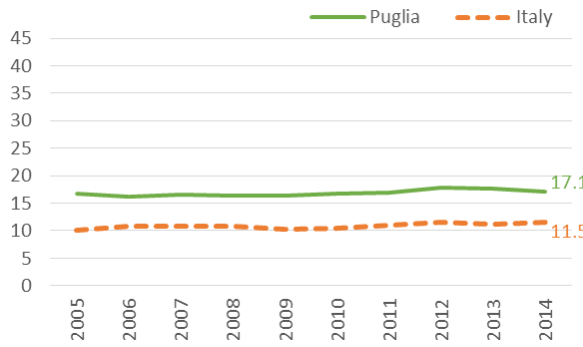
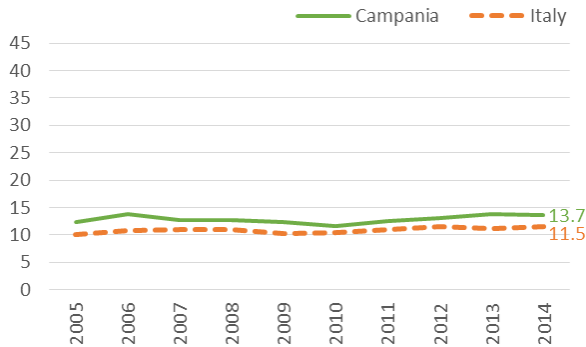
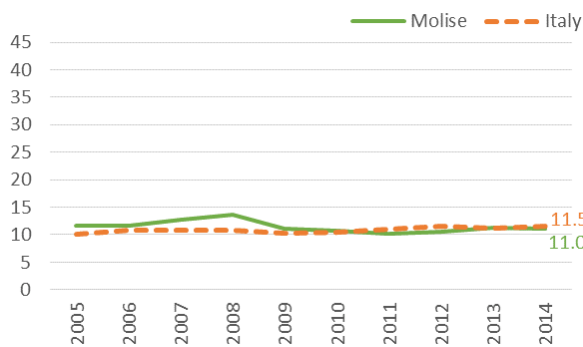
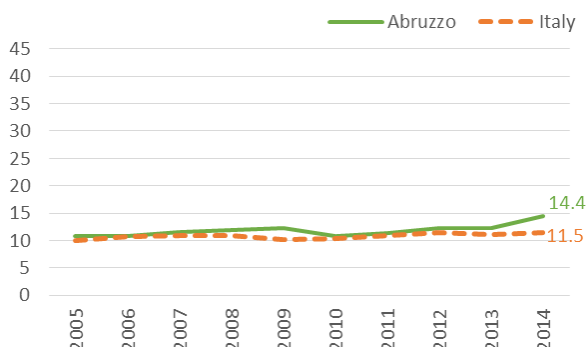
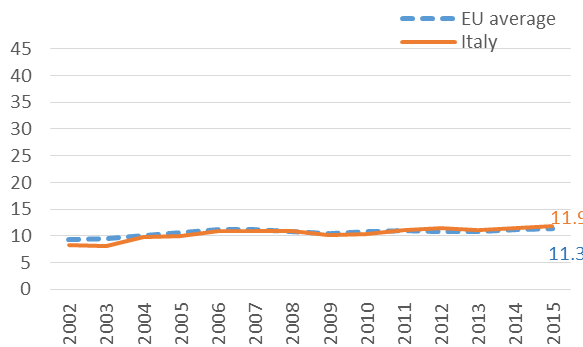
Source: Eurostat, LFS [lfsa\_etpga] and LFS microdata for the regional data.

### Commentary

The share of young employees aged 15-24 in temporary jobs is much larger in Italy than in the rest of the EU. Not less than 57% of all young in employment had a temporary job in 2015 against 43% in the EU. Over the period considered, there was a marked increase in temporary jobs for young in Italy and much less so in the EU.

Temporary employment of young is a widespread practice in Italy and is not specific to lagging regions. In most lagging regions is the share of young employees in temporary job smaller than in Italy. In Molise it is even smaller than in the EU.

**Figure 3.14 – Temporary employment (% of total employees aged 25 or over) in Italy in 2002-2015 and in lagging regions in 2005-2014**



Source: Eurostat, LFS [lfsa\_etpga] and LFS microdata for the regional data.

**Table 3.9 – Temporary employment in Italy by age group, 2014**

Region	Temporary employment (% of total employees), 2014	
	15-24	25 or over
Abruzzo	59.2	14.4
Molise	41.3	11.0
Campania	46.1	13.7
Puglia	48.6	17.1
Basilicata	48.4	13.6
Calabria	48.6	21.2
Sicilia	43.5	17.7
Sardegna	54.2	13.9
<b>Italy</b>	<b>56.0</b>	<b>11.5</b>
EU average	43.4	11.1

Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

### **Commentary**

The share of employees aged 25 and over who have temporary jobs is a more representative indicator of temporary employment than just the share of young people. There is no significant difference in this share between Italy and the EU, both oscillating at around 11% over the period considered. The share is higher in all lagging regions except in Molise. The distance with the national average is highest in Calabria, Sicilia and Puglia.

**Summary 1 – Overview of labour market (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)**

<b>LABOUR MARKET</b>									
	<b>Italy</b>	<b>Abruzzo</b>	<b>Molise</b>	<b>Campania</b>	<b>Puglia</b>	<b>Basilicata</b>	<b>Calabria</b>	<b>Sicilia</b>	<b>Sardegna</b>
<b>Unemployment and long-term unemployment</b>									
Unemployment rate (15+), 2015	+2.5	+0.7	+2.4	+7.9	+7.8	+1.8	+11.0	+9.5	+5.5
LTU rate (15+), 2015	+9.8	+2.4	+9.8	+10.3	+3.4	+6.9	+8.3	+7.3	-4.4
<b>NEETs</b>									
NEET rate (15-24), 2015	+9.4	+2.2	-3.2	+7.8	+5.1	+1.2	+12.6	+11.0	+5.4
<b>Youth unemployment rate</b>									
Youth unemployment rate (15-24), 2015	+19.9	+7.8	+2.4	+12.4	+11.0	+7.4	+24.8	+15.6	+16.1
Youth unemployment rate (15-24), ISCED 0-2, 2014	+19.1	-1.3	-5.4	+11.0	+14.6	-1.0	+11.8	+8.7	+4.1
Youth unemployment rate (15-24), ISCED 3-4, 2014	+20.8	+4.2	+9.2	+12.7	+15.8	+4.4	+18.4	+16.2	+6.3
Youth unemployment rate (15-24), ISCED 5-8, 2014*	+17.8	+45.9	:	+33.3	-5.2	:	-4.5	+15.2	-13.5
<b>Employment rate</b>									
Total employment rate (20-64), 2015	-9.5	-1.9	-7.3	-17.4	-13.5	-7.4	-18.4	-17.1	-7.0
Female employment rate (20-64), 2015	-13.6	-4.4	-8.1	-20.8	-17.6	-11.2	-19.6	-20.1	-5.4
Employment rate (25-64), ISCED 0-2, 2014	-3.2	+2.9	-2.7	-15.7	-11.7	-5.4	-15.6	-16.5	-5.1
Employment rate (25-64), ISCED 3-4, 2014	-3.6	-4.2	-9.4	-16.5	-13.1	-9.7	-17.4	-15.7	-7.5
Employment rate (25-64), ISCED 5-8, 2014	-5.7	-7.9	-12.6	-11.1	-10.0	-11.7	-14.6	-10.2	-5.1
<b>Temporary work</b>									
Temporary employees (15-24), 2014	+12.6	+3.2	-14.7	-9.9	-7.4	-7.6	-7.4	-12.5	-1.8
Temporary employees (25+), 2014	+0.4	+2.9	-0.5	+2.2	+5.6	+2.1	+9.7	+6.2	+2.4
<b>Structural weaknesses</b>									
Number of unfavourable variables	14	12	9	13	12	11	12	13	11
Number of favourable variables	0	2	4	1	2	2	2	1	3

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

\* Data refer for Calabria refer to 2013 and 2011 for Sardegna.

“:” Not available

<b>LABOUR MARKET in Italy</b>	
<b>Country-specific recommendations, 2011-2015</b>	
2011	<p>Take further steps to ensure that wage growth better reflects productivity developments as well as local and firm conditions.</p> <p>Reinforce measures to combat segmentation in the labour market.</p> <p>Take up steps to promote greater participation of women in the labour market by increasing the availability of care facilities and providing incentives to second earners to take up work in a budgetary neutral way.</p>
2012	<p>Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level.</p> <p>Take further action to address youth unemployment including by improving the labour market relevance of education and facilitating transition to work, incentives for business start-ups and for hiring employees.</p> <p>Adopt the labour market reform as a priority to tackle the segmentation of the labour market.</p> <p>Take further measures to incentivise labour market participation of women.</p> <p>Establish an integrated unemployment benefit scheme.</p>
2013	<p>Ensure the effective implementation of the labour market and wage setting reforms to allow better alignment of wages to productivity.</p> <p>Take further action to foster labour market participation in particular for women and young people for example through a YG. Ensure more efficient PES and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care and out-of-school services.</p>
2014	<p>Evaluate by end-2014 the impact of the wage setting reform.</p> <p>Evaluate by end-2014 the impact of the labour market reform on job creation, dismissal procedures, labour market duality and cost competitiveness. Limit the use of wage supplementation schemes to facilitate labour re-allocation. Reinforce coordination and performance of PES across the country. Adopt measures to reduce fiscal disincentives for second earners by march 2015 and provide adequate care services. Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by end-2014 in line with the objectives of the YG.</p> <p>Strengthen the link between active and passive labour market policies starting with a detailed roadmap for action by December 2014.</p>
2015	<p>Adopt the legislative decrees on the design and use of wage supplementation schemes, the revision of contractual arrangements, work-life balance and the strengthening of the labour market policies.</p>
<b>Structural reforms carried out, 2011-2015</b>	
2011	<p>Law 106/2011: tax credit for the full-time employment of disadvantaged workers in southern Italy.</p> <p>Law 214/2011: tax reliefs for workers hired on open-ended contract, with higher benefit for those employing workers under 35 or women. In southern Italy, tax relief are even larger.</p> <p>Legislative Decree 167/2011: Consolidated Act on Apprenticeship aimed at reforming legislation on apprenticeships.</p>
2012	<p>Labour market reform (Law 92/2012, Decree Law 34/2014): existing types of employment contracts have been rationalised and their number reduced; apprenticeship is promoted; identification of uniform minimum service levels to be provided throughout the national territory; simplified limited liability company for people under 35 (Law 27/2011); recruitment grant for southern Italy (tax rebate when hiring new staff). The 35-year age limit for the creation of simplified limited liability companies was eliminated in 2014.</p>
2013	<p>Decree Law No. 76/2013: The following funds have been earmarked for Southern Italy i) €80 million for self-employment and starting a business; ii) €80 million for non-profit projects promoted by young people and underprivileged individuals; and iii) €168 million for training scholarships for unemployed young people who are NEETs.</p> <p>An Intergenerational Pact was created so that companies can offer an apprenticeship contract or a permanent contract to young people while giving the possibility to older workers to reduce their working time.</p>



	New Funds for labour market entry of young people: regional agreements were signed to finance initiatives aimed at strengthening relations between universities and firms.
2014	<p>A new incentive is available to companies hiring on a full-time basis under an open-ended contract unemployed recipients of Employment Social Insurance (50% of the residual monthly allowance).</p> <p>2014 Stability Law: Efforts to encourage new job creation have been undertaken on three fronts: i) the creation of new incentives for the hiring of young people, the implementation of incentives for hiring women and workers over the age of 50, and to support the creation of new entrepreneurial initiatives and social projects; ii) the reduction of the cost of labour for businesses and iii) changes in the labour market regulation to increase hiring flexibility and simplify labour contract management.</p> <p>A national Youth Guarantee plan has been developed, including job placement programmes, training assignments, civil service, training for professional development, and support for launching entrepreneurial initiatives and self-employment.</p> <p>Jobs Act provides for changes in employment protection legislation, unemployment benefit system, governance and functioning of active/passive labour market policies and balance between family and working life. It has the potential to reduce duality, promote open-ended recruitment and favour labour reallocation. With regard to fixed-term employment contracts, the maximum duration of the employment relation for which the employer is no longer required to state the reasons why a termination date is set to the contract has been extended from 12 to 36 months. And the number of times a fixed-term contract can be extended within the 36-month limit has been raised to 8 (from 1). Moreover, to limit court cases, the reform further facilitates the settlement of dismissal disputes through conciliation, supported by fiscal incentives. By establishing clear rules, the reform substantially reduces uncertainty about the compensation to be paid in case of unfair dismissal. The Jobs Act also extended the coverage and duration of previous unemployment insurance and revised the conditionality and activation modalities. The unemployment assistance scheme initially envisaged as temporary, has now been made permanent.</p>
2015	Substantial financial support for employers using open ended contracts: permanent full deduction of the labour cost of employees under open-ended contracts from the regional tax on productive activities (IRAP) and a three-year exemption for private employers from paying social security contributions for new open-ended contracts signed in 2015. These incentives were maintained by the 2016 Stability Law, but with reduced amounts and for two years only.
<b>Outstanding challenges</b>	
	Insufficient capacity of public employment services might hinder the efficient matching of labour demand and supply, as well as the easiness of locating appropriate skills.
	Insufficient second level (firm level) collective bargaining hampers the alignment of wages with productivity and skills and the adoption of innovative solutions to productivity challenges.
	Long-term unemployment and the risk of labour market exclusion for young people, as well as the low labour market participation of women, remain causes for concern.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 81 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

Unemployment is a problem in all the lagging regions in Italy and it represents a serious obstacle to development in Calabria, Sicilia, Campania and Puglia in particular, where every fifth person in the working-age population is unemployed.

Young people aged 15-24 are most affected by unemployment both at the national and regional level. In Calabria, Sardegna, Sicilia, Campania and Puglia each second young people is unemployed (in Calabria the rate was over 65% in 2015). In Campania and Sicilia, whatever the level of education of young, there is a severe shortage of jobs for all. In Puglia, Calabria and Sardegna, those at least

with tertiary education are not disadvantaged in finding a job compared to young people in the rest of Italy.

The NEET rate of young people aged 15-24 in Italy is nearly twice the rate in the EU. Again, the lagging regions in general are more affected and in particular Calabria, Sicilia, and Campania where the NEET rates are three times as high as in the EU. In these regions, every third young people is neither in employment nor in education and training.

At the same time, the employment rate in Italy is just 60% of the working-age population. In all lagging regions is the employment rate smaller than that. It is even below 50% in Sicilia, Campania, Puglia and Calabria. The employment rate for women is 10 percentage points smaller than the overall employment rate but the differences are larger in the lagging regions, Campania, Puglia and Basilicata in particular.

The level of education is a main factor affecting the chances of finding a job. While only half of the working-age population with basic education is employed in Italy, it is 78% of those with tertiary education. In the lagging regions, whatever the level of educational attainment, the employment rate is lower than the national baseline. The differences are highest in regard to those with upper secondary and tertiary education and are slightly smaller in regard to those with only basic education.

Finally, the share of employees with temporary jobs in Italy is only slightly above the EU average. This type of contract appears to be more widespread however in some of the lagging regions, particularly in Calabria, Sicilia and Puglia with likely consequences both on the extent of continuing training, as well as on labour productivity.

The country-specific recommendations have focused on tackling the high level of unemployment, especially among women and young people, and the alignment of wage growth to productivity. Several national programmes and measures were implemented over the period to reduce youth unemployment (including the Youth Guarantee which was implemented in 2014). NEET rates went down from 2013 onward and youth unemployment rates in 2015. In order to help support the labour market participation of women, tax incentives were implemented in 2011 and extended in 2014 for enterprises hiring women on open-ended contracts. There were signs of increased participation of women in the labour market in 2012 and 2014. To reduce the general high level of unemployment, labour market reforms were enacted in 2012 and 2014 and the Jobs Act was adopted in December 2014. The measures aim at providing incentives to hire new employees, reducing the cost of labour (i.e. social security contribution) for employers, and simplifying labour contract management and dismissal disputes settlement.

In the lagging regions, the labour market situation in Abruzzo seems to be more favourable than in the others. Abruzzo has a higher employment rate, a lower rate of unemployment and a smaller proportion of the long-term unemployed. On the other hand, NEET rate and the youth unemployment rate are both above the national average and they have drastically increased over the last four years. This underlines the lack of jobs for young people and/or their limited participation in education or initial vocational training.

