
Regional heterogeneity in the business environment: the case of Italy

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Abstract. How do we evaluate the business environment of regional economies? This paper makes use of primary data from the World Bank's *Subnational Doing Business* studies to analyze the capacity of Italian regions to facilitate entrepreneurs in setting up and operating new businesses. By comparing data across locations and over time, we are able to identify best practices that may help policy makers in the implementation of reforms aiming at improving the business environment of Italian regions and, as a result, of the country.

Sommario. Come si può valutare la capacità di una economia regionale di favorire le attività imprenditoriali? Questo articolo utilizza i dati originali delle indagini *Subnational Doing Business* della Banca Mondiale per analizzare la facilità di fare impresa nelle regioni italiane. Comparando i dati tra regioni e nel tempo, siamo in grado di identificare pratiche virtuose esistenti a livello locale che possono essere replicate altrove dai *policy makers* per migliorare la situazione generale delle regioni italiane e dell'Italia nel suo complesso.

Keywords: Subnational Doing Business, World Bank, Regions, Investments.

JEL codes: L52, M20, R10, R50.

1. Introduction

As it is well-established in the literature (Dunning, 1980; Ascani et al., 2021; Bettarelli and Resmini, 2022), in order for a place to stimulate business demography and attract investments, there must exist what scholars define as locational advantages, such as access to large markets, favorable tax regimes, easy bureaucratic procedures, lower production costs, lower institutional barriers, and lower risks. For over 15 years, the World Bank has produced subnational quantitative indicators (Subnational Doing Business, SNDB) to evaluate how easy it is to do business in different locations within a country, under the idea that country-level analyses may hide large within-country heterogeneity.

In this paper, we embrace the idea that a business environment that stimulates investment and firm creation is a crucial condition to sustain the economy and the job market. Through the analysis of SNDB indicators in a sample country, we aim at developing policy recommendations for policy makers to use in implementing local-level reforms. We focus on Italy, as it is an ideal case study of a country both dramatically hit by crises occurred in last years and characterized by sharp internal disparities.¹

¹ By way of example, regional GDP growth in Italy ranged from -13 to +13 in the period 2007-2018. Similarly, business demography varied widely at regional level, with the number of active firms registering a maximum of +10,700 and a minimum of -5,500 in the same period. Source: Eurostat.

Empirically, we make use of an original dataset including SNDB scores for 13 NUTS-3² regions in Italy, collected in two rounds in 2012 and 2019. First, we present the latest data to demonstrate the relevance of a subnational approach. Secondly, we compare 2019 scores with those collected in the previous round. By analyzing the two datasets, we are able to identify good practices and, based on those, we formulate policy recommendations.

The paper is structured as follows. Section 2 introduces 2019 SNDB scores for Italy; Section 3 compares the two rounds of data; Section 4 formulates policy recommendations; Section 5 concludes.

2. The World Bank 2019 subnational assessment of the Italian business environment

The 2019 *Subnational Doing Business in Italy* study targeted 13 Italian NUTS-3 regions located throughout the country, thus providing a comprehensive picture of the whole Italian territory.³ The methodology considers five topics, which are relevant to characterize the performance of a location in terms of its business environment.⁴ These areas are: (1) starting a business, (2) dealing with construction permit, (3) getting electricity, (4) registering property, and (5) enforcing contracts. Each topic is evaluated according to three categories—the number of required procedures, time, and cost—with the aim of measuring the efficiency of regulations and of their implementation.⁵ The final score a location can get ranges from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance. All in all, a location is virtuous the faster is its record in the above areas, the lesser the number of procedures, and the lower the costs. Each area is measured based on a standardized case study.⁶

