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SMALL- AND MEDIUM-SIZED INDUSTRY IN ITALY*

Prepared by

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1. DEFINITIONS

In Italy there is no unequivocal definition which makes a distinction among small, medium and big businesses.

Italian legislation precisely defines only the artisanal business as one which:

A) has no more than 18 employees (of whom 9 apprentices) for non-mass-produced work and no more than 9 employees including apprentices for mass-produced work. These limits can be raised to 22 and 12 employees with a larger number of apprentices;

B) has no more than 32 employees (of whom 16 apprentices) for artistic or traditional work or the tailoring of clothing to measure. This limit can be raised to 40 employees of whom 24 apprentices;

C) has no more than 8 employees for transportation firms or 10 for construction companies, of whom 5 apprentices, which limit can be raised to 9.

To qualify as artisanal, moreover, the company must not have the legal form of capital society, work must take pre-eminence over capital, the artisan must prevalently do his own work, including the manual labour involved in the process of production.

For small and medium-sized non-artisanal businesses, the definitions are less precise and are based on two alternative and concurrent parameters: the number of employees and the capital invested.

In 1976, for example, a decree made by the President of the Republic (No. 902 of 9.11.76), and subsequently modified by law No. 710 of 28.11.85, defined as small and medium-sized those businesses having a capital investment not greater than 12 thousand million lire (US\$ 8.9 million) in the developed north-central areas and 21 thousand million (US\$ 15.5 million) in the underdeveloped areas.

On the basis of the latest regulations, a business is considered small or medium-sized which has fewer than 300 employees and a capital investment not greater than 14.21 thousand million lire (US\$ 10.5 million).

It should be remembered that European Economic Community definitions as well as national ones will be applied.

The European Economic Community has also refrained from

settling on an unequivocal definition, preferring to establish on a case-by-case basis what is meant by small or medium-sized business depending on the purposes for which the definition is used.

The 1986 guidelines for notification to the Commission about aid systems establishes simplified procedures for loan operations in favour of small and medium-sized businesses, here defined as those with fewer than 100 employees and a turnover of less than 10 million ECU (US\$ 11 million).

The EIB (European Investment Bank), on the other hand, considers that, in order to obtain loans, small and medium-sized businesses are those which have no more than 500 employees and in which the capital investment is less than 75 million ECU (US\$ 82.3 million). Moreover, the Bank gives priority to businesses in which no more than one-third of the stock is held by big businesses or holding companies.

Finally, the EEC defines small and medium-sized businesses on the basis of four separate parameters:

- A) employees
- B) capital investment
- C) turnover
- D) amount of stock in the business held by big companies.

Given this wide choice of definitions, it seems to us essential to stress the importance of criteria for choosing

terms of reference in order to make the definitions useful.
As it is now:

A) the number of employees leaves out of consideration the degree of automation of production and the levels of productive decentralization and of deverticalization of production;

B) the capital investment does not take into consideration productive decentralization;

C) the turnover takes account of decentralization and level of automation, but does not consider the role of the company in the productive process.

In the interests of simplification, this analysis will define as a medium-sized or small manufacturing industry one which has from 50 to 200 employees. Of course the parameter of number of employees does not cover the whole question of the size of a business, which also includes turnover, investments, and value added. It is also necessary to consider, on the one hand, the position and role of the business in relation to ever-expanding markets and, on the other, to take account of the current phenomenon of the increasing replacement of labour by capital.

US\$1 = 1.350 lire

ECU 1 = US\$ 1.1

2. HISTORY

During the 1970s, development of small and medium-sized businesses was extremely active: more new businesses opened than old ones closed and hundreds of thousands of new jobs were created.

Various economic indicators (investments, personnel, value added and gross profits) show that over the past decade small and medium-sized business had a bigger growth than that of big business.

In tracing a brief history of the Italian economy, the first point is that the dislocation of the production cycle which hit many sectors of the economy brought about the creation of a new type of production organization. The specialized production unit discovered that it could relate its own development or the consolidation of its own activity to a network of similar businesses located nearby. A process of evolution took place whereby broadening the range of a company's products or improving its services no longer depended on the internal growth of the business but on its access to a wide network of producers taking common advantage of their integration.

Thus, the pre-1970s pattern in which work passed from the big companies down to the smaller ones changed to a pattern of horizontal relationships among small businesses and ambiguous relationships between big and small businesses.

There was frequent creation of constellations of small businesses. The companies which promoted these groups participated in them financially and also productively since, although the small businesses were oriented toward establishing an independent market, they had subcontracts to supply the leading companies in the group.

