



# **Italy's Major Structural Reforms**

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## Public finance consolidation

- The December 2011 supplementary **fiscal package** is worth €20.2bn in 2012, €21.3bn in 2013 and €21.4bn in 2014. It aims at achieving a **balanced budget in structural terms in 2013** and maintaining a primary surplus of over 4 per cent of GDP from 2015 onwards.
- In July 2012 the Government approved new measures to strengthen fiscal consolidation and achieve a lasting improvement in the **efficiency and quality of spending**. These measures are budget neutral.
- The 2013-2015 Stability Law aims at (1) rebalancing revenue and expenditure to favour growth; (2) reducing the tax wedge; (3) reducing the fiscal burden on households; (4) enhancing the quality of expenditure; (5) freeing up resources of about €7.8bn in 2013, €9.1bn in 2014 and €8.4bn in 2015, respectively; (6) employing resources for about €10.2bn in 2013, €9.0bn in 2014 and €8.2bn in 2015; (7) confirming the Government's target of a balanced budget in structural terms for 2013.

## Constitutional reform

- In April 2012, Parliament approved a **Constitutional amendment that introduces a balanced budget provision**. It is to become effective as of 2014. The principle of a balanced budget applies to the whole government sector (i.e. Central Administrations, Regions and Local Governments) in accordance with the European legal framework. It takes into account economic cyclical fluctuations and exceptional circumstances.
- In addition to this, the Constitutional amendment establishes **an independent body** attached to Parliament to monitor public finance and check compliance with fiscal rules.
- The Government has also proposed an amendment to Section V of the **Constitutional Law to better ensure legal and economic unity of the Republic**. The proposal aims at restoring exclusive control of the State over several areas that in the past were the shared responsibility of the State and Regions, or of disputed jurisdiction. The main areas concerned are: transport networks, energy transmission and distribution, foreign trade. Tourism, presently under the exclusive competence of Regions, becomes a shared competence. The Constitutional reform also brings local finance firmly under Central Government control.

## Spending review and control of public expenditure

- In July 2012, the Government embarked upon the first phase of a **spending review** that ensures savings for €4.6bn in 2012, €10.8bn in 2013, €11.6bn in 2014 and €12.1bn in 2015. In October 2012, the second phase of the spending review was launched.
- The first round of structural **expenditure reductions** focuses primarily on current expenditure, while preserving the quality of public services for citizens. Measures include: changes in public



procurement, a reduction in public sector staff and consultancy, the closure of some public entities and a more cost-efficient use of government buildings. The education and health care sectors are asked to contribute to the public spending rationalisation effort. Boards of State-owned companies are reduced to a maximum of three or five members, depending on the nature of the business.

- By January 2014 the **number of existing Provinces in ordinary Regions will be reduced from 86 to 51**. In major urban agglomerates, so-called 'metropolitan areas' will replace Provinces. By December 2012 all boards of Provinces will be eliminated, with current functions of presidents to be delegated to a maximum of three councillors, resulting in savings of almost €40mn per year. The streamlining of Provinces is meant to be the first step of a wider process involving the **Territorial Government Offices** as well as the National Motor Vehicle License Organisation.
- The **second-round of structural cuts (worth €3.7bn)** is focused on the purchase of goods and services, particularly in the health sector, and is intended to guarantee a better use of taxpayers' money.
- Measures include: (1) ban on local governments, National Health Service entities (NHS) and Independent Authorities buying new buildings unless deemed strictly necessary; (2) limit on furniture expenditure that cannot exceed 20 per cent of the amount spent in 2010-2011, coupled with a strict prohibition on the purchase or leasing of new vehicles; (3) **reduction in NHS spending** on goods and services and medical devices of €0.6bn from January 2013 and €1.0bn from 2014; (4) further expenditure reductions of **€2.2bn per year for Regions and Local Governments** in 2013-2015 (€1.0bn for ordinary-statute Regions; €0.5bn for special-statute Regions and Municipalities; €0.2bn for Provinces).