The study reveals significant variation in the performance of Italian cities, to the extent that entrepreneurs face different regulatory hurdles depending on where they establish their business. Of the 13 European Union (EU) member states assessed by the World Bank using the same methodology, Italy registers the largest spread between its lowest scored city and its highest.⁷ Table A1, in the Appendix, reports subnational statistics broken down by the 13 EU countries. The last column indicates the average difference between the minimum and maximum scores within each country in each of the topic under analysis. Italy, with an average difference across the measured topics of 10.84, has the largest range between the lowest- and highest-performing city, followed by

² The Nomenclature of Territorial Units for Statistics (NUTS) is a classification system for statistical purposes developed and regulated by the European Union (EU). Each EU member state has one NUTS 1 level, each of which is divided into territorial units of roughly equal population at the NUTS 2 level, and finally, the NUTS 3 level. Italy has 107 regions at the NUTS 3 level.

³ These regions are: Marche (represented by Ancona), Puglia (Bari), Emilia-Romagna (Bologna), Sardinia (Cagliari), Tuscany (Florence), Liguria (Genoa), Lombardia (Milan), Campania (Naples), Veneto (Padua), Sicily (Palermo), Lazio (Rome), Piedmont (Turin), and Calabria (Reggio Calabria). The Nomenclature of Territorial Units for Statistics (NUTS) is a classification system for statistical purposes developed and regulated by the European Union (EU). Each EU member state has one NUTS 1 level, each of which is divided into territorial units of roughly equal population at the NUTS 2 level, and finally, the NUTS 3 level. Italy has 107 regions at the NUTS 3 level.

⁴ Publication available at:

<https://www.doingbusiness.org/content/dam/doingBusiness/media/Subnational/DB2020-SNDB-ITALY.pdf>. The study is part of the *Doing Business in the European Union* series of reports being produced by the World Bank Group at the request of and funded by the European Commission, Directorate-General for Regional and Urban Policy.

⁵ Four of the five areas (i.e. with the exception of Starting a Business) include a fourth category, measuring qualitative aspects of the laws and regulations.

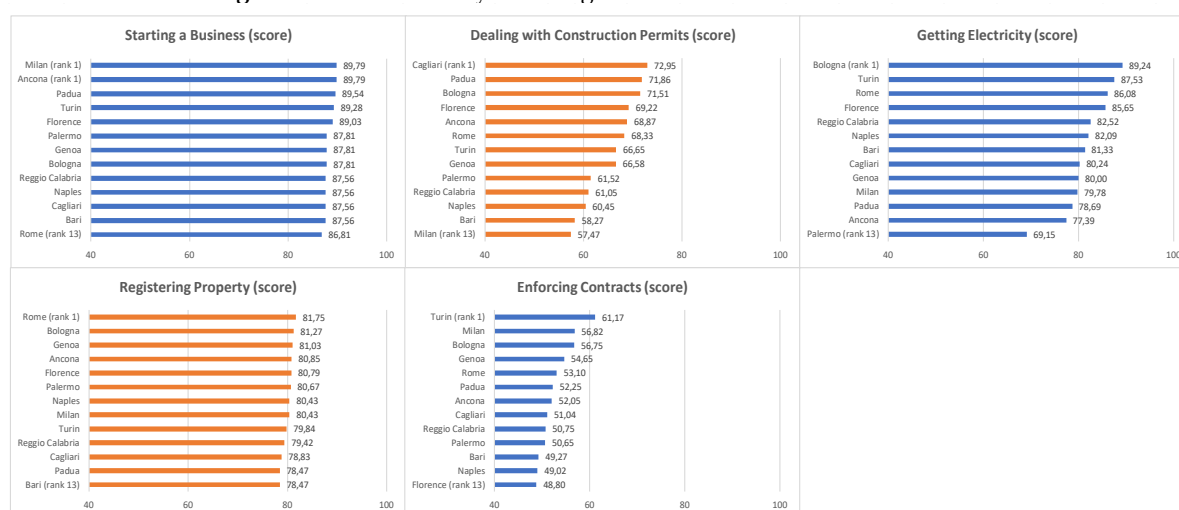
⁶ The description of the case studies is available here: <https://www.doingbusiness.org/en/methodology>.