The reasons underlying the increasing interdependence among the businesses can be sought in:

- the choice of a way of growth which would not directly include expansion, or would hold it to the minimum required of a business increasingly partial to the improved economy brought about by the growth in external relationships;
- the reduction of the risk of pursuing policies of specialization deemed profitable in the short-term but associated with a high degree of uncertainty in the medium-term;
- the possibility of planning production of a wider variety of goods in lots of smaller volume than is possible under the sequential system predetermined by machinery installed inside the unit of production.

Among the historical reasons for this sort of change are the development of technology and the changes which have taken place in the markets. The shortening of the cycles of demand

and the rapidity of their reversals, the increased segmentation and variability of requests, and the diversification of consumer attitudes -- all these factors stimulate the creation of systems which can respond in a timely fashion to the qualitative and quantitative fluctuations of demand.

3. PRESENT SITUATION

At present there are about 120,000 small and medium-sized businesses in Italy, with about four million employees, equivalent to 20 percent of the working population. These businesses contribute nearly 25 percent of the gross national product.

They are distributed in a fairly uniform way throughout the country, though they favour areas with better economic balance rather than those with high concentrations of industry (Venetia, Emilia Romagna, Tuscany). Although these businesses represent only 12.5 percent of Italy's entire industrial sector, they absorb 55 percent of its total work force.

3.1 FORM AND LEGAL NATURE OF THE BUSINESS

A small business is usually run by an individual or a family; this is not only because its dimensions require it, but because of the strong individualistic streak of the Italian entrepreneur.

The collective form develops naturally as the dimensions of the business grow, but it is often related to some problem over hereditary passage of the business from founding father to his children. Small businesses are rarely started up as full partnerships. In such cases, the partnership is always

severely limited.

Capital societies are nonexistent or improperly used forms.

Establishment of a small business is almost always due to a spontaneous decision by the entrepreneur, a decision that may be motivated by family traditions, by work experiences, by a certain accumulation of knowledge, but which is in any case characterized by a strong desire to affirm his own personality and to pursue a definite "management idea".

His education, whether general or specifically in business, may not be a determining factor, although it should be said that the new managerial generation has more often than not had a higher level technical or economic education.

3.2 AGE AND LIFE CYCLE

Because of a high "turnover" rate brought about by the many successes but also by the closing of businesses for various reasons (often personal or family reasons of the manager), most small businesses are generally young, while businesses tend to last longer as their positions consolidate and their dimensions grow.

The turnover rate is particularly high in small and very small artisanal and industrial enterprises where initial fervour was great but illusions were rapidly lost and hopes dashed, more often as a result of the inadequacies of the

people employed than of the material resources. Indeed, there are many first-generation businesses which manage to muddle through the starting phase but cannot fully realize their development.

The phenomenon of imitation, typical in certain sectors of production, frequently leads to a diffuse proliferation of uniform businesses in the same, often restricted, geographical area; but the lack of a genuine vocation and capacity for management often leads to the breakdown of a business, especially a late-comer which arrives just as the market has reached its saturation point.

3.3 LOCATION OF THE BUSINESS

Choice of a location is generally influenced by the residence of the founder-manager.

Location in an economically well-developed area, but not necessarily a highly industrial one, makes setting up business easier.

A phenomenon worthy of note is that of so-called characteristic production areas (for shoes, clothing, leathers, furs, jewellery, marble, furniture, pottery etc.) whose origin is linked to the tradition, custom and environmental factors of a district.

Location in highly developed areas near big industrial complexes can be useful.

Some choose locations in suitably equipped areas belonging to developing districts, in order to benefit from the incentive contributions and assistance offered there.

Finally, looking to the future, consideration should be given to locations programmed to be included in a so-called technopolis or scientific park, like the well-known American example of Silicon Valley and others. An Italian experiment in an advanced stage of planning is the Agnelli Foundation's initiative for a Technocity in Piedmont. A Technopolis was recently built in Bari and more are under consideration in other regions.

3.4 ENTREPRENEURSHIP AND MANAGEMENT

In smaller, first-generation businesses the two roles may initially appear to be irreconcilable. The entrepreneur is individualistic and instinctively mistrustful; he tends to concentrate all powers in himself and rarely delegates them. His closest collaborators are loyal to the business, indeed they have often been born into it, but their knowledge of business often becomes obsolete for lack of professional training.

Recently a conversion to professional management has begun to take place in small and medium-sized businesses.

Relationships can be rather strained, however, particularly when the entrepreneur resists giving up his active presence in the business and the manager tends to behave like an entrepreneur.