In Molise and Basilicata the situation is also a little better than in the other lagging regions although the employment rate is below the national average, the unemployment rate slightly above and the long-term unemployment markedly above. The NEET rate in both is around the national average. In both regions, but more markedly in Basilicata, is the youth unemployment rate above the national average, but it is still much lower as compared to the other lagging regions. This suggests that in both of these regions a relatively large proportion of young people remains in education or initial training rather than entering the labour market because of the difficulty of finding a job.

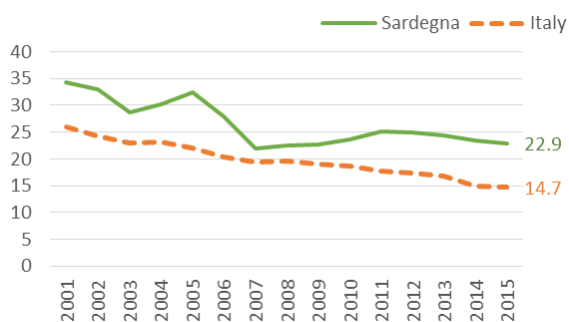
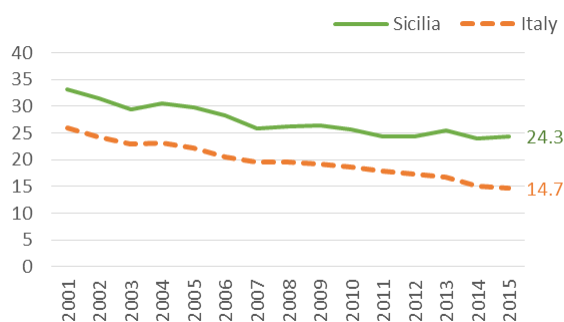
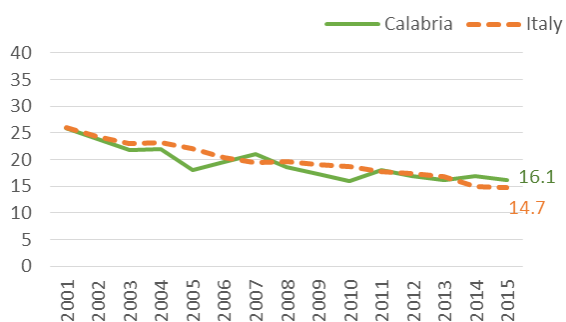
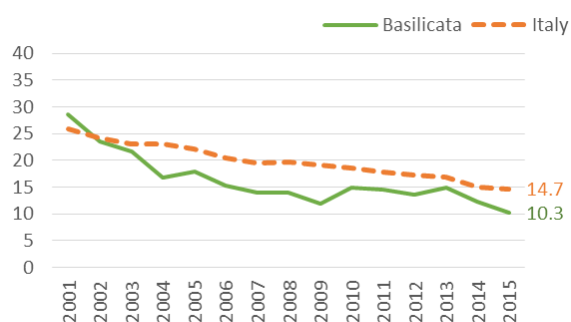
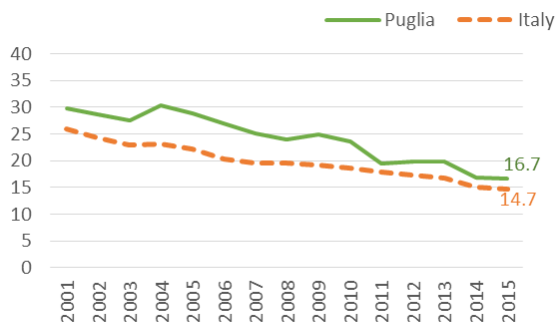
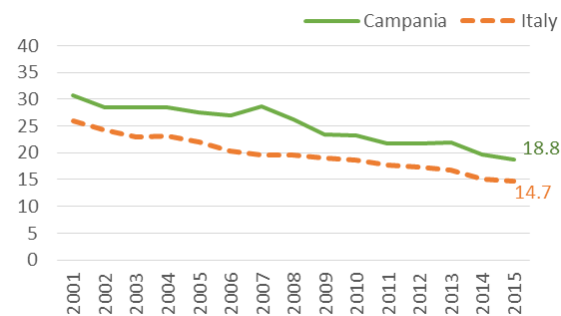
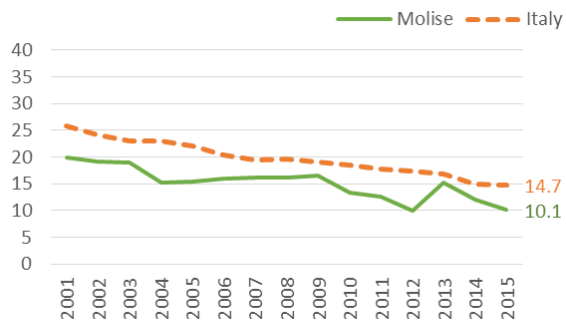
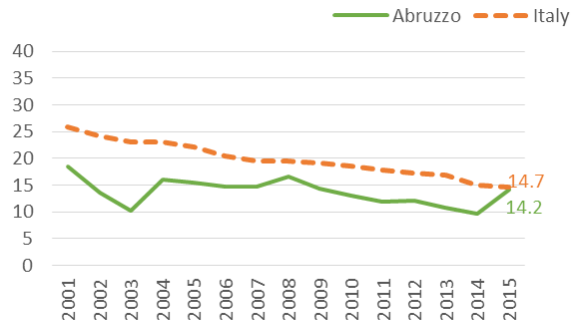
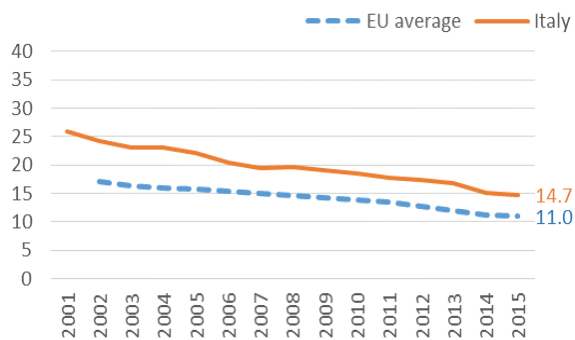
In Sardegna, youth unemployment is a particularly severe problem essentially for those with only basic or secondary education. The NEET rate in this region is also much higher than in Italy on average. The employment rate in Sardegna is below the national average and overall unemployment is higher. On the other hand, long term unemployment is less of a problem in this region.

In the remaining five regions, the labour market situation is even more difficult. In Puglia, the employment rate is far below the national average and overall unemployment is higher than in the rest of the country. Youth unemployment is also a problem (although less so than in Campania, Calabria and Sicilia) - except for those with tertiary education - and so is the NEET rate but to a lesser extent than in other lagging regions. In Campania, the labour market situation is even less favourable with a high unemployment rate, a very high long-term unemployment rate and a low employment rate. The region suffers from an acute and structural shortage of jobs. This is especially so for young people among which a high proportion is either NEET or unemployed. In Sicilia, the labour market situation is similar to the situation in Campania but the NEET rate as well as unemployment rate overall and of youth are even higher. As in the case of Campania, those aged 15-24 with higher level of education appear to face relatively larger difficulties in finding a job as compared to those with basic schooling. Calabria is the region where the labour situation is the less favourable. Of all the lagging regions in Italy, Calabria has the highest unemployment and long-term unemployment rates along with the lowest employment rate including among women. This is combined with a very high youth unemployment rate and a high NEET rate. However, contrary to the case of Campania and Sicilia, young people with higher level of education in this region appear to face relatively less difficulties in finding a job as compared to those with lower educational attainments.

#### **4. EDUCATION AND TRAINING**

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**Figure 4.1 – Early leavers from education and training in Italy, 2001-2015**



Source: Eurostat, LFS [edat\_lfse\_16].

**Table 4.1 – Early leavers from education and training in Italy, 2015**

Region	Early leavers aged 18-24, % 2015
Abruzzo	14.2
Molise	10.1
Campania	18.8
Puglia	16.7
Basilicata	10.3
Calabria	16.1
Sicilia	24.3
Sardegna	22.9
<b>Italy</b>	<b>14.7</b>
EU average	11.0

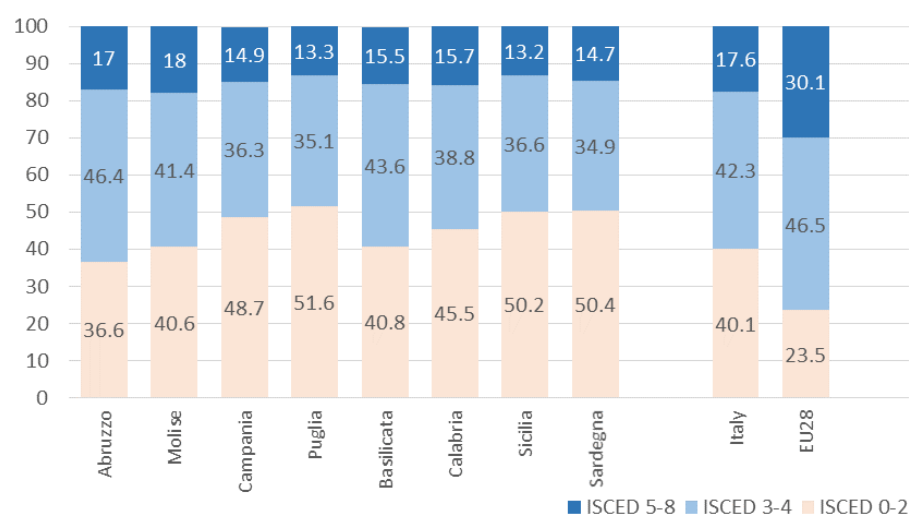
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

### Commentary

Although the share of young people in Italy leaving school without any qualifications beyond basic schooling is higher than in the EU, it has decreased slightly more over the period considered than in the EU. Early school leaving does not affect the lagging regions of Italy to the same extent. In Molise and Basilicata the shares of early school leavers are lower than in the EU and in Abruzzo it is lower than in Italy. On the other hand, in Sicilia the share is 10 percentage points higher than in Italy and it is only slightly smaller in Sardegna. There was no progress over the past 7 years in the two latter regions in reducing early school leaving.

**Figure 4.2 – Educational attainment by ISCED level in Italy, % of population aged 25-64, 2015**



Source: Eurostat, LFS [edat\_lfse\_04].

**Table 4.2 – Percentage of population aged 25-64 by educational attainment in Italy, 2015**

Region	Individuals with at least upper secondary education, ISCED 3-8, %	Individuals with tertiary education, ISCED 5-8, %
Abruzzo	63.4	17.0
Molise	59.4	18.0
Campania	51.3	14.9
Puglia	48.4	13.3
Basilicata	59.2	15.5
Calabria	54.5	15.7
Sicilia	49.8	13.2
Sardegna	49.6	14.7
<b>Italy</b>	<b>59.9</b>	<b>17.6</b>
EU average	76.5	30.1

Source: Eurostat, LFS.

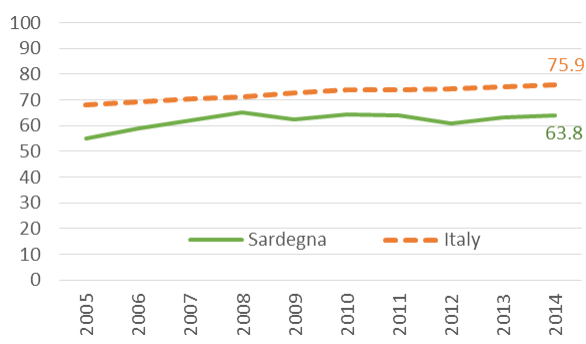
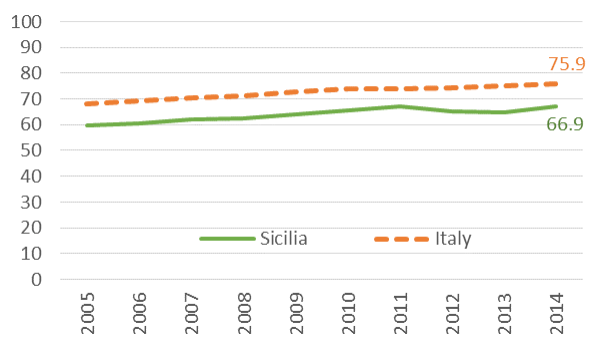
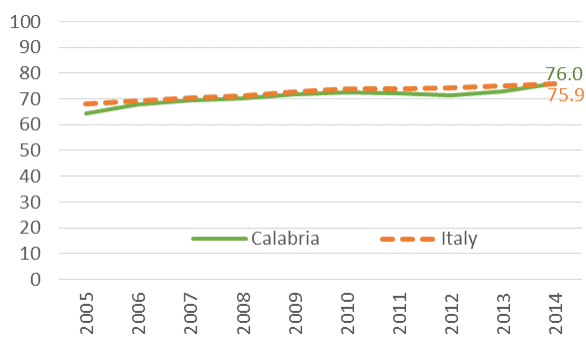
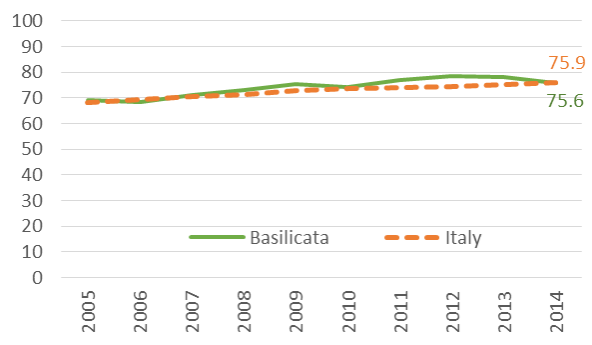
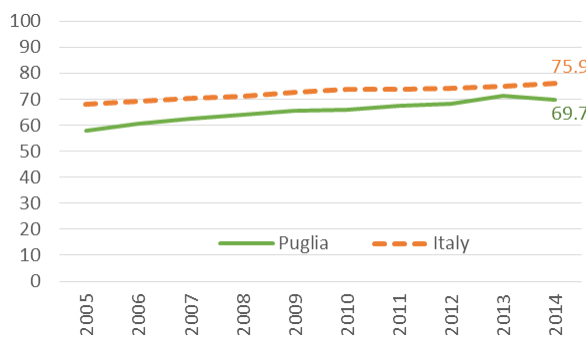
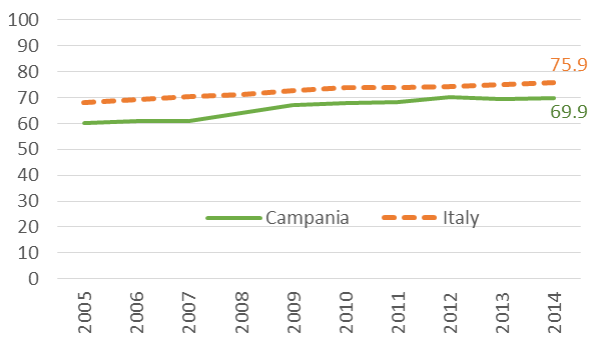
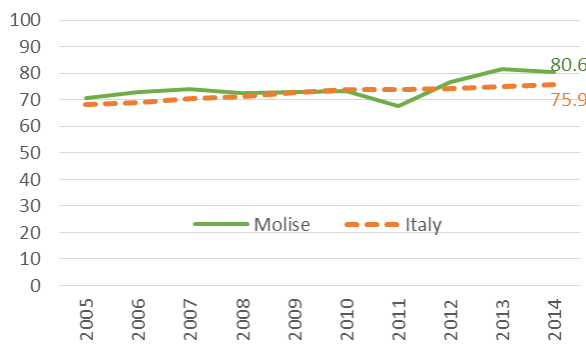
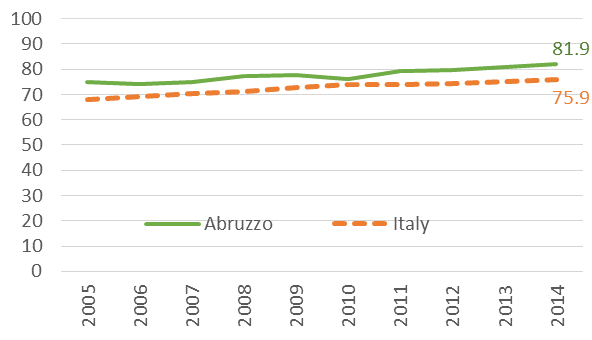
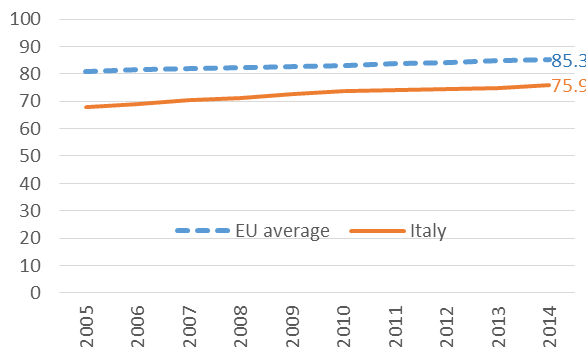
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### Commentary

The share of people of working age (25-64) with only basic education is much higher in Italy than in the rest of the EU and this is even more so the case in the lagging regions. In all of them, except Abruzzo, is the share of the working age population with just basic education representing over 40% of the total workforce and in Puglia, Sardegna and Sicilia over 50%.