⁷ The EU member states assessed are Bulgaria, Hungary and Romania (2016); Croatia, Czech Republic, Portugal and Slovakia (2018); Greece, Italy and Ireland (2019); Austria, Belgium and the Netherlands (2020). All data and related reports are available at: <https://www.doingbusiness.org/eu>.

Croatia and Romania (9.38 and 8.68, respectively). The most homogenous country, the Netherlands, reports a value that is almost one-fourth of that of Italy.

No single Italian city does equally well in all areas measured. Each indicator is led by a different city, and cities that do very well in one area perform poorly in others (Fig. 1). Starting a business is easiest in Ancona and Milan, while Ancona scores second to last on getting electricity, and Milan is last on construction permits. Cagliari and Turin lead on construction permitting and enforcing contracts respectively, but they lag behind the other cities on registering property. Rome is the easiest city to register a property, but the hardest to start a business.

Figure 1 – A different city ranks highest in each of the five areas measured

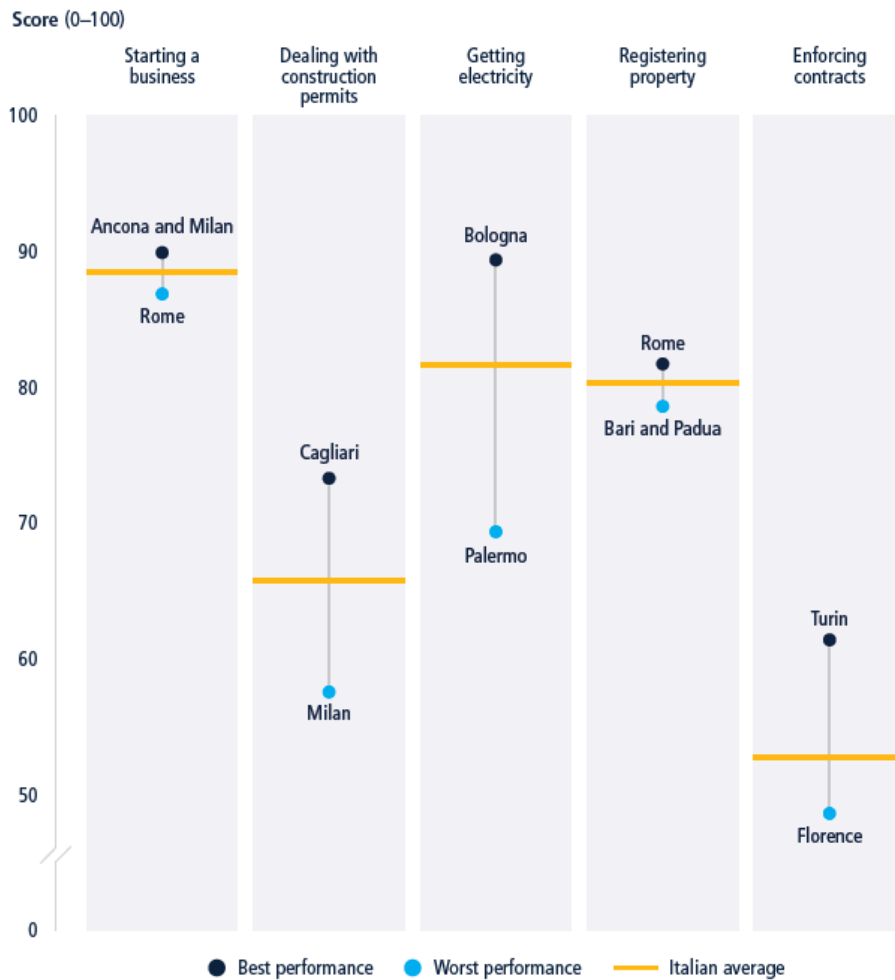


Source: World Bank, Subnational Doing Business in Italy.