3.5 BUSINESS PHILOSOPHY

The traditional philosophy of the small business is based on the theory of production for a market which is generally internal and whose demand for primary and secondary goods is in constant expansion.

But even in the 1970s, with the coming of inflation, the energy crisis and widening of international competition, businesses were forced to seek new ways of developing and to look at the market with renewed interest.

In the 1980s, Italian business became more market-oriented, and continual technological innovations increasingly affected the economy.

Another phenomenon underlying the new business philosophy of the 1980s is that of the increasingly tertiary quality not just of the system but within business itself. There is growth in the activities of internal services in business, while the cyclical theory is being abandoned for other formulas which will permit relative maximization of value added.

All these changes are accompanied by a tendency to get out of fields of endeavour which by now are fully developed, and in which only big business, by dint of extensive modernization and economies of production, can still conveniently find space and opportunities

3.6 PROCESSES AND PRODUCTS

Faced with the technological revolution and the inescapable requirement for innovations in its production, small business certainly seems ripe for a process of renewal. In addition to the availability of financial resources, however, that would require a very different organizational capacity and remarkable talents for creative entrepreneurship.

The phenomenon of the gradual replacement of labour by capital is also taking place in small business, and the automation of production processes, with recourse to advanced systems of numerical control, is appearing with increasing frequency.

This could mean a reduction in the contribution of the directly productive labour force, and in fact this is the case. But, on the contrary, there is an increasing need for qualified technicians, and business activities in auxiliary services and in book-keeping, finance and commercial distribution are becoming increasingly relevant.

3.7 FINANCE

By tradition, the small business, almost always characterized by entrepreneurial individuality, or at most by an extremely limited partnership, often creates confusion between family funds and those belonging to the business.

Self-financing has almost always been the only means for starting a business. From the outside, only bank credit, backed by personal securities, has carried the financial burden of the small business.

In view of the increasing need for capital for new investments, and of the fact that the small business cannot survive the imbalances created by undercapitalization, the difficulty of acquiring risk capital is increasingly evident.

3.8 STRENGTHS AND WEAKNESSES

Assuming that in small and medium-sized businesses the connection between business and entrepreneur is indissoluble, an analysis of their strengths and weaknesses can be made.

STRENGTHS:

- a clear perception of the risk involved in the business;
- a readiness to learn, even by imitation, and a creative

imagination about the product;

- the capacity for immediate management, due to direct control and a vertical decision process;
- organizational agility and operational flexibility, as well as adaptability to change in internal production;
- staff loyalty to the business, often from motives common to those of the owner;
- financial autonomy within the limits of the resources available, including family funds.

WEAKNESSES

- an excessively personal view of the risk involved in the business, lack of a sense of proportion, conduct of the business destabilized by connection to the personal life of the owner;
- business education limited to empirical knowledge of certain aspects;
- limited delegation of powers to colleagues, excessive interference in management, inability to manage and control complex situations in a coherent way;
- limited capacity to understand or adapt to changes in the

environment;

- lack of professional staff and internal mobility; tendency to reject better-developed formulas for organization and conduct of management;

- dependency on an old-fashioned credit system and infrequent use or lack of access to more modern financial assistance

The positive and negative aspects of small businesses can be summarized as follows: small and medium-sized businesses are characterized by their ability to cope with their internal irregularities and to respond promptly to contingencies; on the other hand, they have difficulty in adjusting to changing conditions and in foreseeing strategic developments.

4. LEGISLATION

The following is a summary of the principal laws considered or enacted by the Italian Parliament for the benefit of small and medium-sized businesses.

DPR (Presidential Decree) No. 902, 9 November 1976

This decree, which came into force on 11 January 1977, provided for the concession of contributions toward the repayment of low-interest loans made by credit institutions to industrial enterprises. The contribution was made after approval of the request presented to an examining committee which established criteria of priority for initiatives in underdeveloped areas. The industries which benefitted most from this type of financing were: machinery, food, textiles, and the working of non-metallic minerals and wood. Operations were mainly concentrated in the developed north-central zones of Italy and mainly concerned modernization of existing plants.

Law No. 675, 12 August 1977

This law established in the Ministry of Industry a "fund for industrial reconstruction and reconversion" aimed at granting financial assistance to manufacturing and extracting businesses for reconstruction and reconversion projects.

The law foresees that such projects may be:

- projects aimed at the reorganization of businesses through reconstruction, renovation, technological updating of plants and possibly, where required by town-planning agreements, even changing their locations;
- projects aimed at introducing the production of diverse types of merchandise, through modification of the production cycles of existing plants;
- projects aimed at replacing existing plants in the developed north-central areas and creating new plants of corresponding importance in areas of southern Italy.

