

The role of communications in tomorrow's world

Generating value and cultural change

Ideas, experiences and stories for a more inclusive
and sustainable world

8



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The concept of sustainability is often abused or taken for granted, but what this word actually means is not necessarily obvious. Today, having a healthy supply chain is no longer enough. All the social, environmental and economic dynamics generated by the activity of companies and organizations must be managed, as well as their overall impact.

A significant portion of resources must be dedicated to a range of initiatives involved in the building of solid career paths for young adults, in gender equality and women empowerment (as seen in the United Nations' fifth Sustainable Development Goal), in updating or reallocating professional skills rendered obsolete by technological evolution, in the inclusion and promotion of diversity, in the sustainability of production and service provision, in active involvement in support projects for the communities in which we live and work, and in local and global environmental protection.

These are initiatives needed to guarantee the well-being and dignity of individuals and activate virtuous mechanisms for customers and consumers who are an integral part of the mutual agreement behind all economic activities.

It is this, then, the goal of the communications and promotional activity of the WPP and its companies. We are a "creative transformation company" and we operate in a market in which, each and every day, technology offers new opportunities to bring to life innovative content and new platforms for their diffusion. The speed induced by digitalization involves the need for flexibility in the continuous changes in people's behavior and choices.

Within this context, taking part in the building and spread of a culture that is pro-active and measures the social and environmental impact of all activity is our duty as sector leaders, in Italy and around the globe.

This year, the work of the WPP Italia/TEH-Ambrosetti Advisory Board has been dedicated to developing proposals that can contribute to the spread of this culture in the companies we serve and with which we come into contact, in the conviction that all our activity is a stimulus in making small, continuous steps towards a "social and environmental consciousness" shared by all.

Massimo Costa,
Country Manager
WPP Italia



KEY FACTS & FIGURES WPP GROUP

WPP is a world leader in the marketing and communication services sector, in data collection, analysis and management technologies, in the management of channels and communication platforms. In particular it includes companies with leading market positions in:

- Advertising
- Media Investment Management
- Data Management
- Public Relations and Public Affairs
- Branding & Identity
- Healthcare Communications
- Direct Digital
- Events, Promotion & Relationship Marketing

20 global brands belong to the Group: each of them has its own identity, is responsible for relations with its customers and is committed to developing and implementing its own specialized and distinctive skills. This is the strength of each brand and the ability to respond to the needs of the communication market in a targeted and effective way. Customers, coming into contact with the companies of the Group, seek talent, satisfaction and experience through a highly articulated brand-by-brand quality system.

THIS IS WITNESSED BY THE RESULTS AND NUMBERS OF WPP, THAT WORKS WITH:

369 companies included in the Fortune Global 500

All companies that are part of the Dow Jones 30

71 companies listed on the NASDAQ 100

A total of 130,000 people works for the WPP Companies, in over 112 countries. In Italy the Group is present with 55 companies active in the various areas, for a total turnover of over 400 million Euros and about 2,500 employees.

MISSION, CONCEPT AND GOALS OF THE ADVISORY BOARD WPP/THE EUROPEAN HOUSE - AMBROSETTI

1.1

THE ADVISORY BOARD AND OTHER ACTORS IN THIS INITIATIVE

This Position Paper gathers and summarizes the observations and findings of the eighth year of activity of the WPP/The European House - Ambrosetti Advisory Board, created in 2012 with the goal of providing concrete and informed answers to some of the major challenges facing companies and government and institutions and, at the same time, provide a new perspective on the role of the communication sector for the growth and competitiveness of our country.

The project enjoys the support of the Advisory Board that includes some of the leading individuals in the world of communications and Italian business, all selected for their experience and expertise in the areas under examination and their ability to be authoritative, high-profile opinion leaders in their specific areas.

THE MEMBERS OF THE 2019 ADVISORY BOARD ARE:

Massimo Beduschi Chairman & CEO, GroupM Italia

Aldo Bisio Managing Director, Vodafone Italia

Silvia Candiani Amministratore Delegato, Microsoft Italia

Fabio Caporizzi CEO, Burson Marsteller Italia

Massimo Costa Country Manager, WPP Italia

Marco Costaguta Fast Moving Consumer Goods Expert and President, LTP

Valerio De Molli Managing Partner & CEO, The European House - Ambrosetti

Luca Garavoglia President, Davide Campari

Barbara Labate Founder & CEO, ReStore e Risparmio Super

Camilla Lunelli Communications and External Relations Manager, Cantine Ferrari

Francesco Pugliese Managing Director, CONAD

Sarah Varetto EVP News Projects Development, Continental Europe, SKY

Riccarda Zezza Co-founder & CEO, Life Based Value

1 CHAPTER

The Advisory Board is an open structure and each meeting draws on the contributions of outside experts who are asked to participate depending on the specific questions to be examined at each meeting.

OUR THANKS FOR THE CONTRIBUTIONS GIVEN DURING THE COURSE OF THE YEAR ALSO GO TO:

Luca Valerio Camerano CEO, a2a

Enrico Giovannini Spokesperson, ASviS - Italian Alliance for Sustainable Development; former Minister of Labor and Social Policy

Francesca Pasinelli Managing Director, Telethon

Livia Pomodoro President, Brera Academy of Fine Arts

Francesco Venturini CEO, Enel x

THE INITIATIVE AND POSITION PAPER ARE OVERSEEN BY THE EUROPEAN HOUSE - AMBROSETTI WORKING GROUP, COMPRISED OF:

Cetti Lauteta Consultant, Scenarios and Intelligence Area - Project Leader

Riccardo Maria Barchiesi Consultant, Scenarios and Strategy Area - Project Coordinator

Monica Mantovani Analyst, Scenarios and Strategy Area

Lorenzo Marchi Professional, Events Area

Valeria Casati Staff

Loredana Zaccuri Staff

In undertaking its study and analysis, the Working Group not only carried out its own independent research into specific issues, but also availed itself of the invaluable information contained in other proprietary and non-proprietary documents, listed briefly below:

"Italy and the Sustainable Development Goals" ASviS, 2019;

"Observatory on Corporate Governance Excellence in Italy" The European House - Ambrosetti, 2019;

"Global Attractiveness Index 2019" The European House - Ambrosetti, 2019;

"Measuring Distance to the SDG Targets 2019. An assessment of where OECD countries stand" OECD, 2019;

"SDG Report 2019. Statistical Information for 2030 Agenda in Italy", ISTAT, 2019;

"The Public Administration from added weight to potential aid to the country's growth", The European House - Ambrosetti, 2019;

"Improving the justice system and fighting corruption: two priority areas for creating a pro-business environment in Italy", The European House - Ambrosetti, 2019.

1.2

MISSION, CONCEPT AND GOALS OF THE INITIATIVE

The mission of **"The Role of Communications in Tomorrow's World - Generating Value and Cultural Change"** initiative is:

Engaging decision-makers and the business community in high-level reflection regarding the main trends and changes that affect Italy, to be able to guide in an informed way the investment decisions and strategies of those operating in the communications sector, and generate value, employment and growth

Each year the Advisory Board examines both a number of specific themes for the relaunching of competitiveness in the communications sector, as well as major national issues that directly and/or indirectly impact on the performance of communications firms. From this standpoint, it represents a platform for developing **strong messages of change** and **ideas for the Italian growth** aimed at institutions, companies, consumers and, above all, communications firms.

THIS YEAR'S THEME WAS DEVELOPED AS FOLLOWS:

Social impact and Sustainable Development as tools for growth and a strategic priority for government and institutions and the business community

On a global level, the interest in sustainability has never been so high. On September 25, 2015, the United Nations Organization (UN) approved the "Global Agenda for Sustainable Development" and the related 17 Sustainable Development Goals, expressed in **169 targets** to be achieved by 2030. At the base of the program is a clear stand regarding the **unsustainability of the current economic model of production and consumption**.

The approach proposed by the United Nations is highly innovative because of the rupture of the paradigm it proposes, which definitively transcends the idea that sustainability is solely an environmental question, and contributes to establishing an **integrated view of the various dimensions of development** (economic, social and environmental). In addition, in the perspective proposed by the UN, all countries are called upon to contribute to the effort to lead the world to a sustainable path, without differentiating among developed and emerging nations and those in the process of development. Given the breadth and the **"transformative"** nature of the 2030 Agenda, its implementation requires the support and the awareness of the challenge of all components of society, from business to the public sector, the community at-large, philanthropic organizations, universities and research centers, the media and the world of arts and culture.

Now four years since the signing of the 2030 Agenda, the awareness seems to be consolidating—across the globe—that in order to take on the complex economic, social, environmental and institutional issues required to implement the transition towards a more sustainable development model, an integrated approach must be adopted.

The multitude of reports prepared and the proliferation of initiatives worldwide to take on the economic, social and environmental challenges seen on a global level, confirm the unprecedented attention being paid to implementing the 2030 Agenda by private sector organizations, businesses, financial institutions, government and local communities. The extent of this process is certainly represented by the so-

called **"Greta Thunberg" phenomenon**, the young Swedish student who, in August 2018, organized a protest outside the Swedish parliament to ask the government to reduce CO₂ emissions in line with the Paris Agreement, holding in front of her a placard that read: "Skolstrejk för klimatet" (school strike for the environment).

As a result, young people and adults throughout the world have become involved in this initiative. On March 15, 2019, the first worldwide strike for the environment was held which saw the involvement of **over one million young people in numerous cities across the globe**, including 100 Italian cities. On May 24, 2019, for the second global strike, demonstrations were held in 1,664 cities in at least 125 countries.

The process currently underway cannot be seen as merely a passing trend. On the contrary, it has shown itself capable of mobilizing whole nations and companies to give each individual the responsibility for **creating a more equitable and cleaner world** that safeguards the rights of the younger generation to benefit from higher environmental, human and economic development standards. From this standpoint, the speech by the newly-elected president of the European Commission, Ursula von der Leyen, is highly-significant.

As can be seen in this brief citation:

"Our most pressing challenge is keeping our planet healthy. This is the greatest responsibility and opportunity of our times. But what is good for our planet must also be good for our people and our regions and our economy".

Despite this, regarding the question of sustainable development, especially in Italy, much is still not clear. The strategies of businesses and government turn almost exclusively around the question of safeguarding the environment, without fully understanding that it is a **complex and multidisciplinary** issue that involves various aspects (economic, social and environmental). In addition, with just over ten years to the deadline, the 2019 UN report dedicated to the Sustainable Development goals underscores how, despite the fact that clear progress has been made in many areas, **more rapid and ambitious action and policies are needed**.

As will be seen in the pages which follow, taking on this new paradigm is not easy, unless the question of sustainable growth is broken down and its component parts (economic, social and environmental) are analyzed and then recombined. Based on the approach of the Advisory Board WPP/ The European House - Ambrosetti as detailed in the chapters of this report, these three aspects can be examined through the magnifying glass of the **social impact and human development generated**.

In Italy, a growth strategy oriented towards increasingly greater inclusiveness and sustainability is possible, but it currently faces a number of obstacles that are not only technological or economic in nature, but also "cultural" and human. Given this, we believe that government and business—and the people who comprise them—must be placed at the center of this new paradigm shift. From this standpoint, the question of the **"culture" of a nation** – understood as **education towards sustainability and inclusiveness** – acquires decisive importance and a new paradigm in social relations is established, represented first and foremost by the well-being of local areas and communities.

While this transformation will certainly require close collaboration among world leaders and companies, in order to be effective, it must also be **communicated, accepted and implemented into everyday life**. In this context, technology and talent can represent valid tools for action. In particular, young people less inclined to accept inequitable growth could be the heart and guiding spirit for the social transformation the nation faces. And it is precisely in the interest of the younger generation and those to come that this paradigm shift must be embraced as soon as possible. The task of today's companies and leaders is to provide the educational tools and structural framework necessary to accomplish this by presenting themselves as the leading driving force in this development.

These and other themes are examined by the 2019 Advisory Board in this position paper.

Clearly emerging from its observations are the implications that sustainability governance has for the nation as a whole.

In addition (through the **pamphlet Why Italy is definitely alive & kicking** and the **Final Forum**), the initiative continues to give voice to a number of the most interesting entrepreneurial case studies, examples of Italian success stories and excellence, with the goal of showing international markets how Italy is able to produce value, reinvent markets, construct new business models and propose successful products and services.

In the previous seven years, the Advisory Board focused on the various examples of excellence, entrepreneurship and innovation listed below.



Figure 1.1. Why Italy is definitely alive and kicking: the Best Cases from previous years. Source: The European House - Ambrosetti data elaboration, 2019.

The companies featured in the 2019 "Why Italy is Definitely Alive and Kicking" have been selected on the basis of the environmental and social impact of their activity and their contribution to the local areas and communities. Specifically, they have been divided into two groups of companies:

A. Major companies and multinational investors: successful and established Italian and international companies that have distinguished themselves for their ability to generate positive economic, social and environmental impact, thus guaranteeing local growth.

B. Companies with high potential: smaller Italian and international companies that stand out for the significant social and environmental relevance of their economic activity and/or innovative nature of their business and the projects in which they are involved.

These companies are not necessarily the best and the most innovative in their sectors, nor do they represent the only success stories in Italy, but their strategic, investment and communications choices testify to the fact that today, more than ever, Italy is called upon to render its growth more solid, inclusive and sustainable. These 10

companies take their place alongside the more than 50 honored in past years. In our view, their stories represent a resource and provide impetus to continue in the building of a more equitable nation. On this challenge depends the future of generations to come, but also the attractiveness of Italy in the medium- to long-term.

THE COMPANIES AWARDED AS PART OF WHY ITALY 2019 ARE: ABInBev, Directa Plus, D-Orbit, EMA-Europea Microfusioni Aerospaziali, Gruppo Illy, Iren, Mondelez Italia, Novamont, Oleificio Zucchi, Philip Morris Italia.



Figure 1.2. Why Italy is definitely alive and kicking: the Best Cases for 2019. Source: The European House - Ambrosetti data elaboration, 2019.

1.3

2019 PROJECT ACTIVITIES

The activities of the Advisory Board WPP/The European House - Ambrosetti involve three meetings during which to examine and discuss, a high-level international forum (Milan, November 15, 2019) and a number of small one-to-one meetings for in-depth discussion with national and international experts on the issues under examination.

This year, the working group identified **three priority themes** that were developed during the three meetings of the Advisory Board and which form the starting point for elaborating an overall, comprehensive view, not only of the current social-economic situation in Italy, but also of the role the various players (policy makers, businesses, communications sector operators, etc.) can play in a more inclusive and sustainable recovery for the nation, through more attentive and realistic activities aimed at understanding all the variables involved.



Figure 1.3. Scheduled 2019 activities of the WPP/The European House - Ambrosetti Advisory Board Source: The European House - Ambrosetti data elaboration, 2019.

The themes were examined across-the-board during the three meetings and benefited not only from the contribution of all the project advisors, but also that of external experts who provided more specific information about the issues being studied:

- 1 **“EMPLOYMENT, BUSINESS AND SOCIAL INCLUSION: THE HUMAN FACTOR IN THE CHALLENGES FOR ITALY AND ITS ECONOMY” (Milan, April 18)**, with special guest Livia Pomodoro (President, Brera Academy of Fine Arts).
- 2 **“ENVIRONMENTAL PROTECTION AND SAFEGUARDING LOCAL AREAS AS PARADIGMS OF SUSTAINABILITY AND GROWTH” (Milan, June 25)** with special guests Valerio Camerano (CEO, a2a) and Francesco Venturini (CEO, ENEL X).
- 3 **“GOVERNANCE OF SUSTAINABILITY AND INCLUSIVENESS IN BUSINESSES AND THE NATION” (Milan, October 8)** with special guests Enrico Giovannini (Spokesperson, ASviS) and Francesca Pasinelli (Managing Director, Telethon).

IST ADVISORY BOARD THURSDAY, APRIL 18, MILAN	IIND ADVISORY BOARD TUESDAY, JUNE 25, MILAN	IIIRD ADVISORY BOARD TUESDAY, OCTOBER 8, MILAN
EMPLOYMENT, BUSINESS AND SOCIAL INCLUSION: THE HUMAN FACTOR IN THE CHALLENGES FOR ITALY AND ITS ECONOMY	ENVIRONMENTAL PROTECTION AND SAFEGUARDING LOCAL AREAS AS PARADIGMS OF SUSTAINABILITY AND GROWTH	GOVERNANCE OF SUSTAINABILITY AND INCLUSIVENESS IN BUSINESSES AND THE NATION
<p>THE ADVISORY BOARD AS A PLAYER THAT:</p> <p>Analyzes the main challenges Italy must face to capitalize on talent and diversity in the workplace</p> <hr/> <p>Supports transformation processes in the business world and workplace</p>	<p>THE ADVISORY BOARD AS A PLAYER THAT:</p> <p>Analyzes the priority lines of action to promote the transition of the Italian economy towards a circular model</p> <hr/> <p>Supports the creation of economic, social and environmental value for local communities and stakeholders</p>	<p>THE ADVISORY BOARD AS A PLAYER THAT:</p> <p>Identifies new strategies for creating value and competencies to increase the country's attractiveness within a sustainable context</p> <hr/> <p>Examines the areas in which Italy is working below its potential and identifies lines of action to render the country's growth more sustainable and inclusive</p>

Figure 1.4. Themes examined by the Advisory Board WPP/The European House - Ambrosetti. Source: The European House - Ambrosetti data elaboration, 2019.

The main findings will be presented and discussed in the eighth forum entitled **“The Role of Communications in Tomorrow's World - Generating Value and Cultural Change”** (Milan, November 15, 2019).

This forum has become a regular opportunity to discuss strategic issues affecting the future of the nation, thus becoming a key point of reference for all major players in the Italian communications sector.

SOCIAL IMPACT AND SUSTAINABLE DEVELOPMENT: A STRATEGIC ISSUE FOR THE FUTURE OF THE COUNTRY

2.1

THE GLOBAL SOCIOECONOMIC CONTEXT

We are living in a time of **rapid acceleration and change**. At the present time, the world population is growing at a rate 8 times higher than it did in the preceding millennium, and it is estimated that by 2050 it will reach **9.7 billion people**, with another increase predicted by the end of this century (11 billion total): the Asian population will predominate with 54.2% of the world's population, trailed by Europe, which will account for only 7.3%.

(*) Compound average annual growth rate

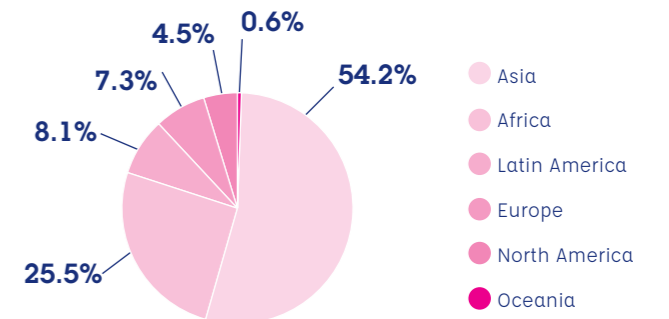
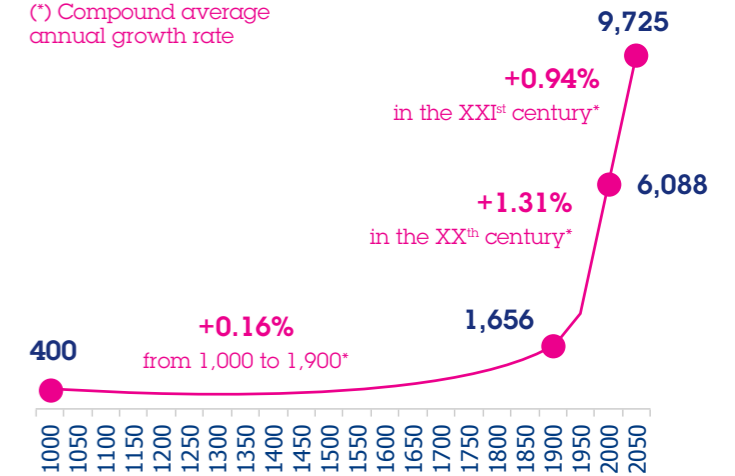


Figure 2.1 World population (millions of people and CAGR*), 1000-2050e (above) and estimate of the world population as of 2050 by macro-area of the world (% of total) 2050e (below). Source: The European House - Ambrosetti elaboration based on United Nations data, 2019.

2

CHAPTER



The definite and unstoppable increase in global population will be uneven not only from a geographical standpoint, but also as regards the division of individuals between urban and extra-urban areas, with a significant difference in favor of the former. Already, between the 1960s and 2017, the growth rate of the population in urban areas was surprising: as high as +66.0%; it is a rate that caused urban population to exceed rural population numerically in 2010, with a forecast of **division of the population between city and country by 2050 at 66.0% vs. 34.0%**.

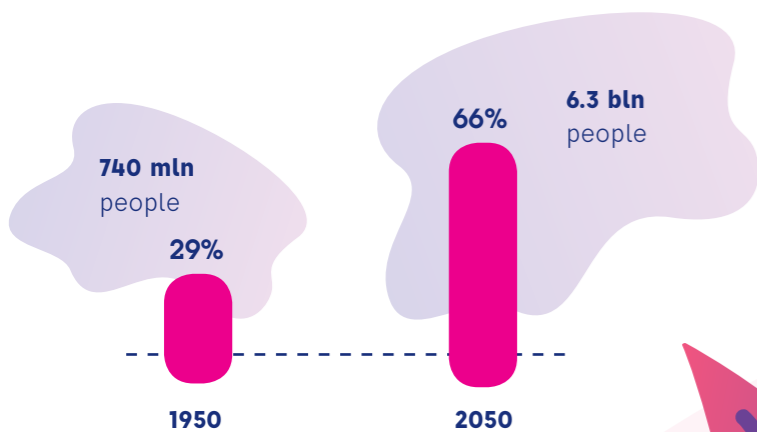
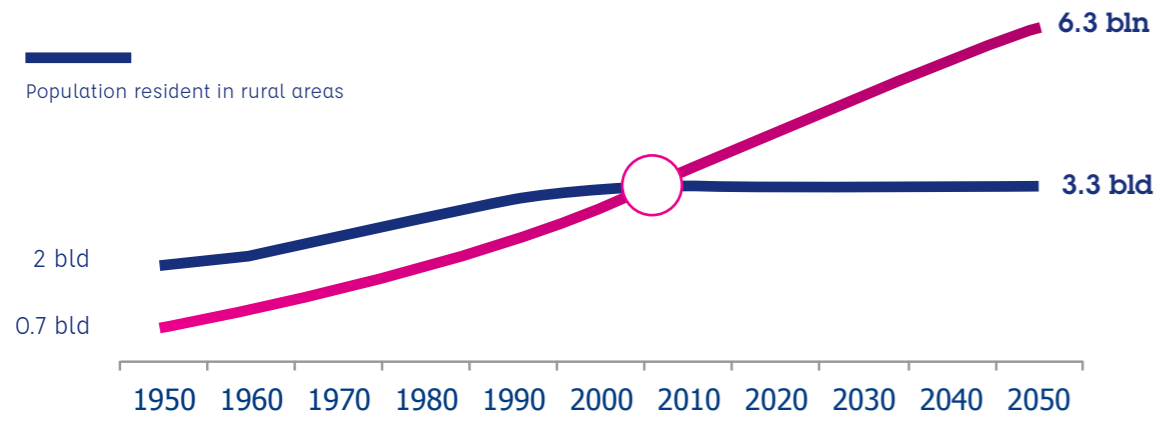


Figure 2.2 World population resident in urban and rural areas (bln), 1950-2050e (above) and percentage of people in urban areas in the world (%), 1950 and 2050e (below). Source: The European House - Ambrosetti elaboration based on United Nations data, 2019.

Another peculiarity that amplifies the internal dynamism of this demographic phenomenon is the substantial aging of the population which, in the coming years, will result in the consolidation of the **Silver Economy** on a global level.