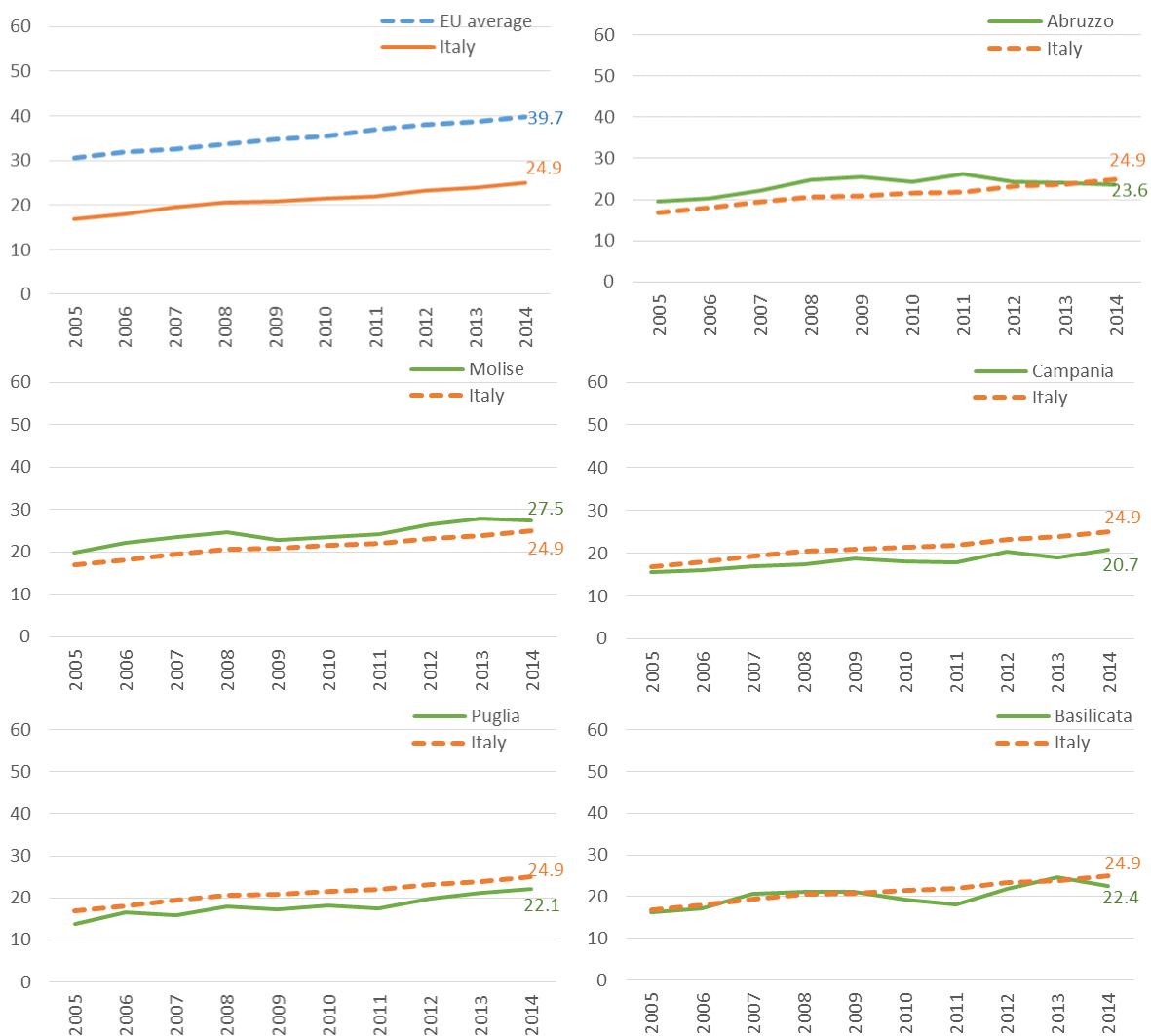
By contrast, the share of people of working age with tertiary education is significantly lower in Italy than in the EU. In most lagging regions this share is below the national average. Abruzzo is again an exception but also Molise as the shares in these regions are relatively close to the Italian average. Overall, 15% of the working age population in the lagging regions has tertiary education against over 30% in the EU and 17% in Italy. Since the proportion of the work force with tertiary education has consistently been found to be closely correlated with GDP per head, the relatively small proportion in these regions in particular is a potential hindrance to growth.

**Figure 4.3 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 3-8 in Italy, 2005-2014**

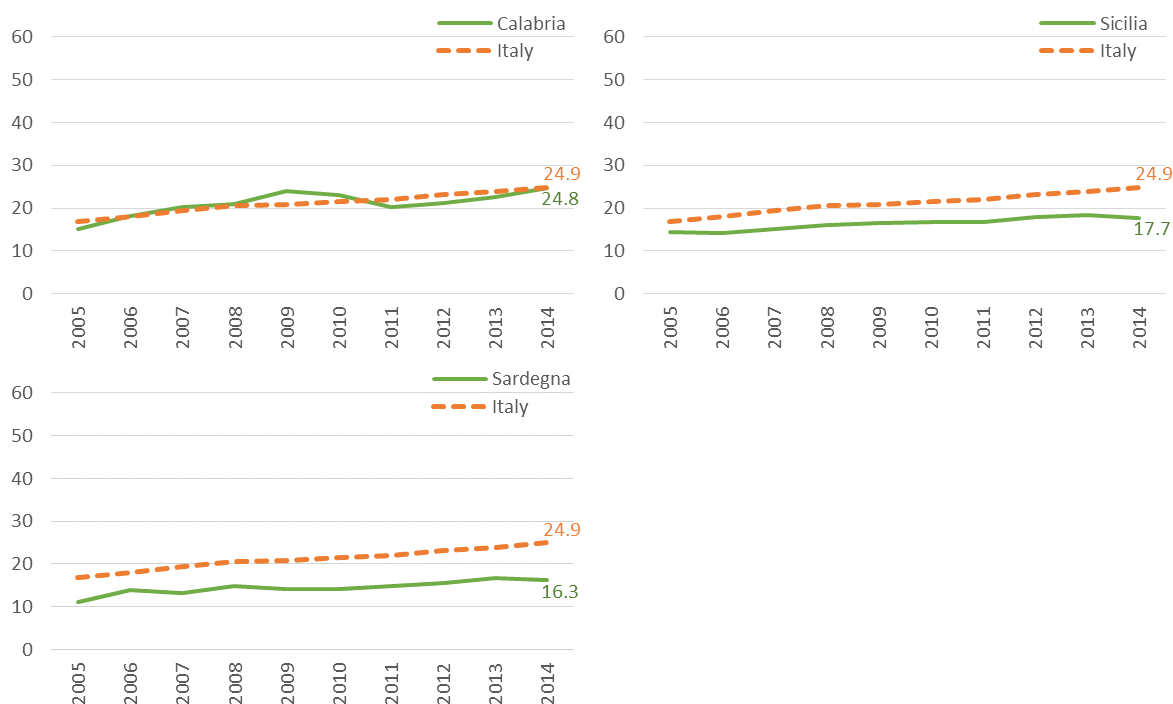


Source: Eurostat, LFS microdata.

**Figure 4.4 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 5-8 in Italy, 2005-2014**







Source: Eurostat, LFS microdata.

**Table 4.3 – Highest educational level attained among people aged 25-34 in Italy, 2014**

Region	ISCED 3-8, %	ISCED 5-8, %
Abruzzo	81.9	23.6
Molise	80.6	27.5
Campania	69.9	20.7
Puglia	69.7	22.1
Basilicata	75.6	22.4
Calabria	76.0	24.8
Sicilia	66.9	17.7
Sardegna	63.8	16.3
<b>Italy</b>	<b>75.9</b>	<b>24.9</b>
EU average	85.3	39.7

Source: Eurostat, LFS.

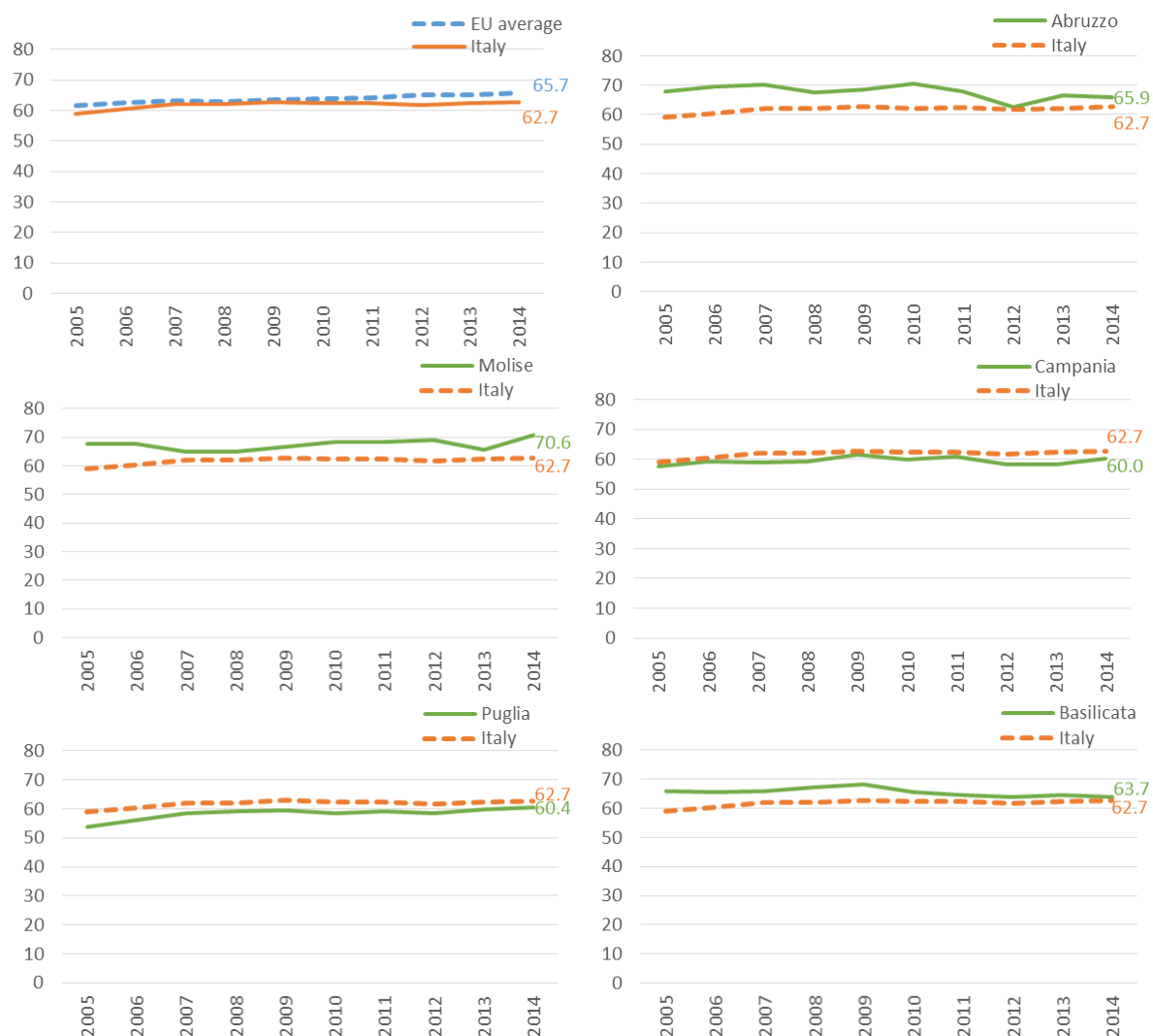
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

### Commentary

Concentrating the analysis on those aged 25-34 shows a similar picture as for the working-age population as a whole. The proportion of those with tertiary education in this age group is however much lower in Italy than in the EU on average. Although this share has expanded over the period considered reflecting an expansion in the participation to tertiary education, the distance with the EU benchmark has not been reduced. In all the lagging regions is the share of people with tertiary education among those aged 24-34 slightly lower than in Italy except in Molise (where it is still lower

than in the EU). Sardegna and Sicilia are farthest away from the national average. The gap with the latter was increasing over the period considered suggesting that there has been less of an increase in young people participating in tertiary education in these regions than in others or, alternatively, that a significant number of those who have participated have left the region to live and work elsewhere.

**Figure 4.5 – Share of young people aged 15-24 in regular education or vocational training in Italy, 2005-2014**





Source: Eurostat, LFS microdata.

**Table 4.4 – Share of young people aged 15-24 in regular education or vocational training in Italy, 2014**

Region	Young people in regular education or vocational training (% of population 15-24) 2014
Abruzzo	65.9
Molise	70.6
Campania	60.0
Puglia	60.4
Basilicata	63.7
Calabria	57.1
Sicilia	56.7
Sardegna	57.8
<b>Italy</b>	<b>62.7</b>
EU average	65.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

**Table 4.5 – Share of young people aged 15-24 in vocational education or training in Italy, 2014**

Region	Young people in vocational education or training (% of population 15-24) 2014
Abruzzo	19.3

Molise	21.6
Campania	18.9
Puglia	20.8
Basilicata	19.7
Calabria	22.0
Sicilia	21.2
Sardegna	20.7
<b>Italy</b>	<b>22.4</b>
EU average	16.4

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red.

Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

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### **Commentary**

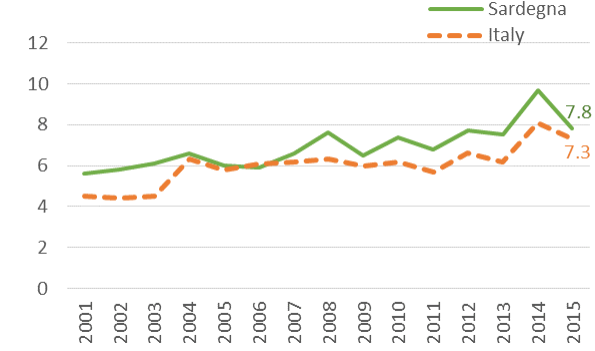
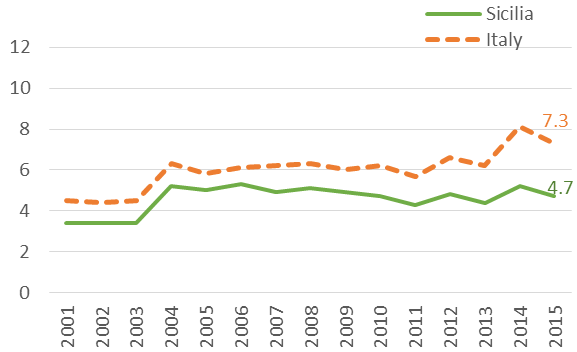
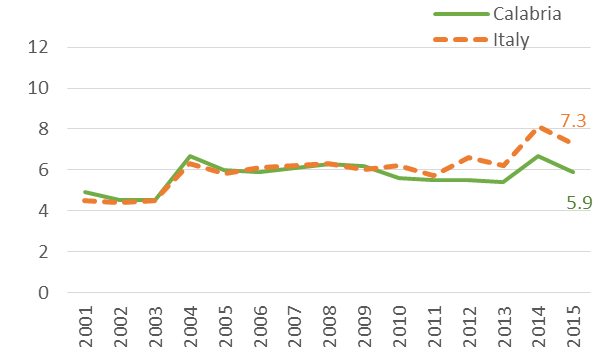
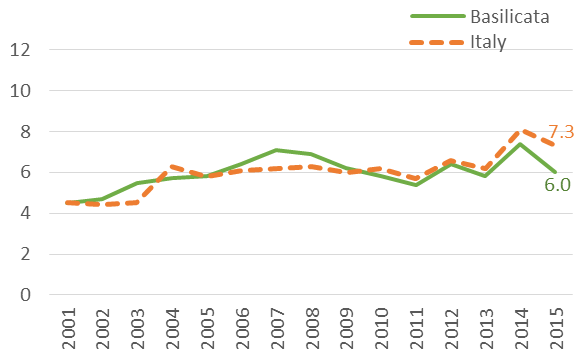
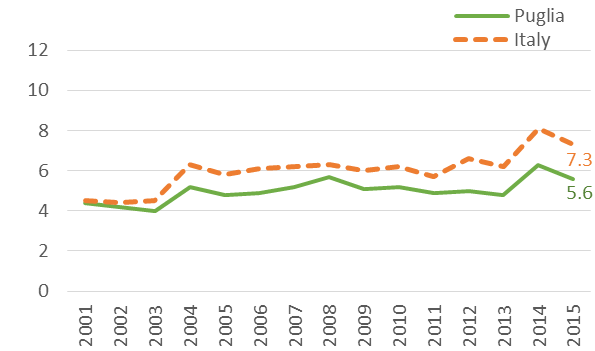
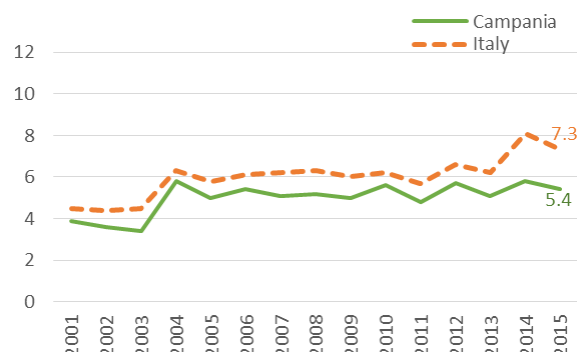
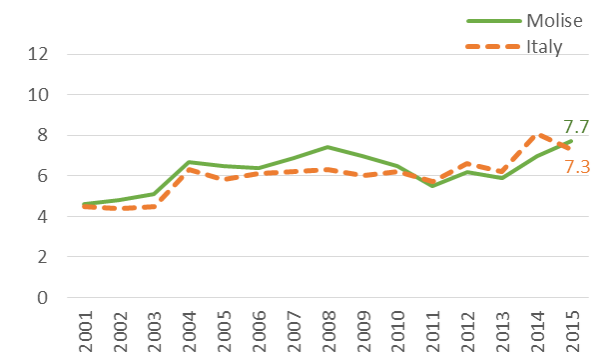
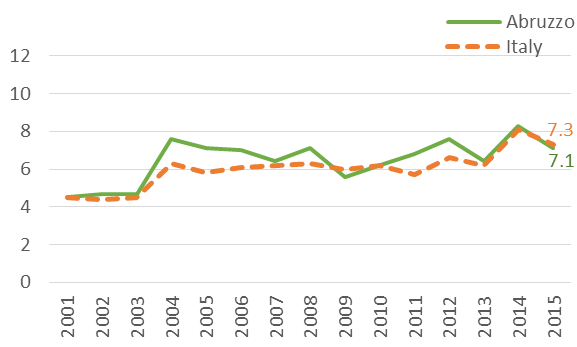
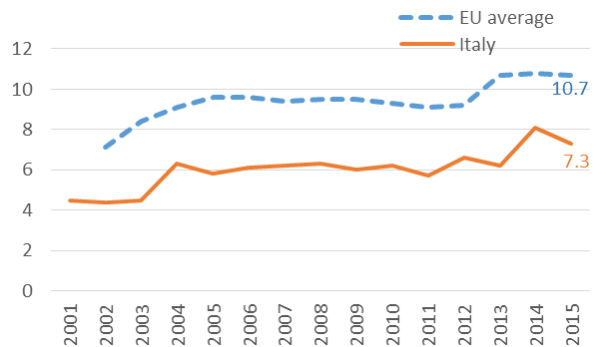
The proportion of young people aged 15-24 in regular education or vocational training is only slightly lower in Italy than in the rest of the EU. Whereas the EU average has tended to rise over the recent years, the Italian average remained largely unchanged. The proportion is lower than the national average in five of the eight lagging regions. It is above in Basilicata, Molise and Abruzzo. In the latter two it is equally above the EU average. This observation is in line with the relatively large proportion of young aged 25-34 with tertiary education in these regions.

Within this group however, the proportion of young people in vocational education or training is significantly larger in Italy than in the rest of the EU though this is not a characteristic of the lagging regions where without exception the share of young in vocational education or training is smaller.

Overall the smaller share of young in regular education in Calabria, Sicilia and Sardegna in particular suggests that the gap with other regions in the share of 25-34 year-olds with tertiary education is unlikely to close over the next few years.

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**Figure 4.6 – Participation rate of people aged 25-64 in continuing education and training in Italy, 2001-2015**



Source: Eurostat, LFS [trng\_lfse\_04].

**Table 4.6 – Participation rate of people aged 25-64 in continuing education and training in Italy, 2015**

Region	Education and training participation rate, % 2015
Abruzzo	7.1
Molise	7.7
Campania	5.4
Puglia	5.6
Basilicata	6.0
Calabria	5.9
Sicilia	4.7
Sardegna	7.8
<b>Italy</b>	<b>7.3</b>
EU average	10.7

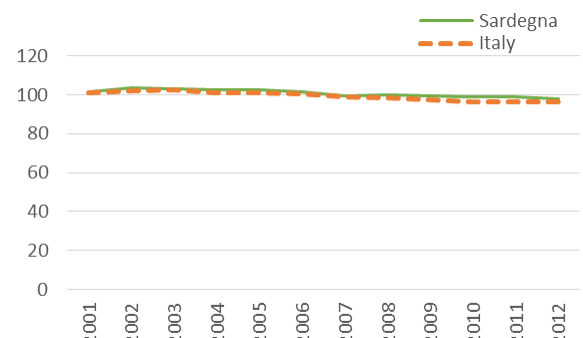
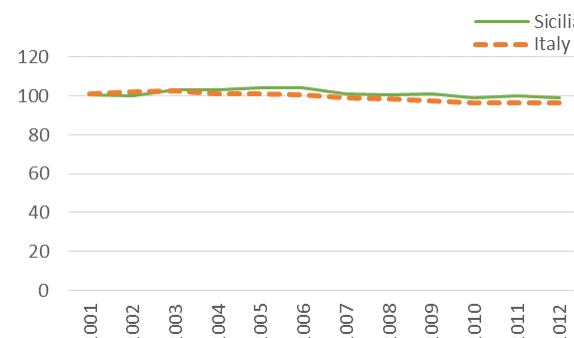
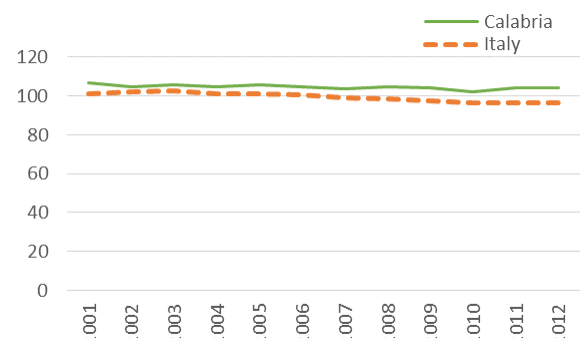
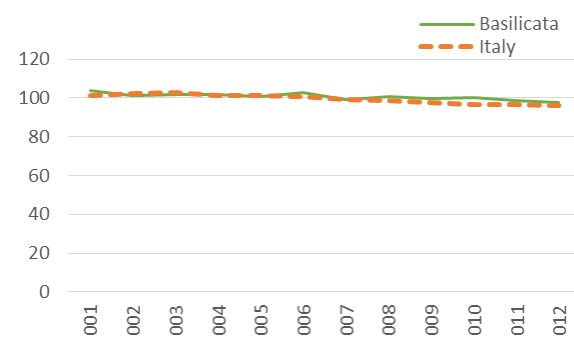
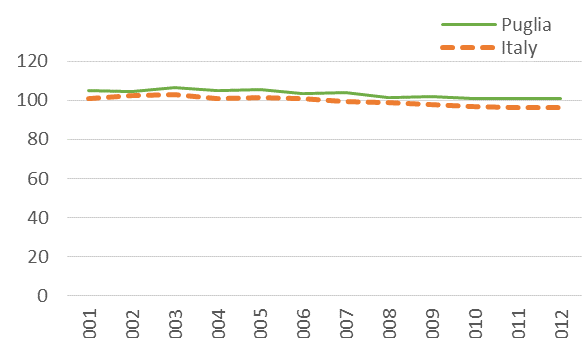
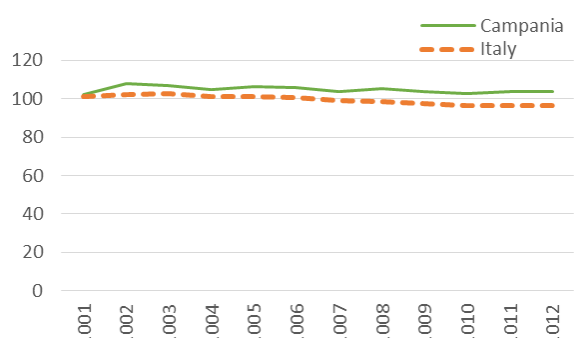
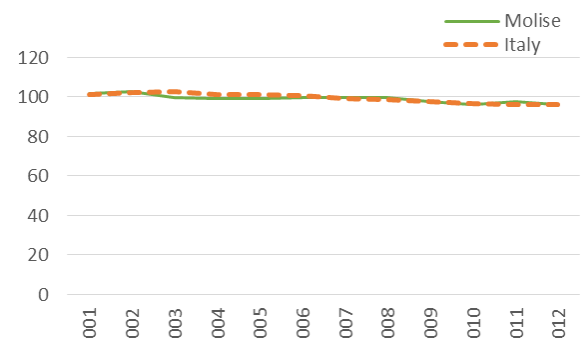
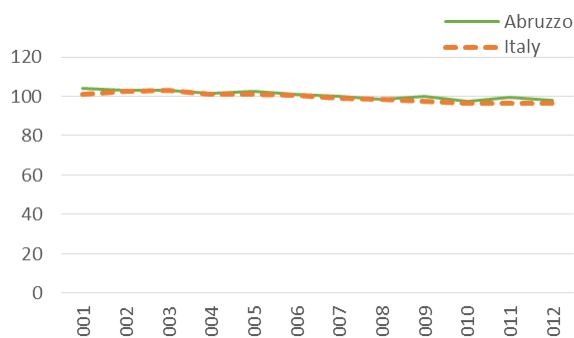
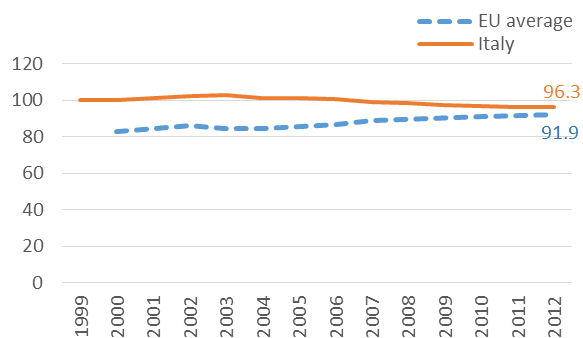
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

### **Commentary**

Expanding the analysis of participation to education and training to include all those aged 25-64 shows that the participation rate is much lower in Italy than in the rest of the EU. While in the EU the rate is over 10% of all those aged 25-64, it is just 7% in Italy. The participation rate in the lagging regions is even lower especially in Sicilia, Campania, Puglia and Calabria. In Italy in general, therefore, and in most of the lagging regions in particular, workers have less possibilities of improving their skills or acquiring new ones than in the rest of the EU. Equally, the unemployed have less access to training to help them increase their employability.

**Figure 4.7 – Participation rate of 4-years-olds in education in Italy, 1999-2012**



Source: Eurostat, Regional education statistics [educ\_regind].

**Table 4.7 – Participation rate of 4-year-olds in education in Italy, 2012**

Region	4-years-old in education, %, 2012
Abruzzo	98.2
Molise	96.1
Campania	103.6
Puglia	100.9
Basilicata	97.5
Calabria	104.0
Sicilia	99.2
Sardegna	98.2
<b>Italy</b>	<b>96.3</b>
EU average (EU27)	91.9

Source: Eurostat, Regional education statistics.

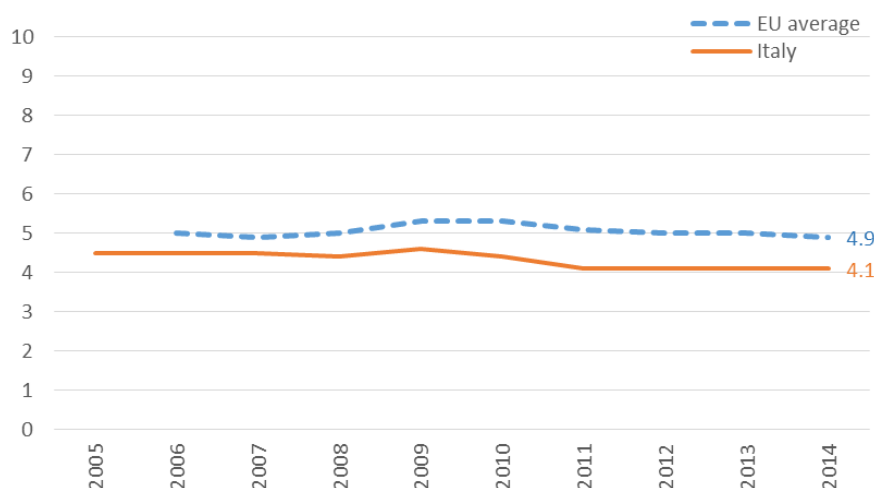
Notes: Rates which are lower than the national average are shown in red.

Rates above 100% can be explained by the fact that statistics on enrolment are related to population data. Even if the reference date for the age is the same (1<sup>st</sup> of January), differences in data collection dates are likely to affect the participation rate: [http://ec.europa.eu/eurostat/cache/metadata/en/educ\\_uoe\\_enr\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/educ_uoe_enr_esms.htm)

### Commentary

The proportion of children participating in education at the age of 4 is higher in Italy than in the rest of the EU (at least up to 2012 which is the latest year for which data are available). It is even higher in all the lagging regions, with the exception of Molise, where in 2012 the proportion was slightly below the national average but still above the EU one. All the other regions show higher participation rates of young of children to education, particularly Calabria and Campania. The implication is that children appear more prepared for school in Italy including in the lagging regions than those in other parts of the EU.

**Figure 4.8 – Expenditure of the general government in education in Italy, 2005-2014, % of GDP**





Source: Eurostat, General government expenditure [gov\_10a\_exp].

## Commentary

Expenditure on education is slightly lower in relation to GDP in Italy than in the EU on average in 2014. While expenditure on education of the general government in relation to GDP has remained fairly unchanged over the period in the EU, there has been a decrease in Italy. Since Italy recorded a decline in GDP after the crisis and in the years of recession which followed, this implies that education expenditure has recorded a relatively drastic cutback.