### Tax evasion and tax avoidance

- Several measures are introduced to fight tax evasion and avoidance, notably: (1) a legal threshold for **cash payments fixed at €1,000**; (2) incentive for tax payers to comply with so-called sectoral studies (as softer regimes of control are applied to them); (3) consideration of cheating on the Revenue Agency as a criminal offence; (4) **focus on large tax payers and VAT frauds**; (5) obligation imposed on banks and all financial intermediaries to send records of entries made on all customers' accounts to tax authorities; (6) synergies with the Social Security Institute (INPS) in order to crack down on **undeclared economic activity**; (7) compulsory communication to the Revenue Agency of all transactions involving economic agents located in countries with privileged taxation (listed in the so-called '**black list**') for operations exceeding €500 ; (8) compulsory communication on a yearly basis of the entire amount of trade with any given client (previously only individual transaction exceeding €3,000 had to be communicated); (9) reduction in the amount of credits that can be used to directly compensate other taxes (from €10,000 to €5,000) ; (10) clear definition of **abusive schemes** with the introduction of a General Anti-Avoidance Rule (GAAR); (11) **transparency and responsiveness** in identifying and managing ambiguous tax positions; (12) introduction of so-called '**tutoring**' in order to improve assistance



to taxpayers (especially smaller ones) while establishing procedural advantages for tutored contributors; (13) improved efficiency of tax disputes.

- Mandatory e-payments **for transactions between the public administration** and businesses from 2014 on, with each administration publishing all relevant banking information on its website.
- Measures regarding **the taxation of business income**: new tax regime for insolvency proceedings; review of taxation on cross-border transactions; review of deductions and depreciations.

### Fiscal simplification and fiscal reform

- The Government's strategy calls for a shift in taxation from labour and income to consumption and real estate property. Measures include: (1) new tax on real estate (IMU); (2) increase in the ordinary VAT rate from 21 to 22 per cent as of July 2013, while the lower VAT rate remains at 10 per cent; (3) lump sum tax of €34.20 on current accounts owned by Italian residents abroad (**IVAFE** – '*imposta sul valore delle attività finanziarie detenute all'estero*'); (4) new tax on foreign real estate property (**IVIE** – '*imposta sul valore degli immobili situati all'estero*'); (5) introduction of the Tobin Tax on transactions involving financial assets (to be aligned with European legislation once it is decided); (6) increase in the tax rate on insurance companies for life insurance premiums (from the current rate of 0.35 per cent to 0.5 per cent in 2012 and to 0.45 from 2013 on).
- Postponement of payment on 'passive VAT' to moment of invoice collection for firms with turnover up to €2mn (previous limit was €200,000) .
- **Reduction in taxation of labour**: increased level of deduction for employers on the labour component of the **IRAP** tax base, starting from 2013. The level of deduction increases from €4,600 to €7,500. In case of hiring women or young persons under 35 years, the level of deduction is higher, amounting to €10,600, up to €13,500; the level of deduction further increases for firms located in 'disadvantaged' Regions. Small enterprises and **self-employed** entrepreneurs can rely on a fund worth €0.54bn and €0.25bn, respectively, for IRAP tax exemptions.
- **New tax allowances for families with children**: Effective 2013, the deduction from IRPEF for each child under the age of 3 will amount to €1,220 (currently €900), while for each child older than 3 the deduction amounts to €950 (currently €800). For families supporting children with disabilities, the additional IRPEF deduction increases from €220 to €400.
- Introduction of a new fund, financed with proceeds from the fight against tax evasion, to be used to reduce taxation on households.
- By the summer of 2013, the Government will adopt legislative actions in order to **rationalise the tax system (Delegated Law)**. Measures concern: (1) revision of cadastral values to bring them in



line with house market prices (IMU tax base); (2) simplification and rationalisation of indirect taxation; (2) revision of reduced VAT rates; (3) unification of taxation on business and self-employed income; (4) provision of simplified lump-sum payments of IRES, IRAP and VAT for smaller taxpayers; (5) introduction of a carbon tax in line with a revised EU directive on energy taxation (revenues to be used for reducing labour taxation and spurring the green economy).