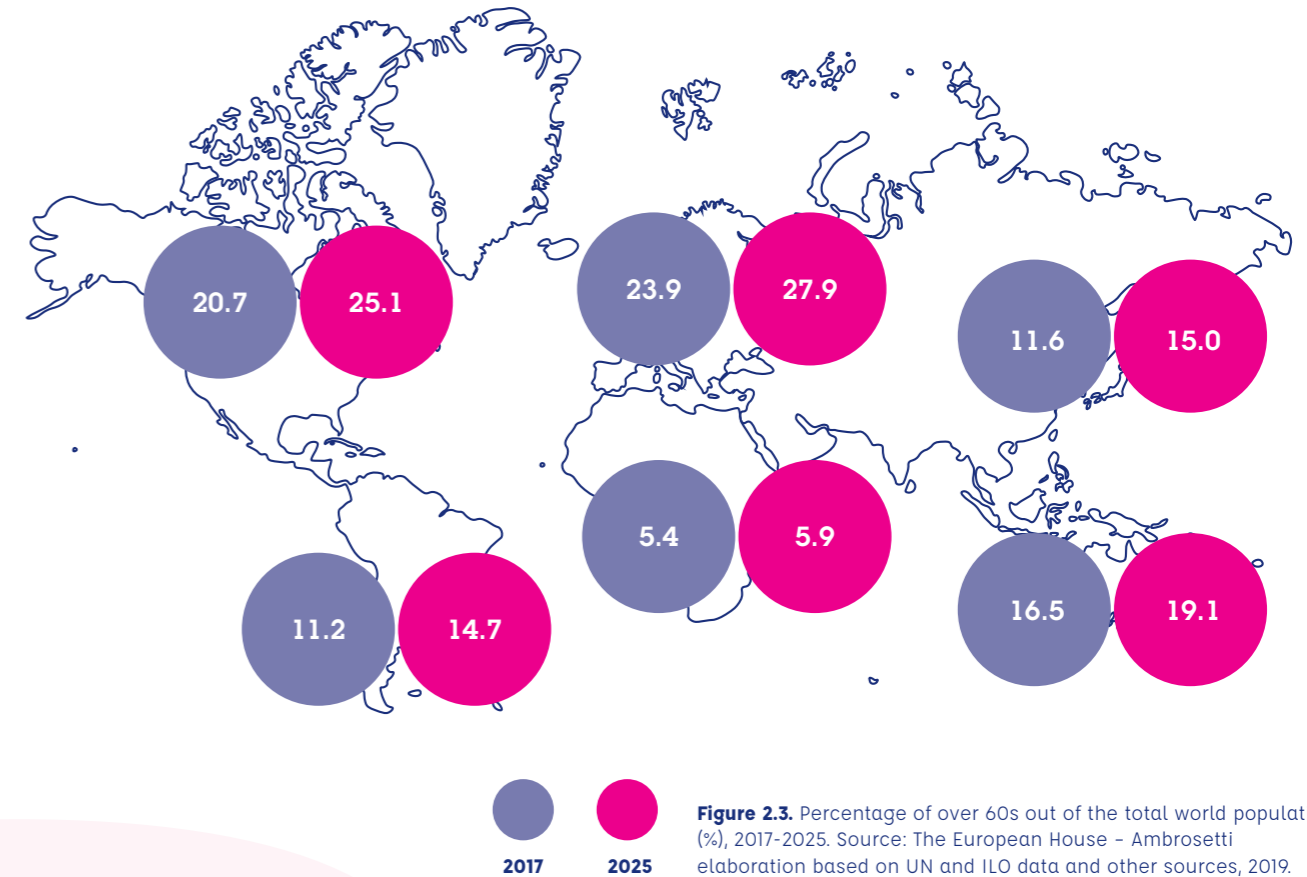


Figure 2.3. Percentage of over 60s out of the total world population (%), 2017-2025. Source: The European House - Ambrosetti elaboration based on UN and ILO data and other sources, 2019.

The population is aging under the thrust of two main drivers:

- **Life expectancy** reached 72 years worldwide in 2017 (+4.3% vs. 2014 and +53.0% vs. 1950);
- the fertility rate has fallen (from 4.96 in 1950 to 2.52 in 2015).

This trend shows no signs of stopping, indeed, it is predicted to worsen in the years that separate us from 2050: in addition to the demographic boom we will find ourselves having to deal with a longer life expectancy (averaging 76 in 2050 vs. 72 in 2017) and lower fertility rates (averaging 2.5 children per woman in 2017 vs. 2.2 in 2050).

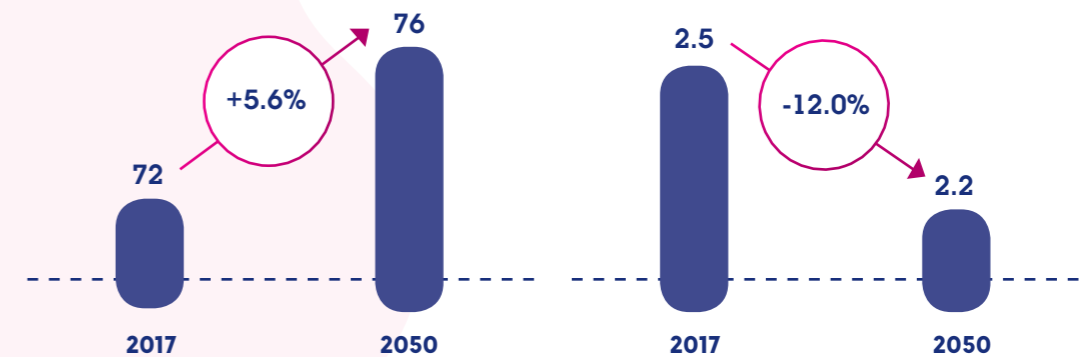


Figure 2.4 Life expectancy at birth (years and CAGR %), 2017 and 2050e (left) and fertility rate (average number of children per woman of fertile age and CAGR %), 2017 and 2050e (right). Source: The European House - Ambrosetti elaboration based on World Bank, UN and ILO data, 2019.

A direct consequence is the percentage of workers over 55, estimated at more than 35% in 2020 on a global level (vs. 17% in 2010), with impacts on the **future sustainability of the national welfare systems**¹ and on the working life of the generations that by then will be workers and taxpayers. In 2020, in fact, over a third of the workforce will be occupied by Millennials and already more than a third of young people expect to work even after age 65 (12.0% think they will work all their life). Even now, Millennials work more than the previous generations: 73.0% work more than 40 hours a week (and about 25.0% work more than 50); and to have the same chance of a secure job for life, Millennials think it is essential to have the necessary skills to stay competitive on the market; this can be considered a direct consequence of the keener global competition, and increasingly permeable and dynamic borders.

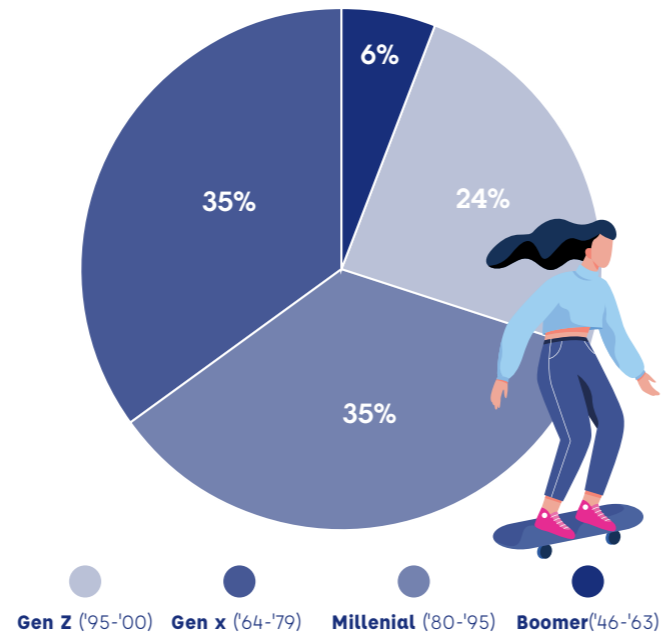


Figure 2.5 Division of workers by generation (% world), 2020e. Source: The European House - Ambrosetti elaboration based on Manpower data, 2017.

This scenario is characterized by a **crescendo of interrelations among the countries** around the world and by the changing power dynamics. The economic, social and political mixtures generated by globalization are growing sharply: in the last 26 years, the KOF² index has gone from 43.9 points in 1990 to 61.7 in 2016 (CAGR: +1.3%). At about the same time, outgoing direct foreign investments on a global level (that is to say, the amount of capital that every country invests outside of its own national borders) increased from 243.9 billion dollars to 1,430 billion dollars (about 6 times more).

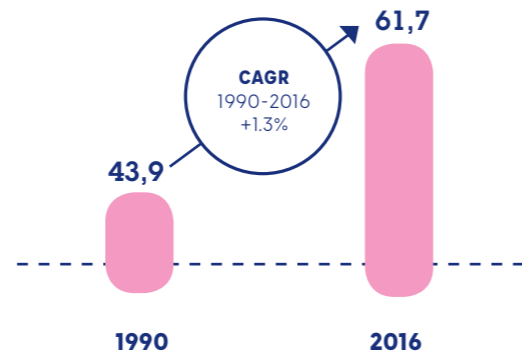
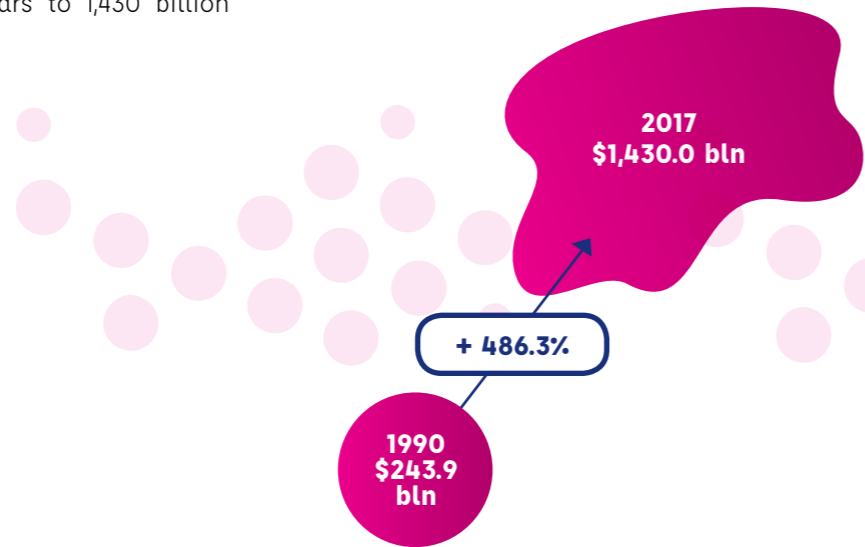


Figure 2.6 IKOF Globalization Index, 1990-2016 (left) and Direct Foreign Investments: outgoing flows worldwide (\$bln), 1990 and 2017 (right). Source: The European House - Ambrosetti elaboration based on a number of sources, 2019.



The macroeconomic picture worldwide configures one of the longest periods of growth ever recorded, with a positive rate in the last five years. Compared to a global growth rate of +10.5%, Europe has achieved almost as positive a level of performance (+9.6%). Despite the favorable economic situation, however, countries such as Italy stand out for their **general stagnation**: from 2012 to 2018 the country has remained largely stalled, with growth at +1.5%.

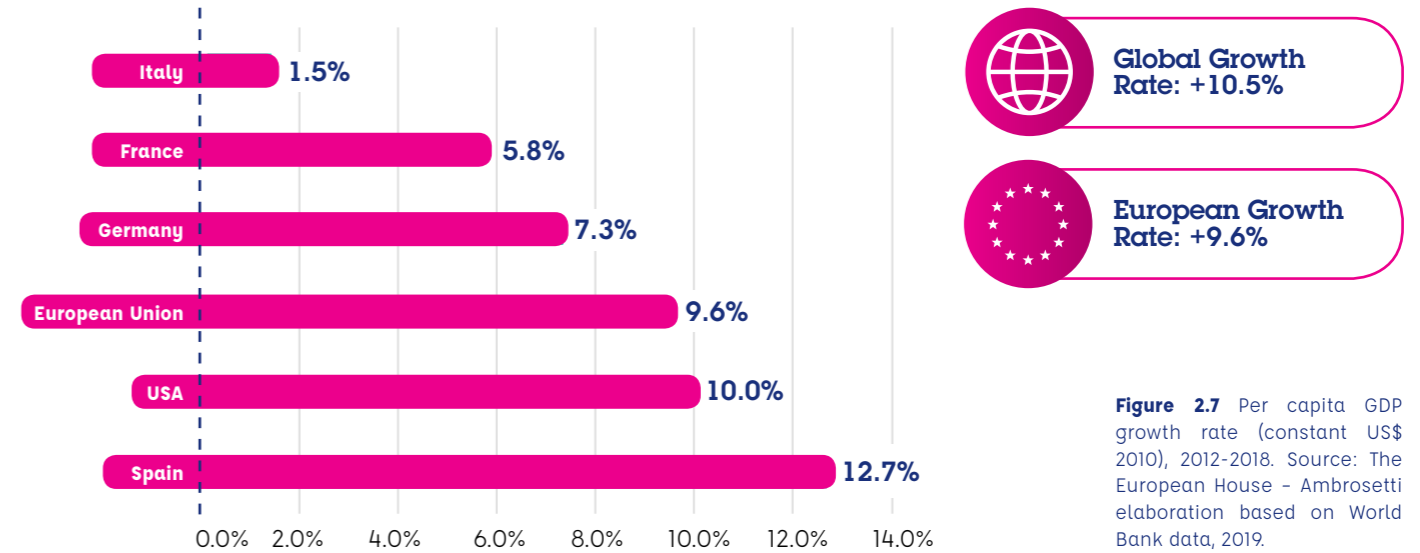


Figure 2.7 Per capita GDP growth rate (constant US\$ 2010), 2012-2018. Source: The European House - Ambrosetti elaboration based on World Bank data, 2019.

The data show how, if we expand the reference time frame, the European countries are experiencing their 28th consecutive quarter of growth, classifiable as the third longest period of continuous expansion since World War II (the figure is 40 quarters for the United States and 41 for the OECD Area).

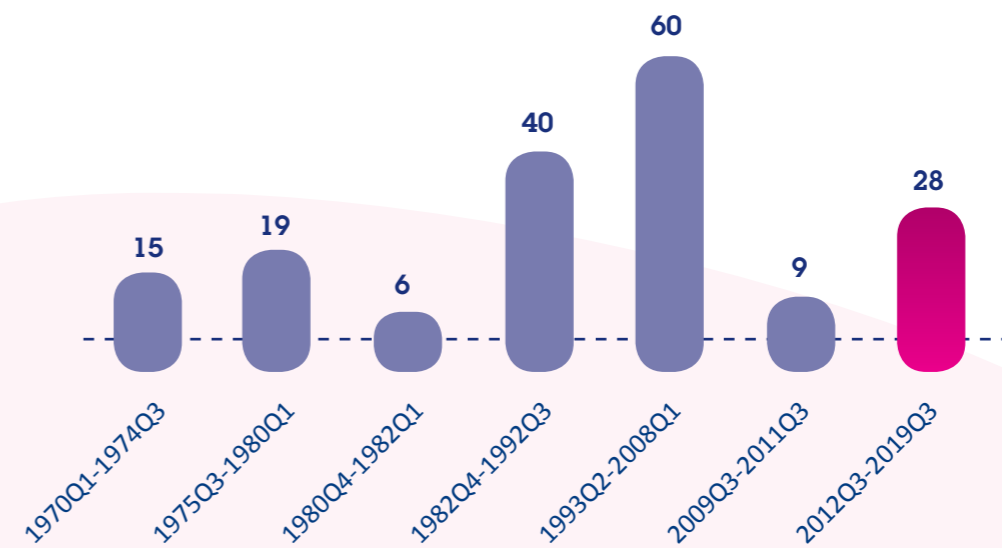


Figure 2.8 Number of consecutive quarters of growth, Europe (absolute values), 1971Q1-2019Q3. Source: The European House - Ambrosetti elaboration based on OECD data, 2019.

¹ For more on this subject, refer to the contents of the "Welfare, Italia" Think Tank platform of Unipol Group with The European House - Ambrosetti.

² Gygli, Savina, Florian Haelg, Niklas Potrafke and Jan-Egbert Sturm (2019): The KOF Globalisation Index - Revisited, Review of International Organizations, <https://doi.org/10.1007/s11558-019-09344-2>.

The powerful global dynamism and the economic momentum created by globalization, however, are only one side of the coin: the increasing wealth gaps and geo-political tension are only the early warning signs of **critical problems that must be faced urgently**.

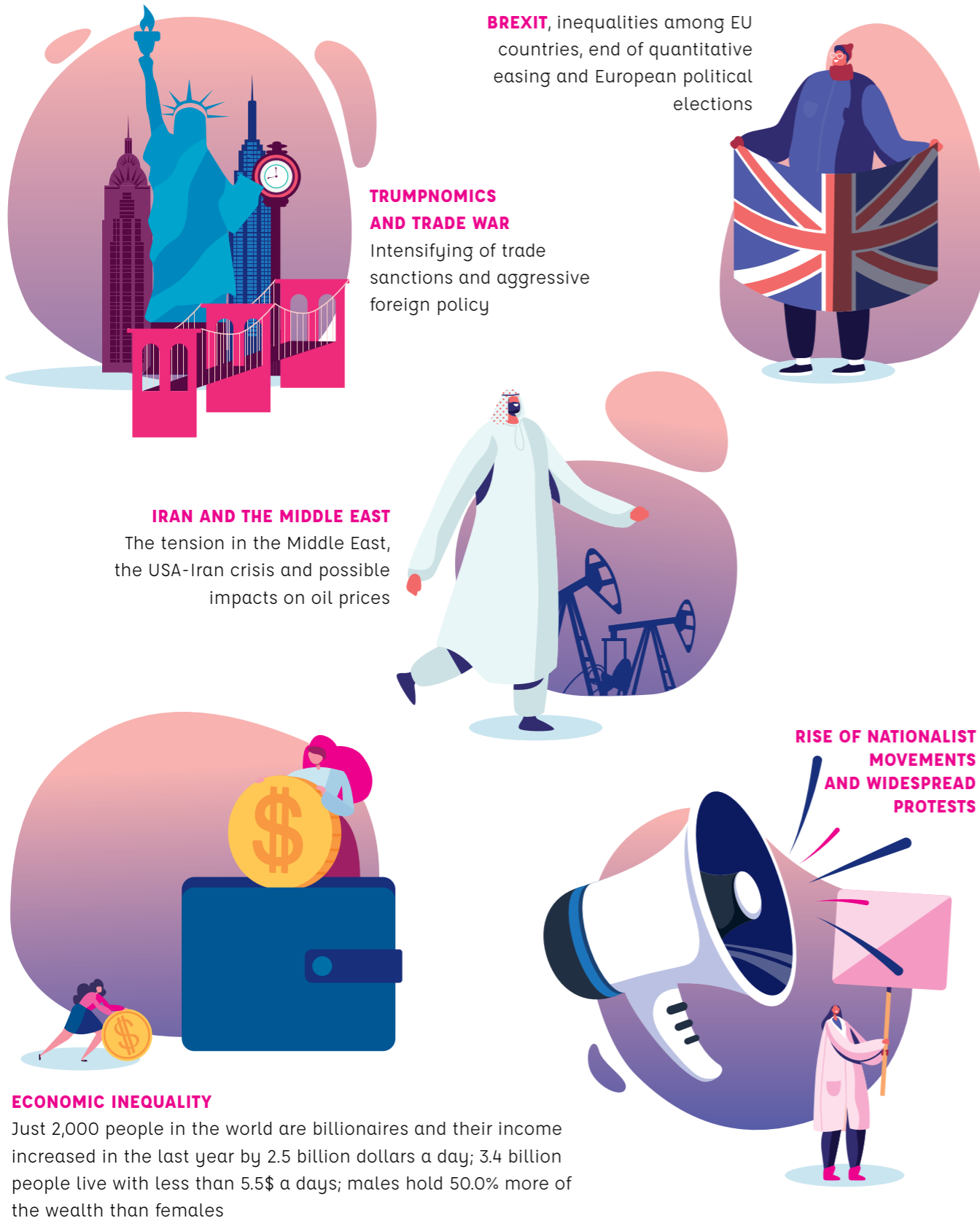


Figure 2.9 Globalization «2.0»: some Facts & Figures on a global level. Source: The European House - Ambrosetti elaboration based on a number of sources, 2019.

The natural resources of our planet are undergoing **stress and exploitation** by human beings. The Global Footprint Network, an international organization engaged in monitoring the impact of human activity on the planet by calculating the ecological footprint, keeps track annually of when we reach the so-called "Overshoot Day" every year. This is the official day that indicates the depletion of the renewable resources that the earth is capable of regenerating in the year. It changes at every new calculation, depending on the rapidity with which those resources are used. If in the Seventies of the last century, the date was reached at the end of December, in 2019 we had used up all the renewable resources at our disposal by July 29. At the present time, according to the Global Footprint Network, the world's population is consuming the equivalent of 1.7 planets a year and, based on the current trends, this figure could reach two planets by 2030.

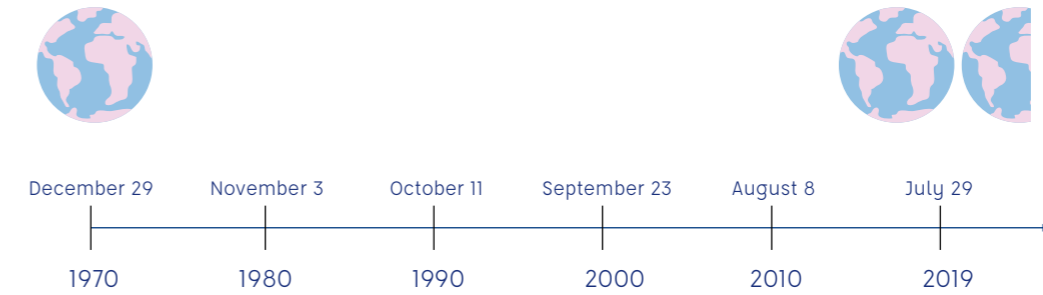


Figure 2.10 Earth Overshoot Day, 1970-2019. Source: The European House - Ambrosetti elaboration based on Global Footprint Network data, 2019

L'Overshoot day is the day that marks the depletion of renewable resources that the Earth is able to regenerate in a year

The contemporary world faces two considerable **paradoxes** that require serious reflection on the current models of extraction and consumption of global raw materials. There are **795 million undernourished people** in the world (corresponding to 36 million deaths every year) and **two billion overweight/obese people** (29.2 million deaths a year), who are a real burden also in terms of healthcare costs: obesity takes up between 2.0% and 8.0% of the total healthcare expenditures worldwide.

The **inefficient use of resources** can also be observed downstream of the agri-food supply chain: on a global level it has been estimated that about 30.0% of food is wasted or discarded along the supply chain, for a total of about 1.3 billion tons a year. By 2030 it will go up to about 2.1 billion tons (+61.5% compared to now), with even greater damage in social, economic and environmental terms.

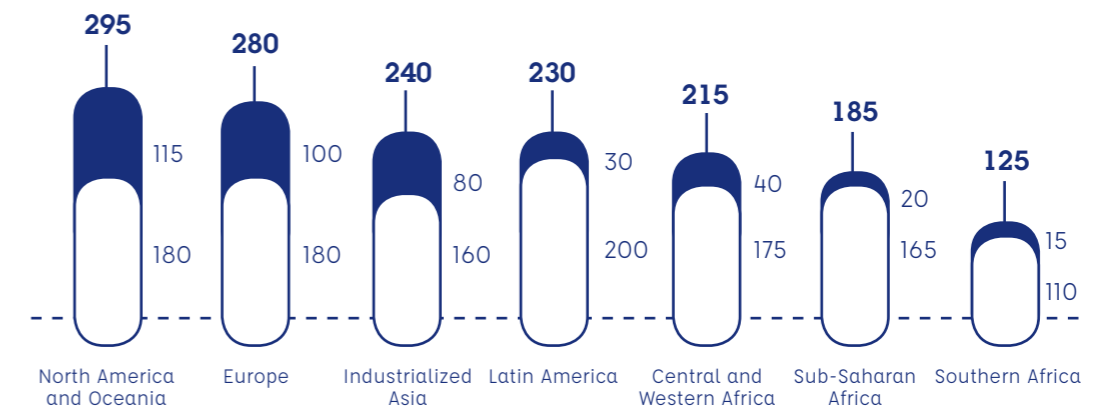


Figure 2.11 Food losses and food waste along the various stages of the production supply chain in different geographical areas, kg/per capita annually. Source: The European House - Ambrosetti elaboration based on FAO data, 2019.