## Summary 2 – Overview of Education (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

EDUCATION									
	Italy	Abruzzo	Molise	Campania	Puglia	Basilicata	Calabria	Sicilia	Sardegna
<b>Early leavers</b>									
Early leavers aged 18-24, 2015	+3.7	-0.5	-4.6	+4.1	+2.0	-4.4	+1.4	+9.6	+8.2
<b>Educational attainment level</b>									
Share of population aged 25-64 with ISCED 3-8, 2015	-16.6	+3.5	-0.5	-8.6	-11.5	-0.7	-5.4	-10.1	-10.3
Share of population aged 25-64 with ISCED 5-8, 2015	-12.5	-0.6	+0.4	-2.7	-4.3	-2.1	-1.9	-4.4	-2.9
Share of population aged 25-34 with ISCED 3-8, 2014	-9.4	+6.0	+4.7	-6.0	-6.2	-0.3	+0.1	-9.0	-12.1
Share of population aged 25-34 with ISCED 5-8, 2014	-14.7	-1.4	+2.6	-4.2	-2.8	-2.5	-0.1	-7.2	-8.6
<b>Education and apprenticeship</b>									
Young people aged 15-24 in regular education or vocational training, 2014	-3.0	+3.2	+7.9	-2.7	-2.3	+1.0	-5.7	-6.0	-4.9
Young people aged 15-24 in vocational education or training, 2014	+6.0	-3.1	-0.8	-3.5	-1.6	-2.7	-0.4	-1.2	-1.7
<b>Lifelong learning</b>									
Participation rate of 25-64 in continuing education and training, 2015	-3.4	-0.2	+0.4	-1.9	-1.7	-1.3	-1.4	-2.6	+0.5
<b>Early childhood education</b>									
Participation rate of 4-years-olds in education, 2012	+4.4	+1.9	-0.2	+7.3	+4.6	+1.2	+7.7	+2.9	+1.9
<b>Education expenditure</b>									
General government expenditure in education (% of GDP), 2014	-0.8	:	:	:	:	:	:	:	:
<b>STRUCTURAL IMBALANCE</b>									

Number of unfavourable variables	8	4	3	8	8	6	7	8	7
Number of favourable variables	2	5	6	1	1	3	2	1	2

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“.” Not available.

EDUCATION in Italy	
Country-specific recommendations, 2011-2015	
2011	-
2012	Enforce nation-wide recognition of skills and qualifications to promote labour mobility. Take measures to reduce tertiary education dropout rates and fight early school leaving.
2013	Strengthen vocational education and training. Step up efforts to prevent early school leaving. Improve school quality and outcomes by enhancing teachers' professional development and diversifying career development.
2014	Implement the National system for evaluation of schools to improve school outcomes and reduce early school leaving rates. Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. Create a national register of qualifications to ensure wide recognition of skills.
2015	Adopt and implement the planned school reform and expand vocationally-oriented tertiary education.
Structural reforms carried out, 2011-2015	
2011	Law 106/2011: Introduction of a system of incentives to support excellence in teaching both at the secondary and university levels (3-year plan for permanent hiring of professors and other educational personnel). In addition, this law established the Merit Fund to provide financial support for the payment of school/university fees, food and lodging expenses for the most deserving students. School building plan developed to upgrade school facilities (in particular in southern Italy) in line with modern educational standards. 2011 Reform of secondary school aimed at enhancing the value of the learning process, facilitating a change from schooling based on the transmission of knowledge to schooling based on acquisition of skills within a continuous learning spectrum. Technical and Professional Institutes: the reform provided for increasing the flexibility of the educational experience to respond to the needs of the business world.
2013	National system of skills certification: new innovative arrangements have been regulated such as lifelong learning and the validation and certification of skills acquired in informal educational pathways. New funds to increase students basic skills, reduce school dropout rates in specific areas, to improve the knowledge of foreign languages and to improve school infrastructures.
2014	Regions may contract 30-year mortgages with subsidised interest rates to repair school buildings or build new schools (the financing is available through the European Investment Bank, the Council of Europe Development Bank, the Cassa Depositi e Prestiti and other banking institutions). EUR 10 million earmarked for the training of school staff in 2014; the initiative focuses on strengthening teachers' digital skills, training concerning the education-to-work transition, as well as strengthening students' education in disadvantaged areas. To curtail school dropouts, the Supplemental Instructional Programme was created to strengthen core skills, provide individual instructional methods, and lengthen the school schedule for students in areas with greater dropout rates, with a particular focus on elementary school.
2015	Reform package 'La buona scuola': greater autonomy in school governance; increasing the teaching staff in a permanent way, developing teachers' competencies through formation; new evaluation system for teachers with careers linked to performances. The reform gives more autonomy to

	schools and introduces merit-based elements in teachers' salaries. Furthermore, around 100,000 teachers will be recruited on a permanent basis in 2015-16. The school reform also strengthens work-based learning in upper secondary schools and vocationally-oriented tertiary education. Traineeships are now compulsory for students in the last three years of upper secondary education. The school reform also includes several measures to boost the Higher Technical Institutes for vocational training at tertiary level.
2016	The 2016 Stability Law provides funding for hiring up to 650 new full and associate professors through a simplified procedure, as well as 850 young researchers in permanent contracts; it also makes it easier to hire young researchers on fixed-term contracts. Apprenticeships leading to a professional certificate or a diploma will be integrated in regional Vocational Education and Training systems of three and four years duration as a dual system involving both schools and companies. With an additional year of apprenticeship, they will give access to vocationally oriented tertiary education. Professional apprenticeships which previously targeted only young people (aged 18-29) are extended to include adult workers who have been made redundant.
<b>Outstanding challenges</b>	
	Skills mismatches (high shares of both over-skilled and under-skilled workers) are an obstacle to investment.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 81 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

Early school leaving is higher in Italy as compared with the rest of the EU and the same is the case in the lagging regions, except in Molise and Basilicata where the proportion of those leaving school without basic education is lower than the EU average. On the other hand, in Sicilia and Sardegna the proportion is well above the national average and may represent an obstacle for these regions to realise their growth potential in the future.

On the other hand, the proportion of young people aged 15-24 in regular education or vocational training is only slightly lower in Italy than in the rest of the EU. Whereas the EU average has tended to increase over recent years, the Italian average remained largely unchanged. The proportion of young in education or vocational training is lower than the national average in five of the eight lagging regions. It is above in Basilicata, Molise and Abruzzo. In the latter two it is equally above the EU average.

The proportion of people of working age with at least upper secondary education is lower in Italy than in the EU and it is lower in the lagging regions than in Italy with the exception of Abruzzo. The analysis of those aged 25-34 shows a similar picture. The proportion of those in this age group with at least secondary education is lower in Italy than in the EU. Although this share has expanded over the period considered reflecting an expansion in the participation to tertiary education, the distance with the EU benchmark has not been reduced. The share is much lower in the lagging regions on average than in Italy. Abruzzo is again an exception but also in Molise is the share of those aged 25-34 with at least upper secondary education higher than the national average and it is just that level in Calabria. The distance between the EU and the Italian average is even larger when focusing on those with tertiary education in the age group 25-34. While around 40% of those aged 25-34 have tertiary education in the EU, it is less than 25% in Italy. In the lagging regions it is even less than in Italy with less than 20% in Sicilia and Sardegna. Since tertiary education is generally regarded as being particularly important for economic development, there is a clear disadvantage in this regard

in the lagging regions of Italy. The relatively small proportion of young people who have successfully completed tertiary education suggests that the overall share of working-age population with this level of education is likely to remain low in future years, which might handicap the catching up in these regions.

The very limited extent of participation to continuing education and training in Italy (even more so in the lagging regions) compared to the EU may also be a factor constraining development because of the limited opportunities to learn new skills and to adapt to advances in technology and methods of working.

Of all the indicators reviewed to assess the situation of Italy and its lagging regions in the area of training and education, early childhood education (the proportion of 4-year olds in school or pre-school) is the only one where the country and the lagging regions perform well. The share is higher in Italy than in the rest of the EU, and it is higher in most lagging regions than in Italy on average. This suggests that children are better prepared for their future schooling in Italy than those elsewhere.

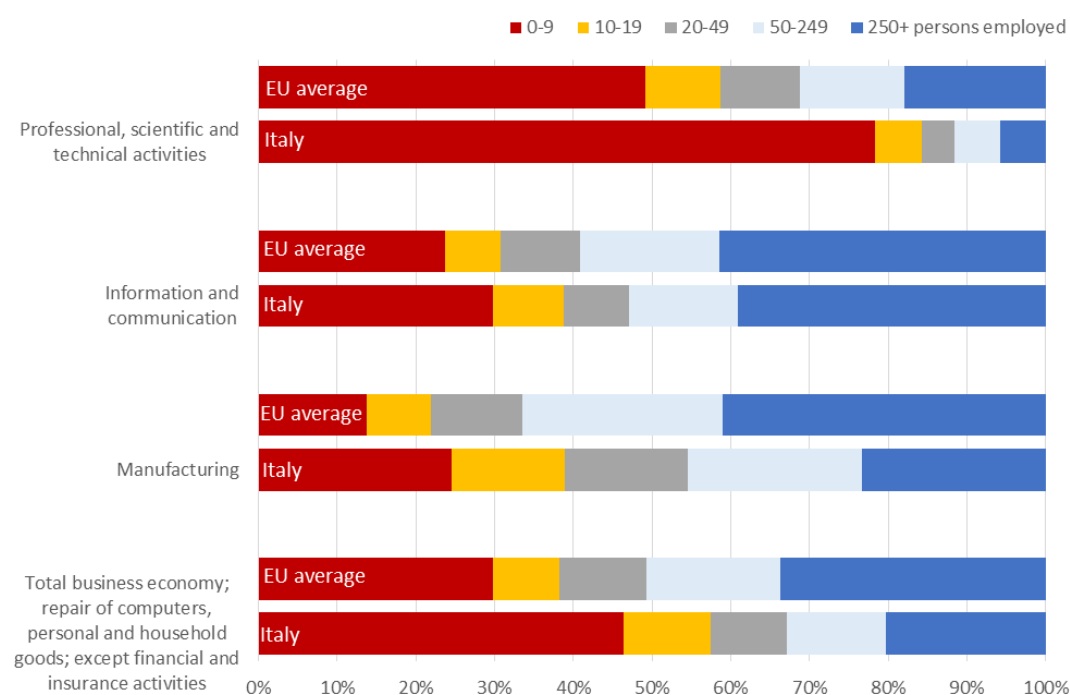
Country-specific recommendations in relation to education and training have mainly concerned the improvement of school quality and outcomes, the prevention of early school leaving, as well as the consolidation of the links between the content of education and training programmes and labour market needs. Despite several major reforms in secondary, upper-secondary and technical education in 2011 and 2015, as well as different measures to reinforce higher education, at the end of 2015 it is still considered that there is a mismatch between the supply of skills and the demand.

In the lagging regions, the situation with regard to education and training is particularly unfavourable in Sicilia and Sardegna, where not only the proportion of those with at least secondary education in the working-age population is far below the national average (which itself is below the EU average) but also in the population aged 25-34 years. It is equally the case that the relative number of young people leaving school without adequate qualifications is much higher in these regions than elsewhere in Italy. In reality, the situation in Sicilia and Sardegna is more difficult than for Italy on average in regard to all the indicators analysed except in terms of the participation rate of 4-years-olds in education.

By contrast, Molise and Abruzzo both have a better or similar performance than the Italian average in terms of the main indicators analysed in relation to training and education: they have a lower proportion of early school leavers, a higher share of young aged 15-24 in regular education or vocational training, a higher educational attainment level of the 25-64 old and the 25-34 old, a higher participation rate in continuing education and training and a higher participation rate of 4-year olds in education. While the situation in Basilicata is slightly less favourable than in Molise and Abruzzo it is nevertheless better than in the other lagging regions on average.

## 5. BUSINESS ENVIRONMENT AND RDTI

Figure 5.1 – Breakdown of employment by size of enterprise in critical sectors in Italy in 2013



Source: Eurostat, Structural Business Statistics [sbs\_sc\_sca\_r2].

### Commentary

It is well known that Italy's productive fabric is largely based on small enterprises. Nearly 50% of companies employ less than 9 persons against 30% in the EU. On the other hand, large companies employing over 250 people play a comparatively less important role. Just 20% of them have a workforce of over 250 people against 30% in the EU. In manufacturing, large companies in Italy do not really have a more predominant role than in the other sectors on average as is the case in the EU because again, just 20% of all manufacturing companies employ over 250 people. The structure of the Italian economy which is largely based on small sized companies might be a disadvantage when it comes to compete on national and international. Indeed, small enterprises usually face bigger difficulties in assembling the resources needed to explore new markets and to successfully compete in exports. In many cases they are therefore organised around a 'bigger player' in the form of sub-contracting but at the cost of less control over decisions and a higher dependence.

Table 5.1 – Ease of doing business and Starting a business in Italy, 2016

	Italy (rank in the EU, 1-28)
Ease of doing business*	24
Starting a business**	15

Source: World Bank: Doing Business report 2016.

Notes: \* A low value corresponds to a high ease of doing business.

\*\* A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

**Table 5.2 – Starting a business in Italy, 2013**

Region (city)	Starting a business (ranking 1-13)
Abruzzo (L'Aquila)	9
Molise (Campobasso)	13
Campania (Naples)	12
Puglia (Bari)	6
Basilicata (Potenza)	3
Calabria (Catanzaro)	1
Sicilia (Palermo)	5
Sardegna (Cagliari)	11

Source: World Bank: Doing Business in Italy report 2013.

Notes: Abruzzo, Molise, Campania and Sardegna appear in the bottom half of the ranking in Italy.

A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

**Table 5.3 – Starting a business indicators in Italy, 2013**

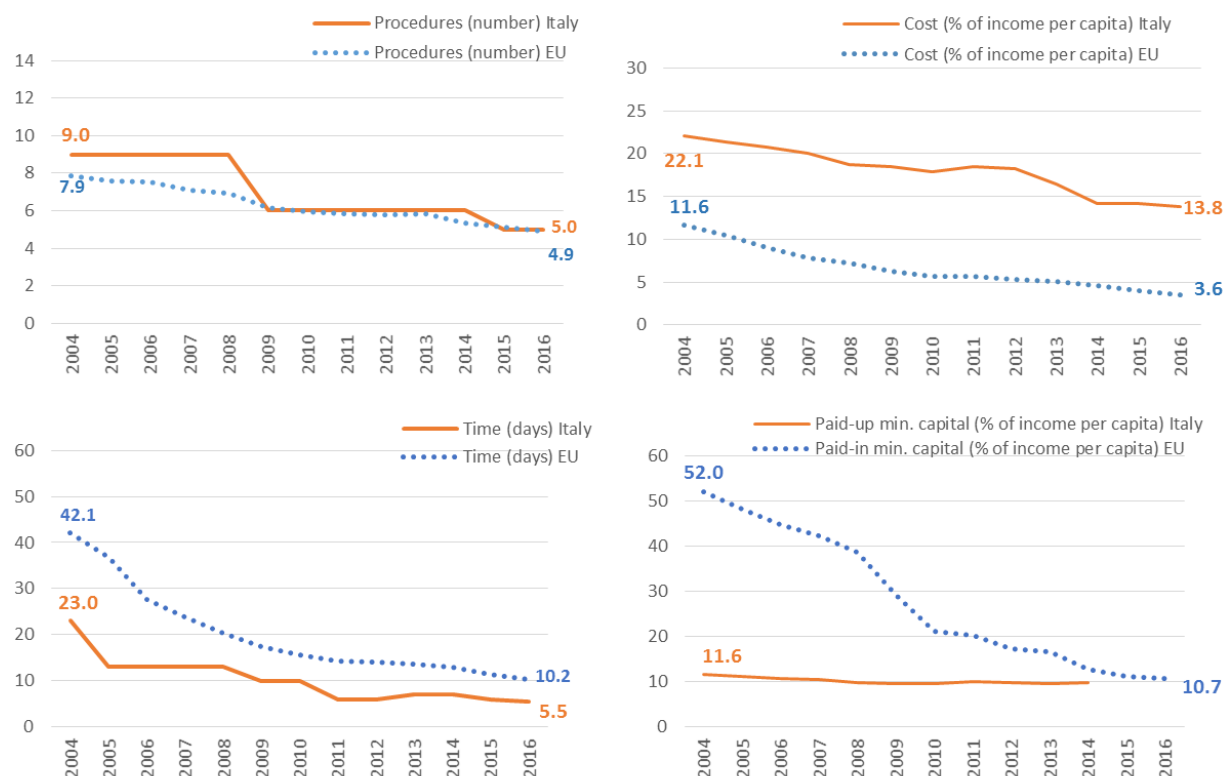
Region (city)	Procedures (number)*	Time (days)	Cost (% of income per capita)	Paid-up minimum capital (% of income per capita)*
Abruzzo (L'Aquila)	6	13	13.3	9.7
Molise (Campobasso)	7	8	15.3	
Campania (Naples)	6	16	16.0	
Puglia (Bari)	6	9	12.2	
Basilicata (Potenza)	6	8	12.6	
Calabria (Catanzaro)	6	7	12.4	
Sicilia (Palermo)	6	8	13.5	
Sardegna (Cagliari)	6	9	15.3	
<b>Italy</b>	<b>6</b>	<b>7</b>	<b>16.5</b>	<b>9.7</b>
EU average	5.8	13.7	5.1	16.7

Source: World Bank: Doing Business report 2015 and Doing Business in Italy report 2013.