The kinds of financial assistance provided for by the law are: low-interest loans, payments of interest due either on bank loans or for issuance of bonds, contributions to unions or cooperatives with collective security, credits, contributions toward debts arising from payments to the fund for female workers, contributions to cover leasing operations, contributions to projects for new plants to be created in the Mezzogiorno, contributions to artisanal businesses for leasing operations.

A share not less than 40 percent of the fund's available funds is annually reserved for the southern areas.

In order to take advantage of the benefits provided for under the law, a business must present its request to a credit institution or directly to the Ministry of Industry.

It is estimated that, to date, contributions of about 5,000 thousand million lire have been approved.

Law No. 46. 17 February 1982

This law establishes in the Ministry of Industry a "special revolving fund for technological innovation" for activities of planning, experimentation, development and pre-industrialization carried out by industries or their associations having a fixed organization in Italy.

It applies only to those programmes which include the introduction of relevant technological advances aimed at new products or at new production technologies or significant technological improvements to existing products or processes.

Originally there were five sectors of priority: electronics, automobiles and automobile parts, chemistry, steel-working and aeronautics. These were later expanded to include machinery, with reference to industrial automation and control systems, motorcycles, and agro-industries. A special resolution permitted programmes presented by small and medium-sized industries to dispense with consideration of these sectors of priority.

Investigations into requests are all handled by the Ministry of Industry. Investigators must award a grade of high, medium or low to each programme. Aid from the fund corresponds respectively to 55, 45 and 35 percent of admissible costs for

each grade-level. For programmes of notable importance for the country's industrial policy, which will have important repercussions on the national economy and on the competitiveness of the entire sector to which the business belongs, the percentage may be raised by 15 percentage points.

Aid from the fund has a maximum duration of 15 years, five of which are for use and pre-amortization. The fixed interest rate for a business is equal to 15 percent of the reference rate in the first five years and 60 percent in the amortization period.

The business can request partial conversion of up to 50 percent of the financing to a permanently locked-up share. In analysing the data on application of the law, two phases emerge. During the first, which lasted through 1984, the sector in first place was the automobile (33%), followed by electronics (32%, chemistry (20%) and aeronautics (12%). From 1985 on, electronics moves to first place (39%) and the automobile drops six points to second place (27%).

Prevalent use of the fund therefore moved between 1984 and 1986 from a medium-technology sector like that of the automobile to a high-technology sector like electronics. These data should be accepted with caution, since the sector of electronics contains many programmes of technological innovation related to other sectors, particularly that of machinery, which are destined to introduce industrial

automation systems with numerical control or computer-assisted systems. The data suggest, however, that Italian industry has progressively integrated the traditionally strong medium-technology machinery sector with the electronics sector. Electronics, and particularly microelectronics, rather than being one production sector, is an element of production which runs horizontally through all the sectors. This is one of the fundamental aspects of the industrial revolution of the 1980s.

As regards the size of the businesses benefitting from the funding, at the end of 1984 small and medium-sized businesses bore only 11 percent of the cost of programmes approved, a figure far below the reserve of 20 percent established for small and medium-sized businesses. The annual data show that this reserve was greatly exceeded in 1986. The most significant recoveries were recorded in the steel industry with 18 percentage points. In second place was chemistry with a recovery of seven points.

Law No. 696, 19 December 1983

This law was aimed at assisting the purchase and leasing of high-technology machine tools by artisanal shops and medium-sized and small businesses.

The law provides for the concession of permanently locked-up contributions equal to 25 percent of the cost of the machine after IVA (value added tax), up to a maximum of 240 million

lire (US\$ 178,000) per company in the north-central area, and to 32 percent up to a maximum of 600 million lire (US\$ 445,000) in the Mezzogiorno area. The requesting company cannot benefit by the law for more than two machines. The machines must fit into specifically identified categories, among which can be noted: machines regulated by numerical control units or by microprocessors; machines that go through a technological cycle in automatic sequence, including industrial robots for assembling, welding and painting; electronic apparatus for automatic programming of the work cycle of machinery and systems.

The total grants under the law come to 615 thousand million lire.

Distribution at the end of 1986 was as follows: 56 percent for machines regulated by numerical control units; 28 percent for machines intended to go through a technological cycle in automatic sequence, including industrial robots. As regards the products, in first place was the machinery industry with 45 percent, followed by textiles with 13 percent and by plastics with six percent. There was some difference between the industrial medium-sized and small businesses and the artisanal ones. The latter had relatively more funds for the machinery and textile sectors than did the industrial businesses.