Note: The scores are normalized to range from 0 to 100, where 100 is the best regulatory performance on the indicator across all economies measure by Doing Business from 2005 to 2019.

Differences across cities are particularly large in some of the measured topics (Fig. 2). One telling example: in Bologna, the authorization to excavate and install a new electricity connection is issued by one single agency (the municipality) in 30 days. An identical project in Palermo requires 15 approvals, bringing the waiting time to six months. Even going to Court can look radically different. Entrepreneurs in Turin can expect to solve their disputes in a bit more than 2 years. In Reggio Calabria, it takes more than twice as long.

Figure 2 – Subnational gaps vary depending on the topic



Source: World Bank, Subnational Doing Business in Italy.

Note: The scores are normalized to range from 0 to 100, where 100 is the best regulatory performance on the indicator across all economies measure by Doing Business from 2005 to 2019.

Time is the dimension that varies the most across the five indicators. On average, the difference between the slowest and fastest location is about 140%. One example is the time needed for dealing with construction permits: it takes 105 days in Milan, but more than three times longer in Reggio Calabria. Similarly, getting electricity requires two months and a half in Bologna and Rome, but almost eight months in Palermo (Fig. 3).

Figure 3 - Time is the dimension that varies the most across the five indicators

Source: World Bank, Subnational Doing Business in Italy

These subnational variations suggest that each city could considerably improve its own performance by replicating more efficient standards employed elsewhere in the country.

3. A comparison with the 2012 round

Prior to the 2019 edition, a subnational measurement was performed in Italy in 2012 with a largely comparable methodology.⁸ A comparison of the nine cities⁹ and four topics¹⁰ that have been measured both in 2012 and 2019 highlights two interesting results. First, it shows a clear average improvement of the Italian business environment (see Table A2, in the Appendix). On 9 of the 12

⁸ Available at <https://www.doingbusiness.org/content/dam/doingBusiness/media/Subnational-Reports/DB13-Italy.pdf>. The 2012 report is the result of the collaboration of the Government of the Italian Republic's Department for Planning and Coordination of Economic Policy of the Presidency of the Council of Ministers (DIPE) with the Global Indicators and Analysis Department of the World Bank Group.

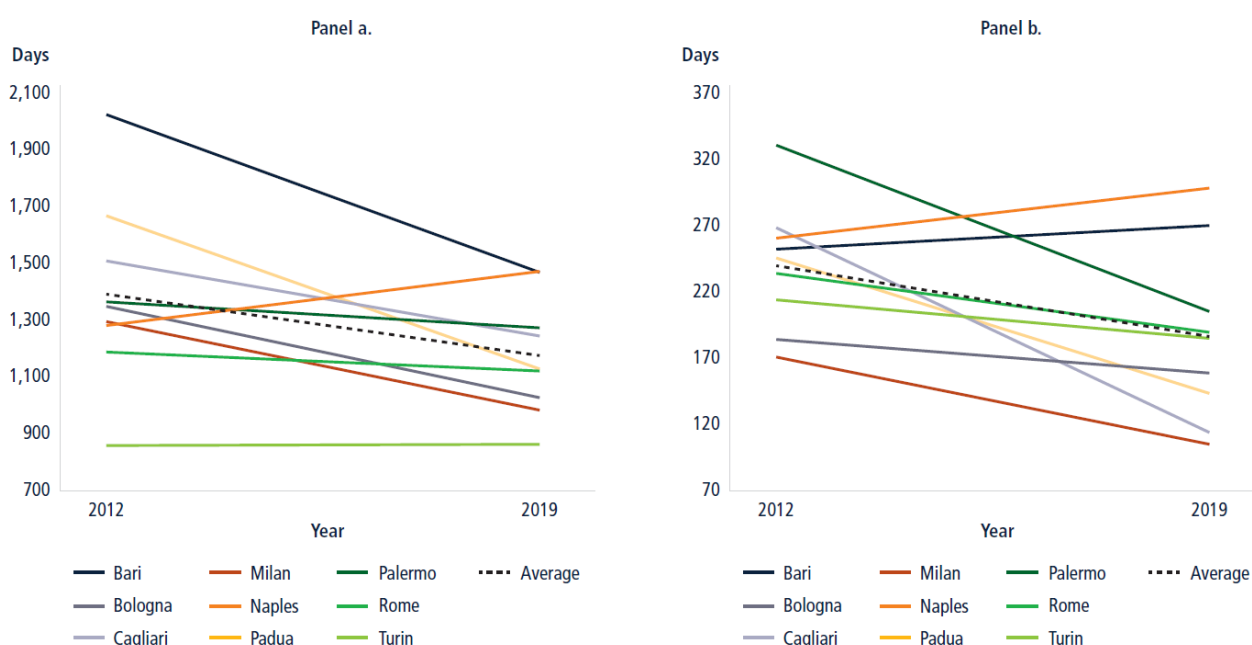
⁹ These are Bari, Bologna, Cagliari, Milan, Naples, Padua, Palermo, Rome and Turin.