Notes: \* Same as at the national level in all regions.

Values which are higher than the national average are shown in red. Values which are higher than the EU average are highlighted in grey.

**Figure 5.2 – Starting a business indicators in Italy, 2004-2016**



Source: World Bank: Doing Business 2004-2016.  
 Note: The latest available data on paid-up minimum capital for Italy refer to 2014.

### Commentary

In terms of the ease of doing business, Italy is ranked 24 out of the 28 EU Member States, which means that it is more difficult to do business in only 4 other countries (Cyprus, Greece, Luxembourg and Malta).

In terms starting a business, Italy is slightly better ranked: 15 out of the 28 EU Member States, which implies that it is less difficult in 14 Member States to do business than in Italy and more difficult in 13 others. Whereas the number of procedures necessary to start a business in Italy is the same as in the EU, the cost associated with these is nearly four times higher and the time needed nearly two times higher. While significant progress has been made over the period considered to ease business start-up in Italy, the country is still disadvantaged in this regard and further progress is necessary.

At the regional level, there is a marked variation between the lagging regions. Molise, Campania and Sardegna appear to be the regions in Italy where it was most difficult in 2013 to start a business in terms of the regulatory environment. In all except Calabria was the time needed for starting a business longer than in Italy on average. Lagging regions were however not disadvantaged in terms of the cost implied in comparison to other regions of Italy.

**Table 5.4 – Product Market Regulation (PMR) indicators in Italy, 2003, 2008 and 2013**

Overall PMR	State control	Barriers to entrepreneurship	Barriers to trade and investment
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	2003	2008	2013	2003	2008	2013	2003	2008	2013	2003	2008	2013
<b>Italy</b>	<b>1.80</b>	<b>1.49</b>	<b>1.26</b>	<b>3.15</b>	<b>2.58</b>	<b>2.14</b>	<b>1.67</b>	<b>1.30</b>	<b>1.22</b>	<b>0.59</b>	<b>0.58</b>	<b>0.42</b>
EU average	1.78	1.53	1.44	2.57	2.27	2.17	2.15	1.85	1.69	0.63	0.45	0.47

Source: OECD PMR indicators.

Notes: Values which are higher than the EU average are highlighted in grey.

The index ranges from 0 to 6, from least to most restrictive.

### Commentary

Product Market Regulation indicators by OECD are available only at national level. They provide the following picture: state control in Italy has declined to below EU levels; since 2003 barriers to entrepreneurship were lower in Italy than in the EU and they have been further reduced up to 2013; barriers to trade and investment have equally been reduced to a level below the EU average. The overall product market regulation indicator for Italy in 2013 was therefore more favourable than for the other EU countries on average which somehow contrasts with the situation observed ten years ago.

**Table 5.5 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Italy, 2014, % of total employment**

Region	Employment in high-technology sectors (% of total employment), 2014
Abruzzo	2.8
Molise	:
Campania	2.5
Puglia	1.6
Basilicata	1.8
Calabria	1.1
Sicilia	1.9
Sardegna	1.9
<b>Italy</b>	<b>3.4</b>
EU average	3.9

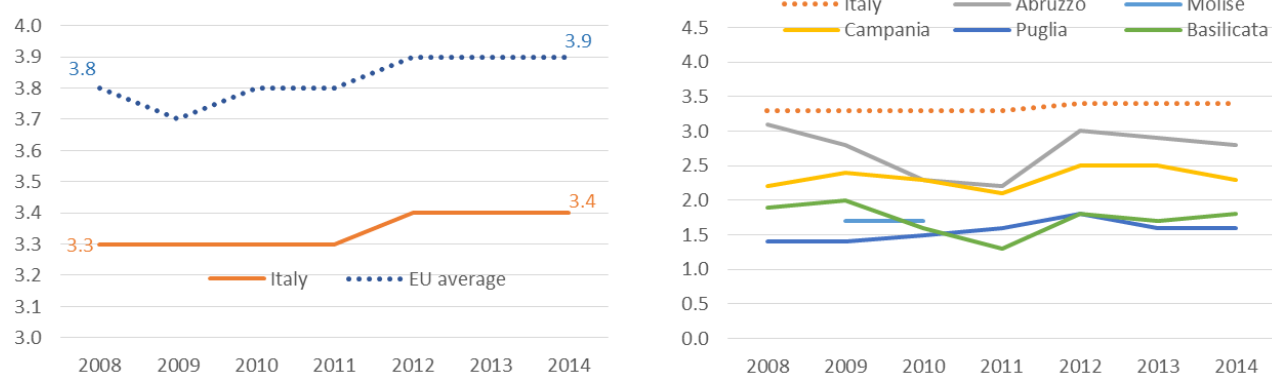
Source: Eurostat, High-tech statistics [htec\_emp\_reg2].

Notes: \* Warmińsko-Mazurskie, data refers to 2013.

Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.3 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Italy, 2008-2014, % of employment**





Source: Eurostat, High-tech statistics [htec\_emp\_reg2].  
 Note: Data are only available for 2009-2010 for Molise.

### Commentary

The share of employment in high-tech manufacturing and knowledge-intensive sectors in Italy (3.4% of total employment in 2014) is smaller than in the EU (3.9%). There was no substantial change over the period considered. In all lagging regions the share of employment in high-tech manufacturing and knowledge-intensive sectors is lower than in Italy. It is smallest in Calabria where it is just a little over 1% and in Puglia, Basilicata, Sicilia and Sardegna where it is smaller than 2%.

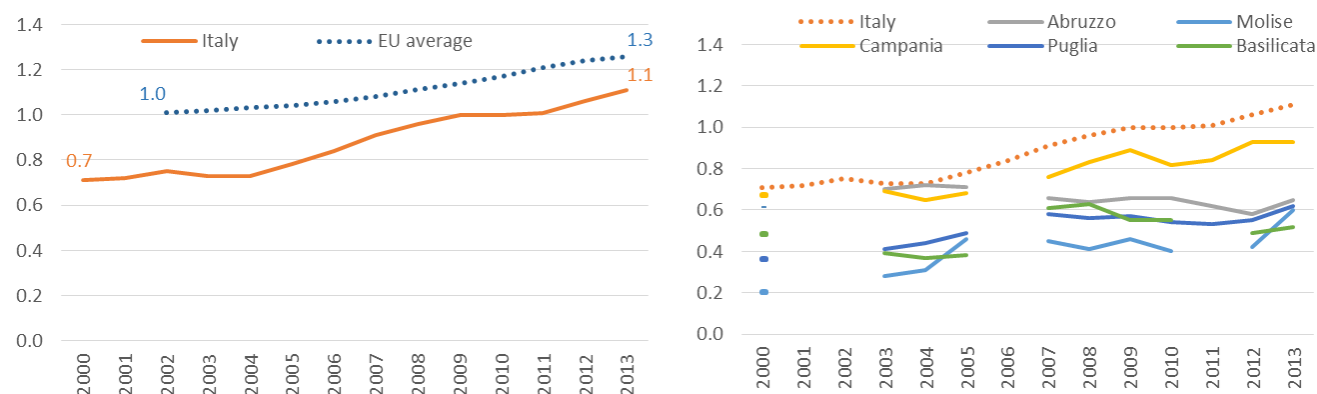
**Table 5.6 – R&D personnel and researchers in Italy, 2013**

Region	Total R&D personnel and researchers (% of total employment), 2013
Abruzzo	0.7
Molise	0.6
Campania	0.9
Puglia	0.6
Basilicata	0.5
Calabria	0.5
Sicilia	0.7
Sardegna	0.7
<b>Italy</b>	<b>1.1</b>
EU average	1.3

Source: Eurostat, R&D statistics [rd\_p\_persreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.4 – R&D personnel and researchers in Italy 2000-2013, % of total employment**



Source: Eurostat, R&D statistics [rd\_p\_persreg].

### Commentary

In 2013, R&D personnel and researchers in Italy accounted for 1.1% of total employment in Italy which is a slightly smaller share than in the EU but which has increased faster over the past decade narrowing down the gap with the rest of the EU. The share is smaller than the national average in all lagging regions and, particularly, in Calabria and Basilicata where it is less than half.

**Table 5.7 – Total intramural R&D expenditure in Italy, 2013**

Region	Total intramural R&D expenditure (GERD) % of GDP, 2013
Abruzzo	0.9
Molise	0.7
Campania	1.3
Puglia	0.8
Basilicata	0.6
Calabria	0.6
Sicilia	0.9
Sardegna	0.8
<b>Italy</b>	<b>1.3</b>
EU average	2.0

Source: Eurostat, R&D statistics [rd\_e\_gerdreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

**Figure 5.5 – Total intramural R&D expenditure in Italy, 2000-2013, % of GDP**



(% of income per capita), 2013									
<b>PMR indicators</b> ( <i>The index ranges from 0 to 6, from least to most restrictive</i> )									
Overall PMR, 2013	-0.2	:	:	:	:	:	:	:	:
State control, 2013	-0.0	:	:	:	:	:	:	:	:
Barriers to entrepreneurship, 2013	-0.5	:	:	:	:	:	:	:	:
Barriers to trade and investment, 2013	-0.0	:	:	:	:	:	:	:	:
<b>Employment in technology and knowledge intensive sector</b>									
Employment in high-technology and knowledge intensive sector, 2014	-0.5	-0.6	:	-0.9	-1.8	-1.6	-2.3	-1.5	-1.5
<b>R&amp;D personnel/researchers and expenditure</b>									
Intramural R&D expenditure, 2013	-0.2	-0.5	-0.5	-0.2	-0.5	-0.6	-0.7	-0.4	-0.4
R&D personnel and researchers, 2013	-0.7	-0.5	-0.6	-	-0.5	-0.8	-0.8	-0.4	-0.6
<b>STRUCTURAL IMBALANCE</b>									
Number of unfavourable variables	7	5	5	4	4	4	3	4	5
Number of favourable variables	6	1	1	1	2	2	2	2	1

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

\* Data for the regions refer to 2013.

“:” Not available. “-”: No difference.

<b>BUSINESS ENVIRONMENT AND RDTI in Italy</b>	
<b>Country-specific recommendations, 2011-2015</b>	
2011	Extend the process of opening up the services sector to further competition including in the field of professional services. Adopt the Law on Competition. Improve the framework for private sector investment in research and innovation by extending current fiscal incentives, improving conditions for venture capital and supporting innovative procurement schemes.
2012	Implement the adopted liberalisation and simplification measures in the services sector. Take further measures to improve market access in network industries as well as infrastructure capacity and interconnections. Simplify further the regulatory framework for businesses and enhance administrative capacity.
2013	Ensure the proper implementation of the measures aimed at market opening in the services sector. Remove remaining restrictions in professional services and foster market access for instance in the provision of local public services where the use of public procurement should be advanced.

2014	Approve the pending legislation aimed at simplifying the regulatory environment for businesses. Foster market opening and remove remaining barriers to competition in the professional and local public services, insurance, fuel distribution, retail and postal service sectors.
2015	Adopt competition-enhancing measures in all sectors covered by the competition law and take decisive action to remove remaining barriers.
<b>Structural reforms carried out, 2011-2015</b>	
2011	<p>Law 59/2011 refers to the requisites for access to business, eliminating the previous differentiation in the regions and unifying the professional requirements.</p> <p>New regulation on the single point of contact for productive activity took effect in October 2011.</p> <p>Single custom desk (completed in 2014): administrations can dialogue electronically to offer a single interface to businesses for the management of documents supporting customs declarations and for the unification of controls.</p> <p>Activation of the National fund for Innovation will make it easier for innovative SMEs that patent their products/processes to access bank financing at interest rates more advantageous than those on the regular market.</p> <p>2011-2013 National Research programme to align Italy's research spending with the EU average with 14 flagship initiatives identified.</p> <p>Calabria 2011: instruments for the expansion of broadband services in rural areas, innovative finance for businesses (Jeremie Fund); Regional fund for support to regional SME investments.</p>
2012	<p>Establishment of a one-stop shop for foreign investors at the Italian Revenue Agency and the Ministry of Justice.</p> <p>2012 Salva Italia decree introduced regulations aimed at ensuring the opening hours for commercial businesses, allowing the selling of certain categories of pharmaceuticals outside pharmacies, reducing unjustified restrictions on the exercise of business activities.</p> <p>Law 27/2012 (on late payments): a total of 5.7 billion euro has been set aside for the payment of the State's commercial creditors.</p> <p>Law 35/2012 (Semplifica Italia): fast track simplification measures to favour growth and reduce administrative costs (e.g. rules adopted to simplify SME compliance with environmental and fire-prevention regulations).</p> <p>Sardegna: tax credit for hiring permanent employees; apprenticeships, fiscal reductions for the purchase or lease of production equipment/machinery, measures to facilitate lending to SMEs who are members of collective loan-guarantee consortiums; a series of regulatory, administrative and procedural actions aimed at aligning its business environment to the EU market regulations.</p> <p>Abruzzo: tax subsidies to attract new businesses on the regional territory, administrative simplification in farming. The region is also developing proposals to make business environment attractive.</p> <p>Apulia: Extraordinary jobs plan: regional partnerships for innovation, support to new small innovative enterprises, measures for linking enterprises and research, initiatives to support Alliances for Innovation in the region. Strengthening of the regional technological districts that focus on fostering research strategies through the cooperation between businesses and public research system.</p> <p>Basilicata: support the creation of the Fiat Research Centre Campus and set up the Regional venture capital fund in 2011.</p> <p>Abruzzo: Creation of a Revolving fund for research and innovation.</p> <p>Sicilia launched the operational phase of a project to measure the administrative burden for businesses (in particular in 5 sectors).</p>
2013	<p>Italy desk: new one-stop shop for all investors who wish to make strategic investment.</p> <p>New decree law (April 2013) allowing public administration to begin the payment of its past due trade accounts.</p> <p>Two types of programmes were developed (June 2013) to promote the establishment of businesses in Basilicata, Calabria, Campania, Puglia, Sardegna and Sicilia: aid to start-ups, and support to investment programmes made by new digital enterprises or technological enterprises.</p> <p>Decree Law 145/2013 ('Destinazione Italia'): a package of measures designed to attract foreign investment and promote the competitiveness of Italian businesses. The package includes 50 measures in various sectors: from taxation and employment to the civil justice system and research.</p>

	<p>2013 Reform of professional services: principles of free access to regulated professions have been strengthened. Minimum tariffs for professional services were abolished. Opening hours for retail shops were deregulated.</p> <p>A fund for granting a tax credit for R&amp;D was set up and is mainly addressed to SMEs. In 2015, the tax credit amounted to 25% of incremental R&amp;D investment.</p> <p>Firms hiring highly skilled young workers on a permanent basis in R&amp;D activities shall benefit from a contribution equal to 35% of the costs incurred in hiring them (provided that the new employee is maintained for a minimum of 3 years).</p> <p>Strengthening the tasks of the Italian Digital Agency, with a preference given to investment in the creation of broadband and ultra-broadband communication networks. The National Ultra-broadband Strategic Plan started in Campania, Molise and Calabria (with resources from the 2007-13 European funds); rollout will soon also start in Puglia, Sicilia and Abruzzo (with regional funds).</p> <p>A Fund for Sustainable Growth was created to promote RDI projects, to reinforce the productive structure (especially in the South), to promote the internationalisation of Italian firms and to attract direct investment from abroad.</p> <p>Innovative start-ups: new regulations introduced with fewer administrative requirements and tax breaks for firms operating for less than 48 months mainly in the production, development and marketing of innovative high-tech products and services.</p>
2015	<p>At the beginning of 2015, the privileges for ‘innovative start-ups’ were extended to ‘innovative SMEs’. These include simplified access to the Central Guarantee Fund for SMEs, tax incentives for investment in young innovative SMEs, flexible remuneration schemes and deferred deduction of losses from capital and other waivers.</p> <p>The implementing rules for the ‘patent box’ regime that allows for partial exclusion (up to 50% in 2017) of revenues from intangible assets (e.g. patents, trademarks, industrial designs and models) were adopted in July 2015. Moreover, Italy has decided to join the enhanced cooperation at EU level on unitary patent protection: the unitary patent will make it easier, faster and cheaper for Italian innovative firms to obtain patent protection in all 26 participating Member States.</p> <p>The Cassa Depositi e Prestiti approved a business plan for 2016-2020 to boost investment by mobilising fresh resources especially for venture capital, innovation and development.</p>
<b>Outstanding challenges</b>	
	Most State-owned enterprises in local public services are sheltered from competition, which may result in underinvestment, e.g. in water and local public transport sectors.
	The fragmentation and uncertainty of R&D tax incentives, as well as the scarcity of venture capital, affect private investment in innovation.
	Persistent restrictions on competition in some services sectors may hamper investment.
	Productivity growth remains sluggish, mainly due to the continued presence of structural obstacles to the efficient allocation of resources within the economy. Ongoing and scheduled structural reforms are expected to address barriers to investment and to have a positive impact on productivity and GDP growth over time.
	Significant barriers to competition remain in important sectors, including in retail, professional services, local public services and transport. Doing business in Italy is significantly more difficult than in the other major EU economies and only modest progress has been achieved in recent years.
	Investment in tertiary education, R&D and broadband communications remains relatively low.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 81 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

According to the World Bank, doing business is more difficult in Italy than in 23 of the 28 Member States. While Italy is slightly better ranked in terms of the ease to start a business, the cost associated with business start-up is still nearly four times higher than in the EU and the time needed still two times higher despite significant reductions in these over the last decade or so. At the

regional level, there is a marked variation between lagging regions. Molise, Campania and Sardegna appear to be the regions in Italy where it was most difficult in 2013 to start a business. In all except Calabria was the time needed for starting a business longer than in Italy on average. Lagging regions were however not disadvantaged in terms of the cost implied in comparison to other regions of Italy.