While Europe, North America and industrialized Asia report **very high percentages of food losses and food waste associated with consumption** (between 115 and 80 kg/per capita annually), emerging or developing countries like Africa, southern Asia and South America report high percentages in the production and distribution stages of the supply chain.

Also considering **water withdrawals**, it has been shown that there is, on the one hand, excessive use of the resource and, on the other, much of that use is highly inefficient. The main causes of waste along the mains are: economic (insufficient investment in the mains and high cost of repairing them); physiological (errors of measurement, construction flaws and defective materials, as well as improper laying conditions) and behavioral (illegal connection and consumption not billed)³.

As has already been stated, the current models of extraction and consumption of raw materials

are causing a severe **environmental impact on the ecosystem**, to which must be added the effect of disposing of the waste collected at the end of the consumption cycle. The environmental damage caused by plastic is one of the most serious threats to the health of the global ecosystem. All over the world, from the Fifties to the present time, about 8.3 billion tons of plastic have been produced; of these, about 60% have ended up in dumps or abandoned in nature. Every year, over 8 million tons of plastic end up in the oceans and, at this rate, the quantity of plastic in the sea will exceed the number of fish by 2050.

Also in terms of **polluting emissions** in the atmosphere, the data are shocking: the industrialized countries are responsible for over 70% of the total CO₂ emissions on a global level, with a significant impact on human life: exposure to air and water pollution costs 9 million lives every year⁴.

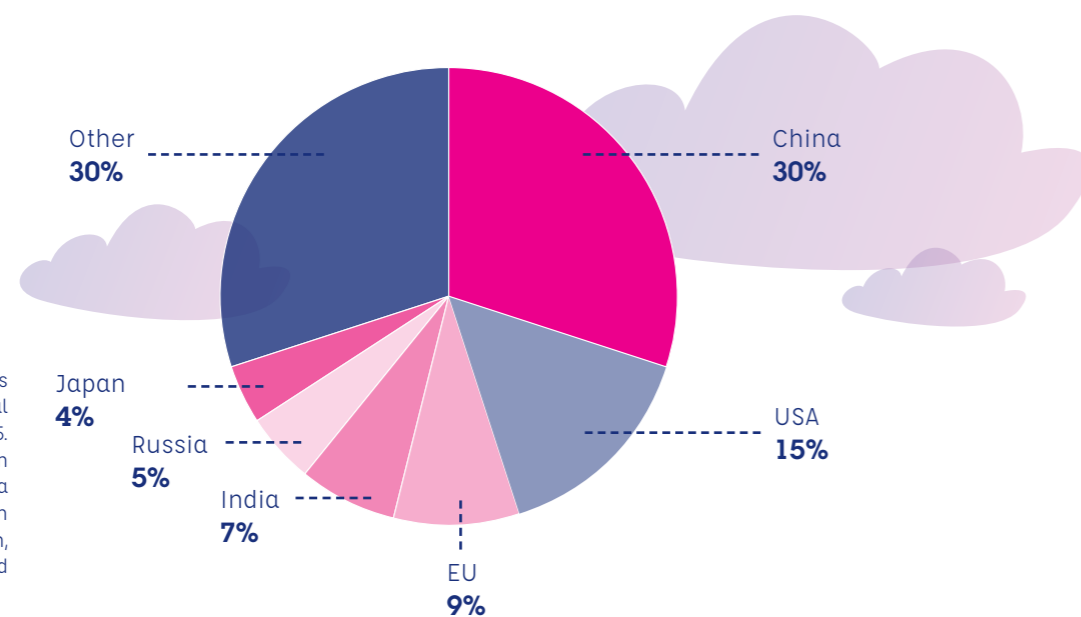


Figure 2.12 CO₂ emissions on the total global emissions (percent) 2015. Source: The European House - Ambrosetti data elaboration based on WHO data and Boden, T.A., Marland, G., and Andres, R.J., 2017.

The levels of **greenhouse gas emissions** in the atmosphere are increasing even and above all in countries where industrialization is recent. From 1995 to today, the quantities of CO₂ in the atmosphere have increased +201% in China, +204% in India, +171% in Saudi Arabia and +148% in Iran, compared with a reduction of -16% in Europe and -3% in Japan and the United States.

What we have just described suggests that no country in the world can aim to generate economic growth without considering the severe environmental consequences that derive from human activities carried out in that country. Climate change, in addition to causing major social upheaval such as climate-induced migration or conflicts for the use of raw materials, generates negative consequences for businesses as well, especially those which have always based their activity on the so-called "free national benefits" like pollination, the water cycle, marine and forest ecosystems. The great challenge of our century lies in the possibility of **generating sustainable growth**, i.e. over the long term, which exceeds the mere economic dimension of development and expands to include social and environmental aspects as well.

³ For a more detailed discussion, see the "Value of Water" platform of The European House - Ambrosetti.

⁴ The U.N. has estimated that exposure to air pollution causes the premature death of a person every 5 seconds.

2.2

STRATEGIC GUIDELINES, MEASUREMENT AND MONITORING OF THE INITIATIVES RELATING TO SUSTAINABILITY ON A GLOBAL LEVEL

On September 25, 2015, the United Nations approved the **Global Agenda for Sustainable Development** and the related 17 Sustainable Development Goals, expressed in 169 targets to be achieved by 2030. The program presented by the United Nations arises from its clear stand regarding the unsustainability of the current economic model of production and consumption, due to the profound impacts it generates on humanity and the planet. This approach is highly innovative because of the rupture of the paradigm it proposes, which definitively transcends the idea that sustainability is solely an environmental question, and contributes to establishing an integrated view of the various dimensions of development.

The progress of nations toward a sustainable development model is monitored by means of a complex system based on 17 Goals, 169 targets and over 240 recommendations. Now four years since the signing of the **2030 Agenda** by the 193 UN state members, the awareness seems to be consolidating—across the globe—that in order to take on the complex economic, social, environmental and institutional issues required to implement the transition towards a more sustainable development model, an integrated approach must be adopted. In addition, with just over ten years to the deadline, the 2019 UN report dedicated to the sustainable development goals underscores how, despite the fact that clear progress has been made in many areas, **more rapid and ambitious action and policies are needed** to achieve the economic and social transformation necessary to achieve the Goals. The areas most affected by the struggle against climate change and inequality require the most urgent action. With regard to the former of these problems, the catastrophic and irremediable effects that will occur if greenhouse gas emissions are not reduced immediately will make many parts of the world uninhabitable, affecting the most vulnerable populations in particular. When it comes to inequality, poverty, starvation and disease are increasing in many countries, again mainly affecting the poorest countries in the world.

The multitude of reports prepared and the proliferation

of initiatives worldwide to take on the economic, social and environmental challenges confirm the unprecedented attention being paid to implementing the 2030 Agenda by private sector organizations, businesses, financial institutions, government and local communities. The extent of this process is certainly broadened by the so-called "Greta Thunberg phenomenon", the young Swedish student who, in August 2018, organized a protest outside the Swedish parliament to ask the government to reduce CO₂ emissions in line with the Paris Agreement, holding in front of her a placard that read: "Skolstrejk för klimatet" (school strike for the environment). This young woman decided not to go to school any more until the Swedish elections in 2018, and on September 7 of that year, just before the elections, she announced that she would continue to protest every Friday until the Sweden government agreed to align with the Climate Agreement, coining the slogan "**Fridays For Future**", that has attracted attention worldwide and inspired millions of students to join her in her protest.

As a result, young people and adults throughout the world have become involved in this initiative. On March 15, 2019, the **first worldwide strike for the environment** was held which saw the involvement of over one million young people in numerous cities across the globe, including 100 Italian cities. On May 24, 2019, for the second global strike, demonstrations were held in 1,664 cities in at least 125 countries. Another strike was held on September 27, at the end of a week of global mobilization for the climate.

It has become clear to all that the process currently underway cannot be seen as merely a passing trend. On the contrary, it has shown itself capable of mobilizing whole nations and companies to give each individual the responsibility for creating a more equitable and cleaner world that safeguards the rights of the younger generation to benefit from higher environmental, human and economic development standards. It is indeed these new generations who are making the most strenuous demands for greater responsibility on the part of the leadership of governments and businesses.

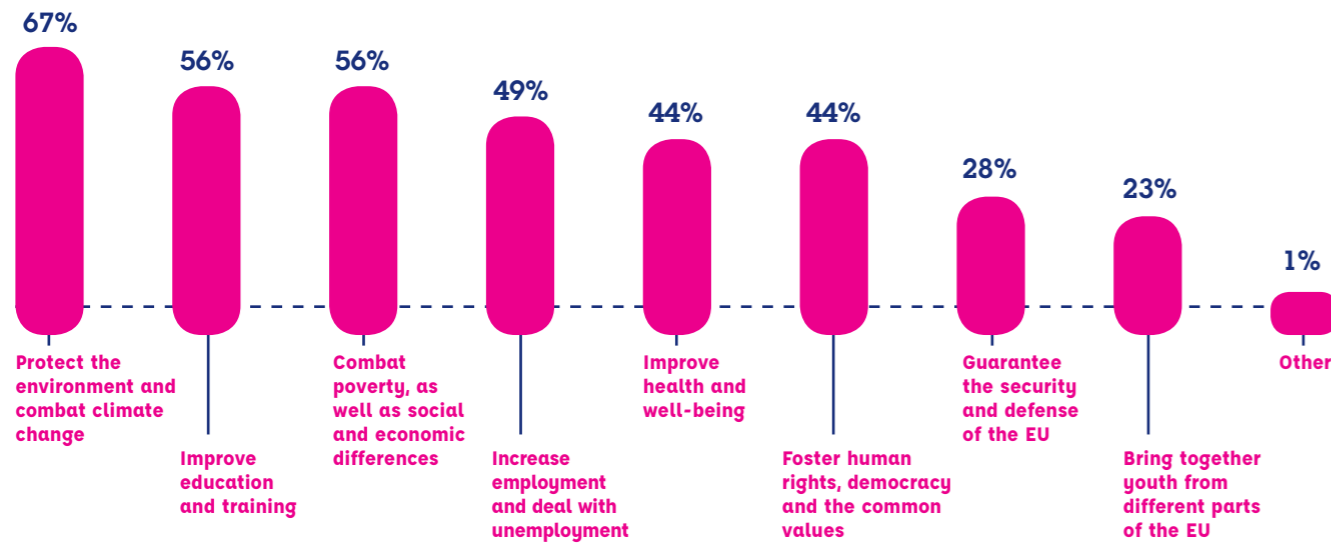


Figure 2.13 Which of the following subjects should be a priority for the European Union in the coming years? (Multiple-choice survey to post-millennials⁵ in Europe) (percent), 2019. Source: The European House - Ambrosetti elaboration based on European Union data.

Also, on the European front, the elections held at the end of May and the subsequent agreement among the governments led to a woman heading the European Commission for the first time in history. In her programmatic speech addressed to the European Parliament, Ursula von der Leyen came out clearly in favor of the idea that sustainable development should be one of the **pillars of European strategy** for the next five years. The word "sustainable" appeared twelve times in her programmatic speech, which contains numerous proposals concerning the 17 Sustainable Development Goals and the explicit commitment "to leave no one behind", just as the 2030 Agenda of the United Nations declares.

The commitment of the Commission in this direction emerges concretely in the **Action Plan on Financing Sustainable Growth** drafted in March 2018, with which, starting from the recommendations of a panel of experts, an action plan is defined to: "reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth; manage financial risks stemming from climate change, environmental degradation and social issues; foster transparency and long-termism in financial and economic activity"⁶.

THE PLAN CONTEMPLATES 6 CONCRETE ACTIONS:

- create a **common language** for sustainable finance;
- create **EU trademarks** for green financial products;
- clarify the obligation for asset managers and institutional investors to take account of the **sustainability factors** in the investment process;
- require the insurance and investment companies to advise clients on the basis of their **preferences** in matters of sustainability;
- integrate sustainability into the **prudential requisites** of investments;
- improve **transparency** with regard to corporate communications.

In addition, the President of the European Commission explicitly mentioned in her mission letters sent to the designated commissioners, stressing among the guiding principles of the Commission for the period 2019-2024, not only the responsibility of every commissioner to achieve the United Nations Sustainable Development Goals, each in the appropriate sector of competence, but also the principle that the Commission as a whole will be responsible for the attainment of the Goals.

At the national level, the Italian government has launched its own "**Green New Deal**" that outlines a plan of investment in the field of sustainability and the environment, "in support of the families, consumers and enterprises, to impose the turn to green -the minister said- and will focus on air quality, sustainable mobility, the creation of environmental economic areas and will offer fiscal advantages to those who engage in green business, live green and develop green"⁷. Italy has also proposed to the EU that green and sustainable public investments should be separate from the financial budget constraints. Basically, this would mean that spending for investments would not affect the European parameters that impose a strict ratio between deficit and GDP.

On October 4, 2019, the **ASviS Report 2019⁷** was presented in Rome, detailing Italy's progress with respect to the 2030 Agenda. Between 2010 and 2017, Italy exhibited signs of improvement in nine areas: nutrition and sustainable agriculture, health, education, gender equality, energy system, innovation, sustainable models of production and consumption, fight against climate change, international cooperation. For another six areas, instead, the situation is worsening: poverty, economic condition and employment, conditions of the cities and the seas, terrestrial ecosystem and quality of governance, peace, justice and solid institutions. In all these sectors, the North-South gap weighs heavily. For two more Goals (water and inequality) the condition appears substantially unchanged.

Comparing European countries, it is interesting to note that the results achieved by the different nations within the individual indicators vary to a significant degree. Considering, for example, Goal no. 1 ("End poverty in all its forms everywhere") the distances between countries are notable: the difference between the composite indicator related to the best performer (Czech Republic) and the country at the bottom of the classification (Bulgaria) is 31.4 points⁸.

To conclude, despite the improvement of many indicators that we can observe on a global level, and despite the many actions undertaken in the right direction by a great many countries, thousands of businesses and cities, **we have not yet seen that cultural discontinuity and the strategic choices necessary to reach the 17 Sustainable Development Goals** by 2030, to which all the world leaders have committed themselves.

⁷Methodological note: the composite indicators were constructed using the AMPI method, also applied by Istat in constructing the analogous BES (Equitable and Sustainable Well-Being) indicators. In particular, the statistics contained in the report were constructed using a composite indicator (starting from over 100 elementary indicators) for 15 of the 17 Goals, while for Goals 13 and 17 the choice was to continue to use a single headline indicator. Both the indicators provided by Istat and the composite indicators are listed on the internet website of ASviS, which also contains data referring to the different regions of Italy. The value of Italy as of 2010 is taken as the base value (equal to 100) and the indices show the improvement (if the value increases) or deterioration (if it decreases) of the situation with respect to the 2010 value. If a composite index shows improvement, this does not necessarily mean that Italy is on a course that will allow it to achieve the Goals in 2030, but simply that the country is moving in the right direction (on average), as it does not take account of the distribution (i.e. the aspects connected with inequality) of the phenomenon.

⁸For a more detailed review of Italy's performance with regard to the Agenda 2030 goals, see chapter 4.

* Dichiarazione del Ministro dell' Ambiente Sergio Costa, Settembre 2019.

2.3

THE EVOLUTION OF SUSTAINABILITY IN ECONOMIC LITERATURE

The protection and care of the environment, attention to the use of natural resources and respect for the fundamental human rights are the fundamental principles that lie at the base of the concept of **sustainable economic development** which, over the years, has evolved and expanded. In particular, from a simple warning to businesses, it has become a model with which we now compare ourselves and that forms the basis, more than ever before, of the strategic choices made by countries.

Already between the 19th and the 20th century, a few industrialists like Rockefeller and Carnegie, threatened by the insistent anti-monopolistic pressure and increasing social tension that characterized America at that time, began to experiment with early forms of **corporate philanthropy**, becoming aware of the importance of decent housing conditions for their workers, of healthcare and social security, developing forms of corporate welfare for the first time

Those were the dawnings of an awareness of the extended responsibilities that the modern capitalistic enterprise would be called up to accept in later years. In 1953, Howard R. Bowen, an American scholar and economist, in his work "Social Responsibility of the Businessman"⁹ considers managers and businessmen as **executives not at the exclusive service of the shareholders**, but rather as persons in a position to influence the interests of the company as a whole, toward which they have the responsibility of decision-making, pursuing goals and following lines of action based on the company's values.

During the Sixties, a number of scholars began to formulate the first definitions of "Corporate Social Responsibility" (CSR). In particular, K. Davis, one of the most important economists to explore CSR, was the first to define it as the set of businessmen's decisions and actions taken for reasons at least partially **beyond the firm's direct economic or technical interest**¹⁰. Taking into consideration the strong bond between economic power (viewed as the ability to influence/determine the decisions of businessmen) and social responsibility, Davis stresses that failure to heed this dual relationship in the decisional processes of the business would only lead to their delegitimization, and thus to the loss of any real economic power¹¹. Other economists came along in those years, among the most important, William C. Frederick¹² and R. L. Blomstrom¹³, who began to follow this same train of thought, and together they contributed to define a **concept of corporate responsibility that differed** from the more strictly economic and legal one contemplated until then.

In the Seventies, the concept of Corporate Responsibility began to change considerably: on the one hand, the neoclassical economic movement identified profit as the only goal that a company should pursue, scorning the theories elaborated up to that time regarding CSR as subversive for the capitalistic system¹⁴. Contrary to this idea, other important contributions consolidated the concept of corporate responsibility, with the model of the three concentric circles of the Committee for Economic Development¹⁵ and Carrol's pyramid model¹⁶, which summarize and reiterate **the relationship between the corporation and the environment around it**.

⁹ H. R. Bowen, *Social Responsibility of the Businessman*, Harper & Row, New York, 1953.

¹⁰ K. Davis, *Social responsibility of businessmen need to be commensurate with their social power*, *California Management Review*, vol.2, Spring 1960.

¹¹ Ibid.

¹² W. C. Frederick, *The Growing concern over Business Responsibility*, *California Management Review*, vol.2, Summer 1960.

¹³ K. Davis, *Blomstrom, Business and its environment*, New York, McGraw Hill, 1966.

¹⁴ Friedman, *Capitalism and freedom*, University of Chicago Press, Chicago, 1962.

¹⁵ CED, *Committee for Economic Development*, 1971.

¹⁶ A. B. Carroll, *A Three-Dimensional Conceptual Model of Corporate Social Perform*, *Academy of Management Review*, n.4, 1979.

¹⁷ S. P. Sethi, *Dimensions of corporate social performance: An analytical framework*, *California Management Review*, n.17, Spring 1975. Wartick, Cochran, *The Evolution of the Corporate Social Performance Model*, *The Academy of Management Review*, Vol. 10, n. 4, pp. 758 769, 1985. Donna J. Wood, *Corporate Social Performance Revisited*, *Academy of Management Review*, n.16, 1999.

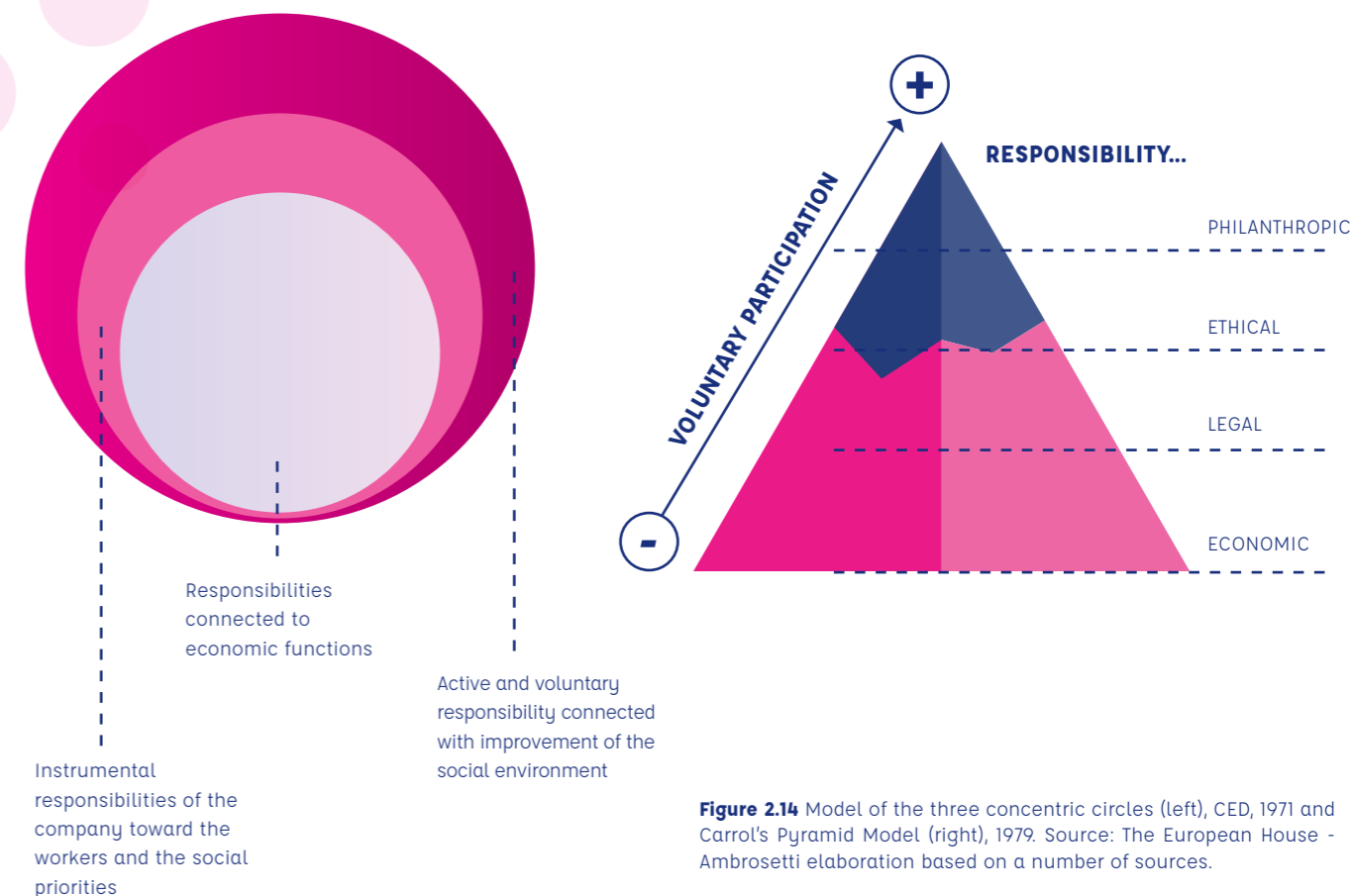


Figure 2.14 Model of the three concentric circles (left), CED, 1971 and Carrol's Pyramid Model (right), 1979. Source: The European House - Ambrosetti elaboration based on a number of sources.

Starting in the Eighties, three important theories began to take shape and are still the basis of our **modern concept of sustainability**:

1 THE THEORY OF CORPORATE SOCIAL PERFORMANCE, which considers, not so much the impacts of the economic operations of companies, but rather the processes and methods whereby an economic subject identifies and combines its interests with those of its Stakeholders¹⁷;

2 THE THEORY OF THE STAKEHOLDERS, which through a series of modellings, attempts to represent the constellation of converging and tangential interests around the company's operation. The goal is to codify the managerial processes capable of determining actions not in the exclusive interests of the shareholders, but of all those who can derive an impact as a consequence of the normal economic corporate activity¹⁸;

3 THE THEORY OF BUSINESS ETHICS, which develops not so much to respond to the pressure coming from the world outside the business, but because in this case it is the business that wants to provide adequate justification for the actions it wishes to undertake. In this case, the focus is on the ethical values underlying individual conduct, starting from the assumption of the existence of ethical theories and rules in the economic sector that indicate how a society and the economic institutions that form it should be. These theories and rules explain - on the basis of a set of values, deemed valid and accepted by all -, what types of behavior must be applied and accepted¹⁹.