¹⁰ Starting a business, dealing with construction permits, registering property and enforcing contracts; all of them measured in terms of costs, time, number of procedures.

comparable indicator categories, average results are better in 2019 than in 2012 (Fig. 4).¹¹ For example, the average time for resolving a commercial dispute across the nine cities decreased from 1,438 days to 1,165, a drop equal to over nine months. Milan provides a concrete example of how these results were achieved. The city Court introduced regular strategic planning and monitoring and evaluation, which helped reducing the time needed to resolve a commercial dispute by 10 months compared to 2012.¹² Milan was also the first city to pilot a new staff-support program for judges, called Ufficio per il Processo. The program allows professional judges to apply for and receive assistance from a trainee and honorary judges (fixed-term judges, appointed on three-years contracts, whose role is limited to auxiliary tasks) to support them in leveraging their workload.¹³

Similarly, the average time to obtain construction permits decreased of about two months between the two rounds. Cagliari offers a paradigmatic example of successful reforms: it is in fact the only of the measured cities that merged the one-stop shop for productive activities (SUAP) and the one-stop shop for construction (SUE) into one single authority, operating through the same digital platform. This helped reducing the time needed to complete the permitting process from 268 days (or 9 month) as in 2012 to 115 days (less than 4 months) in 2019.

Figure 4. The time to resolve a commercial dispute and the time to obtain construction permits decreased in seven cities out of nine



Source: World Bank, Subnational Doing Business in Italy

The second interesting result is that, despite the remaining differences across cities as of 2019, there has been substantial convergence across cities since 2012. For example, the cost for opening a

¹¹ The exceptions are the cost for dealing with construction permits, where the average cost slightly increase; the time needed to register a property, which increased from 18.5 to 22 days; and the cost for registering a property, which remained stable (4.4% of the property value).

¹² Beyond the three-year strategic plan all Courts must prepare, Milan also produces an annual management plan. The latter is based on projections from the previous year's Court performance reports. This allows for quick reallocation of judges to sections that need them most.

business is now the same in all cities,¹⁴ while in 2012 it was varying from 8.5% of income per capita (in Bologna) to 17.5% (in Naples). Or, on registering property, the process is currently the same across all cities, requiring four steps anywhere, while in 2012 different steps applied depending on the location. Four steps are required in them all, while in 2012 different steps applied depending on the location.

The main reason for the increased homogeneity is the introduction of information technology (IT) tools that operate at the central level. The processes for starting a business and the registering property today are almost entirely electronic, and differences across cities are minimal. For example, all registration applications for limited liability companies, no matter in which city the new company will operate, must be filled electronically with the register of enterprises, managed by the chamber of commerce. Thanks to information sharing among agencies, the process of registering with the revenue agency and the social security administration, and of obtaining accident insurance, can be completed through a single notice sent to the register.

