

## **AIBE-INDEX OBSERVATORY**

**Annual monitoring of Italy's appeal overseas**

**Rome, January 2016**

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## 1. INTRODUCTION: AN ITALY TO BE PROMOTED

The ability to attract foreign investments is, in the modern-day global economic system, one of the key levers for channelling and utilising the many financial resources needed to make the basic system actually work.

It is also one of the most important factors among those that help to fuel domestic demand. In recent years, due to the prolonged economic crisis, the growth in domestic demand has been very modest, even in decline, with particular reference to fixed investments.

It is in these years of crisis, with the reshaping of the global economic system and the emergence of new actors, more intense processes of integration and disintegration, and absolute role of global corporations, that new ways of interpreting institutional and industrial contexts have been adopted, capturing “signals” capable of summarising the complexity of systems with reference to their potential in attracting tangible and intangible flows of human, financial and technological resources.

Many countries have sought to promote their image in a new way, and many international actors have modified their decision-making processes to adapt to new ways of considering key concepts underpinning investment initiatives, such as financial stability, the institutional context and the quality of tangible and intangible assets.

The monitoring of Italy’s *appeal*, or degree of appeal, is therefore an important tool that can also be used to strengthen the mechanism of *moral suasion*, which is able to steer change inside the country and improve the services and processes used to interface with foreign actors, be they banks, enterprises, investment funds or even media and communication agencies.

In this sense, the appraisal carried out by the Italian Association of Foreign Banks (AIBE) in collaboration with Censis, following on from the previous study conducted by AIBE in 2014, may be viewed as a further pointer to the evolution of Italy’s institutional and industrial situation, but more in contact with those directly interested – namely international actors – looking to regularly survey some areas of specific and recurring analysis, with a special focus on events of national importance, regulatory changes or reforms capable of modifying the reference framework.

The survey has involved managers of multinationals, institutional investors already present in Italy, major exponents of the foreign press and law firms that lend their support to investment initiatives.

The survey looks at the following topics:

- the most “attractive” countries;
- the factors that add to a country’s appeal;
- Italy’s appeal today and compared with six months previously;
- strategies for making Italy more attractive;
- the events and changes during the course of the monitoring period that have conditioned and may further condition Italy’s appeal, both positively and negatively. For the current monitoring period, the survey has considered: the slowdown in the digitalisation process, Expo 2015, the reform of the labour market (*Jobs Act*, social contribution incentives and so-called progressive entitlement contracts for workers).

To further raise the quality of the analysis, some open-ended questions have been included, which Panel participants were able to answer freely and give their own views. The results of the open-ended questions have been processed and illustrated conceptually and graphically.

Finally, adopting a specific method, a composite indicator was constructed, the AIBE Index, allowing a historical view of Italy’s perceived appeal. This new index can be compared with the previous survey conducted by AIBE, and in the future will be the benchmark for future trends (seen on a yearly basis) regarding Italy’s attractiveness.

## 2. A SPECIAL VANTAGE POINT: THE AIBE PANEL MONITORS ITALY'S APPEAL OVERSEAS

Italy's appeal overseas has been gauged by the opinions expressed by a Panel of managers and persons of great responsibility from foreign banks, multinationals, international law firms, institutions and media and communication agencies.

The first thing to emerge from the answers given was that among industrial countries the United States, United Kingdom and Germany are those which, in the medium-long term, are most trusted by foreign investors. These three countries all score, on a scale 1 to 10, with 1 being the least attractive and 10 the most attractive, above 7 on average (tab. 1, fig. 1).

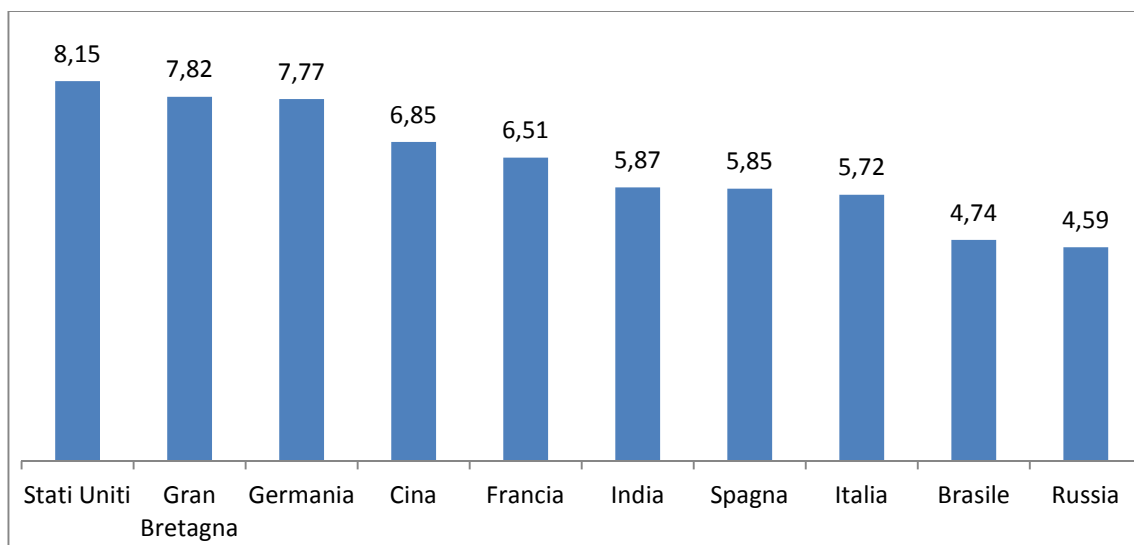
Lower down this ranking are China and France, with an average score above 6, while below this "pass" score are, in descending order, India (5.87), Spain (5.85) and Italy (5.72). Further down are Brazil (4.74) and Russia (4.59).