Also, product market regulation (for which data is only available at national level) has been improving over the last 10 years: state control in Italy has declined to below EU levels, barriers to entrepreneurship have also diminished and are lower in Italy than in the EU, barriers to trade and investment have equally been reduced to a level below the EU average.

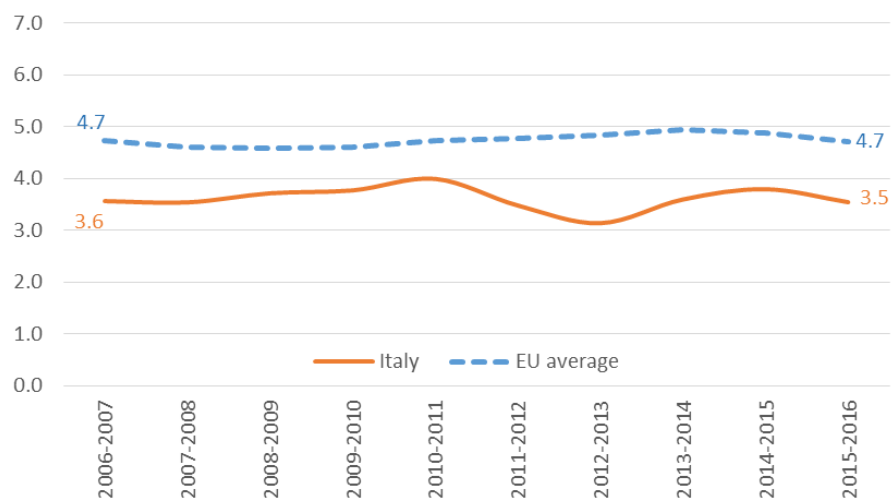
Italy's productive fabric is much less oriented towards high-tech manufacturing and knowledge-intensive activities than the EU on average. This is not only reflected by the lower employment shares in these sectors but also by the lower shares of R&D personnel and researchers in employment and the lower share of R&D expenditure in relation to GDP. The capacity of lagging regions to undertake research and development can be assumed to be very limited. Virtually all have lower R&D expenditure in relation to GDP and a smaller share of R&D personnel and researchers in employment.

Accordingly, both the regulations in place and the limited availability of research expertise and R&D facilities are likely to discourage investment in Italy, especially in the areas with most growth potential (in knowledge-intensive sectors) and in the lagging regions in particular.

The focus of country-specific recommendations has been on simplifying the regulatory environment for businesses, on promoting market opening, on removing barriers to competition, particularly in the professional and local public services, and on providing incentive for private sector's investment in research and innovation. Despite the numerous measures taken so far, including the 2012 Semplifica Italia Law, lowering the administrative costs to open up new business, the reform of professional services in 2013, reducing the barriers to access to regulated professions, along with different regional and national measures to encourage private sector R&D investments, there remains further room for improvement in different areas. For example, barriers to competition remains to be removed for instance in retail and professional services and some local public services such as water and transport, which are managed by State-owned and municipal enterprises. This fundamentally hampers investment by the private sector in the sectors in question and constitutes an obstacle to a more efficient allocation of resources within the economy.

## **6. GOVERNANCE**

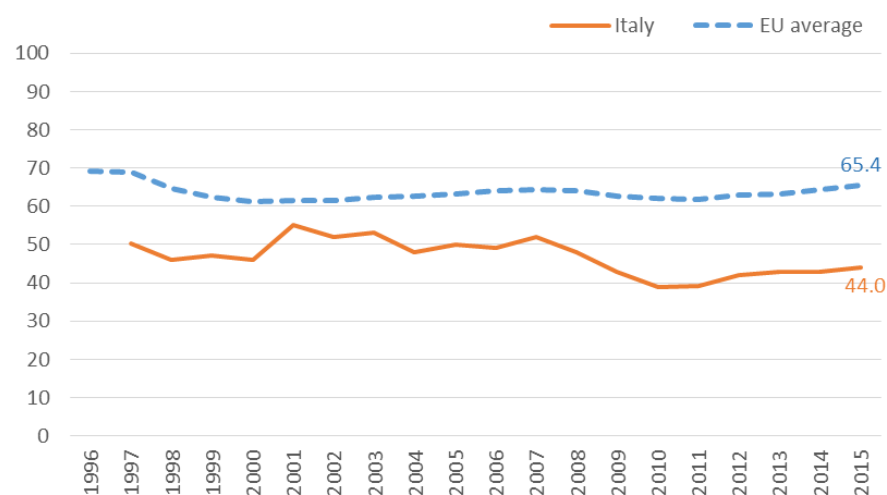
**Figure 6.1 – Judicial independence in Italy, 2006-2016**



Source: World Economic Forum.

*The scale ranges from 1 to 7, from least to most independent (i.e. a higher value reflects a more independent judicial system).*

**Figure 6.2 – Corruption perception index in Italy, 1996-2015**

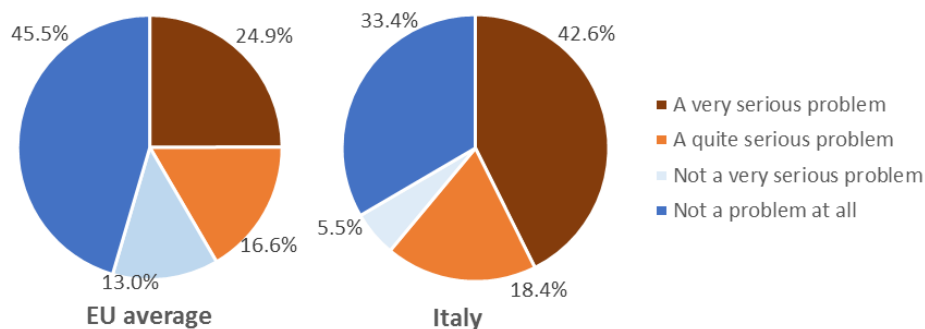


Source: Transparency International.

*Note: The scale ranges from 0 to 100, from highly corrupt to highly clean.*

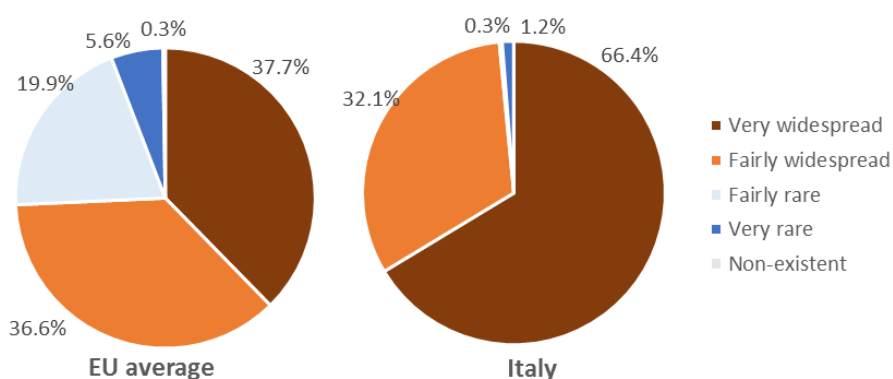
**Figure 6.3 – Corruption as a problem for doing business in Italy, 2015**





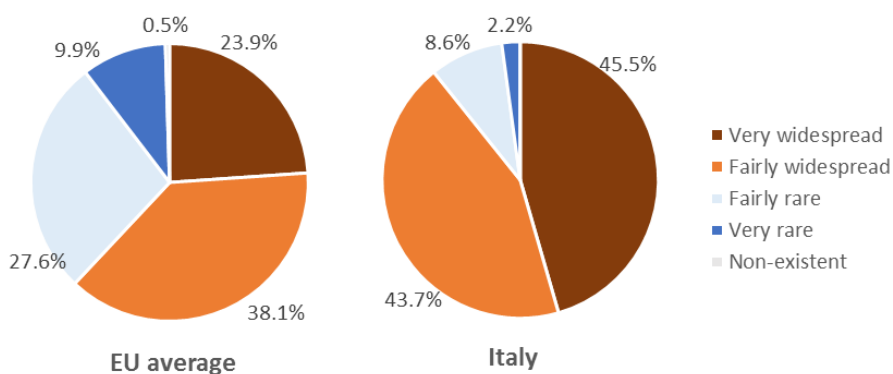
Source: Flash Eurobarometer 428; European Commission.

**Figure 6.4 – Extent of corruption in Italy, 2015**



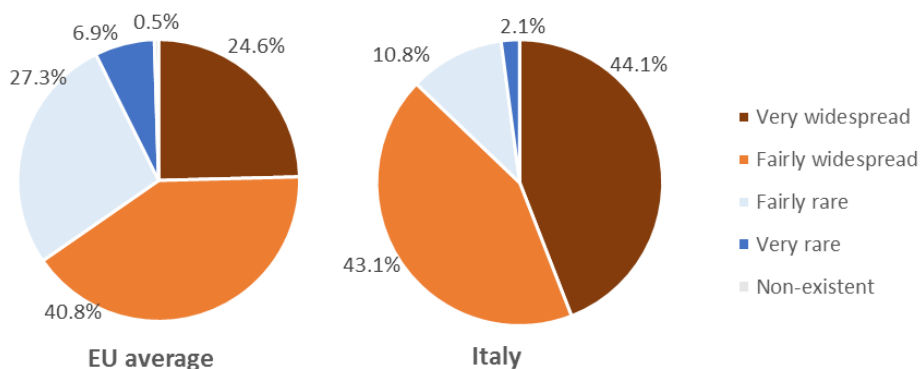
Source: Flash Eurobarometer 428; European Commission.

**Figure 6.5 – Extent of corruption in public procurement managed by national authorities in Italy, 2015**



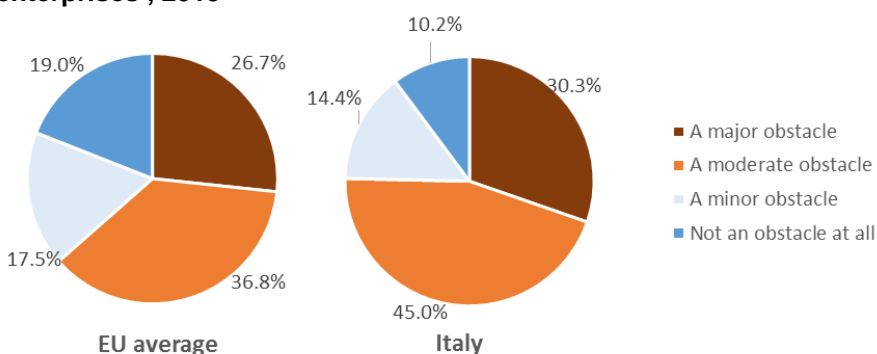
Source: Flash Eurobarometer 428; European Commission.

**Figure 6.6 – Extent of corruption in public procurement managed by regional or local authorities in Italy, 2015**



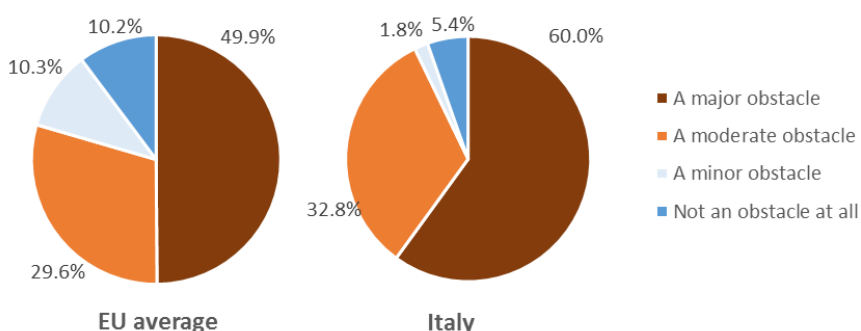
Source: Flash Eurobarometer 428; European Commission..

**Figure 6.7 – Procedures for contract enforcement is an obstacle to the activities of enterprises , 2015**



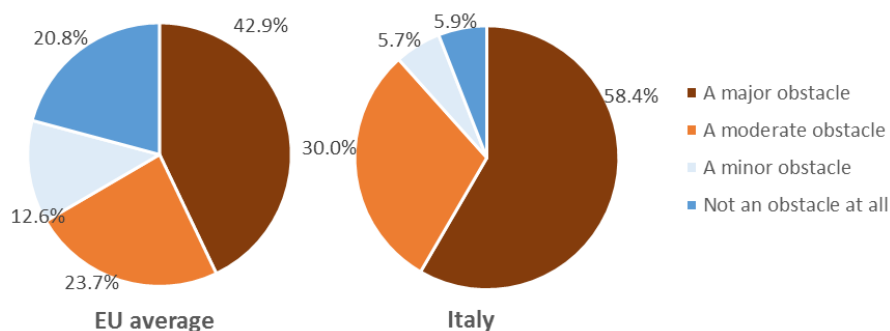
Source: Flash Eurobarometer 417, European Commission.