Similarly, to transfer a property currently several operations can be completed using national web-based tools for registration and transcription of ownership changes. These measures allow notaries to access and update the cadastral and land registry records online.

Even an area which strongly depends on local courts converged- despite substantial differences remaining. In 2012, the difference between the time needed to resolve a commercial dispute in the fastest and slowest location was 1,167 days (or 39 months). By 2019, this spread had fallen by nearly a half to 610 days (or 20 months). National IT tools helped also in this case. Today, case-filing is done electronically, making it standard, fast, and easy to file a commercial lawsuit and serve a defendant business across the country.

4. Policy recommendations

Regional disparities represent a drawback of the Italian business environment, but they also provide an avenue for policy reforms. Replicating local good practices at national level has the advantage of not requiring major legislative overhaul. Moreover, they have already been successfully tested within the country.

The analysis of regional disparities yields several general recommendations. First, the introduction of IT systems with centralized management could contribute greatly to speeding up applications for operating businesses and making the procedures predictable, transparent, and easy to understand. Second, increasing coordination among agencies is essential to reduce waiting times, given that entrepreneurs often must engage with many agencies in the framework of the same application. Third, even in areas where all Italian cities struggle, local good practices do exist. Adopting all of them throughout the country would bring tangible benefits and pave the way for larger improvements.

Dealing with construction permits exemplifies an area that would benefit tremendously from a centralized IT system. The introduction of digital tools currently depends on the initiative of local authorities. Bologna, Cagliari, Padua, and Turin already switched to fully electronic systems for administering building permits, resulting in a 25% decrease in the waiting times compared to other cities in Italy. However, rather than having each municipality or agency develop its own technology platform, a national digitalization plan should be designed and implemented, following the same approach taken when Italy introduced centralized IT systems to start up a company or to transfer a property. This should involve all stakeholders, from central to local authorities to professional associations and the chambers of commerce. A national solution would be simpler and less

¹⁴ Equal to 13.8% of income per capita.

expensive to implement and maintain, due to the benefits of scale, than multiple municipal systems, and it would prevent municipalities and agencies from each reinventing the wheel and from developing incompatible systems. Italy can draw from the positive experiences of the cities that have already put a system in place to develop and design such national platform.

On the need to improve the coordination among agencies, a telling example is the starting a business area. One of the steps required to open a business is sending an electronic notification to the regional labor office about workers' employment. This should be a smooth and fast procedure. In most cities, however, entrepreneurs need to go through a complex and lengthy in-person process to obtain access to the e-portal. To avoid this, many companies end up hiring a labor consultant who already has access to the e-portal. This adds to the cost and complexity of starting a business. Once again, good examples at the local level can potentially be adopted nationally. In Milan and Turin, the labor office automatically obtains the needed information from the social security administration or from the chamber of commerce, with no extra interaction required from the new company.

Finally, enforcing contracts is an area where all Italian cities need urgent improvements, especially because of the long time it takes to resolve commercial disputes in any of the country courts. Even in this case though, leveraging on the existing local good practices should be the first step to reduce waiting times. For example, the heavy case load upon each Italian court could be reduced by establishing highly specialized sections solely dedicated to commercial disputes, and by matching judges' expertise to cases, as done in Milan and Turin, the fastest cities in this area according to World Bank 2019 data. Increased automation would also help in balancing workloads. For example, automated case assignment that considers each judge's current caseload—as in Bologna and Naples—could help prevent judges from becoming overburdened and promote faster issuance of judgment. Or courts could draw inspiration from Florence's *Giustizia Semplice* model to promote mediation services and alternative dispute resolution.