Decree/Law No. 318, 31 July 1987, and Law No. 399, 3 October 1987

Law 696 expired on 30 April 1985 and, because of its success, it was decided to approve a law enacted by decree which had the same objectives but which was designed to take account of technological evolutions which were imposing systems of machines regulated by electronic computer.

Assistance provided under this decree has the following characteristics:

- application period of 12 months;
- grants for the purchase of systems and apparatus regulated by electronic computer;
- comprehensive coverage of about 160 thousand million lire;
- limit of 30 thousand million lire for the use of artisanal businesses.

This decree was enacted as law on 3 October 1987, with the following modifications to the original text:

- the quota for investments related to the purchase of packages of programs for the use of the machines, computers and systems acquired must not exceed 25 percent

of the total contribution;

- the concept of an underdeveloped area is expanded to include all those areas affected by the crisis in the steel industry.

We remember that Decree No. 318 provided for the establishment in the Ministry of Industry of a National Fund for Artisans, intended to finance programmes and projects for the support of artisans and for the improvement and development of artisanal products in their diversity of territorial, artistic and traditional expression.

5. INCENTIVES TO SMALL AND MEDIUM-SIZED INDUSTRIES

Along with the financial and fiscal incentives provided by public policies through legislation, a series of activities promoted by the public and private sectors exists in Italy, as in many other European countries, to encourage the development of small and medium-sized industries (SMIs).

Industrial parks: these are known in Italy as equipped industrial areas (AIA). They are provided with traditional primary infrastructure (service roads, parking lots, water and gas mains, electricity, telephone and sewage systems) and the more advanced ones have secondary infrastructure (canteens, clinics, landscaping, recreation centres, labour-union offices).

These areas are created to attract industries to particular zones, with the aim of strengthening weaker zones and decongesting those which are stronger industrially, and to offer the businesses an integrated infrastructure whose cost will be shared by the various users.

Different types of production co-exist in the park, where "blocks of industry" should be installed capable of generating a system of self-support based on the demand and supply of different products.

Promotion is usually handled by the regional public operator, either directly or through regional agencies which in turn

create the appropriate managerial companies.

Because of inadequacy of industrial education and delays in decisions, industrial parks have come a little later to Italy than to other European countries.

The industrial parks in Italy have generally favoured the locating of small and medium-sized industries, which are relatively mobile, in underdeveloped zones, where they can save on infrastructure costs, thus rationalizing the location of small local businesses. This has been particularly the case in northern Italy (Lombardy, Emilia Romagna, Piedmont).

Some of the positive results have been: an improvement in environmental protection, broadening and modernizing of the infrastructure in surrounding areas, renovations for more competitive types of organization in the businesses relocated there (Emilia Romagna).

Scientific parks: these provide areas not only with infrastructure but also with such activities as research and development, marketing, and consultancy, administrative and financial services. An example in Italy is the recently completed "Technopolis" in Valenzano (Province of Bari). Scientific parks appear to stimulate innovation and the creation of new businesses.

Free zones: projects are underway in both northern Italy and the Mezzogiorno to set up these production centres which

grant to companies located in them such privileges as administrative deregulation, tax reductions, etc.

Service distribution centres: these provide small and medium-sized businesses with information, technology, training, research, promotion and marketing services. Services are provided by combined public/private systems and paid for by the user-business at rates which increase progressively to full coverage. The plan offers double assistance: real (provision of services) and financial (partial and temporary reduction of costs as a check on the quantity and quality of services provided).

To judge by the Italian experience, factors contributing to success of this plan are:

1) the legal nature of the association; 2) direct involvement of the industrialists in the various phases of the undertaking; 3) competition to cover costs; 4) location of the centre in a receptive environment.

What is missing, however, is a connection between the centres' policies and the industrial parks; nothing concrete has been done to combine the policy planning of the zone with the promotion policies of the services. The centres do not understand the problems involved in creating new businesses and the association constitutes a barrier to newly created businesses which are not yet ready to accept such a system.

Conventional service centres for technological information have not been developed in Italy, but they should be considered, especially for the Mezzogiorno, where there are not even the minimal basic services for gaining access to the more advanced ones (conference rooms, telex, telefax and postal services etc.)

a. Industrial liaison and technological transfer centres:

These centres enable a systematic search for opportunities for innovation through interaction among various agents (universities, businesses, technical institutes, consultants); a group called LIAISON was formed in Italy in 1983 for the exchange of ideas, information, staff and resources among universities and industries and for the encouragement of legislation for innovation. Other instances of cooperation between schools and industry also exist. These could form a basis for the creation of centres for liaison and technological transfer with educational institutions.

b. Centres for the enactment of laws to help SMIs:

Lombardy's CESTEC (Lombard Centre for the Technological and Productive Development of Small and Medium-sized Industries) is a joint public and private society for actions aimed at stimulating innovation and technological renovation in SMIs. The users pay the costs and the industrial world is in charge

of administration.

