

Subject: Italian startups can now be set up digitally and for free. Why it matters, and how we made it possible

Dear all,

I'm writing to tell you about one of the most groundbreaking regulatory ventures I have experimented with since my first day at the Italian Ministry of Economic Development in May 2012.

Here's why it matters. After months and months of work behind the scenes, we finally managed to overcome a convention that hampered businesses for generations, and replace it with a cutting-edge way for entrepreneurs to found innovative startups.

I think this story in [3 parts](#) has social and political significance that transcends legal specifics.

That is why you might find it interesting, even if public policy and innovation are not your daily bread.

Part 1 – Eureka! A new, digital procedure to incorporate Italian startups

First, let's set the scene. Launching a business in Italy has been cumbersome for a long time. Miles of red tape. Mounds of fees to be paid.

Italian law requires company incorporation acts – the documents that establish the founding of a company – to be written and legally validated by a notary: if you are from continental Europe, you know what I am talking about.

Long story short: getting assistance and validation from a notary costs a lot of time and money. According to our estimates (Italian Startup Act [Annual Report](#) to Parliament 2016, p. 118), the founders of innovative startups should expect to spend **about €2,000** just to formally incorporate their limited company. Most of that sum is notary fees. That's capital many new startups do not have.

So this is what we did. We wrote a new, comprehensive set of laws to encourage an innovative startup ecosystem: the "[Italian Startup Act](#)" of October 2012. It includes, among other things, the first dedicated regulations worldwide on **equity crowdfunding**, and the [Italia Startup Visa](#), a digital, fast-track procedure for attracting non EU innovators. For the last five years, my main task as a consultant to the Ministry has been to design policies of this kind, get them working and monitor their impact.

But then we went further. In July 2016, a new way for innovative startups to incorporate as businesses was started.

Here's why it matters:

- It made it possible to **incorporate a startup digitally**, doing each step on an online [platform](#) we created;
- It is **free of charge**: no fees are required to use the platform;
- It is **free from intermediation**: the assistance of a notary is not required.

Bear with me, there's more. Getting a bit more technical, there are some other reasons why it is good:

- each company incorporation act made through this process is based on a **standard model**. This guarantees conformity to the law, without hindering **customization**;
- these company documents are created in a uniform format, **XML**. This means they can be opened on any device, and their data can be **used** for research. Founding acts written by notarial deed are not available in an **open format**;
- the incorporation is finalised with a **digital signature** that ensures the identity of the startup founders.

Also: this procedure is available for the **whole lifecycle of the startup**, as it can be used to amend the founding acts at a later stage.

Another spin-off effect: **culturally**, this new method allows entrepreneurs to be more aware of their company's legal structure and its implications. And if any founders want an expert opinion, they can get free-of-charge technical and legal assistance by their local Chamber of Commerce.

Sounds great, right? Who could be unhappy about this, at a time when Italy strives for more innovative entrepreneurship?

Part 2 – Notaries fight back

Of course, there is a losing side in this story: the notaries. For decades, they have had a great deal: every company that was founded had to pay them a fee.

Our new legislation made a crack in this. They were once the only way possible; now they are an option. Obviously, they weren't going to let that go quietly.

The first letter landed on our desk in March 2016. The National Council of Notaries had decided to appeal against this law. Not long after, another appeal was launched. Notary bodies **appealed against our legislation 12 different times** since it began, arguing it was against Italian and EU law.

While the appeals were pending we rushed ahead. The new way of incorporating companies became popular among startups quickly. According to our last quarterly report, by September 2017 **878** new innovative startups had been incorporated digitally. In 2017, almost half of all innovative startups used the new procedure. In some areas it was higher: in Veneto it was **70%**.

But could the law stand? Would the notaries' appeals undo all of our work?

October 2, 2017 was judgement day. The Administrative Court of Lazio (**TAR**) announced its final verdict. *We won.*

All of the appeals were dismissed. The court found that:

- the regulatory framework of the new procedure respects the European principles on companies established in directive 2009/101/CE (at present 1132/2017);
- the Chambers of Commerce are allowed to carry out legality and anti-money laundering checks, in the same way as notaries customarily do, provided that the law specifically entitles them to do so;
- the standard model of the founding acts is fully compliant with the law.

In simple terms, **the court endorsed the principle** that a company can be incorporated digitally, without going through a notary.

Part 3 – Some food for thought

I think this story has various social and political implications that transcend its limited sphere of application. I'd like to leave you with some points.

1. Digital innovation is a driver for shifts of power

The new incorporation procedure for Italian innovative startups shows how digital innovation can cause a *shift of power* from deep-seated legacy power centers (the notaries) to newcomers (entrepreneurs).

Let's take a look at what that means in practice. Founders can now be helped by a wider range of consultants during incorporation: that means getting a tailor-made service at a lower price. It also means that a basic level of assistance by the Chambers of Commerce is now granted to anyone, by a public body, and free-of-charge.

2. Startups as a sandbox for policy innovation

What if the new digital incorporation procedure was extended to all Italian companies, innovative or not? Startups have already proved to be an excellent sandbox to try out innovations in regulations and policy.

An example of that is equity crowdfunding. This was brought in for innovative startups in 2013. In 2016, it has been extended to all Italian small and medium enterprises.

3. Italian public administration: a centre for innovation?

This innovation wasn't chance. There are reasons why we completely bucked the stereotype about public administration.

The core team of four people that made this happen had certain key ingredients. We needed cultural sensitivity, awareness of emerging technological trends, IT skills, and the ability to draft good legislation (and counterclaims).

We also needed institutional knowhow. It's only because we were working within the system, inside the civil service – though not all of us on a permanent basis – that we could make this happen.

Age was another important factor: when we began, we all were in our late 20s or 30s. We all assume a digital approach as a default.

This combination meant we were able to intercept a need, come up with a proposal, and actually make that solution a reality. One that was sustainable in terms of the technical infrastructure available, and the political will.

Both of these last things had to be built from scratch.

My question is this. Can this happen systematically throughout Italian public administration?

I'm sorry to say that the current context is not promising.

Just consider the following statistics:

- the **share of central government employees below** the age of **35** is just **2.2%**. This is the lowest among developed countries – by far. The average rate hovers around 20% (see [OECD's Government at a Glance 2017](#));
- the **equivalent ratio for over-55** employees is **45%**, exceeding by far all other countries surveyed. This has **increased** dramatically **since 2010**, when no more than 30% of government workers were in this category.
- according to [Eurispes](#) (September 2012), just 40% of Italian civil servants hold a university degree.

It's easy to see what's happening. These figures reflect an almost complete **absence of turnover** in employees in the last decade. In fact, the **last competitive hiring** procedures opened by this ministry for a significant number of employees date back to **2009**.

No personnel turnover also means no skill turnover and no **intergenerational exchange**. Shutting out of the public service a generation that is digitally native (and international by default) is not just profoundly unfair for those young graduates who aspire to serve the public good. It also makes it extremely difficult to keep up with technological advances (and globalization) and user expectations. Hiring young people here and there as fillers or ornaments is not enough.

Politics should be taking care of this.

This is not simply a matter of hiring more young people in government, regardless of their capabilities and the tasks they will be allocated to – a mistake that was made in the past, and that should not be repeated.

It means a profound reconsideration of what public service is meant to be, what it does, and how it should be done. And it means not being afraid to initiate truly ambitious reforms, and to devote to them sufficient financial resources, adequate and motivated personnel, and enough time.

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