¹⁸ R. E. Freeman, *Strategic Management: A stakeholder approach*, Boston, Pitman, 1984; Donaldson, Preston, *The stakeholder theory of the corporation: concepts, evidence and implications*, *Academy of Management Review*, n.20, 1995; Mitchell, Agle, Wood, *Theory of Stakeholder Identification and Saliency*, *Academy of Management Review*, 1997; Frooman, *Stakeholder Influence Strategies*, *Academy of Management Review*, 1999; Jawahar, McLaughlin, *Toward a descriptive stakeholder theory: An organizational life cycle approach*, *Academy of management review*, 2001.

¹⁹ Frederick, *Why Ethical Analysis Is Indispensable and Unavoidable in Corporate Affairs*, *California Management Review*, n.28, 1986.

In 1987, in the wake of what until that time had been theories developed with regard to business activity, the UN World Commission on the Environment and Development would publish the first universally recognized definition of sustainable development, indicating it as **development that "meets the needs of the present generation without compromising the ability of future generations to meet their needs"**²⁰. It was a historical moment and brought to the attention of world leaders a key topic for the prosperity and development of the entire planet: the link between the development of economic activities and protection of the environment.

The report, "Our Common Future", published in 1987 by the Brundtland Commission of the United Nations Environment Programme, was the first attempt to raise to the level of the national economic systems the debate on the need to change the model of economic development as it had been conceived until then: "profit-centered" and based on the exploitation of natural resources perceived as unlimited by companies, countries and individuals.

In the years that followed, the topic of sustainability became the focus of many appeals and conferences. That of Rio de Janeiro (1992) is an example and it is here that sustainability is defined as an integrated concept of environmental, economic and social performance²¹. We can also mention the appeal launched by the OECD to companies and governments, to contribute to economic, social and environmental progress in the countries with which they engaged in business and other relations²².

The environmental dimension, legitimized for the first time to enter the paradigm of global economic development is not, however, the only one to play an important role in the concept of sustainable development. Over the years, in fact, the literature devoted to economics and social sciences has amplified its definition, going so far as to take up what in corporate literature was already defined as the **human factor and the impacts of economic activity on communities and individuals**. In 1994, John Elkington elaborated his now celebrated "Triple Bottom Line" of sustainability, fostering a holistic vision of the phenomenon.

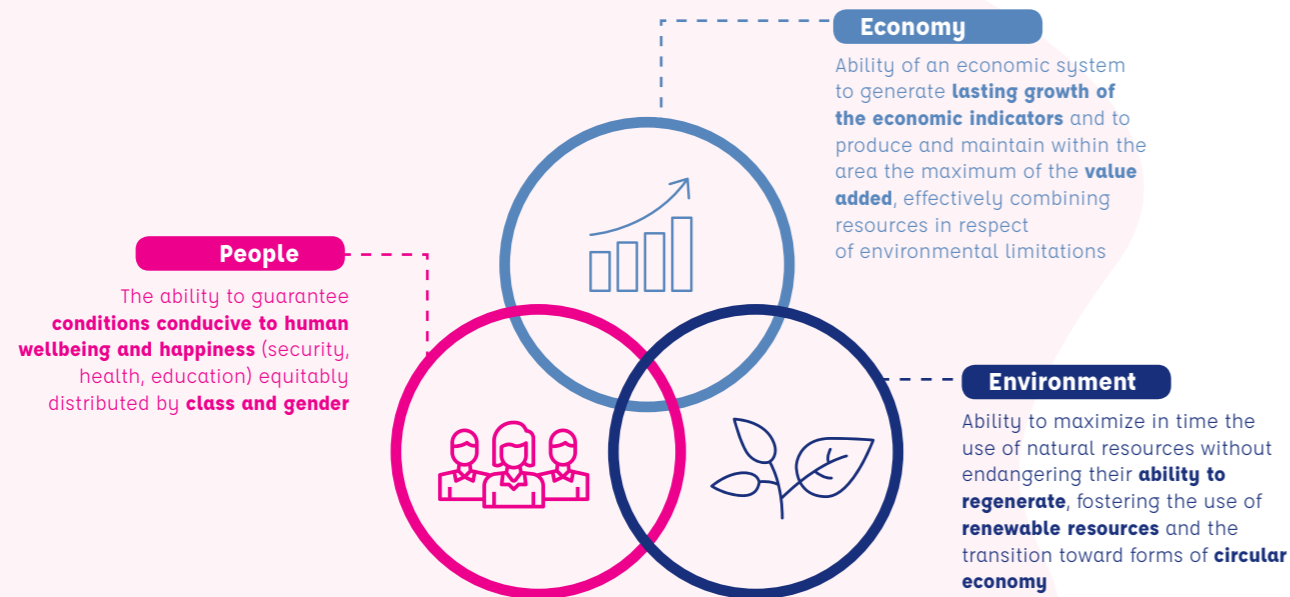


Figure 2.15 The three dimensions of sustainable development. Source: The European House – Ambrosetti elaboration based on contributions by John Elkington and various sources, 2019.

²⁰ Brundtland Report, Our Common Future, WECD, United Nations, 1987.

²¹ Conference of Rio de Janeiro, United Nations Conference on Environment and Development, June 3 14, 1992.

²² OECD, OECD Guidelines for Multinational Enterprises, 1976, 2000.

The evolution of the concept of Corporate Social Responsibility has led, over the years, to the integration of existing theories with those that were coalescing around sustainable development, making it one of the key topics on all the tables of the main global decision-makers.

In 2000, the United Nations member states decided to sign the eight Millennium Development Goals (MDGs). The purposes of the MDGs concerned many areas: improving the living conditions of the world's populations; creating more safeguards for women; creating environmental sustainability to defend the planet and its inhabitants; combating infant mortality and diseases like AIDS. In 2012, in Rio de Janeiro, the UN Conference decided to evolve the old Millennium Development Goals into the new Sustainable Development Goals (SDGs). The change was driven by the need to extend, both in time and in space, the successes that had been achieved until then, encouraging **more active participation by all states** (regardless of the GDP they represented) and defining more precisely what all nations could do together for the wellbeing of the present and future generation.

In the wake of this new stirring of public consciousness, new economic theories developed that, unlike consumerism, would enable populations to approach economic life in more sustainable ways. It is the example of the **Sharing Economy**: a model of consumption developed for the first time in 1978, which stresses the existence of an indissoluble interdependence between individuals, other species and the physical environment, on the strength of which it proposes a socioeconomic organization not based on possession but on the access to shared goods and services²³. This model of consumption that, for the economist Rifkin, can be considered the basis of the Third Industrial Revolution²⁴, accompanies the concept of **Corporate Shared Value** (which represents the more recent evolution of the concept of CSR), according to which the competitiveness of a company and the wellbeing of the community are reciprocally dependent, and recognizing and capitalizing on these connections between social and economic progress will give us the power to release the potential of the next wave of global growth²⁵.

To date, it is and must be commonly accepted that, if the economic dimension is essential for any model of sustainable development to survive and regenerate, it is certainly not the only variable in the equation of progress and growth, but rather the ability of an economic system to generate the lasting growth of its economic indicators is a goal to be pursued:

- respecting the possibility to maximize in time the use of natural resources without endangering their ability to regenerate, fostering the use of renewable resources and the transition toward forms of circular economy (environmental dimension);
- guaranteeing **conditions of human wellbeing and happiness** (security, health, education) equitably distributed by class and gender (social dimension).

Every economic player, whether a company or a national economic system, cannot fail to recognize itself as one of the key elements of a complex ecosystem, the parts of which are closely interwoven and interdependent. For this reason, now more than ever, each party is called upon to play his or her role in the promotion and implementation of the principles of sustainable development.



²³ Marcus Felson, J. L. Spaeth, Community Structure and Collaborative Consumption: A routine activity approach, American Behavioral Scientist, 1978.

²⁴ Rifkin, Jeremy, The Third Industrial Revolution: How Lateral Power Is Transforming Energy, the Economy, and the World. New York: Palgrave Macmillan, 2011.

²⁵ Porter, Kramer, Strategy and Society. The thing between competitive advantage and corporate social responsibility, Harvard Business Review, 2006. Porter, Kramer, Creating Shared Value. Harvard Business Review, 2011.



3

CHAPTER

TOWARDS AN INCLUSIVE AND SUSTAINABLE FUTURE

3.1

THE VISION OF THE ADVISORY BOARD WPP/THE EUROPEAN HOUSE – AMBROSETTI ON INCLUSIVE AND SUSTAINABLE DEVELOPMENT

Starting from the aspects that constitute the sustainability paradigm discussed previously in Chapter 2, the Advisory Board WPP/The European House - Ambrosetti agrees with the concept that defines **sustainable development**

as economic and social development that is compatible with social equity, environmental protection and the rights of future generations

IN THE VISION WE PROPOSE:

- **economic, social, environmental and governmental and institutional policies** have equal standing and importance. It transcends the idea that the economic aspect "comes before" the others—a cultural and political choice which, in the past, generated extraordinary progress in certain areas of well-being, but also enormous (and in some cases, irreparable) damage in other aspects that are just as fundamental for the sustainability of the system¹.

Thus:

- the role of environmental policy must not be solely to preserve natural capital², but also maximize what are known as "ecosystem services" (such as cohesion, mutual trust and trust in the institutions given their positive effect on the well-being of individuals);

- particular importance is given to social policies because they contribute to reinforcing the sustainability of the entire system, including in terms of the "stability" of government and institutions and attenuating the negative effects of poverty and growing inequity;
- the overall quality of the governing system in terms of responsibilities, efficacy and efficiency of the P.A., plays a strategic role;
- awareness of the **role innovation plays in the course of transforming productive processes and also social relations** becomes central. Scientific and technological progress make it possible to organize economic and social life in a way that maximizes the well-being of individuals and ecosystems;
- putting the **younger generation and those "to come" at the center once again** is a priority for guaranteeing the regeneration of the system and assuring the construction of a fertile and open ecosystem. The younger generation must be the nucleus around which to build or discuss other policies through the adoption of a transversal approach.

¹ For additional information about the concept of sustainability mentioned here, please see the 2018 ASviS report: "Italy and the Sustainable Development Goals" The Alleanza Italiana per lo Sviluppo Sostenibile (ASviS) (Italian Alliance for Sustainable Development) was founded on February 3, 2016 on the initiative of the Fondazione Unipolis and the University of Rome "Tor Vergata", to promote within Italian society, business and government an awareness of the importance of the 2030 Agenda for Sustainable Development and to mobilize them to attain the Sustainable Development Goals as defined by the United Nations. For more information: <http://asvis.it/>.

² By natural capital is meant the Earth's stock of natural resources (soil, air, water, flora and fauna) that render life possible on our planet. Source: Institute for Sustainable Development.

The ultimate goal of the vision we are suggesting is to promote **long-term, inclusive and sustainable economic growth**, full and productive employment and decent jobs for all.

In the approach chosen by the Advisory Board WPP/The European House - Ambrosetti to present a fully-sustainable strategy, we believe it is necessary to draw inspiration from five guiding principles which will be reviewed in the course of this report, also in terms of evaluating Italy's progress in meeting its growth and development goals of equity, openness, intelligence, stability and resilience.

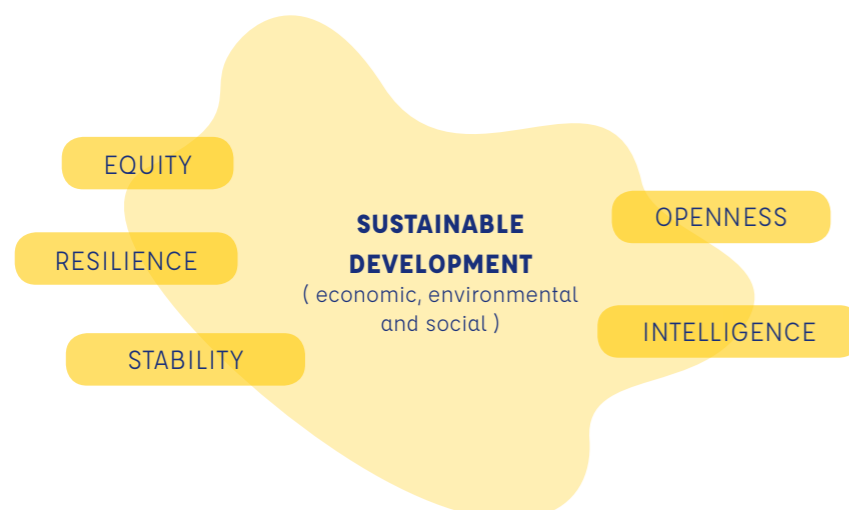


Figure 3.1. Five guiding principles for the creation of sustainable development. Source: The European House - Ambrosetti data elaboration, 2019.

It should also be emphasized that the following attributes can constitute a "compass" for both businesses and local areas. To exploit the potential resulting from the delineation of sustainable development strategies based on the definition chosen here, the tools, policy actions and **engagement and collaboration mechanisms among public and private sector players** must be identified, while integrating the needs and interests of the productive sector with that of society at-large, and bearing in mind the constraints and goals inherent in public initiatives. From this standpoint, the orientation of the nation's development model towards **cross-the-board application of sustainability models and principles** could contribute to consolidating the tie between government and institutions, companies and the community by stimulating the birth of a new "collaboration pact" among the players.

A system can be considered **equitable** if it guarantees cross-generational respect and equal opportunity for all its players. This means guaranteeing the elimination of those obstacles that can arise between individuals and their access to resources, whether material (such as wealth) or immaterial (such as education). In fact, equity is a fundamental requisite for enabling both the participation of individuals in the economic and social life of a system, as well as the possibility for it to benefit from a range of individual talents and resources.

For it to be sustainable and effective, a system must be **open**. In other words, it must promote the circulation of economic and human resources while guaranteeing their integration. This aspect of development guarantees the creation of an environment that is fertile from its birth and the transfer of innovative tools and ideas. It is only through the exchange and integration of know-how, players and assets that a positive dynamic of human, scientific and technological advancement can be activated.

Intelligence pertains to the ability to create incentive for economic growth and exploit the material and immaterial resources found in the local area. Job creation, support for the entrepreneurial and productive fabric, and enhancement and capitalization on the assets found in a given area represent all the areas of sustainable development that must be exploited on the basis of this attribute.

Stability is the capacity of a system to reduce the potential negative impacts resulting from the appearance of both internal and external harmful events and situations due to the system's intrinsic economic, social and organizational characteristics and the credibility of its rules. This aspect includes solving the inefficiencies related to the justice system and corruption which are responsible for lower levels of investment, not only in terms of investment in infrastructure and industrial capacity, but also human capital.

Finally, a **resilient** social-economic system is able to react to shocks and/or periods of crisis or uncertainty, and positively adapt to change through reform of its institutional, social and economic models and structures. A circular development model can guarantee greater adaptability and, as a result, resilience of the system in the face of economic and social challenges, both current and future.

3.2

STRATEGIC DRIVERS AND THE PROTAGONISTS OF CHANGE

As amply described in Chapter 2, the Global Agenda for Sustainable Development – and the 17 related goals for sustainable development – is highly innovative because it breaks with the paradigm which proposes and definitively supersedes the idea that sustainability is solely an environmental question, while contributing to establishing an **integrated vision** of the various aspects of development (economic, social and environmental).

Now four years since the signing of the 2030 Agenda, the awareness seems to be consolidating—across the globe—that in order to take on the complex economic, social, environmental and institutional issues required to implement the transition towards a more sustainable development model, an integrated approach must be adopted.

From their conception, the Sustainable Development Goals called upon all countries to contribute to the effort to putting the world on a sustainable path, without distinction between developed, emerging and developing nations, while capitalizing on the special characteristics of each of them. Given the systematic approach and the **"transformative" nature** of the 2030 Agenda, its implementation requires the support of all components of society, from business to the public sector, the community at-large, philanthropic organizations, universities and research centers, the media and the world of arts and culture.

3.2.1

THE ROLE OF THE COMMUNITY AT-LARGE AND THE IMPORTANCE OF COMMUNITY PARTICIPATION

The community at-large represents an important nexus in the broad fabric that is contributing to redefining the shape of a more equitable and sustainable world. Since their elaboration, the Goals have stood out for their **participatory nature**. The process which led to the adoption of the Global Agenda was, in fact, characterized by broad-based consultation both on a global and national level. This extraordinary process of involvement represents a necessary, but not sufficient, requisite for designing effective actions to lead our planet towards a trajectory of sustainable development.

The crucial node that characterizes the current phase of the 2030 Agenda – i.e., its implementation – is represented by the **effective and synergistic involvement** of all national and international players, including the whole of the community, social partners and governmental authorities, to overcome sectarianism while adopting a synergistic and integrated vision that conforms to the transformative nature of the United Nations Agenda.

SOCIAL IMPACT INNOVATION AND SOCIAL IMPACT INVESTING: THE TELETHON EXPERIENCE

The concept of impact investing was introduced by the Rockefeller Foundation in 2007, which defined it as "an investment made with the intention to generate a social impact alongside a financial return" The players involved in impact investing can be businesses, organizations and funds that operate with the goal of generating a social impact that is measurable and compatible with an economic yield. The elements that characterize impact investment are:

- the intent of the investor to generate a social impact;
- the expectation of a financial return that motivates the investor;
- the flexibility of the expected rate of return that could be below the average market rate or be in-line with market yields;
- a variety in the financial instruments used and the forms of intervention that range from debt to sheer equity;
- measurability of the impact which is fundamental to assuring transparency and accountability.

The Fondazione Telethon is a non-profit organization founded in 1990 by a group of parents whose children were affected by muscular dystrophy, a disease which, because of its rarity, was excluded from research investment and a non-priority for those in assistance.

The mission of the Foundation - now perfectly framed in the third goal of the 2030 Agenda for Sustainable Development "To ensure health and well-being for all and for all ages" - is to advance scientific research towards the treatment of rare genetic diseases, with the ambition to guarantee accessible therapies for each patient, regardless of the rarity of their pathology. Its creation represents the launching of a collective effort destined to become a model of excellence, thanks to the creation of a strict governance approach that responds, simultaneously, to the expectations of all the stakeholders involved and renders their interaction exemplary and balanced.

For the Fondazione Telethon, the concept of social impact investment is comprised of three main aspects: the presence of a multi-stakeholder scenario, i.e., an ecosystem; the expectation of a financial return that goes beyond the concept of a donation; and, finally, measurement of the social impact.

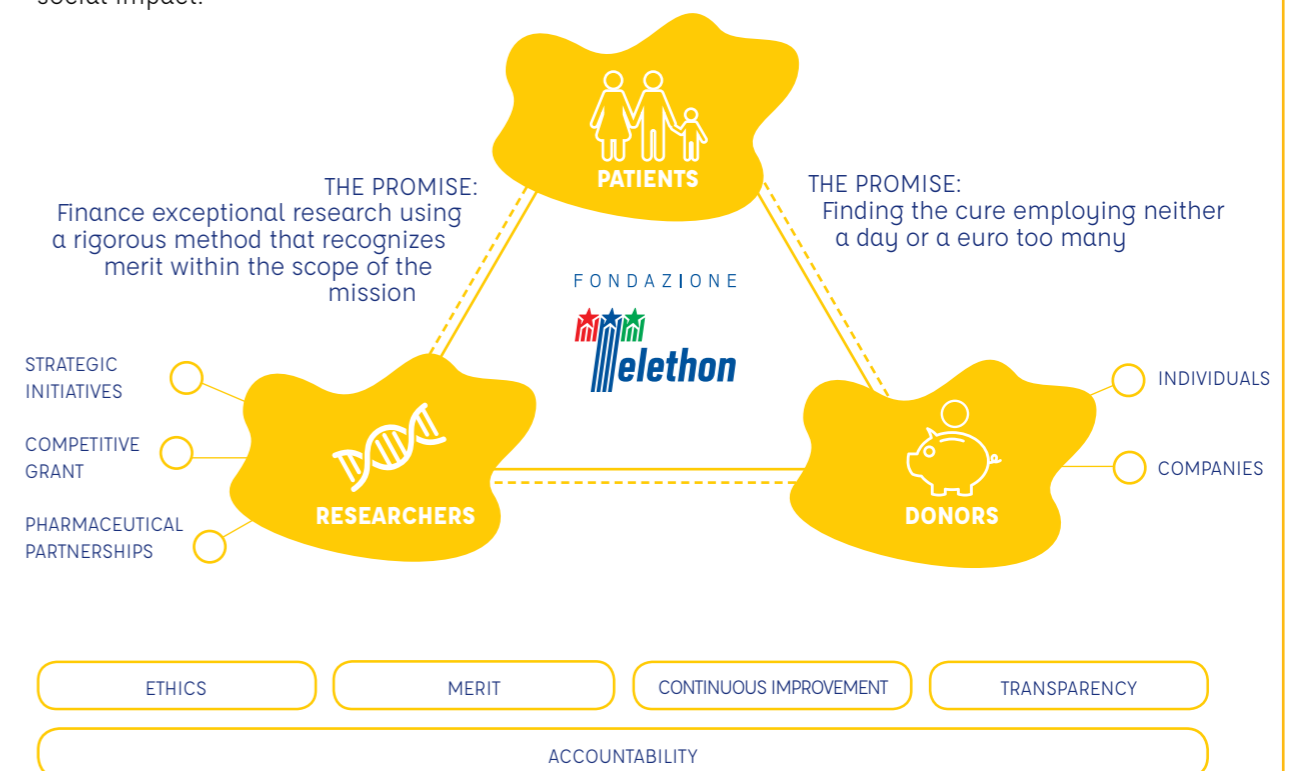
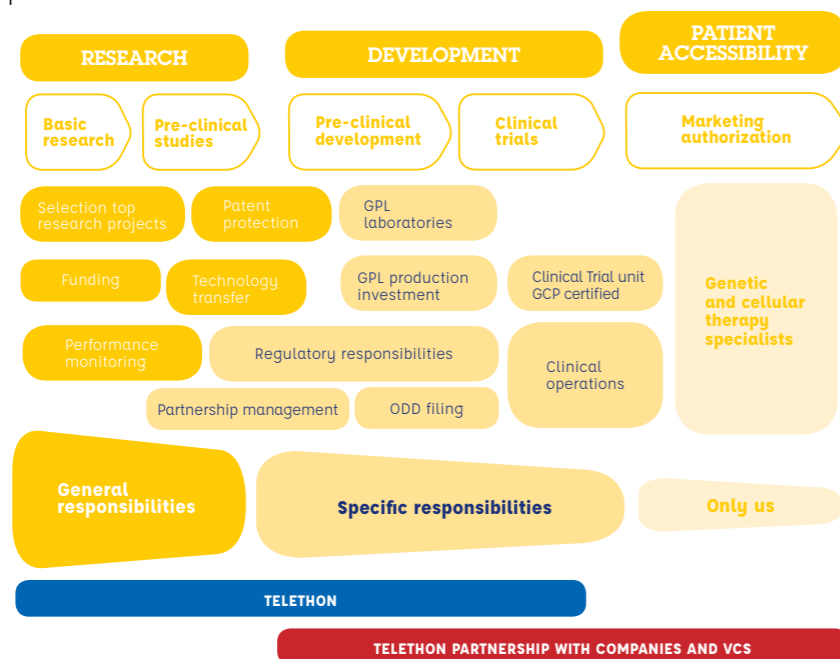


Figure 3.2. Social-economic ecosystem in which the Fondazione Telethon operates, 2019. Source: Fondazione Telethon, 2019.