A similar effort, ASTER (Agency for Technological Development) is being set up in Emilia Romagna.

c. Private centres: these consulting centres assemble scientific, technical and managerial expertise. They are fairly widespread in northern Italy. A notable one is "Convey" (Society for Technological Exchange) whose members are private companies in the tertiary sector and the electronics and robot industries.

Centres for innovation and new businesses: these make industrial parks available to new businesses, and they also provide conventional and unconventional services. They function as "incubators" to newborn businesses. There are projects in Milan, Turin and Bologna to identify areas where disused factories can be reopened and services promoted. The importance of such centres as "incubators" for new activities is witnessed by the fact that the EEC is perfecting financial mechanisms for support of these "Business and Innovation Centres", and that the various centres are forming a European association to create an international cooperation system.

The story is quite different in Italy's Mezzogiorno, where development policies have not always met with success. Based on direct fiscal and financial incentives, such initiatives all too often were not good investments since they did not offer real services to the SMIs.

There are a few industrial parks in the Mezzogiorno, but they will have to be conceived in a different way and integrated with a functional infrastructure which can meet the requirements of SMIs for an advanced tertiary sector.

In this regard, the Region of Sicily found a new way to integrate traditional syndicates into equipped industrial areas. SIRAP (Real Incentives to Production in Sicily) was established in 1983 to create an infrastructure that would encourage the location of productive investments in industrial parks in order to offer specialized services to the production, organization and management of SMIs. This regional public service is now in operation in two areas of Sicily.

6. PARLIAMENTARY BILLS NOW IN PREPARATION

The more active role taken by SMIs during the 1970s reversed itself in the 1980s. Large industry was preferred, because of the acceleration of technological progress, the increase in the real cost of financing, and the progressive internationalization of markets. The importance of SMIs to Italian production, the changes on the economic scene, and the approaching creation of a single European Market in 1992, with all the new opportunities and risks of competition it will bring: all these factors make it necessary to increase efforts to promote Italian SMIs.

Public policies should strive to overcome the difficulties of obtaining financing, to support processes of technological adaptation, to promote the process of internationalization, all of which are critical factors in the development of SMIs.

As for financing, attention must be given to the access SMIs have to the credit market, in terms both of quantities of financial resources obtainable and of costs and conditions of loans. Ways of easing credit systems must be thought out, as well as ways to make Mediocredito Centrale and other institutions for special credit more active, to improve the operations of medium-term credit, and to diversify financing.

On the subject of technological innovations, the first way to help the SMIs is to improve their capacity for innovation, thus rendering them more competitive in the coming European

Market.

Existing legislation is almost inoperative. The Fund for Technological Innovation governed by Law 46/82 has not been functioning since September 1987, new requests having been blocked and the progress slowed of those already approved.

The IMI Fund for research dedicated 11 percent of its resources to SMIs in 1987, and this percentage has remained constant. Procedures must be facilitated for access to these funds and for making them respond to the specific needs of the SMIs.

Funds under Law 399/87 are not adequate to cover the requests that have already been presented.

Small businesses in Italy are very competitive (companies with fewer than 300 employees make 40 percent of Italy's exports). Their good showing in exports is even more striking because SMIs receive less direct and indirect assistance for exports than do large industries. They do have problems, however, such as the obstacles to their access to information and distribution systems on distant markets; their difficulties in attracting investments and in gaining access to the financial market; problems of continuing presence on foreign markets because of the high costs of doing business there.

In a desire to improve the macroeconomic performance of the

SMIs, and to give them greater competitiveness and stability on world markets, and because of the necessity for integrating and rearranging the provisions of existing laws, numerous proposals have arisen for legislation to benefit the SMIs.

The most relevant recent bills have been:

a) The bill proposed by Industry Minister Battaglia, based on the work of the Mussati Commission established in December 1987.

b) The predisposition by the Hon. Righi of a basic text combining the seventeen bills proposed by the various parties on the subject of SMIs. In June 1988, a select committee of the Chamber of Deputies' Production Commission began work on this combined text.

c) The bill to support export societies.

A. Minister Battaglia's bill would create a move to support and coordinate all possible operations for the benefit of the SMIs.