**Tab. 1 - Attractiveness for foreign investors intending to invest in the medium-long term. Comparison of 10 Countries** (average for answers given, 1: min attractiveness, 10: max attractiveness)

Country	Average
United States	8.15
United Kingdom	7.82
Germany	7.77
China	6.85
France	6.51
India	5.87
Spain	5.85
Italy	5.72
Brazil	4.74
Russia	4.59

Source: AIBE-Censis Survey 2016

**Fig. 1 - Attractiveness for foreign investors intending to invest in the medium-long term. Comparison of 10 Countries** (average for answers given, 1: min attractiveness, 10: max attractiveness)



Source: AIBE-Censis Survey 2016

## 2.1. Appeal factors and Italy's “misalignment”

The scope of the AIBE-Censis analysis of a country's appeal to foreign investors is based on the 14 factors below:

1. Regulatory/bureaucratic burden.
2. Tax burden.
3. Political stability.
4. Stability of regulatory framework.
5. Efficiency of civil justice.
6. Infrastructures/logistics.
7. Cost of labour.
8. Flexibility of labour market.
9. Quality of human resources.
10. Level of corruption.
11. Clarity of regulatory framework.

12. Effectiveness of Government action.
13. Soundness of banking system.
14. Cost of energy.

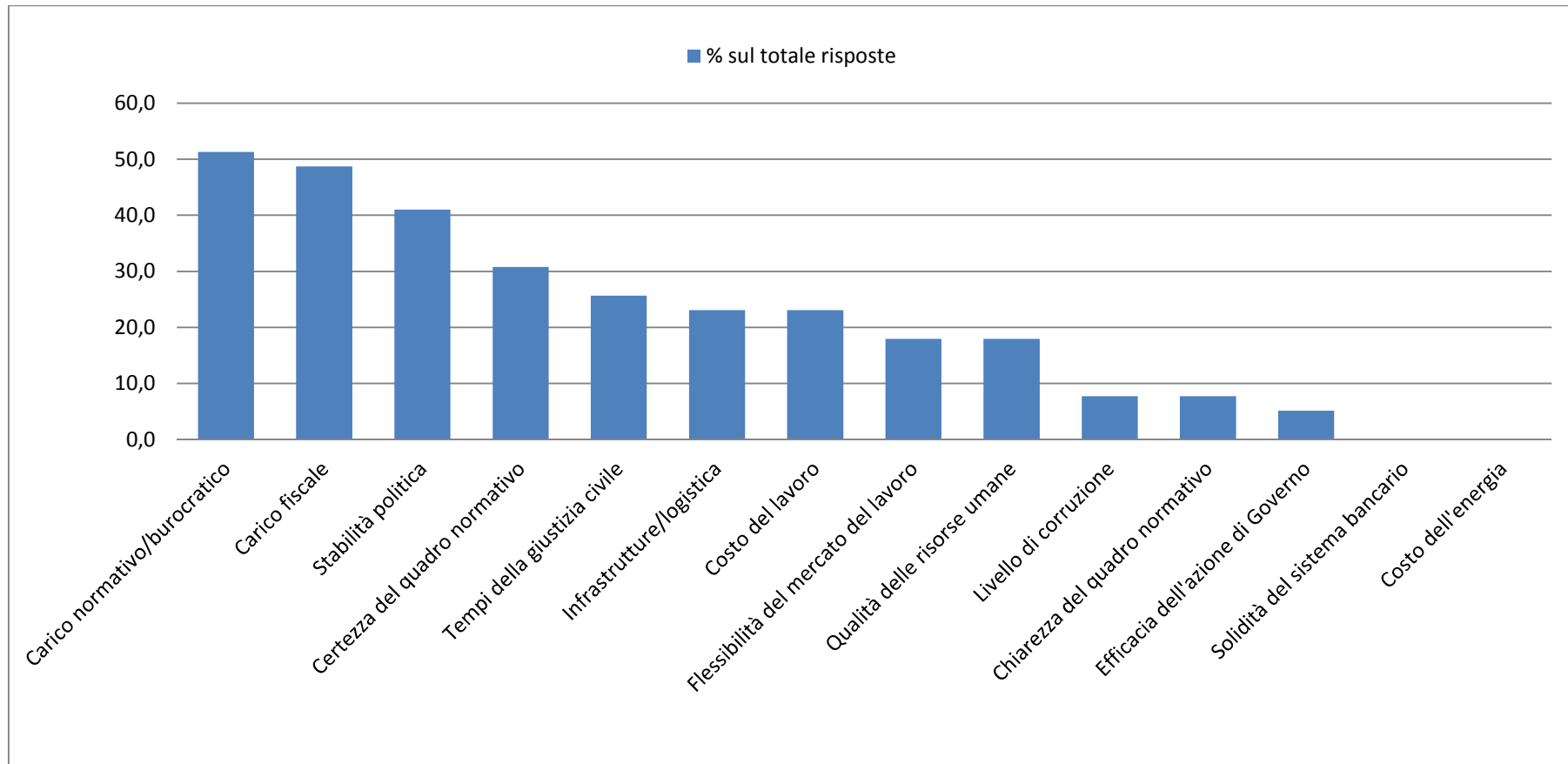
Of the most important elements to consider when deciding on investing in a foreign country, the Panel placed in the top three the regulatory and bureaucratic efforts needed to roll out the investment, the tax burden and political stability, all topping 40% of answers (tab. 2, fig. 2).