## Pension system

- The **contribution-based regime** is extended, as of 2012, to all workers and pro rata to those previously subject to earnings-related or mixed regimes.
- **A rapid tightening of eligibility requirements for old-age retirement is introduced:** (1) as of 2012, the Statutory Retirement Age (SRA) of men (employed in both the public and private sector) and women working in the public sector increases from 65 to 66 years of age ; (2) all workers are aligned to the same SRA, with a gradual increase of the SRA for women working in the private sector (currently at 60); (3) for workers hired after 1996, in addition to the age requirement, at least 20 years of contributions and pension benefits equal to at least 1.5 times the social pension are necessary to be entitled to an old-age pension; (4) as of 2013, all age requirements are linked to changes in life expectancy at 65. After 2019, such adjustments are carried out every 2 years instead of every 3 years. As of 2018-2019, the SRA becomes 67 years for all workers.
- **A rapid tightening of eligibility requirements for early retirement:** (1) as of 2012, the contribution period to be eligible to retirement, regardless of age requirement, is increased from 40 to 42 years and 1 month in the case of men and 41 years and 1 month in the case of women. These requirements increase by 2014, when retirement will be possible with a contribution period of 42 years and 3 months for men and 41 years and 3 months for women; (2) workers employed after 1996 are entitled to retire at age 63 but must have at least 20 years of contributions and be entitled to a pension benefit equal at least 2.8 times the minimum amount; (3) for people retiring before the age of 62, benefits related to contributions accrued before 2012 are reduced by 1 percentage point if they retire at age 60 and by 2 percentage points for any additional year beforehand; (4) as of 2013 all requirements, including those related to age and contribution periods, are updated in line with life expectancy at 65. After 2019, such adjustments will be carried out every 2 years, instead of every 3 years.
- **New rules for pension benefits:** (1) the transformation coefficients for the derivation of pension benefits are now calculated taking into account the probability of death from the age of 57 up to the age of 70 (65 according to previous legislation); (2) the transformation coefficients are now updated every three years as of 2013 and every 2 years as of from 2019; (3) the contribution rates for the self-employed (artisans, shopkeepers and farmers) will be gradually increased from 21.3 per cent in 2012 to 24 per cent in 2018; (4) an indexation freeze is imposed on pension benefits that are 3 times higher the minimum provision in 2012-13.



- The related savings, net of fiscal effects on Italy's public finances, are estimated at **€7.3bn** by 2014 and almost **€22bn** by 2020. The average age at retirement (taking into account both the old-age retirement requirements and the early retirement requirements) will increase from 60-61 in 2006-2010 to about 64 in 2020, 67 in 2040 and then about 68 in 2050.

### Measures to reduce public debt

- In July 2012, the Government committed to dismiss real estate assets and privatise State-owned companies to ensure **1pp of GDP per year** in debt reduction over the next 5 years. Real estate assets are to be transferred by central and local governments to a devoted real estate Fund (established and controlled by the '*Società di Gestione del Risparmio*', a real estate management company of the Ministry of Economy and Finance) entrusted to either manage or dismiss assets.
- Some government holdings (in particular **Fintecna, SACE and SIMEST**), were sold to '*Cassa Depositi e Prestiti*'. According to the law, '*Cassa Depositi e Prestiti*' paid 60 per cent of value of companies to the State, for a total amount of €5.4 billion. The remaining part will be paid in 2013.
- **Extra inflows into the Fund for the Amortisation of Government Bonds** can now come from: (1) a quota of the proceeds from auctioning **CO2 permits** within the EU Emission Trading System; (2) private donations which are allowed to be deducted from taxable income (19 per cent).

### National Health System (NHS) reform

- The Government introduced the following measures to improve efficiency in the health care system: (1) **reorganisation of the territorial health care system**; (2) introduction of **new rules related to the career and professional status of doctors**; (3) **measures against addiction to gambling and smoking and in favour of healthy sport activity**; (4) introduction of electronic health care records and electronic medical prescriptions.
- Throughout the country 24 hour primary healthcare support is planned; support units to operate in digital connection with hospitals and other health structures; doctors employed in public hospitals to be able to pursue **private professional activities** ('*intra-moenia*' medical services) only if digitally connected to NHS administrative units; web connection is also to be used for recording payments in order to monitor income from private professional activities; 5 per cent of payments made for '*intra-moenia*' services are to be transferred to the NHS.
- Regarding **pharmaceutical expenditure**, obsolete drugs are eliminated from the official NHS list ('*Prontuario Farmaceutico Nazionale*'). Moreover, unnecessary medical examinations are limited in order to reduce costs and waiting lists. Voluntary funds are set up by doctors and specialised insurance companies to limit professional liability.