5. Conclusions

Excessive bureaucracy at any time is a burden on companies. In the context of the recovery from the Covid-19 crisis, it is an additional hurdle that jeopardizes the ability of small to medium enterprises to survive and diminishes the incentives for entrepreneurs to invest in a region. Many factors determining firms' competitiveness manifest at the subnational level. For this reason, analyzing and drawing lessons from existing subnational data on the business environment is essential. Using the example of Italy, and drawing on primary data from the World Bank's Subnational Doing Business studies, this paper highlighted how identifying local good practices in regulating the business environment and promoting them to national standards is one of the most powerful tools policy makers have to sustain firms' creation and growth, reduce spatial inequality, and help creating economic opportunities.

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Appendix

Table A1: Summary statistics by country

	N	Mean	Min	Max	Max-Min	Mean(max-min)
Austria						
SB	7	81.994	80.95	82.96	2.01	5.87
DWCP	7	76.834	71.09	83.64	12.55	
GE	7	88.809	86.38	91.68	5.3	
RP	7	78.743	76.72	80.6	3.88	
EC	7	69.289	67.04	72.73	5.69	
Belgium						
SB	7	87.56	87.56	87.56	0	5.00
DWCP	7	75.48	72.63	78.18	5.55	
GE	7	72.74	70.46	76.07	5.61	
RP	7	55.337	51.84	58.52	6.68	
EC	7	67.381	64.85	72	7.15	
Bulgaria						
SB	6	89.385	86.82	90.56	3.74	5.94
DWCP	6	70.678	68.3	72.75	4.45	
GE	6	58.935	54.64	65.49	10.85	
RP	6	70.275	69.23	71.53	2.3	
EC	6	72.553	67.04	75.38	8.34	
Croatia						
SB	5	86.102	82.49	89.55	7.06	9.38
DWCP	5	57.368	43.67	66.2	22.53	
GE	5	82.39	80.43	84.29	3.86	
RP	5	74.02	71.08	75.86	4.78	
EC	5	69.112	65.56	74.24	8.68	
Czech Republic						
SB	7	84.804	83.55	85.56	2.01	7.88
DWCP	7	56.386	54.45	57.9	3.45	
GE	7	75.134	66.32	95.35	29.03	
RP	7	79.98	79.74	80.22	.48	
EC	7	55.023	51.95	56.38	4.43	
Greece						
SB	6	96.042	96	96.25	.25	6.95
DWCP	6	68.27	63.99	70.85	6.86	
GE	6	84.45	81.29	88.11	6.82	
RP	6	44.992	36.69	47.77	11.08	
EC	6	52.705	48.11	57.83	9.72	
Hungary						
SB	7	87.474	87.28	87.61	.33	4.58
DWCP	7	73.011	67.89	75.58	7.69	
GE	7	64.26	61.76	67.46	5.7	
RP	7	80.663	79.96	81.16	1.2	

EC	7	77.339	73.75	81.72	7.97	
Ireland						
SB	5	94.202	93.9	94.91	1.01	4.10
DWCP	5	77.76	74.37	80.57	6.2	
GE	5	82.906	80.83	84.21	3.38	
RP	5	71.348	69.32	73.02	3.7	
EC	5	57.77	55.4	61.59	6.19	
Italy						
SB	13	88.301	86.81	89.79	2.98	10.84
DWCP	13	65.748	57.47	72.95	15.48	
GE	13	81.515	69.15	89.24	20.09	
RP	13	80.173	78.47	81.75	3.28	
EC	13	52.794	48.8	61.17	12.37	
Netherlands						
SB	10	91.594	91.5	91.7	.2	2.92
DWCP	10	66.574	62.75	69.47	6.72	
GE	10	85.049	82.73	87.19	4.46	
RP	10	80.056	80.01	80.1	.09	
EC	10	60.82	59.09	62.24	3.15	
Portugal						
SB	8	90.88	90.88	90.88	0	4.91
DWCP	8	71.627	65.93	74.04	8.11	
GE	8	84.002	78.83	87.49	8.66	
RP	8	79.1	78.35	79.43	1.08	
EC	8	72.345	67.91	74.6	6.69	
Romania						
SB	9	88.639	86.27	89.53	3.26	8.68
DWCP	9	55.159	48.92	61.31	12.39	
GE	9	50.512	43.56	57.76	14.2	
RP	9	74.648	73.81	75.48	1.67	
EC	9	71.653	64.24	76.13	11.89	
Slovak Republic						
SB	5	83.826	81.97	84.73	2.76	4.25
DWCP	5	60.454	57.9	62.91	5.01	
GE	5	84.646	80.07	88.41	8.34	
RP	5	90.812	90.17	91.48	1.31	
EC	5	68.172	66.12	69.95	3.83	