The Foundation is located within an ecosystem capable of producing concrete responses, thanks to the involvement of all the necessary actors: donors, volunteers, researchers, clinical centers, institutions and the pharmaceutical industry. A unique method in the Italian panorama that follows the entire "research chain", dealing with fundraising, selection and financing of projects and the research activity carried out in the Foundation's centers and laboratories, up to the development of collaborations with public health institutions and pharmaceutical industries, necessary to transform the results into therapies accessible to patients.

The donors, which can be companies or individuals, form the basis of the Fondazione because, thanks to their contribution, it is able to promote research towards experimentation in new treatments for patients, to help the families having to face a disease that is unknown to receive a reliable diagnosis as quickly as possible, and to ensure that the treatments developed by researchers are available to an increasingly greater number of children throughout the world. The researchers - whose work is subjected to the scrutiny of experts from all over the world and to the review of an independent medical scientific commission - are the tool to advance research into care. And finally, the patients who are the heart and soul of the Fondazione. In fact, in addition to promoting research, the Fondazione provides patients with up-to-date and authoritative information about the disease. It refers them to a number of specific centers and specialists, and promotes the contact and exchange among patient associations.

To fully respond to its mission—to make available the treatments developed thanks to the research financed by the funds collected—the Fondazione Telethon requires industrial partners capable of developing and making available on the market the treatment programs that have been shown to be effective experimentally. This is why, when speaking of impact investment, the expectation of a financial return on investment is key, a concept that goes beyond that of a simple donation. This alliance is especially important because, while the Fondazione Telethon is able to select the best and most promising basic and pre-clinical research, only the pharmaceutical sector has the expertise and productive capacity needed to concretize these results and transform them into treatments available to patients.



To-date, these agreements have guaranteed the availability of the treatments developed and additional research financing totaling €108 million.

Within this context is the agreement to create the Sofinnova Telethon fund, the first Italian fund dedicated to biotech. It was founded to make available new resources in support of the most promising Italian biotech research projects that are focused on rare genetic diseases by facilitating

those processes which favor the passage of research results to their application in products useful to society at-large. The funds, which exceed €80 million, are used to create and finance 15-20 biotech companies in Italy.

Thanks to the scientific research financed and supervised by the Fondazione, over 100 children—arriving from around the world at the San Raffaele Institute for Gene Therapy in Milan, a pioneer and world leader in these technologies—have received a second chance at life. Finally, the study of the mechanisms underlying rare genetic diseases and possible therapeutic approaches has had important repercussions on diseases that are anything but rare, such as hypercholesterolemia, Alzheimer's disease and leukemias - for which gene therapy is proving effective -, as well as ensuring a fundamental contribution to understanding the functioning mechanisms of the human genome thanks to new sequencing techniques and big data analysis.

Source: The European House – Ambrosetti elaboration based on Fondazione Telethon data and a number of other sources, 2019.

The Agenda speaks of "leaving no one behind", suggesting the urgency and need to identify solutions that foster the transition to a sustainable development model and are capable of minimizing the respective costs and maximizing the returns for all stakeholders through presenting the major opportunities offered by green and inclusive growth for all social players, starting with those in the economic sphere. At the center of attention should go the "human factor" which includes an equitable redistribution of resources and good governance on a global level, as well as the defense of individual human rights, the fight against violence to women, education, health and the elimination of gender-based discrimination.

These three aspects—participation, partnership and inclusion—represent the distinctive aspects that could help all countries embrace the new Global Agenda. As has already been noted, this requires both the on-going involvement of scientists and researchers, (technological and social) innovators, public entities, opinion leaders and the community, as well as the commitment of businesses, whose fundamental involvement will be discussed fully in the section below.

In Italy, but not only, the commitment to sustainable development can already be seen in the initiatives of a broad-ranging array of public and private entities and society at-large, which have included in their action plans the Sustainable Development Goals of the Global Agenda, often within international networks that cooperate with international agencies involved in a range of areas.

A positive example of this is the **Alleanza Italiana per lo Sviluppo Sostenibile (ASviS)** (Italian Alliance for Sustainable Development), which was created to contribute to the effort in which Italy is involved in

comprehending and taking on the enormous challenges facing it, in a spirit of sharing the responsibility for attaining the SDGs.

The mission of the ASviS is to build within Italian society, its economic players and government institutions, the awareness of the importance of the Global Agenda for Sustainable Development by creating a network of stakeholders who are already involved in specific aspects found in the SDGs, in order to:

- foster the **development of a sustainability culture on all levels** by orienting production and consumption models to that purpose;
- analyze the implications and opportunities for Italy connected with the Sustainable Development Agenda;
- contribute to **defining an Italian strategy for pursuing the SDGs** (including the use of analytical and forecasting tools that aid in defining sustainable development policies) and the creation of a system to monitor Italy's progress towards the SDGs.

Within it, the Association includes the involvement of many networks from society at-large, including private sector associations (businessmen, trade unions and the third sector); networks of community associations involved in specific Sustainable Development Goals (health, economic well-being, education, employment, environmental quality, gender equality, etc.); locally-based associations; public and private research centers and universities and their networks; associations involved in the arts and culture and information sectors; foundations and foundation networks; and Italian stakeholders belonging to international networks and associations active in areas pertaining to sustainable development.

Figure 3.3. Telethon partnership model, the companies and venture capital firms. Source: Fondazione Telethon, 2019.

ASVIS GOALS AND THE "SATURDAYS FOR FUTURE" INITIATIVE

In accordance with its mission described above, and through its activities, ASviS pursues the following goals:

- through the use of all means of communication, raising awareness in the public and private sectors, public opinion and individuals about the Agenda for Sustainable Development, including by promoting broad awareness in the trends currently underway involving the SDGs and those expected in the future;
- analyzing the implications and opportunities for Italy deriving from the adoption of the Agenda for Sustainable Development, as well as reducing to the maximum the costs of the transition to sustainability by identifying (thanks to the development of appropriate analytical tools) the existing trade-offs among various policies and proposing initiatives to render them more favorable;
- stimulating research and innovation in sustainable development by promoting the spread of good practices developed in Italy and abroad, as well as the development of analytical tools useful in evaluating the impact of economic, social and environmental policies;
- promoting a program of education in sustainable development, with special focus on the younger generation;
- proposing policies aimed at attaining the SDGs and expressing opinions regarding potential legislative action, while attempting to evaluate the impact towards attaining the SDGs, especially in terms of overcoming the existing gaps between the regions in Italy and inequality among the different social-economic groups;
- identifying innovative proposals from the research network and promoting experimentation on a local and national level, as well as the adoption by businesses and the public administration;
- contributing to the development of adequate monitoring tools in implementing the SDGs in Italy, including also in terms of specific groups of stakeholders (businesses) and local areas (communities and cities), while making maximum use of existing systems, such as the Benessere Equo e Sostenibile (BES) (Equitable and Sustainable Well-Being) indicators.

On September 28th, at the end of a week of global mobilization dedicated to combating climate change, ASviS sponsored the first Saturdays for Future organized in collaboration with NeXt (Nuova Economia X Tutti - New Economy for All), to support the national and international Fridays for Future movements with concrete, grass-roots action.

Based on an idea of NeXt co-founder Leonardo Becchetti and AsviS spokesperson Enrico Giovannini, this national mobilization shows how a public demonstration can be transformed into daily community action, in which the contribution of individuals becomes an effective stimulus to action from government and business towards a more rapid and effective transition to sustainability.

The initiative was concretized into a series of Ethical Cash Mobs and consciousness-raising initiatives regarding responsible consumption, organized in 17 Italian cities: Genoa, Savona, Turin, Milan, Monza, Modena, Pordenone, Treviso, Mestre, Padua, Bologna, Florence, Assisi, Rome, Vallinfreda, Naples and Benevento. Featured in this initiative for responsible and aware consumption were local craftspeople, equitable and sustainable shops, sustainable aperitifs, organic product tastings and presentations of local specialty products and local projects promoting sustainability and responsible consumption, in order to recognize Italian companies and small and artisan producers who fight against climate change by implementing responsible and sustainable strategies for their employees, consumers and local areas.

Source: The European House – Ambrosetti elaboration based on ASviS data and a number of other sources, 2019.

3.2.2

THE CORPORATE APPROACH TO SUSTAINABILITY AND CURRENT STATUS IN ITALY

Over the years, the concept of sustainable development has become increasingly central to corporate life. On one side, the market is receptive and in search of clear-cut products and brands with which to identify and, on the other hand, awareness of the profound impacts and related responsibilities that companies have towards their stakeholders – and not just their shareholders – and the environment that hosts them has grown. Thanks to this new context, an increasing number of companies are now looking to the question of corporate social responsibility as an opportunity for their business, and not just a cost.

Also in Italy, this phenomenon is becoming very significant. The growing interest around these themes, also thanks to the intense efforts by the media to raise awareness, has led to the production and diffusion of statistical information that make it possible to determine the extent of the phenomenon and its related impacts. While on an international level we have already cited numerous initiatives to promote policy indicator systems, such as the indicators connected with the United Nations Sustainable Development Goals – to which can be added those of the Europe 2020 strategy and the European indicators for sustainable development – on a national level there are the **BES** [Benessere equo e sostenibile (Equitable and Sustainable Well-Being)] **indicators** utilized in the Budget Law and the SDG (Sustainable Development Goals) indicators within the national Sustainable Development Strategy.

The survey regarding manufacturing company confidence carried out by **ISTAT** in November 2017 included a number of questions aimed at understanding what investments and corporate activities exist in Italy from the standpoint of sustainable development and the circular economy.

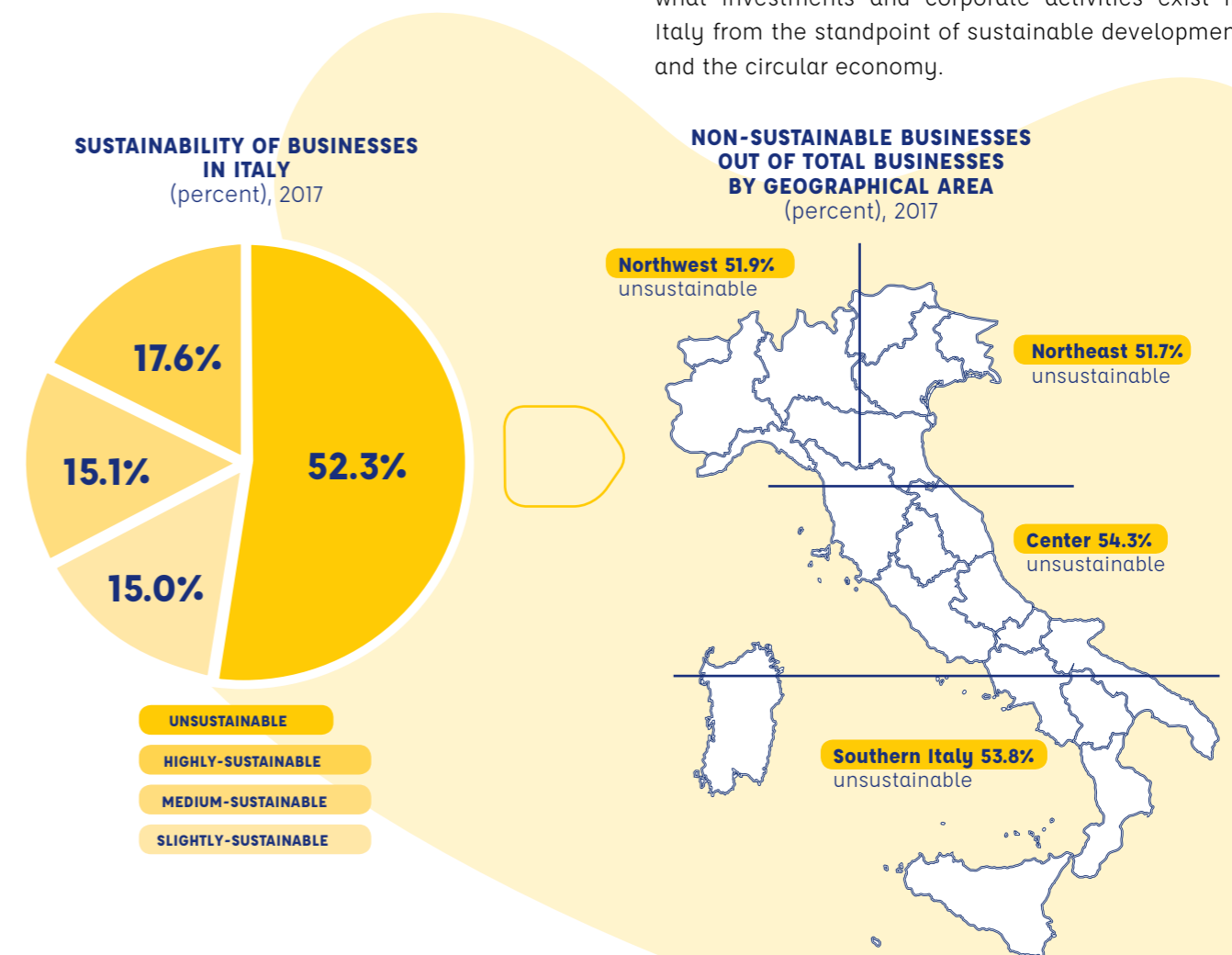


Figure 3.4. Sustainability of businesses in Italy (left) and non-sustainable businesses out of total businesses by geographical area (right) (in percentage), 2017. Source: The European House – Ambrosetti elaboration of ISTAT data, 2019.

This survey provides an initial snapshot of the country and highlights four clusters of companies: unsustainable, slightly-sustainable, medium-sustainable and highly-sustainable. Over 50% of the sample of manufacturing businesses active in Italy could be defined as unsustainable, 15% as slightly-sustainable, 15.1% as medium-sustainable and 17.6% as highly-sustainable. Company size (measured in terms of employees) is a key element in assessing the level of a company's sustainability because the latter increases in conjunction with its size. This correlation could be connected, in part, to the introduction of the legislation which, starting in 2017, required companies with 500 or more employees to adopt non-financial reporting and present it annually to Consob, along with the economic-financial reporting.

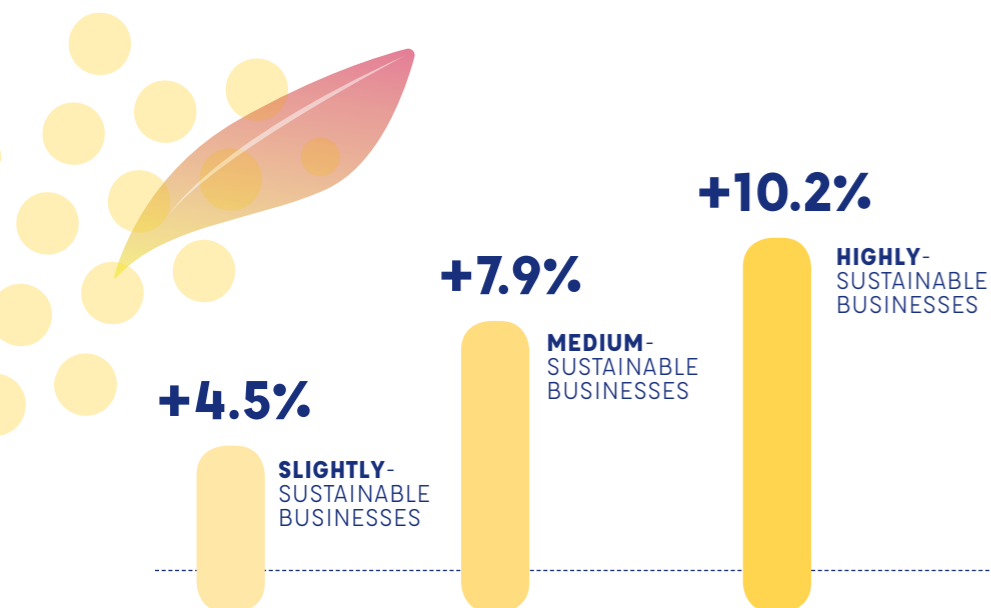


Figure 3.5. Productivity bonus for sustainable manufacturing businesses compared with unsustainable businesses (percentage variation), 2015-2017. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

Among the most interesting findings of the study is evidence of a **positive correlation between sustainability and productivity**³. The results of the survey confirm that, compared with unsustainable companies used as the benchmark for estimation, the productivity of those slightly-sustainable was 4.5% higher, those medium-sustainable 7.9% and those highly-sustainable 10.2%.

The real leap in quality within the context of the social responsibility of a company can be achieved if there is a real paradigm shift. As has already been said, this can only occur by thinking of **sustainability not as a cost, but as an opportunity for the business itself**.

However, the negative aspect to emerge from the survey is the list of factors that drive companies to engage in sustainability-oriented activities. Among the companies oriented towards at least one of the company activities for sustainable development, the prevalent motivations in adopting these behaviors are those tied to an improvement in corporate image and reputation of their brand (77.6%), reducing costs (60.4%), search for new market segments or complying with regulatory requirements (49.0%) and experimenting with innovative projects (45.0%).

³ The model used by ISTAT estimates this correlation by applying GLM models in which, as a dependent variable, labor productivity was inserted, while as independent variables, taken into consideration were the four major geographical areas (northwest, northeast, center, south and islands), the size of the company (number of employees), sector, earnings (ratio of GOM to revenues), level of vertical integration (ratio of added value to revenues) and the sustainability index.

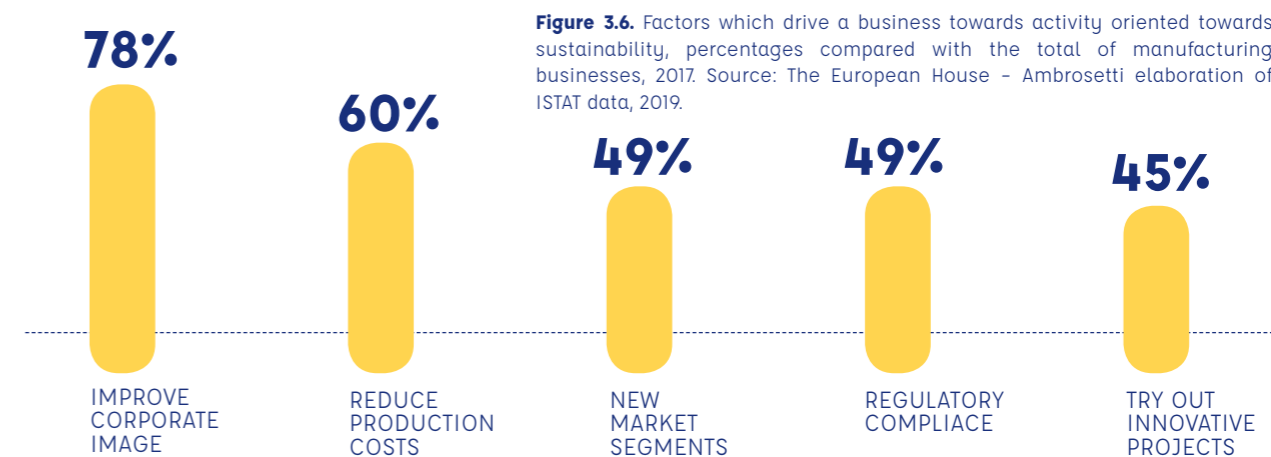


Figure 3.6. Factors which drive a business towards activity oriented towards sustainability, percentages compared with the total of manufacturing businesses, 2017. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

VODAFONE'S SUSTAINABLE STRATEGY

The business model of Vodafone Italia for sustainable growth places at the core of the company's operations attention to people, customer and supplier relations and environmental protection.

Vodafone's sustainable strategy is innate in the corporate mission, connecting for a better future, and is guided by the Group's commitment to act responsibly and with integrity wherever it operates. This strategy is centered around three main areas, each of which has the potential to improve the lives of its customers and society as a whole: empowerment of women, skills and jobs for the younger generation and energy innovation.

Equal opportunity between men and women is the basis for economic progress. On a global level, major challenges remain, although over the last two decades the gender gap has been reduced, especially in sectors such as education and healthcare.

One study⁴ estimates that an additional 202 years will be required to bridge the gender gap in the workplace if significant changes in the economic and social structures in which we currently live are not made. In addition, women are at a disadvantage economically in all cultures, societies and economies. On a global level, about 50.0% of women 15 years of age or older have a paid job, compared with about 75.0% of men. In medium- or low-income countries, women have even 10% less probability compared with men of owning a cellphone. This is equal to a digital gender gap of about 200 million women deprived of the advantages of "mobile" independence.

Aware of this problem, Vodafone aspires to connect 50 million women living in emerging markets to mobile devices by the year 2025. In addition, the company is strongly motivated to become a workplace with such a strong track record in attracting, retaining and developing talented women to be considered, by 2025, the best company for which a woman could work.

A further area of interest for the company is the creation of skills and jobs for young people. Youth unemployment is a major global social and economic challenge. Over 209 million young people are unemployed or work in conditions of poverty.

Despite the high levels of youth unemployment, the demand for digital skills already exceeds the supply of available talent. Although most young people are "digital natives", in most cases the base instruction is not adequate to provide those technical skills required to manage the challenges associated with the technology on which our economies are increasingly dependent – such as programming, lessening cyber risk or designing, configuring and managing electronic devices and wireless or fixed networks.

The EU Digital Skills and Jobs Coalition reports that 37.0% of EU workers do not have sufficient digital skills and there are clear signs that the digital skills gap is widening. By the end of next year, there could be nearly 500,000 digital jobs vacant in Europe.

Vodafone wants to make a contribution to reducing this gap by supporting the creation of digital skills for 10 million young people by 2022. In 2018 the group launched the international program, "What will you be?", designed to respond to the lack of digital skills. The program will provide young people with professional orientation and access to learning materials and jobs in the digital economy. Completing this program will be the "Future Jobs Finder" service, a smartphone-accessible platform that offers young people a free tool to acquire new digital skills and discover job opportunities in the expanding digital economy.

A third area of initiative involves energy innovation. On a global level, it is clear that there is an urgent need to implement a plan of action to take on climate change. To make a contribution in this area, Vodafone has developed a series of challenging goals: halve its environmental impact, reduce greenhouse gas (GHG) emissions by 50.0% and acquire 100% renewable electricity by 2025. Many analysts believe that global energy demand will increase another 25.0% by 2040. Meeting environmental targets in terms of reducing GHG emissions will be especially difficult within the context of the continued global growth of the population and the economy.

On the other hand, providing communications services requires a significant amount of energy. Every additional gigabyte represents a potential increase in energy requirements. Therefore, there is urgent need for Vodafone and other communications companies to develop innovative approaches to reduce energy consumption to the minimum to mitigate the consequences for the climate of this expanding growth in the demand for services.

Source: The European House - Ambrosetti elaboration based on Vodafone data and a number of other sources, 2019.

In 2004, The European House - Ambrosetti created a **Permanent Observatory on Corporate Governance** whose goal is to provide concrete suggestions and proposals to promote the attainment of excellence in the governance systems of Italian companies⁵. In addition to offering an operational tool and platform for discussion and creating opinions around the most significant issues relating to corporate governance in Italy, already last year it embarked on a process of analysis on the level of maturity of Italian listed companies regarding sustainability-related themes.

For this, The European House - Ambrosetti has developed its own methodology structured around six main macro-areas of study (roles and responsibilities, incentives, materiality, goals, risks and transparency), each divided into specific Key Performance Indicators (KPIs).

#	MACRO AREA	KPI
1	ROLES AND RESPONSIBILITIES	Presence of roles, responsibilities and specific expertise for the governance and monitoring of issues involving sustainability and sustainability risk
2	INCENTIVES	Integration of sustainability criteria in evaluation and variable remuneration systems of the CEO and MSRs
3	MATERIALITY	Presence of sustainability materiality analyses pertinent to the corporate organization in accordance with the top best practices used as reference
4	GOALS	Presence of measurable sustainability goals to be met in the medium- to long-term
5	RISK	Presence of a corporate risk governance and monitoring system that integrates sustainability risk
6	TRANSPARENCY	Presence of effective and innovative reporting systems that guarantee corporate accountability and transparency

Figure 3.7. Description of the KPIs used in the survey. Source: "Observatory on Corporate Governance Excellence in Italy" report, The European House - Ambrosetti, 2019.