### Anti-corruption and transparency in the public administration



- **Judges and arbitration:** new rules for judges allow them to stay on leave and be on ministerial assignment for a maximum of ten years (with five years between any two assignments). Furthermore, judges will no longer be able to participate in arbitration commissions.
- The Commission for the evaluation, transparency and integrity of the public administration (**CIVIT**) is identified as the **National Anti-Corruption Authority**. CIVIT collaborates with international bodies, analyses the causes and factors of corruption and expresses voluntary (or non-mandatory) opinions on compliance of acts and conduct of public officials to the law, codes of conduct, and collective and individual contracts governing public employment. It ensures the implementation and the effectiveness of measures taken by the public administration and compliance with rules governing transparency of administrative activity, reporting annually to Parliament.
- Sounder criteria for determining **incompatibility of public employment with other activities**. Regulation activities not compatible with public employment and potential conflicts of interest are identified; protection and non-discrimination of whistle-blowers are ensured; criteria are identified to ensure the rotation of executive managers in sectors most exposed to the risks of corruption.
- **Transparency:** publication on public administration websites of administrative proceedings, including those related to budgets, final accounts and unit costs of construction of public works and production of services provided to citizens.
- **Corruption and extortion crimes:** tougher penalties for corruption in the exercise of public functions. Two new offenses are introduced in the code: (1) 'extortion by induction' (*concessione per induzione*) and (2) 'traffic of illicit influences'.
- With the '**anti-mafia**' list, the effectiveness of measures against criminal organisations in those areas more at risk is improved. Each Prefecture is required to elaborate a 'white list' of businesses, service providers and performers of public works not exposed to Mafia infiltration.
- The **financing of political groups** and appointees at the regional level, as well as the number of regional counsellors are reduced. Furthermore, financial controls are increased and sanctions for regions that do not respect the rules are introduced. Local political groups must attest and publish all revenues and expenditures. Moreover, Presidents of Regions, Presidents of Regional Councils and Counsellors must make public their revenues and personal wealth on the Region's website. Provinces and municipalities, excessively indebted, must define a plan to achieve a balanced budget within a period of five years.
- The **power of Italy's Court of Auditors** to inspect the Regions' finances is reinforced. The Court in particular ensures that the Regions respect national and EU budgetary stability rules. Regional Counsellors' wages and benefits may not exceed those of the more virtuous Regions while life annuities are abolished. Violation of these provisions is considered a major breach of law.



## Liberalisation and competitiveness

- The **Antitrust Authority** is strengthened by extending the range of administrative acts it can scrutinise and the scope of the binding opinions it can issue; remaining obstacles to the **opening of new shops** are removed; stronger action is directed towards liberalising the distribution of newspapers and magazines.
- Measures on **professional services**: abolition of minimum fees for practitioners; easier access to professions through reduction of compulsory traineeship (halved to 18 months); increase in the number of notaries; increase in the number of pharmacies (measures are introduced to facilitate the opening of 5,000 additional pharmacies; the number of drugs which can be sold by quasi-pharmacies is increased).
- **Public transport services** are opened to competition; regulation of market access, tariffs, quality standards, and other aspects are to be under the responsibility of a new single independent authority .
- The **Energy and Gas Authority** is in charge of the regulation of water services. It defines the minimum level of service quality, approves tariffs, and sets a new tariff methodology in line with European regulation, following the principles of full cost recovery and 'polluter-pays'.
- The Antitrust Authority has stronger power on local public services; in particular, procurement without tender or by using fully-controlled captive entities is subject to the binding opinion of the Authority.
- In order to reduce the **transposition deficit**, the Government is implementing a large number of European Directives through the approval of the 2011 and 2012 EC Directive Transposition Draft Law (still before Parliament). The new legislative framework provides for tighter transposition deadlines.
- Simplified approval procedures for **strategic infrastructure** projects are introduced. The existing norms on the use of project financing are extended in scope with the aim of attracting private capital. Use of project bonds for financing public works is extended in scope and a favourable tax treatment on bond yields is introduced (12.5 per cent tax rate, in line with that on government bonds). The financing of public works through tax credits is also extended. Other provisions include greater financial independence for port authorities. Financing of the High Speed Train line connecting Lyon to Turin is increased by €0.7bn in 2013-2015. In 2013, 1.5bn is allocated to 'MOSE', Venice's dam system to be completed by 2016.
- Measures to support **construction firms** include (1) balancing VAT debit with credit made easier for real estate properties sold 5 years after their construction, and (2) enhancement of one-stop-shops for administrative requirements regarding residential constructions.
- **Measures for SMEs**: with a view to facilitating access to **credit**, the Government has refinanced the Central Guarantee Fund for €400mn per year for the next three years. Tax incentives for