Note: N reports the number of cities benchmarked; Mean is the mean score for each macro-area; SB stands for *Starting a Business*; DWCP for *Dealing with Construction Permits*; GE for *Getting Electricity*; RP for *Registering Property*; EC for *Enforcing Contracts*.

Table A2: summary of results from 2019 and 2012 rounds

City	SNDB Year	Starting a Business			Dealing with Construction Permits			Registering Property			Enforcing Contracts	
		Procedures (number)	Time (days)	Cost (% of income per capita)	Procedures (number)	Time (days)	Cost (% of Warehouse value)	Procedures (number)	Time (days)	Cost (% of property value)	Time (days)	Cost (% of claim)
Bari	2019	7,0	8,0	13,8	15,0	270,0	6,0	4,0	26,0	4,4	1470,0	21,8
Bologna	2019	7,0	7,0	13,8	13,0	159,0	3,4	4,0	20,0	4,4	1030,0	26,9
Cagliari	2019	7,0	8,0	13,8	14,0	115,0	4,0	4,0	23,0	4,4	1245,0	24,0
Milan	2019	6,0	5,0	13,8	13,0	105,0	17,7	4,0	20,0	4,4	985,0	27,5
Naples	2019	7,0	8,0	13,8	17,0	298,5	1,0	4,0	20,0	4,4	1470,0	24,9
Padua	2019	6,0	6,0	13,8	14,0	144,0	3,2	4,0	26,0	4,4	1130,0	29,2
Palermo	2019	7,0	7,0	13,8	17,0	206,0	5,5	4,0	18,0	4,4	1275,0	22,8
Rome	2019	7,0	11,0	13,8	14,0	189,5	3,4	4,0	16,0	4,4	1120,0	27,6
Turin	2019	6,0	7,0	13,8	14,0	185,0	5,0	4,0	25,0	4,4	860,0	25,0
Mean	2019	6,7	7,4	13,8	14,6	185,8	5,5	4,0	21,6	4,4	1176,1	25,5
Bari	2012	8,0	10,5	12,4	16,0	253,0	3,5	6,0	18,0	4,3	2021,7	34,1
Bologna	2012	8,0	8,5	14,3	16,0	184,0	3,9	5,0	14,0	4,4	1346,6	32,8
Cagliari	2012	8,0	10,5	15,5	14,0	268,0	2,9	6,0	17,0	4,4	1507,1	21,5
Milan	2012	7,0	7,5	17,0	15,0	171,0	19,6	5,0	20,0	4,4	1291,0	31,5
Naples	2012	8,0	17,5	16,2	18,0	261,0	1,1	5,0	14,0	4,4	1280,2	21,7
Padua	2012	7,0	7,5	14,7	15,0	245,0	3,8	6,0	24,0	4,4	1664,6	28,1
Palermo	2012	8,0	9,5	13,7	17,0	330,0	2,0	5,0	14,0	4,4	1365,7	25,2
Rome	2012	8,0	12,5	16,7	14,0	234,0	3,9	5,0	25,0	4,5	1185,0	30,4
Turin	2012	7,0	9,5	16,2	16,0	214,0	6,5	5,0	20,0	4,5	854,8	22,3
Mean	2012	7,7	10,4	15,2	15,7	240,0	5,2	5,3	18,4	4,4	1390,7	27,5