**Tab. 2 - Factors that a foreign investor considers before investing (% of all answers)**

Factor	% of all answers
<b>1</b> Regulatory/bureaucratic burden.	51.3
<b>2</b> Tax burden	48.7
<b>3</b> Political stability	41.0
<b>4</b> Stability of regulatory framework	30.8
<b>5</b> Efficiency of civil justice	25.6
<b>6</b> Infrastructures/logistics	23.1
<b>7</b> Cost of labour	23.1
<b>8</b> Flexibility of labour market	17.9
<b>9</b> Quality of human resources	17.9
<b>10</b> Level of corruption	7.7
<b>11</b> Clarity of regulatory framework	7.7
<b>12</b> Effectiveness of Government action	5.1
<b>13</b> Soundness of banking system	0.0
<b>14</b> Cost of energy	0.0
<b>Total</b>	<b>100.0</b>

Total of percentages exceeds 100 as more than one answer was possible

Source: AIBE-Censis Survey 2016

**Fig. 2 - Top three factors that a foreign investor considers before investing (% of all answers)**

Source: AIBE-Censis Survey 2016





Other important factors to consider were the stability of the regulatory framework, efficiency of civil justice, the state of infrastructures and logistics and the cost of labour. These factors received about 25% of all answers.

Aspects receiving less than 20% of answers include the flexibility of the labour market, the quality of human resources and, below 10%, corruption levels, clarity of the regulatory framework and the effectiveness of government action. No responses were received for factors associated with the soundness of the banking system and the cost of energy.

Making a comparison with the Panel's benchmark which – from the above answers – gives a sort of “hierarchy” of factors, Italy's appeal profile appears to be some distance from it. It is basically constructed around the quality of human resources, soundness of the banking system, political stability, effectiveness of government action and availability of logistical networks and infrastructures (tab. 3). These are the factors which, in the view of the Panel, are around the global score of 6.1 on a scale of 1 (minimum importance) to 10 (maximum importance).

**Tab. 3 - Appeal factors for Italy** (average for answers given, 1: min attractiveness, 10: max attractiveness)

Factor	Average of answers
<b>1</b> Quality of human resources	8.11
<b>2</b> Soundness of banking system	7.24
<b>3</b> Political stability	5.97
<b>4</b> Effectiveness of Government action	5.95
<b>5</b> Infrastructures/logistics	5.82
<b>6</b> Flexibility of labour market	5.53
<b>7</b> Cost of labour	5.34
<b>8</b> Cost of energy	5.13
<b>9</b> Clarity of regulatory framework	4.29
<b>10</b> Stability of regulatory framework	4.29
<b>11</b> Level of corruption	4.03
<b>12</b> Tax burden	3.47
<b>13</b> Regulatory/bureaucratic burden.	3.26
<b>14</b> Efficiency of civil justice	2.82

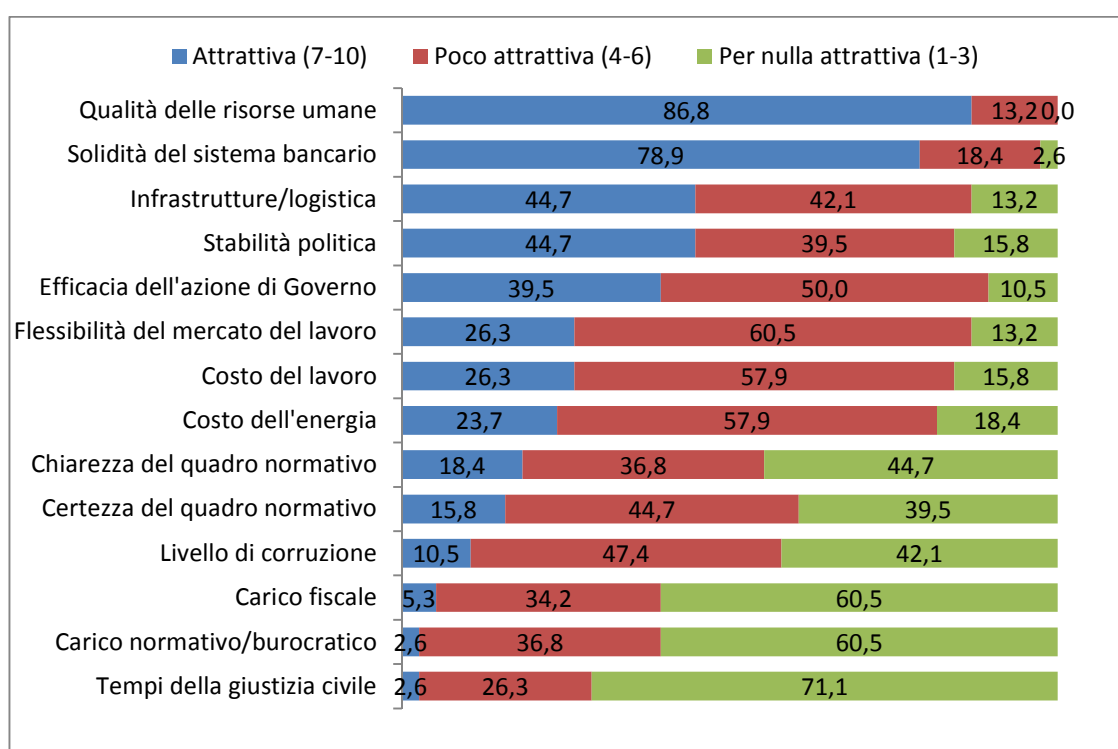
Source: AIBE-Censis Survey 2016

The Panel also provides a clear pointer to Italy's weaknesses: the time needed to dispense justice, the regulatory and bureaucratic burden, and the tax burden obtained the lowest scores as appeal factors, thus they may be seen as "repulsive" factors.

More specifically, Italy appears to be unattractive for a whole series of reasons which, for potential investors, represent direct and indirect costs, visible and invisible costs that have a strong bearing on where investments are located (fig. 3 and 4).