Basically, it is necessary to identify the beneficiaries, both in terms of their size and in relation to their economic activity. This must be done in a coherent way and with full respect for EEC regulations on the subject.

As for size, SMIs would be identified as industrial enterprises with fewer than 300 employees and a net capital investment of less than 30 thousand million lire (US\$ 22.2 million), which do not belong to industrial and/or financial groups of dimensions exceeding the limits described above.

As to economic activity, except for a few specific cases, the bill restricts direct beneficiaries to industrial enterprises, excluding commercial and service enterprises, and also excluding artisanal enterprises, which have already been designated under specific guidelines for assistance at the national and regional level.

Support for development of small and medium-sized industries proposes initiatives aimed at:

- a) encouraging the birth and development of new forms of industrialism;
- b) supporting processes of development and diffusion of new technologies within the small-business system; this interprets innovative phenomena in the broadest and most complete sense, including questions related to obtaining working capital and to forming and redefining the necessary professional characteristics.
- c) overcoming obstacles to obtaining the financial resources necessary to growth and innovation;

- d) supporting exports and commercialization systems;
- e) developing associations among industries and systems for providing real services. In order to facilitate credit and assist all forms of funding, with the sole exception of contributions to export societies and to collective security unions, the Ministry of Industry will create an appropriate fund to be administered outside the budget.

New, innovative industries less than a year old are given fiscal relief both through tax reductions and tax deductions for business losses of the first four years and through the creation of a tax credit commensurate with their research expenses.

Similar benefits are granted for the establishment of new industries in poor or underdeveloped areas, in areas where capital contributions are foreseen for new industrial plants, or for reconstruction, reconversion, modernizing or enlarging existing plants whenever community development action is taken.

For development of new technologies, there is provision for the creation of a tax credit for increased research expenses. This is equal to 20 percent for north-central industries, or 60 percent for industries in the Mezzogiorno, of the increase in the industry's expenses for the tax year over the average for the three preceding tax years. Furthermore, modifications to Law No. 46 of 17 February 1982 would

facilitate the granting of assistance to SMIs foreseen by that law, varying such assistance according to geographical area.

The newly created fund is also expected to offer incentives for the acquisition of advanced technologies and to contribute toward the cost of services aimed at finding new markets, at increasing production, and at improving the quality of products. Such contributions can be converted, at the industry's request, to tax credits of equal amount.

The bill also foresees benefits for syndicates and associations among industries for the provision of services aimed at promoting the development of the associated industries. Benefits are also foreseen for credit-security associations (provided they are made up of at least eight companies none of whose share exceeds 20 percent, whose aggregate capital is over 20 million lire (US\$ 15,000) and whose by-laws entail the reinvestment of surplus cash. Benefits will take the form of suspension of taxes on reinvested profits, contributions to capital accounts, and low-interest loans.

Assistance will also be given to collective security associations ("FIDI"): aid will consist in partial restoration of losses suffered by the associations as a result of security operations.

The creation is foreseen of associations with mixed public

and private capital for the provision of real services aimed at innovating the SMIs, and regulations are made for the granting of funds for starting up production: capital funds up to 300 million lire (US\$ 222,000) a year, not to exceed 800 million lire (US\$ 593,000) in a three-year period, to cover up to 30 percent of expenses.

Again, to encourage the growth of investments and availability of financing for small and medium-sized industries, assistance is foreseen with respect to closed funds, venture capital and participatory loans.

Venture capital and financial innovation associations which can participate temporarily in diminishing the risk capital of recently-created SMIs (not more than 20 percent of the value of the social capital of the financial association or 40 percent of the social capital of the SMIs) would receive special assistance.

B. The combined text presented by the Hon. Righi, and approved unanimously on 28 July 1988 by the Production Commission of the Chamber of Deputies, had the objective of encouraging:

- a) the creation and "innovation" of industrial, artisanal and service SMIs;
- b) associations among SMIs (including export societies);

c) financial associations for the innovation of SMIs;

d) credit unions.

SMIs are identified as enterprises with fewer than 300 employees and a capital investment of no more than 20 thousand million lire (US\$ 15 million).

To encourage the creation of new industries, the reduction of IRPEG and ILOR taxes by 35 percent for the first three years is foreseen. For individual industrialists, IRPEF taxes would be reduced by 40 percent.

For creation and consolidation of new industries in poor areas, and for rebuilding and reconversion processes, a capital contribution is provided equal to 40 percent of investments up to a maximum of 700 million lire (US\$ 519,000).

