

ANNUAL REPORT TO PARLIAMENT

on the implementation and impact of policies in support of
INNOVATIVE STARTUPS and SMEs



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Minister's Foreword

The pandemic crisis and the digital transition have accelerated the evolution of markets, with the rise of new models of production, distribution and consumption of goods and services. This scenario has widened the gap between companies that have undertaken innovation processes managing to adapt to new scenarios and those - above all micro and small enterprises - that have been unable to do so.

The Annual Report provides an organic picture of public support policies for innovative start-ups and innovative SMEs. These interventions have been outlined considering the different characters of the enterprises, starting from the recipient's business life cycle, with the ultimate goal of making the innovation ecosystem more solid and competitive.

The Annual Report also monitors the progress of these policies and provides an overview of the main results achieved.

The economic *performance* of innovative companies recorded very positive results in 2020 and early 2021. These companies demonstrated a good ability to respond to the pandemic crisis. In 2020, the number of registrations in the special section of the commercial register, increased by 10% compared to 2019 for innovative startups and by 31.4% for innovative SMEs.

The number of innovative companies continued to grow in 2021 positioning itself, at the end of September, at 13.999 startups (+16.8%) and 2.066 innovative SMEs (+15.5%). The contribution of these companies was appreciable also from the employment-level point of view, with an increase of 40,5%.

However, in order to strengthen this positive trend, it is essential to make an additional effort to increase, in absolute terms, the number of operators in the innovation ecosystem, and bring it to levels comparable to those of other technologically advanced countries.

The change of paradigm also affects the qualitative dimension of entrepreneurial initiatives with an innovative nature. The government is committed to stimulating the potential of innovation that innovative *start-ups* and SMEs can generate to support the transformation of national supply chains, within the in the framework of the double digital and green transition.

The National Recovery and Resilience Plan will play a key role in this area. Indeed, of the total 235 billion euros allocated, about 27% is aimed at stimulating innovation and digitalization. The planned interventions are oriented to support and strengthen the Italian manufacturing sector through technological upgrading of supply chains to ensure sustainability and innovation.

In addition, measures are foreseen for the development of technology transfer, in order to achieve integration between universities and research and the production system so as to provide space for experimentation, use and dissemination of innovative solutions.

At the same time, the use of *venture capital* will be encouraged in order to support *start-up* processes and strengthen acceleration programs in strategic sectors of the national productive fabric.

The Government's attention will continue to be focused on innovative companies - including small and young ones - that have demonstrated to be able to give an important contribution to the country's growth by launching new ideas and creating new opportunities for doing business and generating new employment.

*The Minister for Economic Development
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THE 2021 ANNUAL REPORT ON INNOVATIVE STARTUPS AND SMEs IN PILLS

Nine years after the launch of the national policy for innovative startups and almost seven years after the launch of the similar initiative in favor of innovative SMEs, **the impact produced on the Italian ecosystem of innovation can be well represented by some key data.** The evidence reported here is as of 31st December 2020¹, date of the sixth edition of the Minister of Economic Development's Annual Report to the Parliament on the implementation and impact of policies in support of innovative startups and SMEs.

1. **Despite the pandemic, the ecosystem of innovative startups and innovative SMEs shows great vibrancy in 2020** regarding the main business variables.
2. **As of 31st December 2020, there are 11.893 innovative startups**, registering a 10% increase compared to 2019.
3. **In 2020, production stands at just under 1.5 billion euros** (2019 financial statements) with an increase - on an annual basis - of 25.2%.
4. **Innovative startups made a significant contribution to employment (+12.5%), attributable mostly to an increase in the number of financing partners (+15.1%).**
5. **Lombardy is still the leading region with 27.1% of new companies out of the total**, while the province of Milan hosts 2.300 innovative startups (19.2% of the national productive system).
6. **Most young companies are set up as limited liability companies** (91.3% in 2020, compared to 89.1% in 2019).
7. **The pandemic seems to have had a negative impact on the performance of youth startups** whose incidence on the total drops between 2019 and 2020 from 18.4% to 17.5% and on **female startups** (from 12.7% to 12.3%).
8. **In response to Covid-19, multiple strategies have been adopted by innovative startups** to identify new market niches, create a new product/service, or to develop new technologies, Apps and, again, to develop research activities. **The drive towards digitalization and innovation has also been high and growing.**
9. **the performance of innovative SMEs** was very positive as well **at the end of 2020 they stood at 1.789 units** with an increase of 31.4% compared to the previous year.
10. **This growth was accompanied by a substantial increase in production of 35.3%** ranging in previous years from 4.1 billion euros (2018 budgets) to almost 5.5 billion (2019 budgets).
11. **Significantly high was the increase in employment of around 70% in 2020 compared to 2019.** Strong growth in the number of business partner (+61.7% in trend terms) demonstrating a greater and more direct involvement of employees in company strategies.

¹ Some updates to 2021 will also be provided throughout the Report depending on data availability.