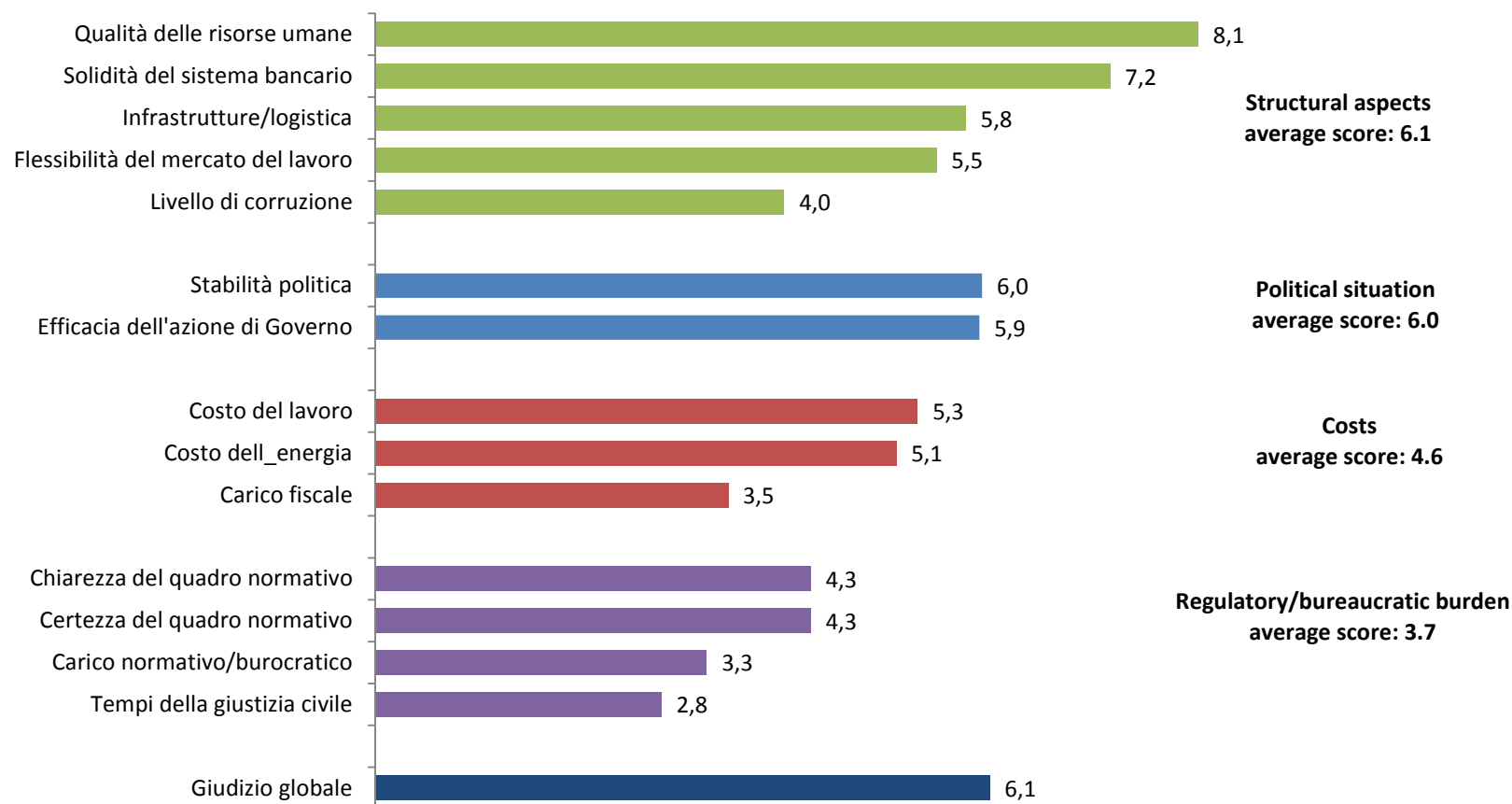
Investors thus focus mainly on how the "public machine" works and on procedural diseconomies. Italy can only partially come up to the optimal profile outlined by the Panel. The deviation between "demand" coming from investment decisions and the "supply" offered by the Italian system represents a clearly defined "policy" area.

**Fig. 3 – Appeal traits for foreign investors in Italy (% val. \*)**



(\*) 1= not attractive at all; 10= very attractive

Source: AIBE-Censis Survey 2016

**Fig. 4 - Scores of single appeal factors for foreign investors in Italy (average scores) (\*)**

(\*) 1= not attractive at all; 10= very attractive

Source: AIBE-Censis Survey 2016



The “misalignment” may also be viewed as a sign of the strengths of Italy’s current potential attractiveness which, all the more, must continue to be consolidated and improved in the future, and then maintained. The sorting of average values for priority factors already represents a strategic framework for system-wide intervention, with its strengths and weaknesses, dangers and opportunities, based on a conventional SWOT analysis.

Going into the question more deeply, the Panel was then asked to construct a more weighted and exhaustive picture of the priorities to be tackled by Italy. Nearly 75% of all responses pointed to the factor “regulatory and bureaucratic burden”, 61.5% referred to the tax burden and 43.6% to the efficiency of civil justice (tab. 4 and fig. 5).