⁴ The Global Gender Gap Report, WEF, 2018.

⁵ The fifteenth edition of the report that analyzes the findings of the study that is summarized here was presented on November 14, 2019 and is available on the www.ambrosetti.eu website.

The mapping of the six macro-areas, performed on the basis of the information and data published by the issuing companies on the Italian stock exchange, allows for the classification of the companies on the basis of their attention to sustainability issues as part of corporate management and in corporate governance mechanisms. Provided below is the ranking of the Italian companies listed on the FTSE MIB and included in the sample analyzed (34 industrial and financial companies, not including companies incorporated under foreign law).

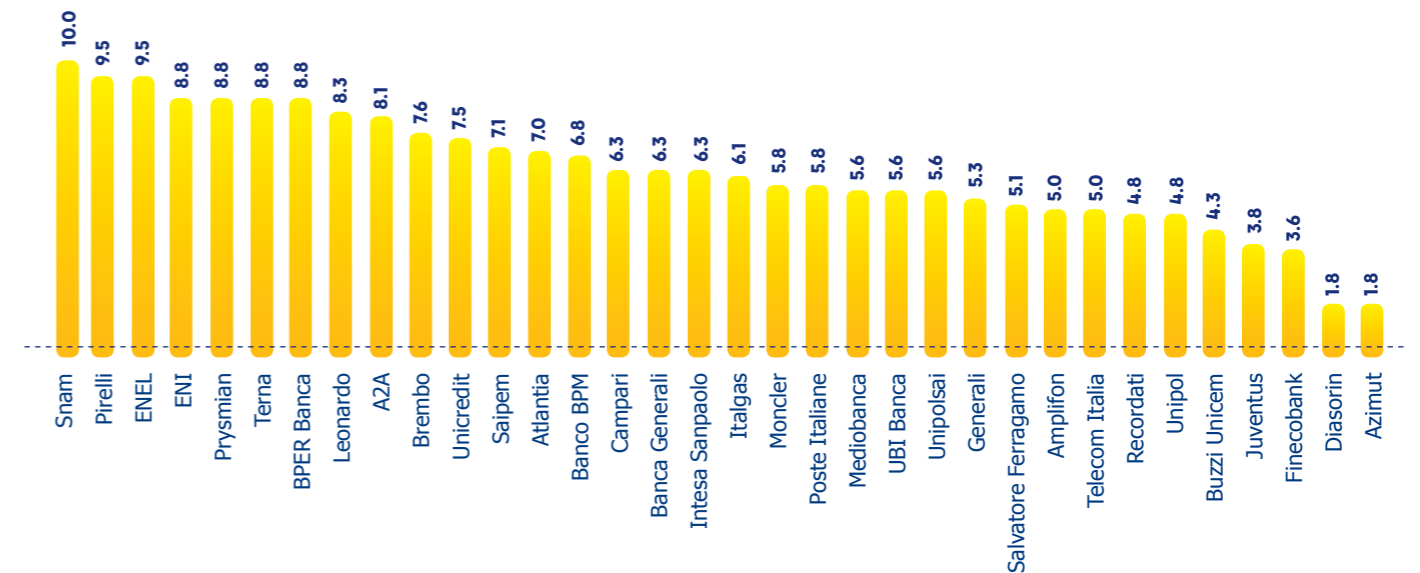


Figure 3.8. Sustainability ranking of FTSE MIB companies, 2019. Source: "Observatory on Corporate Governance Excellence in Italy" report, The European House - Ambrosetti, 2019.

In addition, The European House - Ambrosetti Observatory identified a relationship between the quality of the governance system (analyzed using the calculation of the Index of Governance Excellence - EG Index) and sustainability management performance (represented by the Sustainability Index mentioned above) among FTSE MIB industrial companies. Taking into consideration these two indicators, a coherence in positioning is seen in 71.0% of the cases. In other words, **companies that are successful in managing their own governance systems are also ranked high in their awareness of sustainability issues. Similarly, those listed companies with less-developed governance systems also seem to be less prone to integrating sustainability principles** into their corporate mechanisms.

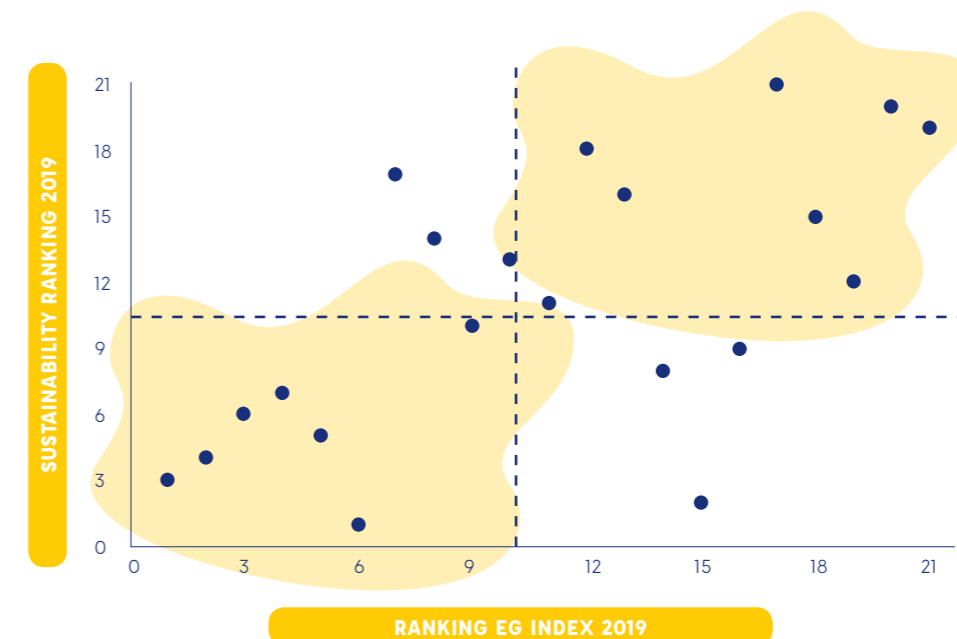
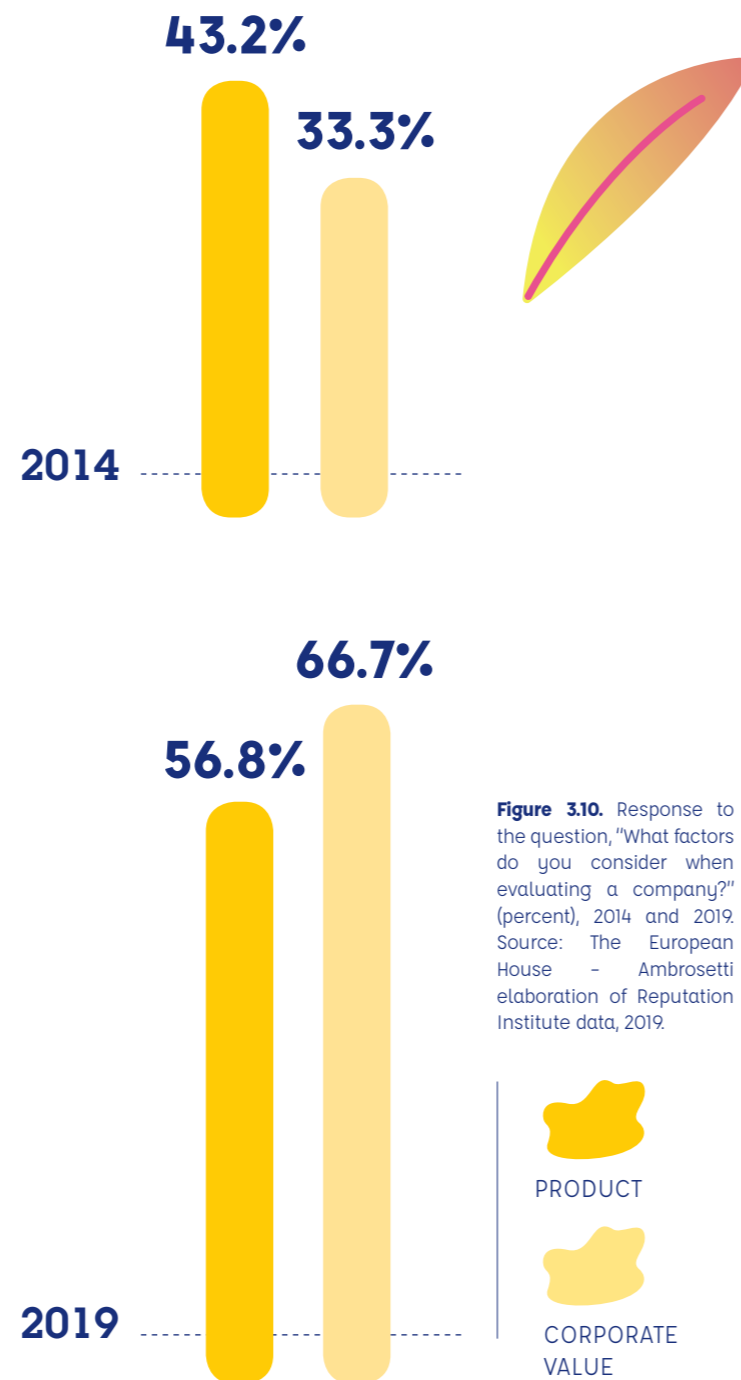


Figure 3.9. Relationship between governance system quality and sustainability management performance of FTSE MIB industrial companies (sample of 21 companies), 2019. Source: "Observatory on Corporate Governance Excellence in Italy" report, The European House - Ambrosetti, 2019.

In addition to representing a boost to company productivity, integrating sustainability goals into corporate strategy represents a growing trend also with the public and consumers. The question of sustainability is of growing interest to Italians and today is generally perceived as a resource capable of influencing daily consumer habits. In 2018, 34 million Italians were involved and interested in the question of sustainability.

A number of studies show that consumers are willing to spend more to purchase sustainable products, despite the fact that the majority of the population does not have a complete picture of this issue. For these reasons, sustainability can no longer be just a passing fad for companies, but rather a line of development needed to respond to increasingly-aware consumers and increasingly-stringent regulatory requirements.

Analysis of consumer trends shows that the product is only a small part of what stakeholders look at when evaluating a company and, more frequently, they are concentrating more on the values that company expresses. While in 2014 the **values inherent in a brand** were relevant for 33.3% of those sampled, in 2019 that percentage rose to 66.7%. The evolution in this trend is unquestionably due to the arrival in the consumer arena of Millennials – those born between 1985 and 2000 – who, together with the Z Generation (born between 2001 and 2009), are estimated to comprise more than 70.0% of the Italian population by 2050⁶. Proponents of new consumption and lifestyles, Millennials prefer sharing to ownership and believe in the importance of issues relating to sustainability because they consider the consequences of their consumption to be relevant to the environment, as well as of issues relating to the transparency and ethics of the brands they use⁷.



The reputation of a brand and the values it represents are not only an indispensable asset for companies, in terms of consumer trust, they are also closely connected to corporate earnings.

⁶ Already today, on a global level, they represent 40% of the total population.

⁷ Source: The European House - Ambrosetti and WPP, "L'era dei Millennials: nuovi modelli di business e di consumo" (The Millennial Era: New Business and Consumer Models), 2018.

"BECOMING DIGITAL" AND SOCIAL INCLUSIVENESS: MICROSOFT'S GOAL FOR THE GROWTH OF THE COUNTRY THROUGH DIGITAL TECHNOLOGY BY EMBRACING DIVERSITY

One of the guiding principles in Microsoft's sustainable strategy can be seen in its desire to spread a new digital culture by reaching over two million Italian young people and professionals over the next year.

In fact, by the year 2020, Italy will require over 100,000 new technicians, while half of the existing workforce will have to develop or improve its digital skills. In just a short time, it will be necessary to create a momentous effort involving upskilling and reskilling, which can only occur through coordination of all the main players within a single game plan.

Through the creation of an ecosystem of companies, which include, for example, LinkedIn, Invitalia, Adecco and others, Microsoft offers professionals, students and young workers the possibility of creating or updating their skills by embracing the theme of artificial intelligence which will be at the center of the workplace transformation that will be seen in the coming years.

In fact, the development of artificial intelligence will contribute to the nation's growth by creating new opportunities:

- +135,000 new ICT jobs available by 2020;
- +12.0% increase in labor productivity by 2035;
- +15.0% gross value added (in relation to GDP) by 2035.

Another area in which the company has concentrated its resources is that of social diversity and inclusion. In accordance with its mission "to empower every person and organization on the planet to achieve more", the company has decided to turn its attention to the billion people in the world who suffer some sort of disability.

This significant number of individuals have needs, preferences and desires which, today, companies have difficulty tapping into and often remain unfulfilled. On a global level, it is estimated that the purchasing power of people with disabilities is \$6.9 trillion.

And so, the new Adaptive Controller has been developed by Microsoft. It is an innovative tool designed to allow anyone, irrespective of the type of disability, to play their favorite games from a console without having to face the difficulties of traditional controllers. The product was developed by Microsoft researchers through an intensive research and simulation project, in direct contact with people with disabilities.

This initiative is part of a broader corporate strategy which, through technology, is aimed at promoting inclusive cultural practices and creating a workplace that is accessible to all.

Source: The European House - Ambrosetti elaboration based on Microsoft data and a number of other sources, 2019.

A final point is the **growing attention of financial markets** to sustainable companies. A study developed jointly by the School of Management of the Milan Polytechnic and by Banor SIM analyzes the relationship between ESG ratings and market performance of leading stocks listed in European exchanges. The performance analysis focuses on the Stoxx Europe 600 index which is based on 600 large-, mid- and small-cap stocks of businesses from 17 European nations, classified as "large, mid and small" based on the ESG⁸ rating indicators. The period involved spans from 2012 to 2017. Over these six years, the composition of the basket has changed periodically and, therefore, 882 businesses are included in the analysis.

⁸ ESG stands for "Environmental, Social and Governance". It has become a standard for defining the sustainable approach to investments.

The study findings demonstrate that stocks belonging to the quartile of companies with the highest ESG rating are those that perform better and show both a high growth in revenues and better operating margins. Finally, it was seen that the integration between ESG indicators and the economic/financial factors normally used by analysts in a value-based approach is the best strategy for creating efficient portfolios.

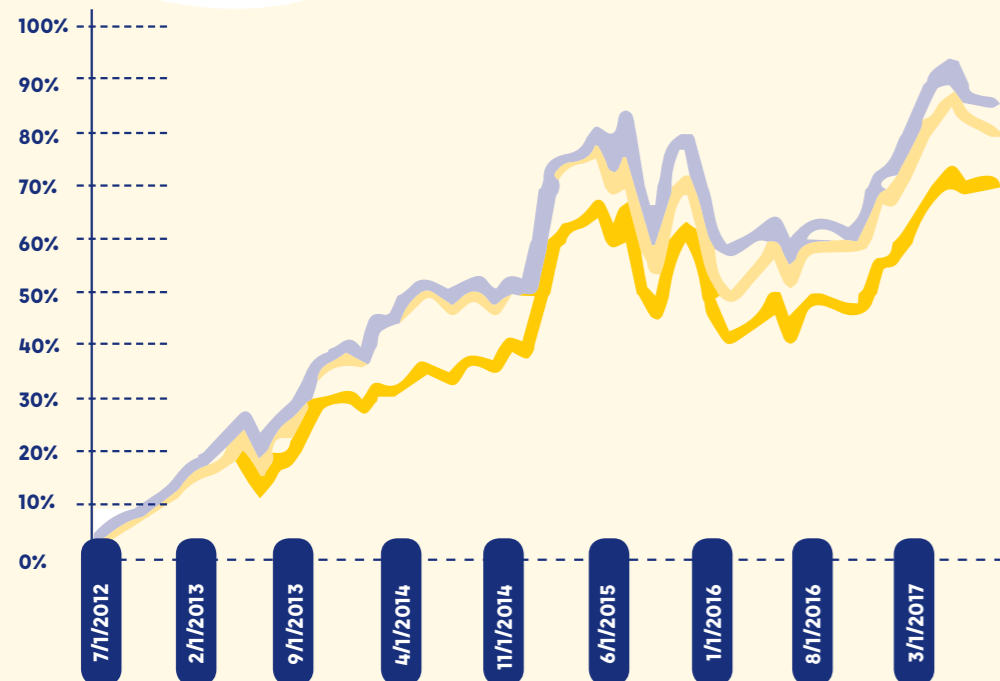


Figure 3.11. Cumulative earnings of stocks in the Stoxx® Europe 600 index, based on ESG rating (%), 2012-2017. Source: The European House – Ambrosetti elaboration based on BANOR SIM and School of Management of the Milan Polytechnic data.

Institutional investors are also exhibiting a growing commitment towards sustainability. Among the most recent examples of this is BlackRock⁹, the largest investment group in the world that manages assets for a total of over \$6,000 billion (a third of which in Europe).

This begs the question whether Italy is not missing a major opportunity to attract resources, on one hand caused by a lack of sensitivity in corporate leaders regarding these themes, and on the other due to the structure typical of its industrial fabric that consists largely of small- and medium-sized businesses that do not have the investment power of large businesses.

⁹ In his latest two annual letters to the heads of its member companies, BlackRock's CEO Larry Fink launched a clear message to the market: "profit is not the only purpose. Purpose is a company's fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them".

"OCEAN RESCUE" AND THE SKY STRATEGY

Ocean Rescue is a project launched in 2017 through which the multinational Sky pursues its commitment to preserving oceans from the threat of plastic. The goal is to give visibility to the issue of preserving the oceans, finding innovative solutions to the problem of plastic in the seas and encouraging people to act through small daily actions which, put together, can make the difference.

Goal no. 14 of the United Nations 2030 Agenda aims specifically at the preservation and long-term utilization of the oceans, seas and marine resources for sustainable development. Covering nearly three-quarters of the Earth's

surface, the oceans represent the principle characteristic of our planet and are essential to its survival. In fact, they are the Earth's respiratory system and produce about 70% of the oxygen required for survival and absorb carbon dioxide and waste. The oceans regulate climate and temperature, and make the planet suitable for a range of forms of life, as well as being rich in marine biodiversity.

Today, the immense patrimony represented by bodies of water on the planet is at-risk and this is threatening our state of health with serious consequences for the flora and fauna that live in these bodies of water, as well as man himself.

Plastic represents 80.0% of the waste found in the sea. According to the European Commission's European Strategy for Plastics in a Circular Economy released in January 2018, each year between 5 and 13 tons of plastic find their way into the oceans, causing the death of about 100,000 marine mammals and a large number of turtles. At this rate, by 2050, the weight of plastic in the seas could surpass that of fish.

When plastic ends up in water, due to the effect of external agents (such as ultraviolet rays or microbes), it breaks up into smaller segments, becoming microplastic. Once in the sea, these substances are swallowed by the fauna and circulate throughout the food chain. According to ISPRA, about 15-20% of marine species destined for human consumption contains microplastics, while according to the researchers at the National University of Ireland who fished mesopelagic fish which live at a depth of 200 to 1,000 meters in the North Sea, this percentage rises to 73.0%. Because of this situation, it is estimated that one-fifth of all marine species in the world risk extinction.

SKY's position on this issue is very clear and was announced by the Group Chief Executive, Jeremy Darroch: "We want to support change directed at one of the biggest man-made environmental disasters facing our planet – plastics in the ocean. We launched Sky Ocean Rescue to raise awareness about ocean health and to encourage the public to remove single-use plastic from their lives."

To meet this goal, the company has developed a strategy based on four cornerstones:

1. Transforming its business through eliminating, by 2020, all single-use plastic from its products, its production and its workplace. This goal is being pursued in close collaboration with its suppliers;
2. Using its voice to inspire and take action. In line with its core business, this British multinational has launched an awareness-raising initiative within its production activities and through the creation of specific media spaces;
3. Protecting the oceans. Through a multi-year partnership with the WWF, SKY has decided to preserve the oceans by protecting over 400,000 km² of sea within the protected marine areas of the UK, Ireland, Germany, Italy and Spain;
4. Supporting innovation, through the creation, in 2018, of SKY Ocean Venture, a €25 million investment fund whose goal is to find investment opportunities for companies that are innovation pioneers and can make a contribution to solving the environmental catastrophe of plastic in the oceans.

Source: The European House – Ambrosetti elaboration based on SKY data and a number of other sources, 2019.

In conclusion, Italy also seems to have launched a transformation process characterized by a significant change in direction and guided by the vision of a more sustainable and inclusive development. However, this affirmation is not meant to ignore the enormous progress still required to attain the ambitious goals that humanity set itself almost five years ago. In any case, what is clear to all is that this effort will continue to remain unaccomplished until, on the one hand, there is involvement and a clear commitment from all players in the economic and social ecosystem in which we are immersed and, on the other, a synergistic and unified definition of sustainable development emerges that, first of all, recognizes all the components (economic, environmental and social) of sustainable growth, and then works to unify them.

Therefore, members of the community, business and government have a vital role in indicating and bringing about a paradigm shift that can no longer be delayed and which will serve to pave the way to the future we will leave future generations.



SUSTAINABILITY GOVERNANCE IN ITALY: A BENCHMARK ANALYSIS

4.1

ITALY'S PATH TOWARDS SUSTAINABLE DEVELOPMENT IN THE EUROPEAN CONTEXT

As described in Chapter 3, in the approach chosen by the Advisory Board WPP/The European House - Ambrosetti, by sustainability is meant a strategy that promotes economic and social development compatible with social equity, environmental protection and the rights of future generations. For this reason, in our view, for a strategy to be fully sustainable, it must be based on a number of principles, specifically: equity, openness, intelligence, stability and resilience.

The analysis that follows aims at providing a snapshot of Italy in which added to the activity of those described previously—businesses and the community—is the **absolutely necessary contribution of government and institutions, as well as the nation and its economy** as a whole. Each of these players represents an essential element in constructing the scenario that is emerging, and for this reason, taking a position and a serious commitment by all are key.

The goal of this study is to provide an image of a country already in motion, but proceeding at a pace that is not yet sufficient to guarantee meeting the Sustainable Development Goals all of humanity has set itself to attain over the coming decade.

Concluding the chapter are a number of suggestions developed by the Advisory Board WPP/The European House - Ambrosetti to guide a national and local strategy that guarantees inclusive and sustainable development for Italy.

4

CHAPTER

4.1.1

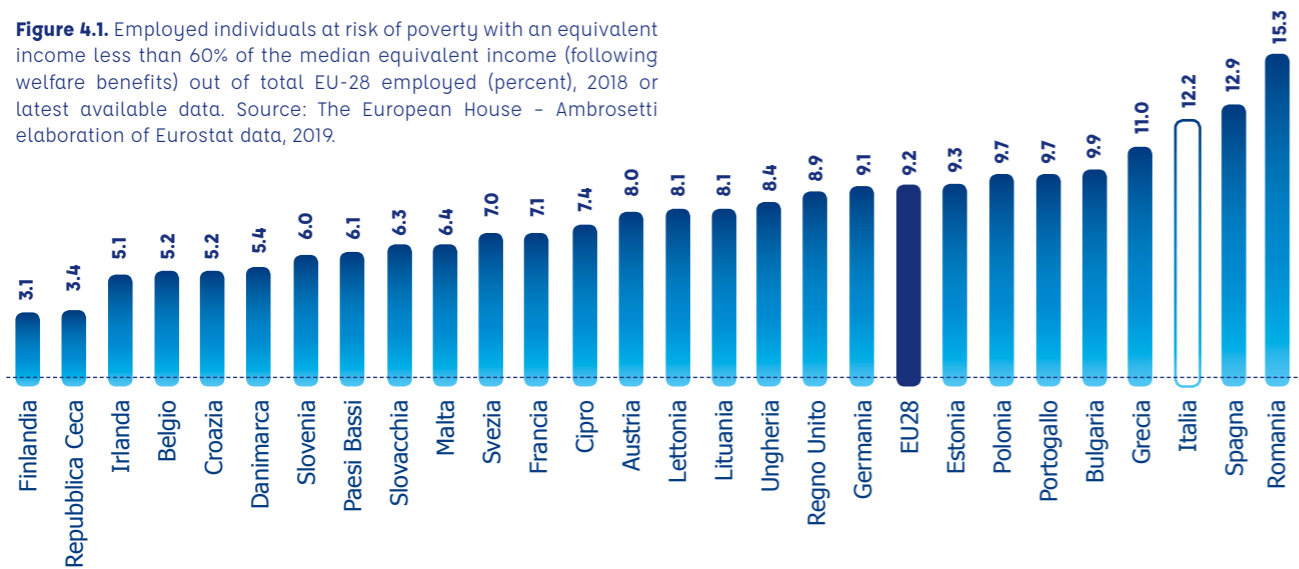
EQUITY: CREATING EQUAL OPPORTUNITY AND GUARANTEEING INTERGENERATIONAL RESPECT

A system can be described as being equitable if it guarantees **intergenerational equality and equal opportunity for all players in it**. Therefore, those obstacles that could arise between individuals and their access to resources, whether tangible (such as wealth) or intangible (such as education), must be eliminated. Equity is a fundamental requisite for enabling both the participation of individuals in the economic and social life of a system, as well as the possibility for it to benefit from a range of individual talents and resources.