12. **38% of innovative SMEs operate in the North-West area of the country** (of which 28.2% in Lombardy).
13. **The micro size of innovative SMEs is substantial**, accounting for 49.7% of the total, while the role of large companies is modest (just 0.2%).
14. In 2020, there are **39 certified incubators (38 in 2019), 8 of which are in Lombardy, with an increase in production of 16.3% in 2020 (2019 financial statements)** compared to the previous year.
15. **There is widespread and increasing use on the front end of the various measures in favor of innovative startups and SMEs. Equity investments in innovative startups facilitated by the tax incentives provided over 206 million euros in 2019, an increase of 31% compared to 2018².** During 2019, 5.784 individuals and 809 corporations benefited from the tax incentives. Overall, investors benefited from IRPEF (Personal income Tax) deductions and deductions from IRES (Corporation Tax) taxable income for 42.5 million euros.
16. **In the three-year period 2017-2019, both the number of start-ups and innovative SMEs receiving investment and the total number of investors have increased considerably.**
17. The **50% de minimis tax incentives**, available following the entry into operation of the telematic platform in March 2021, **were received with great success by innovative startups: from March to October 2021³, just over 11.410 startup operations were approved for a total of tax benefits of almost 61.2 million euros** in relation to more than 32.6 million euros in investments. There were just slightly more than 2.050 operations in innovative SMEs for a total of 13.7 million euros in tax incentives and over 33.7 million euros in investments.
18. **The National Innovation Fund**, established by the 2019 Budget Law, as of 31st December 2020, with its 9 operating funds has supported about 116 startups through 273.3 million euros of deliberated capital. The main sectors receiving direct investment in 2020 involved: the ICT sector (21%), Life Science and Lifestyle (19%), Edutech (14%) and Media and Marketing (12%). **In terms of geographical distribution, investments were primarily made in the South and the Islands (53%), the North (43%) and a considerably lower proportion in the Center (4%).**
19. **Voucher 3I - Invest in innovation** was widely used by innovative startups: **from 15th June 2020 to 31st December 2020, 2.749 vouchers were requested (911 startups were involved).** The facilitation has continued successfully: as of 9th June 2021, the date of closure of the counter due to exhaustion of financial resources, a total of 5.012 voucher requests were presented with a total involvement of 1.464 innovative startups.
20. **At December 31st, 2020 the Central Guarantee Fund for SMEs managed a total of over 14 thousand operations.** The total amount of financing potentially mobilized exceeds three billion euros. The innovative companies that obtained bank credit through the intervention of the Central Guarantee Fund are more than 6 thousand between startups and innovative SMEs; among these, some have received more than one loan.
21. **Strongly positive is the impact of the incentive measures provided by Smart&Start: from 20th June 2020 (date of opening of the first window after the renewal of the measure) to 31st December 2020, despite the pandemic, 789 applications for financing were recorded, a significant increase compared to the years 2016-2019, for a total amount of expenditure**

² For tax incentives, the data provided is for fiscal year 2019.

³ The data analysed refer to the start date of platform's operations, from 1st March 2021 to 31st October 2021.

requested of just under 684 million euros, facilitations amounted to approximately 559 million euros. Overall, in the period 2015-2020, there are 703 innovative startups that have obtained financing at subsidized rates.

22. **The use of crowdfunding by innovative startups and SMEs continues: in 2020, 126 and 23, respectively, innovative startups and SMEs proposed crowdfunding campaigns** (overall, in the years 2013-2020, these numbers stood at 451 and 70). The total capital raised by campaigns successfully closed by startups is €97.7 million (of which €34.1 million in 2020 alone). Innovative SMEs, on the other hand, have raised 24.3 million euros, including 6.8 million in 2020.
23. **A recent evaluation analysis carried out by the Bank of Italy regarding the 30% tax incentives in favor of innovative SMEs highlighted the positive impact of the policy on a series of variables** including having favored the increase in share capital, the entry of new shareholders and the likelihood that pre-existing shareholders invested further in the companies' risk capital.

In 2021 the positive trends of 2020 are confirmed

24. **Confirming the high resilience and adaptability, as of 30th September 2021 the number of innovative startups continued to grow**, positioning at 13.999 (+16.8% compared to the end of 2020). **Innovative SMEs also show significant growth**, amounting to 2.066 (+15.5% compared to the end of 2020).
25. Analysis of the economic performance of innovative start-ups also shows encouraging signs: there is an **aggregate value of production growth of around 1.7 billion euros⁴**. There is also a certain number, albeit still limited, of **innovative start-ups that are in the scale-up phase**: over 8.6% of companies had a turnover of over 500.000 euros in 2020 and of these 375 (3.7% of the total) had a turnover of over one million euros. Start-ups with over half a million euros in turnover employ 39.7% of the total workforce.
26. **From a geographical point of view, in the first nine months of 2021 Lombardy was once again the region with the highest number of innovative start-ups (3.751 start-ups, equal to 26.8% of the total) and innovative SMEs (602 SMEs, equal to 29.1% of the total)**. Next are Lazio (1.638 startups, 11.7% of the total and 231 SMEs, 11.2%) and Campania (1.238 startups and 158 SMEs)
27. **With reference to sectors of economic activity**, it should be noted that 37.9% of innovative startups - equal to 5.308 - and 31.2% of the total number of innovative SMEs (644 SMEs) operate in the production of software, IT consultancy and related activities, of which three quarters are primarily involved in the creation of software and information applications. In addition, a significant proportion of innovative startups (2.005 14.3%) and innovative SMEs (260, 12.6%), are involved in scientific research and development.

⁴ Data calculated on the 9,977 innovative start-ups for which 2020 balance sheet data are available.