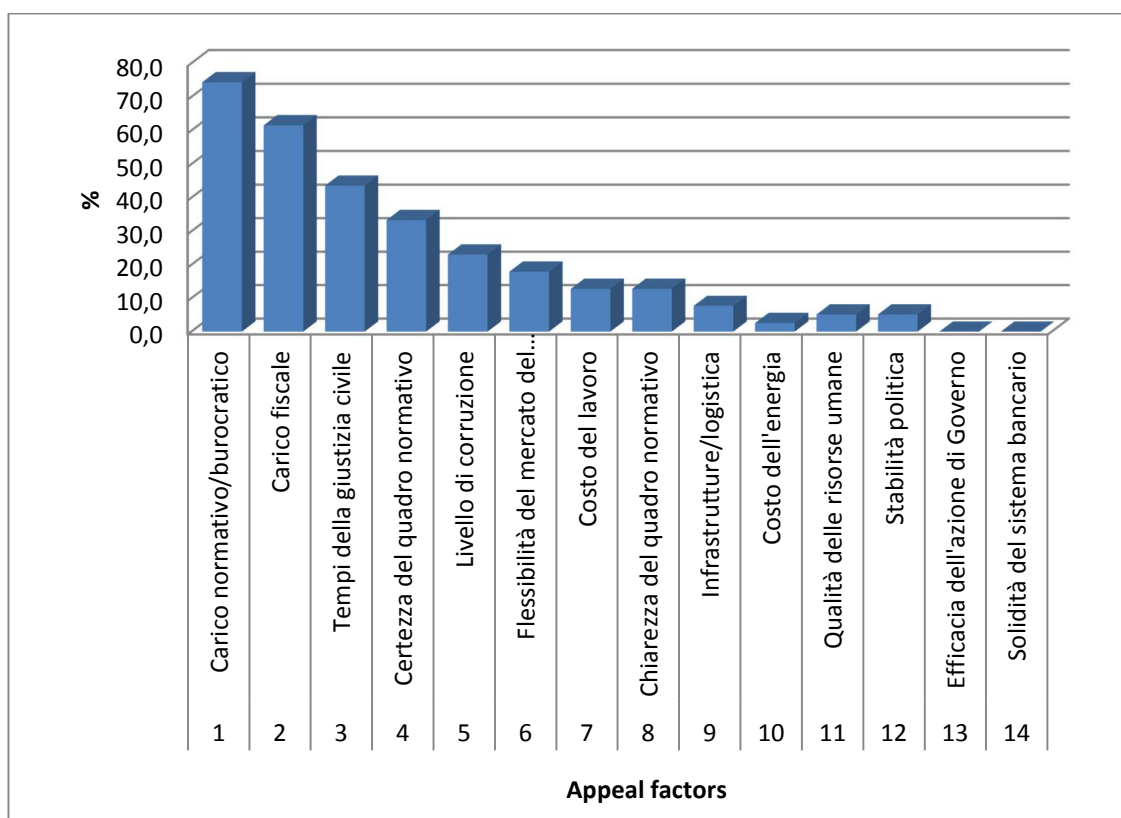
**Tab. 4 - Factors on which Italy must work to improve its appeal** (*% of all answers*)

Factor	% of all answers
<b>1</b> Regulatory/bureaucratic burden	74.4
<b>2</b> Tax burden	61.5
<b>3</b> Efficiency of civil justice	43.6
<b>4</b> Stability of regulatory framework	33.3
<b>5</b> Level of corruption	23.1
<b>6</b> Flexibility of labour market	17.9
<b>7</b> Cost of labour	12.8
<b>8</b> Clarity of regulatory framework	12.8
<b>9</b> Infrastructures/logistics	7.7
<b>10</b> Cost of energy	2.6
<b>11</b> Quality of human resources	5.1
<b>12</b> Political stability	5.1
<b>13</b> Effectiveness of Government action	0.0
<b>14</b> Soundness of banking system	0.0
<b>Total</b>	<b>100.0</b>