One measure of equity is the **level of poverty** since the possibility of living a dignified life and having access to what are considered "basic" services by the majority

of individuals are, without doubt, fundamental aspects of any society that considers itself "advanced". While in Europe extreme poverty does not exist among employed individuals, there is a risk of income poverty among the employed, when the equivalent income is less than 60.0% of the median equivalent income. In Europe, 9.2% of those employed live in conditions of income poverty, while Italy is ranked fourth-from-last among European Community nations with **12.2% of those employed at risk** of poverty (slightly worse than in 2017). Only Romania and Spain have a higher percentage of workers at risk of poverty.

Figure 4.1. Employed individuals at risk of poverty with an equivalent income less than 60% of the median equivalent income (following welfare benefits) out of total EU-28 employed (percent), 2018 or latest available data. Source: The European House - Ambrosetti elaboration of Eurostat data, 2019.



¹ Among the most serious consequences of poverty is the difficulty in having access to basic medical care. In 2017 in Italy, 1.5% of individuals over the age of 16 did not receive basic medical care due to economic difficulties, significantly lower than the peak of 6.5% reached in 2015.

* Luxembourg is not included since it is considered an outlier.

In absolute terms, in 2018 ISTAT estimated that over **1.8 million families were in conditions of absolute poverty²** in Italy, with an incidence of 7.0%, totaling 5 million individuals (8.4% of the total). While the percentage incidence has remained at the maximum level since 2005, there has been a hiatus in the number and share of families in absolute poverty, which has been growing since 2014. However, families living in relative poverty³, in 2018, reached an incidence of 11.8%, involving nearly 9 million people, or 15.0% of the total.

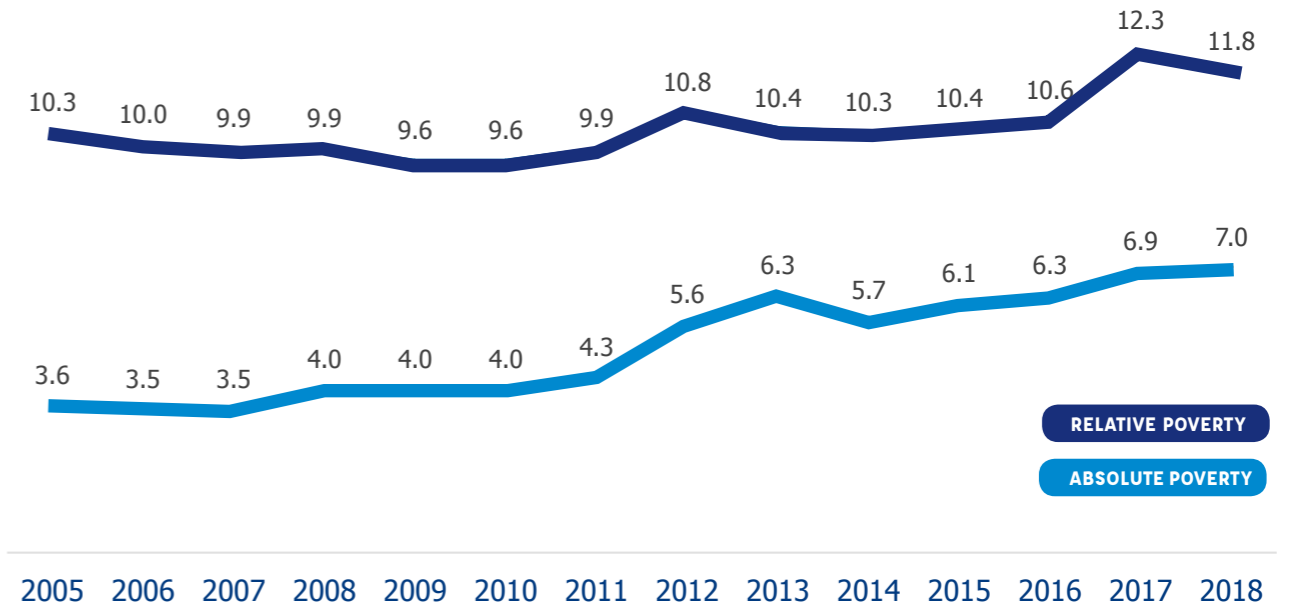


Figure 4.2. Absolute and relative poverty of families in Italy (percentage of families in absolute/relative poverty), 2005-2018. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

Especially worrying are the numbers regarding minors and foreigners. There are over 1.5 million foreigners in conditions of absolute poverty, equivalent to 30.3%. In addition, absolute poverty affects 1.26 million Italian minors (12.6% compared with 8.4% of all individuals on a national level).

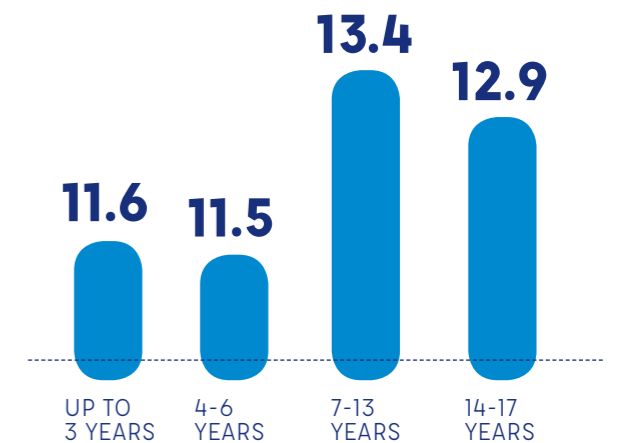


Figure 4.3. Level of absolute poverty among minors, by age bracket (percent), 2018. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

² Classified as living in absolute poverty are those families with monthly expenditures less than or equal to the absolute poverty line (which is differentiated in terms of the size of the family and ages of its members, geographical location and type of municipality in which it resides).

³ Living in relative poverty are those families which have available for consumer expenditures an amount below a relative agreed-upon level (poverty line). Families composed of two individuals whose monthly expenditures are less than or equal to that value are classified as poor. For families of differing size, the poverty line is calculated by applying a special equivalence scale which takes into account economies of scale that come into play as the number of family members increases.

These numbers become even more significant if we consider the connection between poverty and instruction level, which translates into a brake on what is known as the "social elevator"⁴: those who are born into a poor family have fewer means at their disposal to change that condition. In addition, within a social-economic context in continual evolution and experiencing a process of digitalization that requires increasingly-sophisticated skill levels, the gap between those who have these skills and those who do not widens, and this gap can only be narrowed by guaranteeing access for all to **quality education that is equitable and universal**.

Coming from an economically-solid family background facilitates the ability to follow a course of study and employment that is satisfying from the standpoint of income. In fact, less than 4.0% of the families of an individual who has a high school diploma or university degree are poor. For those who finished middle school the percentage rises to 9.8%, and for those who only attended elementary school, it is 11.0%.

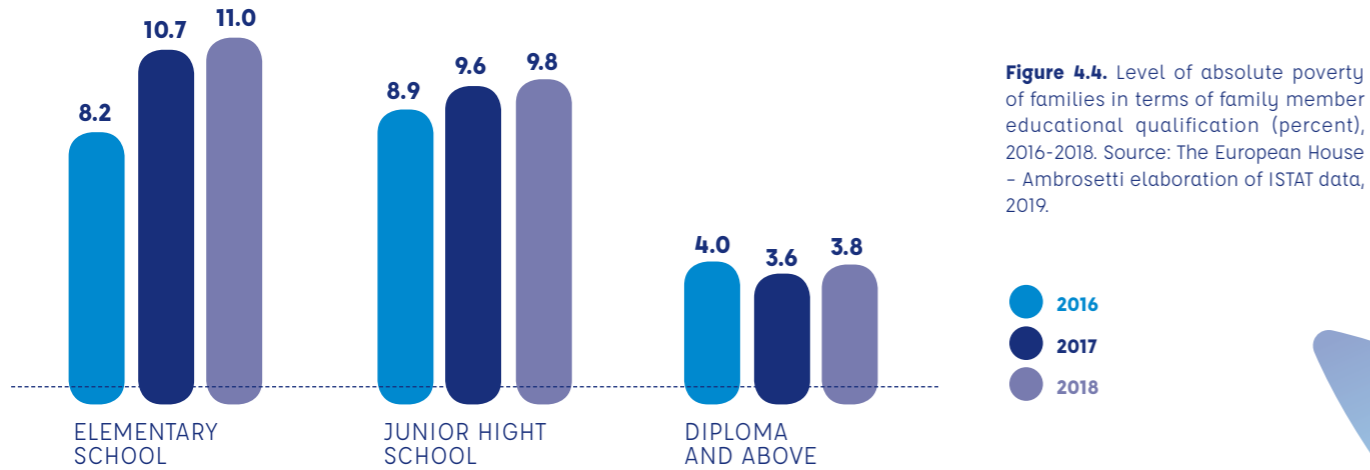


Figure 4.4. Level of absolute poverty of families in terms of family member educational qualification (percent), 2016-2018. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

The trend registered by ISTAT over the last three years indicates how absolute poverty is nearly three times more frequent in Italy in families without a high school diploma than in those where the reference member holds a diploma or university degree.

The genesis of a vicious cycle can also be seen in the **differential in terms of employment** among individuals with different levels of education. In 2018, it was estimated that the differential in employment levels between individuals 25-64 years of age with a university degree and those having completed middle school at most, was 28.6 points (EU average 29 points).

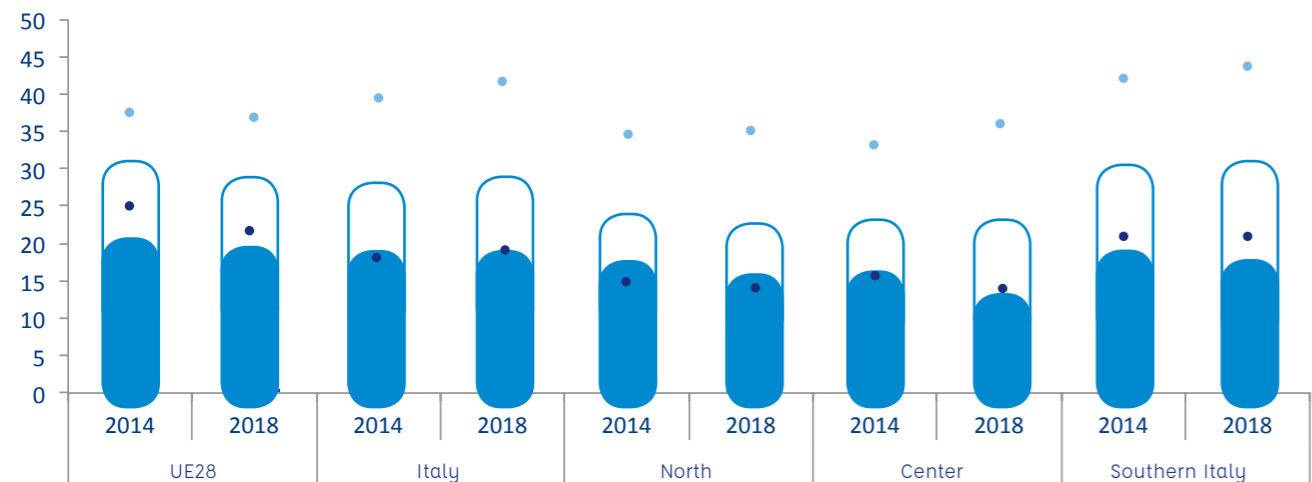


Figure 4.5. Differential in levels of education for individuals aged 25-64 by educational qualification and gender in Italy and Europe (percent) 2014 and 2018. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

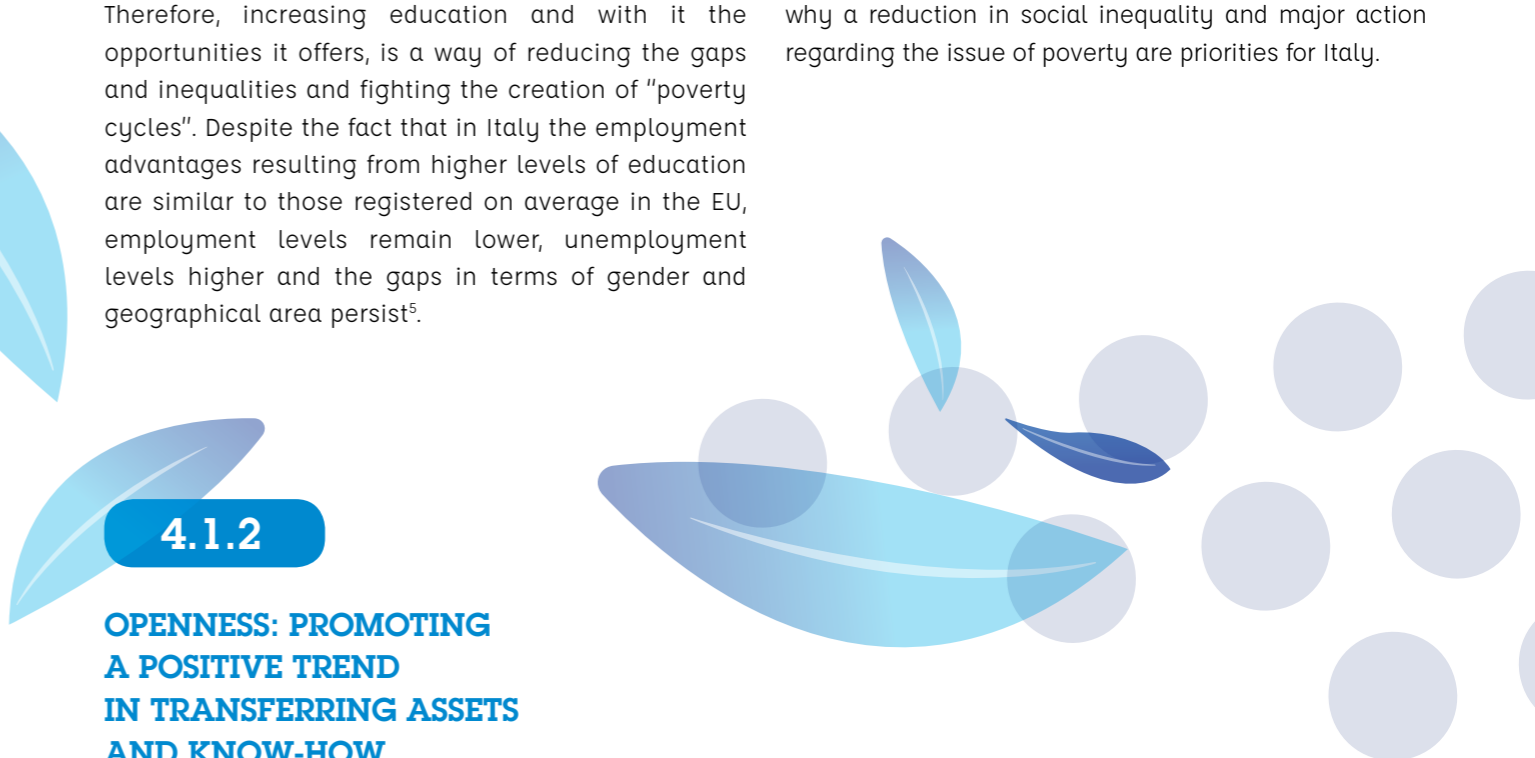
⁴ By "social elevator" is meant the process that allows for and facilitates a change in social status and integration among the various layers in society.

In Italy, there is a benefit in terms of employment that increases as the educational qualification rises, equal to 18.4 percentage points between middle school and high school, and 10.2 points between high school and a university degree (in Europe, these values are 19.6 and 9.4 percentage points, respectively). The economic crisis has also impacted on this. Between 2014 and 2018, the employment advantage for those with a university degree compared with high school graduates increased (+2.2 points), while the advantage for a high school graduate over those who completed only middle school decreased (-1.8 points). Finally, the employment advantage of a high level of education is more evident among women, especially in Italy. In fact, working women with a high school diploma have a level of employment that is 25 points higher than their peers with a low level of education (double that of men), and the difference between a university degree and high school diploma is 16.7 points (over three times higher than for men).

Therefore, increasing education and with it the opportunities it offers, is a way of reducing the gaps and inequalities and fighting the creation of "poverty cycles". Despite the fact that in Italy the employment advantages resulting from higher levels of education are similar to those registered on average in the EU, employment levels remain lower, unemployment levels higher and the gaps in terms of gender and geographical area persist⁵.

This aspect is even more significant if compared with the level of inequality seen between Italy and the rest of Europe. In fact, a study published by the World Inequality Database⁶ provides an estimate of national income distribution for a number of European countries, including Italy. The study reveals that, between 1980 and 2017, on a European level, the richest 1.0% of the population saw its income grow twice as fast as the poorest 50.0%, earning 11.0% of European income over the last year. The picture also remains worrying in Italy⁷. While the wealthiest 10.0% of the population (equal to approx. 5 million adults) in nearly 40 years have increased their share of national income, earning 30.0% of total income, the poorest half of Italians earns an increasingly smaller share, equal to about 24.0% of Italian income.

It is impossible to talk about real sustainable development if significant portions of the population are cut off from the process of social and economic advancement that the Sustainable Development Goals provide for. This is why a reduction in social inequality and major action regarding the issue of poverty are priorities for Italy.



4.1.2

OPENNESS: PROMOTING A POSITIVE TREND IN TRANSFERRING ASSETS AND KNOW-HOW

For it to be sustainable, a system must be **open**. In other words, it must promote the circulation of economic and human resources while guaranteeing their integration. This aspect of development enables the creation of an environment that is fertile from its birth and the transfer of innovative tools and ideas. It is only through the exchange and integration of know-how, players and assets that a positive dynamic of human, scientific and technological advancement can be activated.

⁵ For a more detailed discussion of employment, please refer to section 4.1.3.

⁶ The full article published on April 2, 2019 by Blanchet T., Chancel L., Gethin A. is available on wid.world.

⁷ Cannari L., D'Alessio G., The inequality of wealth in Italy: reconstruction of the data 1968-75 and comparison with recent years, Issues of Economics and Finance, Occasional Paper, 2018.

A competitive and sustainable ecosystem must be involved in generating within itself **positive dynamics of human, scientific and technological cross-fertilization**. In fact, an economic and social system can be defined truly rich to the extent it is capable of creating a context in which: universities are able to cultivate skills that meet market demand; there is abundant investment in R&D; there are initiatives for worker reskilling and upskilling; effective technology transfer processes can be launched; there is cross-fertilization of digitalization processes in all areas of daily life for individuals, businesses and the public administration; and, finally, there is free circulation of goods and services that benefits consumers and businesses in all countries.

The **"Europe 2020" strategy** and, specifically, the Innovation Union initiative, place technological, research and innovation capacity at the core of development policies, not only as a key element of competitiveness and to combat the economic and employment crisis in the European Union, but also as a means for taking on the problems connected with climate change, the scarcity of energy and resources, health care and aging. Significant funding for research over the period 2014-2020 was provided for in Horizon 2020, the European Union framework program for research and innovation, which will be succeeded by the Horizon Europe strategy.

Data relative to levels of investment in **Research and Development (R&D)** do not provide a satisfactory picture of the current situation in Europe and Italy. Despite the fact that investment in innovation is at the heart of European policy, the level of investment in relation to GDP is still limited and quite far from the targets set for 2020 by the strategy itself.

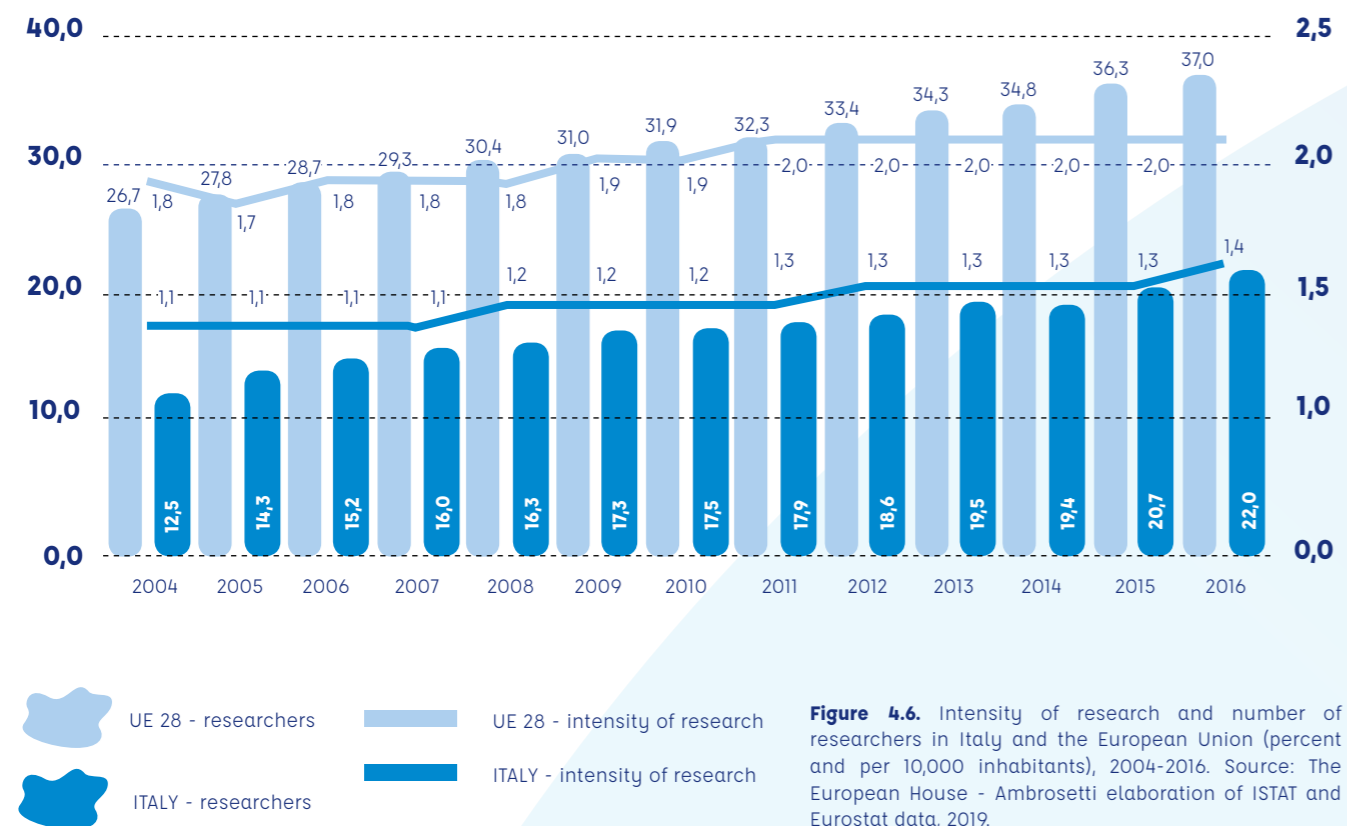


Figure 4.6. Intensity of research and number of researchers in Italy and the European Union (percent and per 10,000 inhabitants), 2004-2016. Source: The European House - Ambrosetti elaboration of ISTAT and Eurostat data, 2019.