investments in venture capital funds are adopted. New **financial instruments** are introduced for firms without a credit rating to enable them to access financial markets. These securities are reserved for qualified investors and can be issued with the assistance of a sponsor; yields on securities with more than a 5-year maturity can be linked to profits. Streamlined registration procedures are introduced for **network agreements** (i.e. stable partnerships among enterprises for strategic targets). In order to **ease credit access for SMEs**, the loan guarantee scheme (*'Confidi'*) can enhance its financial position by including assets owned by the State, Regions and other public bodies. New measures are introduced to facilitate capital market access by companies not listed.

- New tax framework for businesses (**ACE - Aid for Economic Growth**): it reduces the tax burden on capital investments by rebalancing taxation of 'businesses that finance themselves with debt' and 'businesses that finance themselves with equity or own capital'.

A **Fund for Sustainable Growth** (FSG) is established; at the same time, 43 provisions on business incentives are repealed and related resources are moved to the FSG. Resources are allocated to: (1) promoting R&D and innovation projects, also through merging business R&D centres; (2) strengthening business infrastructures, especially in Southern Italy; (3) promoting the internationalisation of Italian enterprises and attracting FDI (through **ICE** – Italian Institute for Foreign Trade).

## Simplification and Digital Agenda

- The **administrative burden** for firms is reduced through the elimination of ex-ante controls, limits, permits, and licenses for start-ups, as well as substantial simplification of administrative procedures for SMEs. A simplified framework for limited liability companies is established.
- A single environmental procedure replaces existing ones (i.e. VIA, VAS and AIA) and the related Commissions are unified.
- The **reform of civil justice** includes the introduction of courts specialised in company law (*'Tribunale delle imprese'*), so as to speed up case-handling of business-related judicial matters; (2) a new bankruptcy procedure similar to 'Chapter 11' in the US, together with greater protection for entrepreneurs under strain to help them continue their business (*'Concordato Preventivo'*); under 'Chapter 11' the payment to creditors of new debt is due for the entire amount and becomes senior with respect to old debt; notices are made according to a standard model and trustees must communicate with creditors through certified electronic mailing; creditors must submit proof of liability online to the trustee; (3) measures by which trials can last no more than 6 years in total, 3 of which in the first stage of judgment, 2 in front of the Appeal Court and 1 in front of the Supreme Court; every additional year over this limit triggers compensation; (4) reorganisation of judicial districts in order to close small courts and reduce public expenditure; (5) introduction of sanctions for non-acceptable appeals as to reduce the backlog of cases brought to court; (6) administrative communications by certified electronic mailing to speed up procedures.