Total of percentages exceeds 100 as more than one answer was possible

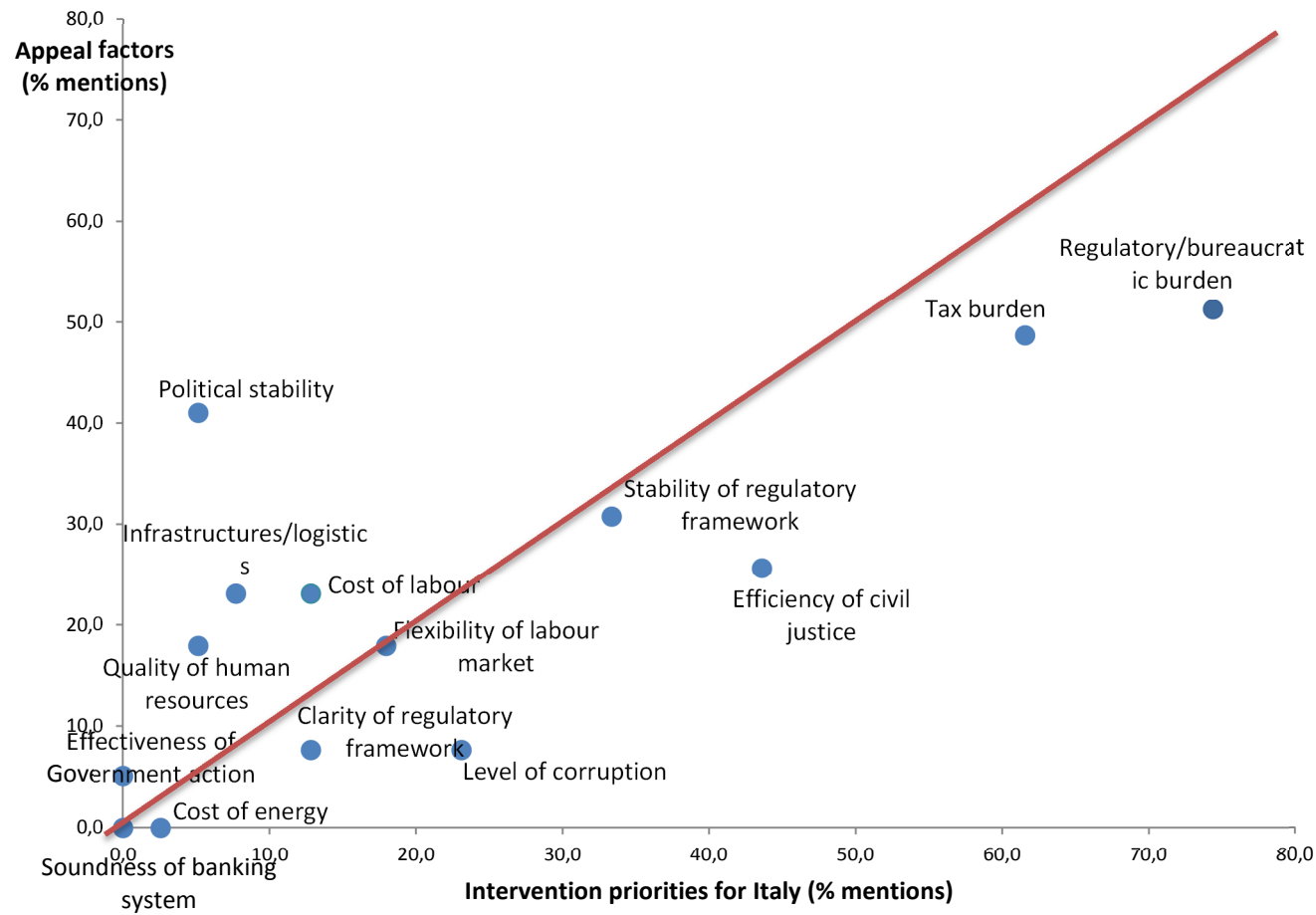
Source: AIBE-Censis Survey 2016

Fig. 5 - Factors on which Italy must work to improve its appeal



Source: AIBE-Censis Survey 2016

The “strategic framework to improve Italy’s appeal” may also be constructed from the parallel examination of those factors making up the Panel’s reference model and those that can be viewed as absolute priorities for Italy. The diagonal of figure 6 and the distance in relation to the origin of the axes makes it possible to measure the urgency of intervention for some factors and, at the same time, the importance of other aspects that also need to be kept under observation and maintained over time.

**Fig. 6- Appeal factors and intervention priorities for Italy (% val.)**

Source: AIBE-Censis Survey 2016

In addition to the fourteen appeal factors analysed and verified at a general level for each country and in greater detail for Italy, the Panel then extended the potential list of areas in which Italy should seek changes to enhance its performance. Particularly significant responses to the open-ended questions – consistent with the factor “quality of human resources”, already mentioned above as one of the country’s strengths – were those regarding a knowledge of foreign languages, flexibility of the *lifelong learning* system, modernisation of the educational system to promote the teaching of English and use of information technology. In addition to the regulatory and bureaucratic burden and clarity of the regulatory framework, we can also note the responses regarding greater transparency of market information and the elimination or reduction of the role of professional lobbies.

## **2.2. Italy’s current degree of attractiveness**

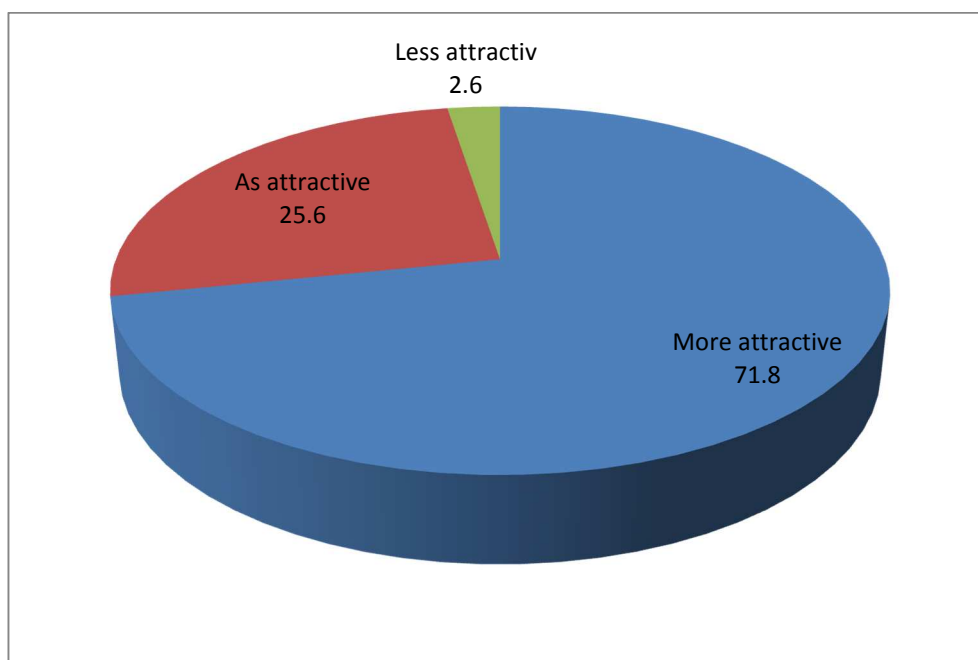
The Panel was also asked to give a general evaluation, on a scale of 1 to 10, of Italy’s current degree of attractiveness to foreign investors. The final score was 6.1 which, if one considers that 71.8% of the respondents then declared that Italy has become more attractive than six months previously, and only 2.6% perceived a deterioration, may be a positive figure, perhaps reversing past trends, when perception was based on more pronounced criticalities (tab. 5 and fig. 7).

These criticalities, again according to the Panel, depend chiefly on the absence of a strategy for the competitiveness of the country (41% of responses, fig. 8) and, even if the presence of a strategy were admitted, it was deemed to be inefficient (33%). According to the Panel major reforms, such as that of the labour market or the electoral system, can push up Italy’s ability to attract foreign investors (85% of respondents agreed with this), while the easing of austerity policies within the European Union is deemed to be relevant by just 13% of the Panel (fig. 9).