**Figure 6.8 – Lack of predictability and stability of legislation is an obstacle to the activities of enterprises, 2015**



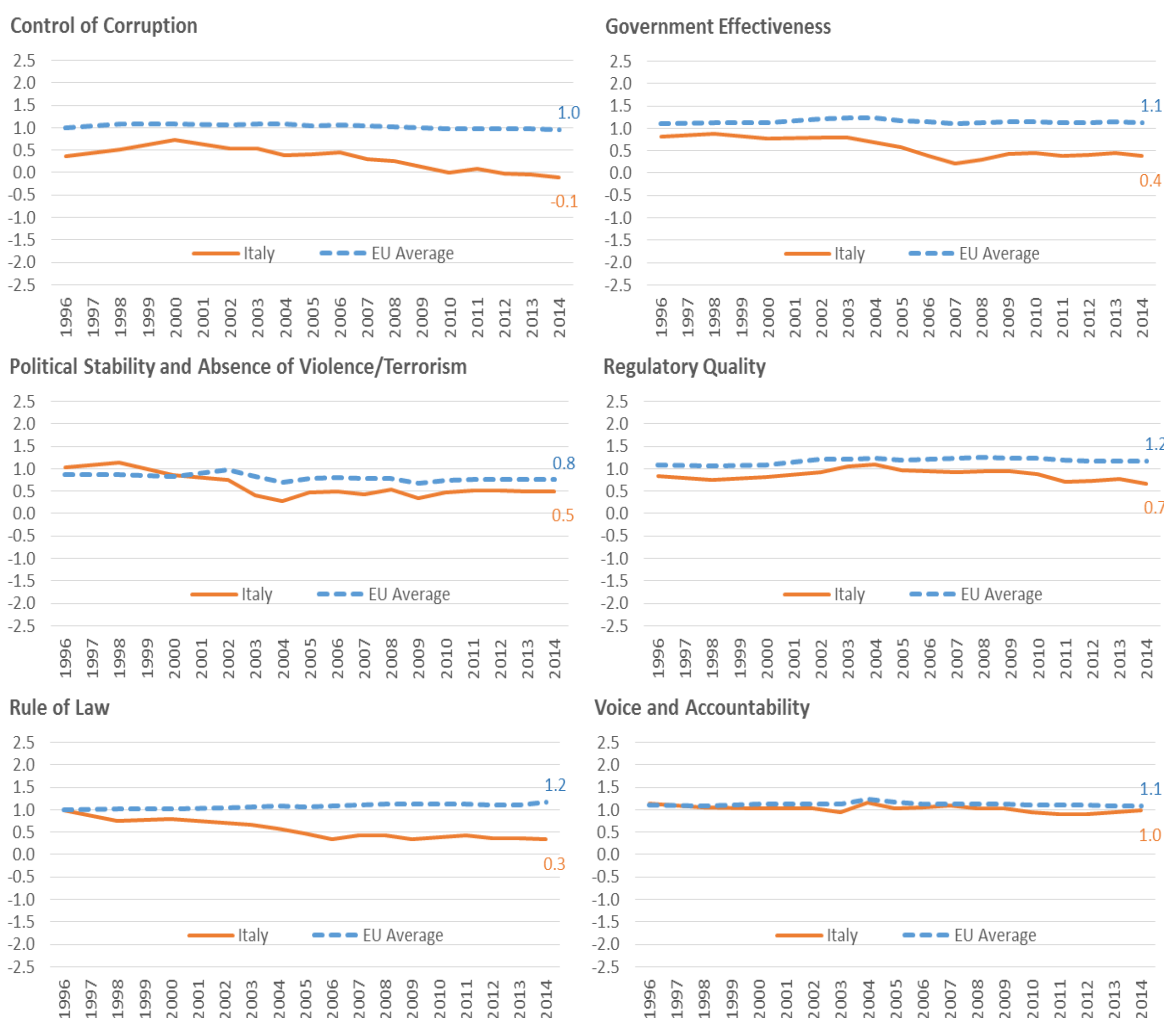
Source: Flash Eurobarometer 417, European Commission.

**Figure 6.9 – The existence of an informal economy is an obstacle to the activities of, 2015**



Source: Flash Eurobarometer 417, European Commission.

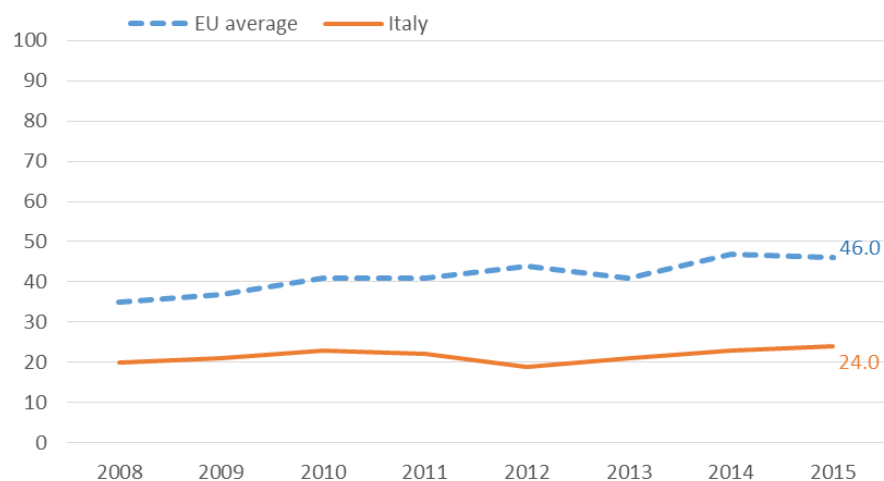
**Figure 6.10 – Worldwide Governance Indicators in Italy, 1996-2014**



Source: Worldwide Governance Indicators, World Bank.

Note: The scale ranges from -2.5 to 2.5, higher values corresponding to better governance.

**Figure 6.11 – People aged 16-74 using the internet for interaction with public authorities in Italy, 2008-2015 (% total)**



Source: Eurostat ([tsdgo330] for years 2000-2010; [tin00012] afterwards).

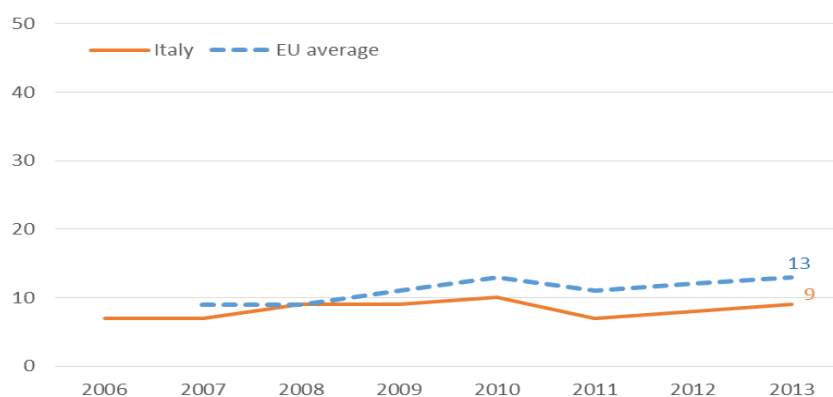
**Table 6.1 – People aged 16-74 using the internet for interaction with public authorities in Italy, 2015**

Region	% of individuals 16-74
Abruzzo	21
Molise	19
Campania	17
Puglia	17
Basilicata	20
Calabria	17
Sicilia	18
Sardegna	24
Italy	24
EU average	46

Source: Eurostat [isoc\_r\_gov\_i].

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

**Figure 6.12 – Enterprises using the Internet to submit a proposal to public authorities, 2005-2013**



Source: Eurostat [tin00109].

**Table 6.2 – European Quality of Government Index in Italy, 2010 and 2013**

Region	European Quality of Government Index (0-100)	
	2010	2013
Abruzzo	28.7	41.6
Molise	18.3	34.1
Campania	7.7	9.4
Puglia	19.4	22.7
Basilicata	22.7	33.6
Calabria	17.8	12.4
Sicilia	19.7	20.6
Sardegna	24.8	42.1
<b>Italy</b>	31.8	40.7
EU average	51.2	61.7

Source: N. Charron, L. Dijkstra and V. Lapuente, 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'.

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

In 2013, Italy was ranked 22<sup>nd</sup> among EU countries.

The scale ranges from 1 to 100, higher values corresponding to a better quality of government.

GOVERNANCE in Italy	
Country-specific recommendations, 2011-2015	
2011	Take steps to accelerate in a cost-effective way growth-enhancing expenditure co-financed by cohesion policy funds in order to reduce the persistent disparities between regions by improving administrative capacity and political governance.
2012	Pursue a durable improvement of the efficiency and quality of public expenditure through the planned spending review and the implementation of the 2011 Cohesion Action Plan leading to improving the absorption and management of EU funds in particular in the South of Italy. Implement the planned reorganisation of the civil justice system and promote the use of alternative dispute settlement mechanisms.
2013	Reinforce the efficiency of public administration and improve coordination between layers of government. Adopt structural measures to improve the management of EU funds in the southern regions with regard to the 2014-2020 period. Strengthen the legal framework for the repression of corruption including by revising the rules governing limitation periods. Reduce the duration of case-handling and the high levels of litigation in civil justice including by fostering out-of-court settlement procedures.
2014	Clarify competences at all levels of government. Ensure better management of EU funds by taking decisive actions to improve administrative capacity, transparency, evaluation and quality control both at national and regional level (especially in southern regions). Further enhance the effectiveness of anti-corruption measures (including by revising the statute of limitations by end-2014 and strengthening the powers of the national anti-corruption authority). Enhance the efficiency of public procurement especially by streamlining procedures including through the better use of e-procurement, rationalising the central purchase bodies and securing the proper application of pre and post-award rules. Monitor the impact of the reforms adopted to increase the efficiency of civil justice.

2015	<p>Adopt and implement the pending laws aimed at improving the institutional framework and modernising the public administration.</p> <p>Revise the statute of limitations by mid-2015.</p> <p>Ensure that the reforms adopted to improve the efficiency of civil justice help reduce the length of proceedings.</p>
<b>Structural reforms carried out, 2011-2015</b>	
2011	<p>Each administration is expected to define a performance measurement system.</p> <p>Calabria: regional e-procurement system to simplify purchasing and tender procedures with public administration.</p>
2012	<p>Law 190/2012 (on anti-corruption): to develop administrative control system, protect whistle-blowers and envisage an effective system to prevent and manage the risk of corruption.</p> <p>Basilicata: actions to simplify the administration with a task force for the review and reduction of laws and regulations, unnecessary formalities, related costs and timing.</p> <p>Puglia adopted legislative tools to simplify regulations, a single information point for productive activity.</p> <p>Abruzzo: regional law to measure and assess the services of its administrative structures.</p>
2013	<p>The reorganisation of legal jurisdictions became effective in September 2013: a number of satellite offices of courts were closed, and new organisation charts were approved.</p> <p>Decree Law 69/2013 (Decreto Fare) introduced a number of provisions relating to the justice system, to shorten the length of civil proceedings and reduce civil litigation. In particular, measures included: re-instituting mandatory mediation for several types of proceedings; the launch by judicial offices of training courses and internships to support the judiciary; creation of a task force of 400 honorary judges to settle the cases pending before the Courts of Appeal. In addition, the number of judges at the Court of Cassation (Supreme Court) was increased to relieve the backlog of cases.</p> <p>A new national database on public contracts (AVCpass) is mandatory since end-2013 for contracts exceeding 40,000 euro. Failure to use the database will result in contracts being invalid.</p>
2014	<p>Reform of civil justice (Law 162/2014): special courts dedicated to business affairs are created to accelerate legal cases involving firms and business operators. New bankruptcy proceedings were set up to allow for a better protection of businesses facing temporary insolvency and for the resolution of cases of excessive indebtedness. Measures were also introduced to reduce the time required for legal proceedings.</p> <p>The Government has re-organised the authorities responsible for supervising accountability, anti-corruption practices and for assessing public sector performance. CIVIT (Commission on assessment, accountability and integrity of general government), the national authority responsible for coordinating activities to fight corruption has become ANAC (National Anticorruption Authority) and is now responsible for ensuring transparency and preventing corruption. ANAC has given its final endorsement to the National Anti-Corruption Plan necessary to implement prevention policies and to enable ANAC to perform its supervisory functions.</p>
2015	<p>A comprehensive enabling law to reform public administration was adopted. The reform aims to improve access to documents and data for the public, improve the recruitment, management and mobility of staff, streamline and speed up decision-making processes.</p> <p>A comprehensive e-procurement plan has been drawn up. The Italian government plans to adopt a comprehensive national strategy for public procurement in 2016. This should contribute to better compliance with new EU rules on public contracts and concessions and identifying concrete measures to overcome the country's systemic problems.</p> <p>Two enabling laws were proposed: the first concerns the reform of the honorary magistracy and justice of peace. The second envisages amendments to civil procedural rules seeking to streamline certain aspects of proceedings and strengthens the courts' specialisation by extending the competences of business courts.</p> <p>Draft bill for a systematic revision of Italy's statute of limitations is still under discussion in the parliament after two votes in the relevant chambers. Legislative initiatives are also under way to encourage whistle-blowers, who currently enjoy limited and fragmented protection.</p> <p>2015-2017 Simplification Agenda: by allowing an easier and more streamlined cooperation between central and regional governments, aims at establishing a more coherent simplification framework.</p> <p>Measures already implemented include: electronic invoicing for all public administration entities, the</p>

	social security compliance certificate (DURC) which is online since July 2015.
<b>Outstanding challenges</b>	
	In the justice system, lengthy court proceedings and a high number of pending civil and commercial cases remain major challenges.
	Corruption is still a major problem and the statute of the limitation period remains an obstacle to the fight against it.
	Lengthy civil and commercial court proceedings might hamper investment.
	Despite several efforts made to modernise the insolvency framework, some changes to the legislation might be necessary (currently being explored by the Italian authorities). Early restructuring procedures are used sub-optimally. An efficient early-warning mechanism has not yet been introduced.
	Regulatory burden and insufficient regulatory quality complicate the business environment and hamper investment. Frequent changes in complex legislation and delays in the effective implementation of the measures adopted negatively affect investment.
	Bottlenecks and administrative weaknesses at the local levels of government and, to a limited extent at national level, imply low performance in the use of European Structural and Investment Funds in terms of absorption and resource effectiveness and efficiency. Insufficient coordination and overlapping responsibilities between levels of government negatively affect legal certainty and predictability (a constitutional law addressing this problem is being discussed in Parliament).
	Complexity, length of procedures and certain instability of the legal and institutional framework, as well as the system of supervision and control, may discourage investment. Compliance with EU public procurement rules is insufficient. There is an insufficient degree of competition in tendering procedures, and a high usage of negotiated procedures without the publication of a notice.

Sources: CSRs 2011-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

## Overview

According to the World Economic Forum survey, judiciary in Italy is less independent than in the EU on average and there was little change in this over the period considered. In addition corruption is much more of a problem in Italy than in the rest of the EU as indicated by the corruption perception index of Transparency International which also shows that the problem has aggravated over the last decade or so. This is also confirmed by the 2015 Eurobarometer survey of business views on corruption indicating that corruption is seen as more of a problem in Italy than in other parts of the EU both in terms of doing business in the country and in relation to public procurement.

In addition, according to another Eurobarometer survey carried out in 2015, a larger proportion of businesses in Italy than in other parts of Europe considered the lack of predictability and stability of legislation as well as the existence of an informal economy as obstacles to their activities (on the contrary, procedures for enforcing contracts was seen as an obstacle by about the same proportion of respondents in Italy as in other countries).

The World Bank Worldwide Governance Indicators show that Italy is viewed less favourably than the EU average in terms of control of corruption, government effectiveness, political stability, the quality of regulations and the rule of law and that the situation has deteriorated over the period considered. By contrast, the degree of accountability and the extent to which people have a voice are viewed as very similar in Italy as in the EU as a whole.

The extent to which the internet is used by people to communicate with public authorities in Italy is much less than in the EU on average (in 2015, the share of people aged 16-74 using internet in Italy was about half of that in the rest of EU). In the lagging regions, with the exception of Sardegna, the extent is even less. Similarly, a smaller proportion of enterprises in Italy is using the internet to submit a proposal to public authorities. Over the period considered the gap with the EU average has been widening for both indicators.

The quality of government index, based on a survey of residents, shows government in Italy to be assessed less favourably than in other parts of the EU on average, the difference in 2013 being similar to that in 2010. It also shows, however, higher values for the index than the national average in Abruzzo and Sardegna. This contrasts with the situation in Campania which has the lowest value. It also contrasts with the situation in 2010 when all the lagging regions were considered to have a lower quality of government than the national average (The marked change over just three years raises a question-mark over the reliability of the index, or at least over the significance of relatively small movements in it over time.)

The focus of the country-specific recommendations in respect of governance over the years 2011-2015 in Italy has been on increasing the efficiency of the public administration, particularly on public procurement and EU funds management (particularly in the lagging regions). In addition, the recommendations also focused on strengthening the legal framework for the repression of corruption and on increasing the efficiency of the judiciary system, particularly by reducing the length of proceedings in civil justice. In 2012, the Italian government enacted the Anti-corruption Law aimed at preventing and reducing the risk of corruption and in 2014 it re-organised the national authority responsible for coordinating activities to fight corruption, thus creating the National Anticorruption Authority. In 2013, Decree Law "Fare" introduced a number of provisions to shorten the length of civil proceedings and to reduce civil litigation and, in 2014 with the Reform of civil justice, it introduced special courts dedicated to business affairs. In addition, in 2015 a comprehensive reform was adopted which, among others, aimed at streamlining and speeding up the decision-making process in public procurement and at rationalising the system. Nevertheless, at the end of 2015, the justice system was still regarded as slow and inefficient, especially in regard to civil and commercial court proceedings. Progress in strengthening administrative capacity at different levels of the government was also slow, particularly at the regional level. This resulted in a low absorption rate of the European Structural and Investment Funds (in most of the lagging regions). In particular, the insufficient degree of competition in tendering procedures, and the high usage of negotiated procedures without the publication of a notice contributed to maintain a high level of perceived corruption and discouraged investment. These issues are even more challenging in most of the lagging regions, the quality of government being regarded as low in all of them (with Abruzzo and Sardegna being the better placed).



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