- Further simplification is introduced with the **Simplification Draft Law 2.0** under discussion in Parliament. All foreseen measures could generate **€3.7bn savings for businesses and citizens**. Among the measures are: (1) **administrative simplification for job safety** with the creation of a simplified on line document regarding health and risks for workers under health monitoring (on line direct transmission between hospitals, doctors and INAIL); (2) documentation for the evaluation of risk, so called 'DUVRI' ('*Documento unico per la valutazione dei rischi da interferenze*') can be replaced by certification signed by the supervisor of activities; (3) period of validity for the single insurance contribution payment certificate ('DURC' - '*Documento Unificato di Regolarità Contributiva*') increases from 90 to 180 days; (4) commitment by the public administration to either accept or reject applications for building permits in natural or cultural heritage conservation areas (versus previous tacit rejection) within 45 days.
- The **Agency for Digital Italy** ('*Agenzia per l'Italia Digitale*') promotes the establishment and development of major strategic projects related to the implementation of the Digital Agenda, notably: (1) introduction of relevant innovative products and services; (2) involvement of industries dealing with ICT in R&D long-term initiatives; (3) National Plan for Smart Cities ('*Piano Nazionale delle Comunità Intelligenti*'); (4) **reduction of Italy's digital divide**
- '**E-customs regulation**': all administrative procedures related to customs can now be completed on-line, thanks to the launch of the electronic portal 'AIDA'.
- Administrative simplification measures include: (1) unique **document replacing both the identity and the health care card**; (2) **national register of resident population** aiming at facilitating services to citizens, businesses and other public administrations; (3) wider use of **certified electronic mailing** in communications between the public administration and citizens (mandatory for businesses) and strengthening of **electronic transmission procedures of public administration documents**; (4) requirement that public administration contracts be signed digitally; (5) compulsory use of electronic platforms for public procurement.

## Energy

- **Gas sector**: the Government undertakes the unbundling of the network operator (*Snam Rete Gas*) from the gas incumbent (ENI). In line with EU principles, this ensures autonomy of the network from vertically-integrated firms operating in the gas production and supply, thus favouring greater market openness and competition. The Government also intends to allocate import capacity of gas more efficiently through tenders. The Energy and Gas Authority is in charge of modifying the reference prices for so-called 'vulnerable clients', progressively aligning supply costs of gas to prices quoted on the EU spot markets for gas.
- **Fuel distribution**: service stations are no longer bound to purchase fuel exclusively from the oil company they are linked to (up to 50 per cent of their total supplies can come from another company). Service stations also have greater freedom of choice in the products sold in convenience stores. Self-service stations are encouraged and restrictions on the opening of fuel distribution near supermarkets are eliminated.



- **Energy efficiency:** tax credits for building renovations to increase energy efficiency are extended to June 2013; subsidised loans are provided to finance energy-efficiency and environmentally-related projects by firms (i.e. renewables, biofuels and the reduction of hydrogeological and seismic risk).
- **Oil:** new measures introduce simplified procedures and coordinated controls for extracting and refining oil, and cleaning up of sites; central government can grant permission in case relevant Regions do not respond.
- **Energy-intensive sectors:** subsidies are to be set according to the relative weight of energy costs with respect to output (and no longer on the basis of volumes of energy used), thereby ensuring a fairer system of subsidies.
- **Renewables:** the Government is engaged in reforming the framework of incentives for renewable energy production to take into account technological progress and contain costs related to new energy installation whilst ensuring the achievement of the Renewable Energy Sources (RES) target as defined by European and national regulation.
- **National Energy Strategy:** in order to achieve the **EU 2020 targets**, the Government has proposed, for public consultation, a new strategic plan for the energy sector. The policy hinges on seven main priorities: (1) energy efficiency; (2) greater competition in the natural gas market, fully integrated with Europe in order to become a hub for Southern Europe; (3) development of renewable energy sources, going beyond the target of Europe 2020 while containing effects on electricity prices; (4) development of an integrated electricity market aligned to European prices, with the gradual integration of renewable energy production; (5) restructuring of the oil extraction industry and the distribution chain, complying with European quality and competitiveness standards; (6) development of the national hydrocarbon industry, in line with high international environmental and security standards; (7) modernisation of the system of governance in the energy sector. By 2020 the Strategy aims at achieving the following results: (1) the alignment of energy wholesale **prices to European levels** for all sources of energy; (2) reduction of €14bn per year in imported energy hence **decreasing the foreign dependency of Italy** (from 84 to 67 per cent); (3) 19 per cent **reduction in greenhouse gas emissions** (an overachievement of the EU goal for Italy of a 18 per cent reduction with respect to 2005 emissions); (4) target share of 20 per cent of **renewables** in terms of gross final consumption (compared to 10 per cent in 2010); (5) a 24 per cent reduction in primary energy consumption compared to baseline trends (-4 per cent with respect to 2010 levels) mostly due to **energy efficiency improvements**.