For acquiring advanced technology, a capital contribution is foreseen of up to 25 percent (up to 40 percent for the Mezzogiorno), up to a maximum of 500 million lire (US\$ 370,000) and for the Mezzogiorno 800 million lire (US\$ 593,000). The contribution can be converted to a tax credit.

As an incentive to the formation and activities of associations among SMIs, the following measures are foreseen:

- suspension of taxes on profits reinvested within three

years;

- capital contributions to programmes of activity: 30 percent (Mezzogiorno 50 percent), up to 300 million lire (US\$ 222,000) a year, and for the Mezzogiorno up to 500 million lire (US\$ 370,000);

- assisted financing (60 percent of the reference rate; Mezzogiorno 30 percent) for promotion of activities up to 2 thousand million lire (US\$ 1.48 million) and up to 80 percent of costs (only for associations of no more than 20 companies);

- financing by special credit institutions of programmes of activity not covered by the contribution;

- financing given to associations is covered up to 80 percent of the total security of the Mediocredito Centrale.

For export societies, contributions are foreseen of up to 40 percent of expenses (Mezzogiorno 60 percent), up to 300 million lire (US\$ 222,000) and for the Mezzogiorno up to 400 million lire (US\$ 296,000), to be covered by the Ministry of Foreign Commerce.

For mixed associations, capital contributions are foreseen for programmes for diffusion and exchange of innovations, up to 30 percent (Mezzogiorno 50 percent), up to 300 million lire (US\$ 222,000) and for the Mezzogiorno up to 500 million

lire (US\$ 370,000). Also foreseen is assisted financing (60 percent of the reference rate; Mezzogiorno 30 percent) for promotion of activities up to 2 thousand million lire (US\$ 1.48 million) and up to 80 percent of costs (only for associations of up to 20 companies). In addition, regional capital contributions in the same amounts are foreseen for the acquisition of industrial parks.

To assist in the financing of innovations, the activity of loan societies will be facilitated for innovations that have been registered with the Ministry of Industry. These societies can acquire up to 45 percent of the social capital of the SMI, being responsible for up to 20 percent of their own social capital.

The tax is suspended on profits that are reinvested for at least two years, and for recently-created SMIs operating in high-technology areas; losses related to the acquisition of shares can be deducted; also deductible from taxable income will be 10 percent of the price of shares sold by a loan society for innovation or by a merchant bank (inscribed in the register of the Banca d'Italia); further deductible from taxable income are 10 and 20 percent of the price of acquiring shares of industries held by loan societies for innovation from merchant banks if sold by the latter.

The combined Righi text facilitates the activities of credit associations made up of 50 or more companies, through the compensation of security funds by Mediocredito Centrale up to

40 percent of the losses suffered over the years, provided the securities do not exceed 50 percent of the financing used by the enterprises. The combined Righi text provides for an appropriation of 190 thousand million lire (US\$ 140 million) until 1990.

C. Bill for support of export societies

Of particular importance as an incentive for internationalizing SMIs are the guidelines for export societies which were lifted from the combined Righi text and approved in legislative session by the Senate Commission on Industry in November 1988.

These guidelines provide for the establishment of a fund of 25 thousand million lire (US\$ 18.5 million) for each of the years 1989-90-91 at the Foreign Trade Ministry, aimed at creating support for associations among small and medium-sized industrial, commercial and artisanal enterprises for foreign trade.

Considered to be associations for foreign trade are those associations whose exclusive aim is the export of the products of the associated industries and the promotion activities required to accomplish it.

These associations must be made up of no fewer than eight companies, and the subscription fee of each company may not exceed 20 percent of the fund or capital. If these

associations are working in the Italian Mezzogiorno or in specialized merchandise areas, they may be composed of no fewer than five companies.

To this type of syndicate or association, annual financial contributions may be made, provided that these funds are not intended to subsidize exports.

The request to receive contributions must be presented to the Foreign Trade Ministry, after receiving an opinion from a technical committee composed of representatives from the Ministries of Industry, Treasury, and Budget, and from industrial organizations, export associations, the union of Chambers of Commerce, the Institute for Foreign Trade, and the Regions.

Contributions can be granted of up to 40 percent of the business expenses in the year preceding that in which the request is presented, with a maximum annual limit of 150 million lire (US\$ 111,000).

For associations which, at the time they present the request, are composed of not fewer than 25 companies, the maximum annual limit is raised to 200 million lire (US\$ 148,000) and, if they are composed of 75 companies or more, to 300 million lire (US\$ 222,000).

For associations located in the Mezzogiorno, the maximum contribution is raised to 60 percent of expenses.

For associations formed not more than five years before presentation of the request, the maximum contribution can be 70 percent of expenses.