**Tab. 5 – Compared with 6 months ago, Italy is for foreign investors...**

	% val.
<b>More attractive</b>	71.8
<b>As attractive</b>	25.6
<b>Less attractive</b>	2.6
<b>Total</b>	<b>100.0</b>

Source: AIBE-Censis Survey 2016

**Fig. 7 – Compared with 6 months ago, Italy is for foreign investors...**

Source: AIBE-Censis Survey 2016

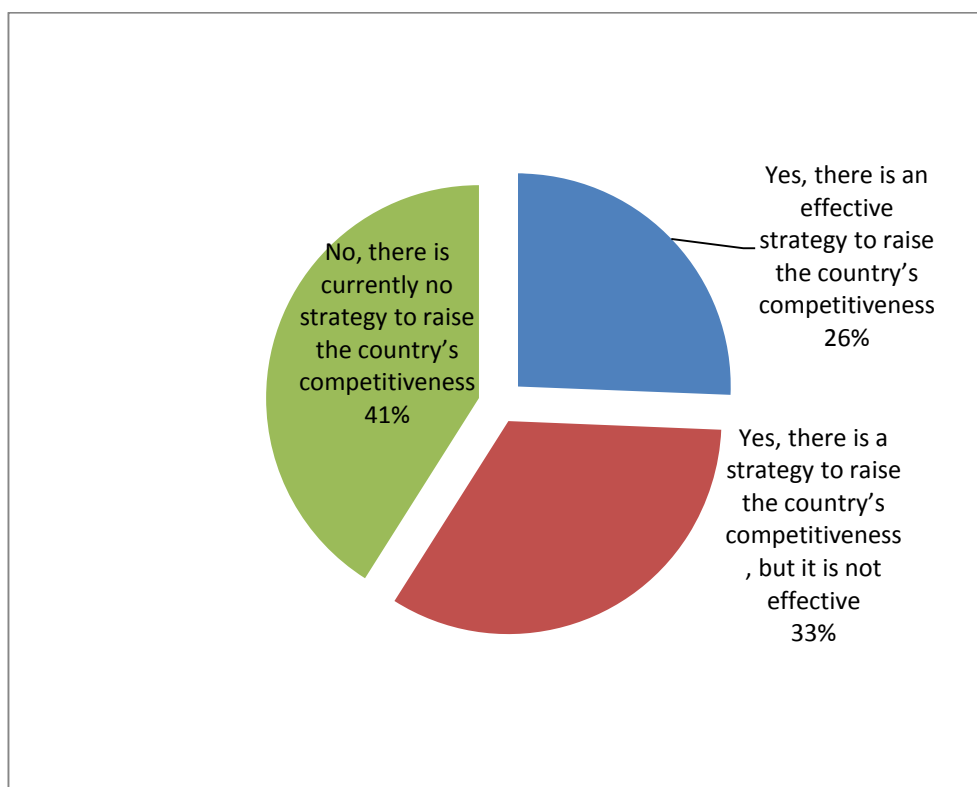


**Tab. 6 – Is a strategy in place for improving Italy’s appeal to foreign investors? (% val.)**

	% val.
<b>Yes, there is an effective strategy to raise the country’s competitiveness</b>	25.6
<b>Yes, there is a strategy to raise the country’s competitiveness, but it is not effective</b>	33.3
<b>No, there is currently no strategy to raise the country’s competitiveness</b>	41.0
<b>Total</b>	<b>100.0</b>

Source: AIBE-Censis Survey 2016

**Fig. 8 - Is there a strategy for improving Italy’s appeal to foreign investors? (% val.)**



Source: AIBE-Censis survey 2016

**Tab. 7 – Actions to raise Italy’s appeal (% val.)**

	% val.
<b>It is preferable to approve major reforms (labour market, electoral law, etc.)</b>	84.6
<b>It is preferable to ease restrictive European economic policies</b>	12.8
<b>No response</b>	2.6
<b>Total</b>	<b>100.0</b>

Source: AIBE-Censis Survey 2016

**Fig. 9 - Actions to raise Italy's appeal (% val.)**

Source: AIBE-Censis survey 2016

### 2.3. Elements of discontinuity over the past year

More substance to the views expressed comes from judgements concerning the development of communication networks and infrastructures and the impact of Expo 2015. The Panel demonstrates from its responses a clear interest in large-scale, broad-ranging actions, such as digitalisation – an investment that can no longer be put off by the country – and a more qualified emphasis on the role of the biggest event of 2015, with Milan taking centre stage. With regard to the first point, the majority of Panel members believe that the delay in implementing digitalisation has had a negative impact on attractiveness (with 48.7% stating that the slowdown in the digitalisation process was a real appeal limitation, fig. 10). On the second point, 59% of the Panel stated that Expo 2015 had made a modest or large contribution to the degree of attractiveness (fig. 11).

The impact of the recent reform of the labour market, the *Jobs Act*, was the subject of a specific question. This reform entails, among other things, the introduction of progressive entitlement contracts for newly created jobs and generous social security contribution incentives for businesses that hire new workers.

In the medium-long term, the objective of achieving, through the reform, more flexible enterprises and, at the same time, continued job creation, particularly important for Italy after many years of crisis, was recognised as being important by 42.1% of the Panel. 13.2% of the Panel said that the reform can guarantee more jobs as well as greater stability for enterprises and human resources, while for 10.5% of respondents the rise in job numbers will not necessarily be followed by greater certainty for workers. The most sceptical members make up 34.3% of the Panel on this issue, some of them arguing that the reform relates primarily to contractual changes, and will not have an effect on long-term unemployment (21.1%), and the remainder that when tax relief stops so will the initial positive effects of the reform (tab. 10).

A final open-ended question was posed, asking what was lacking in Italy to fully tap the potential for attracting foreign investors.

**Tab. 8 - The slowdown in the development of infrastructural networks for the country's digitalisation process: a negative effect on attractiveness (% %)**

	% val.
<b>Very much</b>	48.7
<b>Quite a lot</b>	35.9
<b>Not much</b>	12.8
<b>No response</b>	2.6
<b>Total</b>	<b>100.0</b>

Source: AIBE-Censis Survey 2016

**Fig. 10 - The extent to which the slowdown in the development of infrastructural networks for the country's digitalisation process restricts attractiveness (% %)**

Source: AIBE-Censis survey 2016

**Tab. 9 - EXPO 2015's contribution to raising Italy's appeal to foreign investors (val. %)**

	% val.
<b>Very much</b>	15.4
<b>Quite a lot</b>	43.6
<b>Not much</b>	28.2
<b>Not at all</b>	12.8
<b>Total</b>	<b>100.0</b>