### Better use of EU Structural Funds

- Italy's **Cohesion Action Plan** redirects **€3.5bn** of Structural Funds towards four priorities: (1) education and professional training; (2) digital agenda; (3) employment; (4) railways. Half of the amount is appropriated for initiatives in favour of young people. The use of Structural Funds now accounts for 29.5 per cent of total funding, exceeding the national target by 2.3 percentage points.



- In May 2012, the Cabinet of Ministers approved the second phase of the **Cohesion Action Plan** and the **Social Plan for Southern Italy**. Among the priorities set by the Government are: better child and elderly care (funded with €730mn); new opportunities for young people (€220mn); measures for enterprises and culture (€1bn).

### Payments in arrears by the Public Administration

- Payments due by general government bodies (including national public entities), Regions and Local Governments (including the NHS) can be certified through a swift online procedure. Subsequently, companies may either (1) obtain **compensation for credits** owed in the form of an equivalent reduction in their payables registered on the tax roll as of April 2012 (related to national, regional and local taxes, pensions contributions, and compulsory insurance premium for accidents and industrial diseases), or (2) obtain **bank advances** in exchange for credits owed. Bank advances can be covered by guarantees worth up to 70 per cent of the Central Guarantee Fund (this percentage can be raised to 80 per cent in case of further contributions by Regions).
- In order to facilitate SMEs, starting from January 2013, payments between businesses and the public administration must take place within 30 days (60 days only in exceptional cases). The provisions anticipate the term date of the European Directive on this issue (foreseen for March 2013). In the case of late payments, an interest rate of 8 per cent over the rate set by the ECB for lending operations will be applied.

### Education and Research

- **School evaluation systems:** (1) new guidelines designed by the evaluation agency (INVALSI); (2) new **common electronic portal** for the recording of exam results by Universities to be developed on a national basis; (3) setting-up of an **electronic system** with information on student careers; (4) issuance of university degree certificates also in English; (5) introduction of **e-books**.
- The Government allocates a total of €974.3mn to: (1) contribute to raising students' basic skills and level of knowledge; (2) reduce drop-out rates in areas characterised by significant social and cultural exclusion; (3) improve the design and implementation of school-to-work programmes; (4) improve foreign-language skills; (5) raise the quality of school facilities. To this regard, the Cohesion Action Plan addresses structural human capital weaknesses in Southern Italy, by considering it a national priority. A system of incentives is designed to support excellence in teaching, at the level of both secondary and tertiary education.
- The Government develops simplified procedures to assess **R&D and innovation** projects eligible for subsidies. For instance, 10 per cent of the Fund for Investments in Scientific and Technological Research (FIRST) is earmarked for researchers under 40. A tax credit for hiring researchers is established, amounting to 35 per cent of expenditure with a €200,000 yearly cap per firm. New researchers should be employed for at least 3 years (failure to comply with this requirement entails the loss of the entire financing). As for **technological innovation**, a steering committee is set up to facilitate the implementation of the Digital Agenda.



- A special fund is designed to favour investments by small and medium enterprises in R&D, using resources previously allocated on a generic basis to firms (so called 'Piano Giavazzi'). The fund will also finance the reduction in taxation of labour and should rely on €800mn.
- Fresh appropriation of funds to spur innovation in different fields: (1) smart cities and communities (€895mn); (2) interaction between universities and enterprises in the South of Italy (€930mn); (3) creation of high-tech clusters (€408mn); (4) social innovation with projects led by young people living in the South; (5) regional projects to boost cooperation between universities and enterprises.

### Reducing segmentation and increasing productivity in the labour market

- The Government aims at strengthening **apprenticeships to facilitate the entry of young people into the labour market**. After training, companies are encouraged to take on at least half of the apprentices through open-ended contracts. Apprenticeship contracts have a minimum duration of six months. In order to reduce the **persistent insider-outsider dualism**, a new unified regime of unemployment insurance, the so called '*Assicurazione Sociale per l'Impiego*' (ASPI), is gradually applied to all dependent workers. It will be implemented in January 2013, and cover apprentices and public and private workers previously employed on temporary contracts.
- Once the scheme will be fully phased in (as of January 2017), the **ASPI** will be available for a maximum of 12 months for workers up to 54 years of age and 18 months for workers above 54 (compared to 8 months for workers below 50 years of age and 12 months for workers above 50 years in the current unemployment benefit system). The **amount of benefits** depends on total remuneration received over the last two years. This amounts to 75 per cent of the last salary if the latter is below €1180 in 2013, plus an additional 25 per cent of the part of income above this threshold, up to a cap of €1119. Both the maximum and the threshold are updated annually on the basis of the consumer price index. Moreover, ASPI foresees a 15 per cent reduction in benefits after the first six months, followed by a further 15 per cent reduction after twelve months.
- Unemployed workers with a shorter contribution history are entitled to benefits for a shorter period of time (so called 'mini-ASPI'), while non-dependent workers are entitled to a lump sum benefit. The ASPI is partially funded by the State and partially through increased contributions paid by employers which can be reimbursed in case the worker is hired with an open-ended contract.
- The '**ordinary wage supplementation scheme**' (*Cassa Integrazione Guadagni*, CIG) for firms with more than 15 employees is extended to sectors previously excluded. It is financed by employers through a new 'solidarity fund' managed by INPS (the National Social Security Institute).
- The scope for using the '**special wage supplementation scheme**' (*Cassa Integrazione Guadagni Straordinaria* - CIGS) is reduced by excluding firms that face closing-down procedures. Employees from these firms are to be covered by the general ASPI scheme.



- The Government **aims at increasing flexibility on the firing side**. The reform introduces a fast, compulsory, out-of-court settlement procedure at the local level to handle disputed dismissals for economic or other objective reasons. When conciliation fails and a judge rules the objective reasons are ‘clearly non-existent’, the worker is entitled to a maximum compensation equivalent to 12 months of wages and reinstatement. In all other cases, with the exception of those involving clear discrimination, judgement gives rise only to compensation, which is capped at a level equivalent to 24 months of wages. Previous to this reform there were no limits on possible financial compensation. **Additional measures** concern: greater protection of **maternity and paternity leave**; new **public employment services** for unemployed workers within 3, 6 and 12 months from job loss, such as career orientation services and vocational training activities; the establishment of a permanent system for the **monitoring and evaluation** of outcomes related to the reform.
- Italian trade unions and employers’ associations have reached an **agreement to help boosting labour productivity** by providing for labour contracts that better reflect the needs of individual companies.
- Under the “**Guidelines to increase productivity and competitiveness in Italy**”, signed on 21 November, national collective bargaining agreements will continue to reflect economic trends as well as the evolution of specific sectors, **without any form of implicit indexation**.
- The Guidelines put a stronger emphasis on **individual or local-level contracts** (accordi di ‘secondo livello’ for small-and-medium size companies), which give employers greater flexibility to set working conditions that reflect their needs and situation. To encourage the change, the government has set aside €2.1bn within the draft 2013-2015 Stability Law, to cover for reduced taxes on productivity-linked wage increases set at local level. The reduced tax rate will apply to annual gross salaries up to €40,000. A ministerial decree will be adopted by the end of the year to detail the conditions that will give rise to the reduced taxes on productivity-linked wage increases.
- The Guidelines **identify specific aspects**, such as regulatory constraints, where local collective bargaining shall intervene, as a matter of priority, in order to increase productivity.
- They also pave the way for a better **pact between generations** allowing for senior workers to stay at work longer by becoming more mobile internally, including by opting for part-time tutorial tasks, which will smoothen the transition from work to retirement and increase the employment of young workers.
- **Local collective bargaining is now set to become the norm**, better reflecting the reality of the sector nationally and internationally. As such, the deal is an important step in re-launching productivity and increasing the competitiveness of Italy.