Source: AIBE-Censis Survey 2016

**Fig. 11 - To what extent did EXPO 2015 help to raise Italy's appeal to foreign investors (% %)**

Source: AIBE-Censis survey 2016

**Tab. 10 - Impact of the recent reform of the labour market in the medium-long term**  
(% %)

	% val.
<b>Rise in job numbers and more flexible enterprises</b>	421
<b>Rise in job numbers and greater stability for enterprises and human resources</b>	132
<b>Rise in job numbers but less certainty for workers</b>	105
<b>Only contractual changes, will have no effect on long-term unemployment</b>	211
<b>When tax relief ceases the positive initial effects will disappear</b>	132
<b>Total</b>	<b>1000</b>

Source: AIBE-Censis Survey 2016

Of the considerations made, aside from those that correctly point out the limitations of Italy's institutional framework, the lack of effectiveness or absence of policies to promote Italy (e.g. more political stability, serious and stable industrial policy over time, an effective and efficient legal system, PA reform, marketing policy for Italy and its assets, etc.), we may cite here some interesting points for further debate:

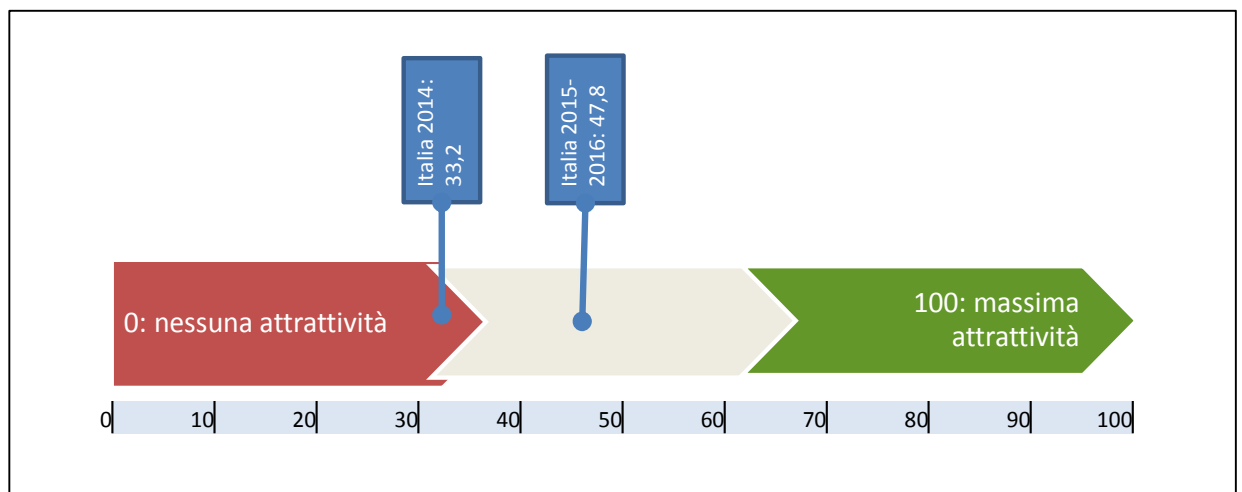
- “*enhancing reputation*”, i.e. raising the country's reputation by setting and pursuing objectives to improve the quality of relations with international organisations, foreign partners and global clients. This is to stress the feeling that the “Made in Italy” brand is no longer sufficient, indeed like all brands there is always the risk of it passing its sell-by date;
- giving extra value to the areas of tourism, fashion and food; giving the South a better chance, also with a view to narrowing the gap between the “two Italies” which the crisis has helped to maintain, reinforcing the perception from the outside of a “crippled” country;
- pushing for a real opening up to foreign investors, avoiding a non-productive attitude, promoting a positive attitude, such as “defending Italian-ness”;

- fostering a team ethic, and collaboration among the university, research, and business sectors, raising the growth potential hiding behind investments in human capital, especially that focusing on the training of the country's managers and leaders.

### 3. COMPOSITE INDEX MEASURING ITALY'S APPEAL (AIBE INDEX)

The AIBE Index, a composite index measuring Italy's appeal to foreign investors, constructed through the specific weighting of all judgements expressed by the Panel, shows a measure of progress in this survey conducted in late 2015 and early 2016. Compared with 2014, benchmark year for the comparison, the index rose by about 14 points, on a scale of attractiveness going from 0 to 100. The index went from 33.2 in 2014 to the current 47.8 (fig. 12).

**Fig. 12 – AIBE Index – Composite index measuring Italy's appeal to foreign investors (2014 and 2015-16)**



(chart: 0: no appeal at all 100: maximum appeal)

Source: AIBE-Censis Survey 2016



#### **4. FINAL CONSIDERATIONS: HOW TO RAISE GLOBAL APPEAL AND REDUCE MISALIGNMENT**

The monitoring of Italy's appeal to foreign investors and the progress recorded in the latest survey go to confirm the improved perception of the state of Italy among international experts.

Recent initiatives undertaken by the Ministry for Economic Development, such as the *Invest in Italy roadshow*, taken to major American investors, and some agreements reached in recent weeks with global corporations, the modern-day giants of technological innovation, have also had a big communication impact, pointing to concrete efforts to make a positive break with the past, seeking to create a more attractive image of the country.

The latest data on Italy's competitiveness, presented at the recent meeting of the *World Economic Forum* in Davos, also show a reverse in trend compared with recent years, and a six-place rise in the *Global Competitiveness Index* ranking. In greater detail, there is a clear convergence of appraisals regarding the role that the public sector – the administrative sector in contact with foreign operators – can and must play, to reduce the *misalignment* between what is globally offered by the system and demand from those evaluating possible returns on investments.

The great uncertainty currently hanging over the global economy is also quickly reshaping opportunities for economic growth, creating new spaces for profitability and re-assessing the competitive edge factors of different countries. Varying conditions of convenience is thus a key area inside which Italy must act to re-take and extend its role as a global actor in the economy of flows, a role it has traditionally played for the trading of goods and products, but one that it must reinforce by raising the external perception of its potential.