The trend in Italy has mirrored that of the European average, rising from 1.1% to 1.4% in R&D expenditure as a share of GDP. The trend regarding the growth in researchers in terms of incidence on the population has been greater, from 13 to 22 per 10,000 inhabitants, for a percentage increase of nearly 80.0%. In Europe, on the other hand, the average intensity of research in the European Union rose from 1.75 in 2004 to 2.04 in 2016, remaining stable at a position quite far from the 3.0% goal set for the now-imminent deadline of 2020. During the same period, the number of researchers increased from 27 to 37 individuals per 10,000 inhabitants, for a percentage growth rate of nearly 40.0%.

Also considering the ability of Italy to **transfer knowledge** generated in the academic arena to foster competitiveness and innovation in Italian business, the situation remains stalled. In fact, to generate a real impact, the results of this research must not remain within the confines of the academic world but be disseminated through the development of applications to be marketed.

In Italy, the average number of individuals involved in knowledge transfer is 4.2 per university, a number which, although higher than the previous reading

(3.9), is decidedly lower than the European average of 8.5 individuals per technology transfer office⁸. On the other hand, the technology transfer budget is €8 million (-41.0% compared with 2015), an average of €240,000 per university. If this is compared with the €825,500 per university available on a European level, it is clear that the Italian offices are under-funded⁹.

To keep up with the major transformation processes being generated on a global level by digitalization, Italy must necessarily change gear. Although it is true that Italy is the European economy showing the most improvement in the adoption of new digital technologies, the country must come to terms with a considerable gap vis-à-vis the other states since it occupies a position of **lower digitalization** and less productivity growth.

Through its DESI reports (Digital Economy and Society Index), the European Commission monitors the digital competitiveness of member states by analyzing the progress of the various countries regarding five aspects: connectivity, human capital, Internet use, integration of digital technologies and digital public services¹⁰.

⁸ Source: Netval (Italian Network for the Valorisation of Research).

⁹ Source: "The Role of the Innovation Ecosystem in Life Sciences for Italy's Growth and Competitiveness", Position Paper, The European House - Ambrosetti, 2019.

¹⁰ In turn, each aspect is measured by a summary index that reviews a series of basic indicators regarding a variety of factors for that aspect. The weighted average of the five indices (0.25 for connectivity and human capital, 0.2 for integration of digital technologies and 0.15 for Internet use and digital public services) provides a comprehensive measurement of the level of digitalization and the trend over time for all member states in the European Union. To improve the methodology and take into consideration the latest technological developments, a number of modifications were made in the DESI for 2019. The DESI now includes: preparation for 5G, digital competence above the base level, basic software skills, women ICT specialists, ICT college graduates, individuals who have never used the Internet, professional social networks, use of online courses, online consultation and voting, e-commerce involving individuals, big data, and exchange of medical data and e-prescribing.

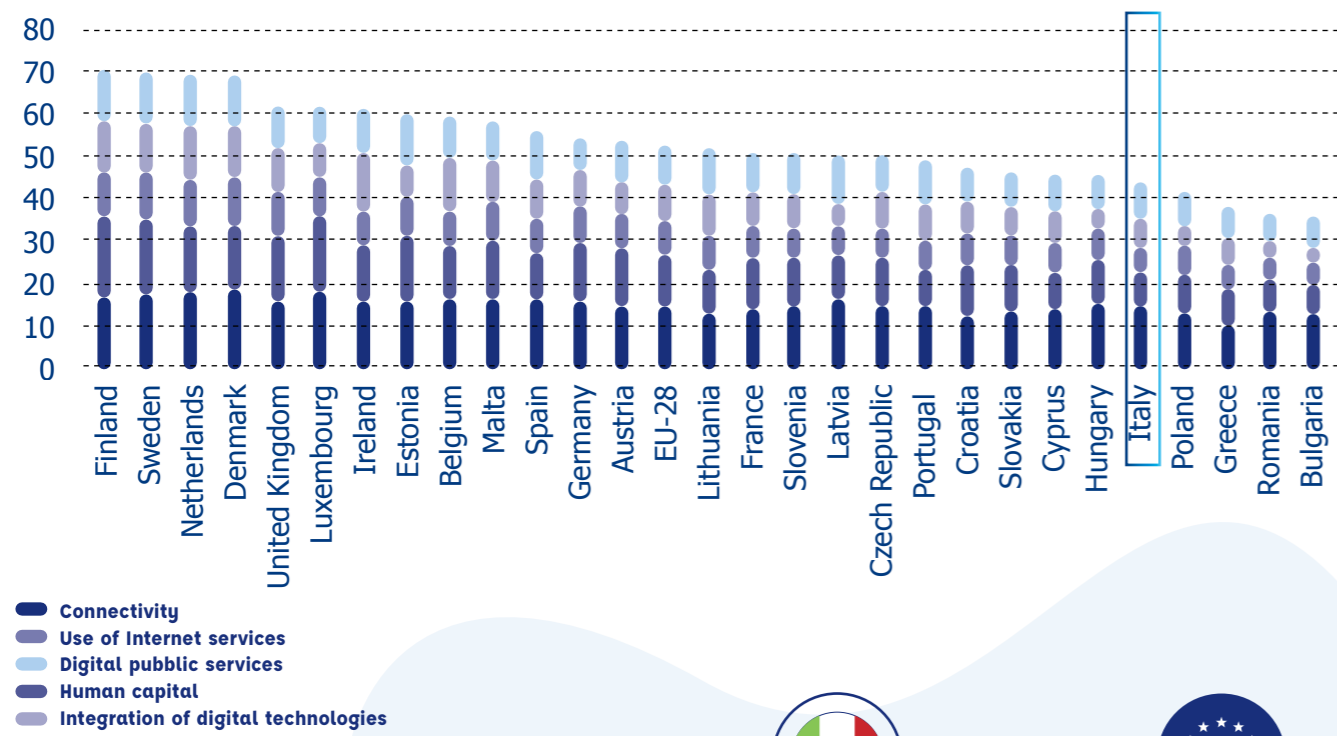


Figure 4.7. Digital Economy and Society Index (DESI), 2019. Source: The European House - Ambrosetti elaboration of European Commission data, 2019.

	DESI	RANKING	SCORE	SCORE
2019		24 th	43.9	52.5
2018		24 th	38.9	49.8
2017		24 th	36.5	46.9

Italy ranks 24th among the 28 member states of the EU, indicating that it is significantly behind the other countries, especially in certain areas. Despite the fact that the high-speed broadband coverage and the spread of its use are growing (although the latter remains below the average), the progress in high-speed connectivity is still very slow. In addition, three-out-of-ten people still do not use the Internet regularly and **more than half of the population does not have basic digital skills**. This lack of digital skills is also reflected in the lower use of online services, where little progress has been made. The same trend can also be seen in companies where the online sales activity of Italian SMEs is low compared with Europe as a whole. However, Italian companies score better in terms of the use of software in the electronic exchange of information and social media.

The situation is slightly better, although still below the European average, when taking into consideration the level of connectivity and digital public services. Online public services and open data are available and the spread of digital medical services is well-established.

In short, Italy possesses a **wealth of resources** within the country, but has not yet been able to fully realize their potential. The nation has available talent recognized on a global scale in terms of researchers, businessmen and companies, as well as specific creative and cultural characteristics that distinguish it from the rest of the world. However, it must still advance more quickly and more efficaciously to bridge the major gaps that exist in terms of skills, level of digitalization in the country and trade flows. In today's fast-paced and rapidly-evolving context, it is key that Italy coordinate and build on its many strong points, and courageously and decisively take on its weak points.

4.1.3

INTELLIGENCE: BOOSTING EMPLOYMENT AND THE NATION'S ENTREPRENEURIAL FABRIC

Intelligence pertains to the ability to create incentive for economic growth and exploit the material and immaterial resources found in the local area. Job creation, support for the entrepreneurial and productive fabric, and enhancement and capitalization on the assets found in a given area represent all the areas of sustainable development that must be promoted. A perspective of stable and sustainable economic growth must necessarily include a well-functioning job market that can make the most of the human capital in its local area and be attractive to that from abroad.

The most recent ISTAT statistics¹¹ revealed that Italy's unemployment rate has diminished by 0.7 points compared with the March rate to 9.5%, the lowest in eight years. Youth unemployment has also fallen¹², down 1.3 percentage points on a monthly basis to 27.1%,

although the inactivity rate has risen (+59,000 young people have left the job market).

In Italy, the issue of **female employment** represents an example of inefficient allocation of human and demographic capital already available in the system, and of lack of equity. The figure below demonstrates that female employment in Italy was around 53.1% in 2018 (male employment was 73.0%), compared with a European average of 67.4%.

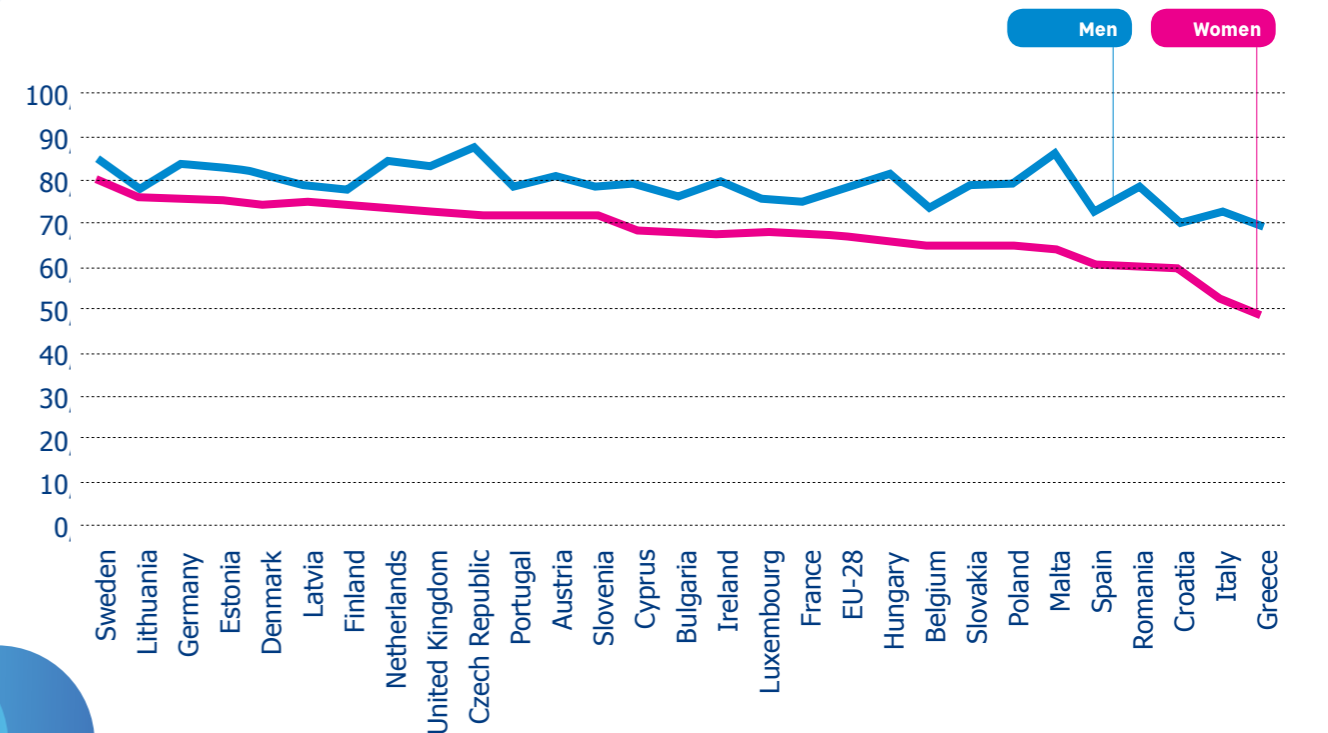


Figure 4.8. Female employment (percent of the total female population, 20 to 64 years of age), 2018. Source: The European House - Ambrosetti elaboration of Eurostat data, 2019.

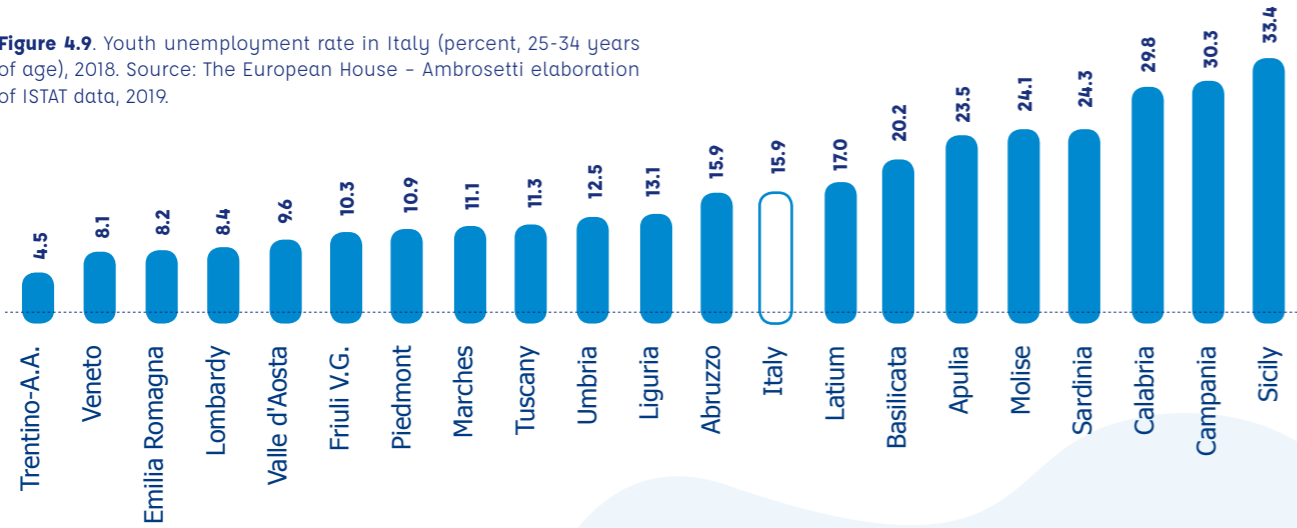
¹¹ Published in August 2019.

¹² 15-24 years.

As a consequence, the imbalance existing in terms of wage disparity¹³ persists even when women exit the labor force and is reflected in the pension system. This results in social inequalities that are added to those already existing and which risk worsening over time and absorbing increasing energy from the system which, otherwise, could be allocated to the growth of the nation's economy. In fact, in Italy, the Gender Pension Gap is 36.8%, compared with the OECD average of 30%¹⁴.

The situation regarding **youth employment** in Italy is also a concern. In 2018, youth unemployment¹⁵ was 15.9%, again here with major regional disparities, at a level more than twice that of the European average and nearly five times greater than the rate in Germany.

Figure 4.9. Youth unemployment rate in Italy (percent, 25-34 years of age), 2018. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.



In terms of higher education, Italy starts from a disadvantage compared with other major European economies, with a percentage of university graduates lower than in France, Germany, Spain and the United Kingdom, and public expenditure not up to the level of its competitors. A consequence of this is the lesser preparation of the Italian workforce for the job challenges of the future, with a population that is fourth-from-last in the countries analyzed by the OECD, ahead of Spain, Turkey and Chile in terms of the ability to comprehend analytical data¹⁶.

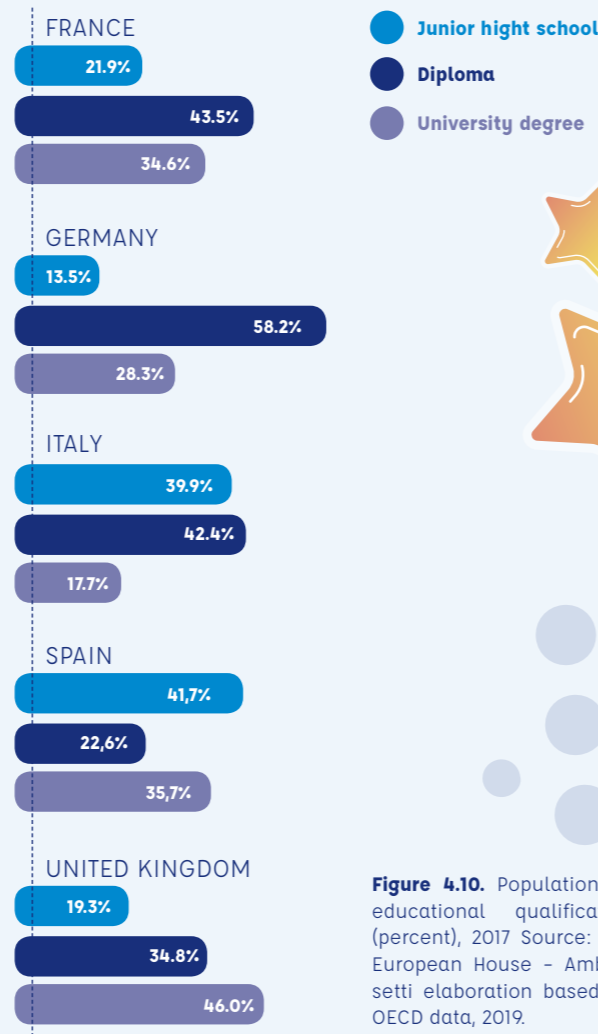


Figure 4.10. Population by educational qualification (percent), 2017. Source: The European House - Ambrosetti elaboration based on OECD data, 2019.

Italy also displays an incapacity to absorb its university graduates into the labor market. Only 62.8% of graduates are employed within 3 years, against a European average of 85.5%. Only Greece is lower than Italy, at 59%.

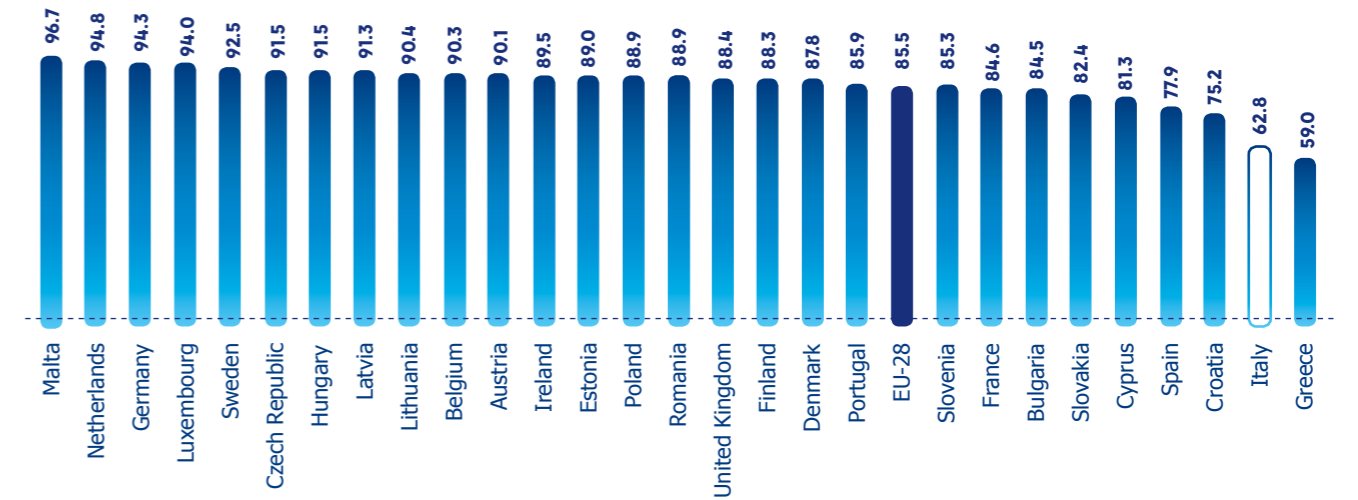


Figure 4.11. New graduates (less than 3 years) 20 to 34, in employment (percent), 2018. Source: The European House - Ambrosetti elaboration of Eurostat data, 2019.

Within this context, the **share of NEET youth** (not in employment, education and training) is the highest in Europe, with major regional disparities: 24.8% on a national level considering young adults between the ages of 15 and 34, with extremes of 41.8% in Sicily and 13.1% in Trentino-Alto Adige.

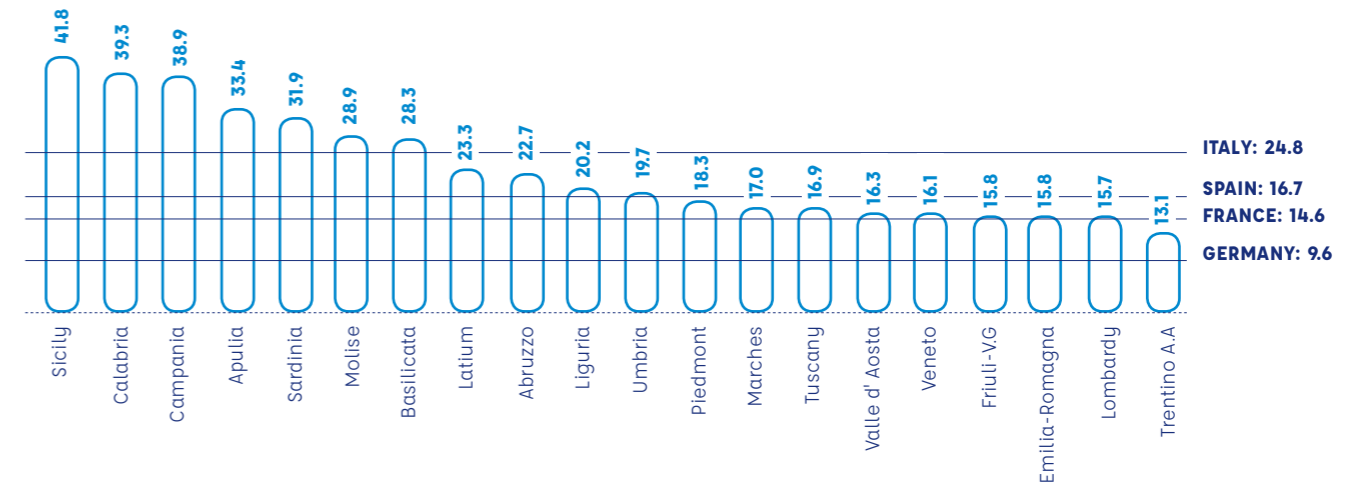


Figure 4.12. Individuals 15 to 34 not studying or working - NEET (percent), 2018. Source: The European House - Ambrosetti elaboration of ISTAT and Eurostat data, 2019.

¹³ What is referred to here is the "gender pay gap", the difference in the average hourly wage of men and women, expressed as a percentage of the male hourly wage. In Italy, the gender pay gap is 5.0%, while at a European level, it is 16.0%.

¹⁴ Source: European Institute for Gender Equality, "Gender gap in pensions in the EU", 2015.

¹⁵ 25-34 years of age.

¹⁶ Source: OECD, "Programme for the international assessment of adult competencies", 2018.

The ability of a nation and its local areas to attract and retain highly-specialized young workers is an important factor in development and progress, especially in those sectors most-oriented towards innovation, research and creativity.

Further aggravating the situation in Italy, in recent years there has been a **large number of young Italian university graduates who have left the country**—considerably more than those who return—resulting, therefore, in a negative migratory flow. The most recent statistics indicate a decrease in the rate in Central Italy (-2.9; it was -2.4 in 2016), indicating a reduced ability to attract and retain young university graduates, and an increase in the North (+7.7 in 2017 compared with +6.8 the previous year), thus confirming to be the area of the country offering the greatest opportunities for young adults who are highly-educated, coming especially from the rest of Italy. The situation in Southern

Italy is basically stable, with a net prevalence for migration outside the geographical area and at a rate of less than 23 per thousand. Males are, above all, those who emigrate, especially if they live in Southern Italy. Also when the balance is positive, males are the ones who show greater propensity to return.

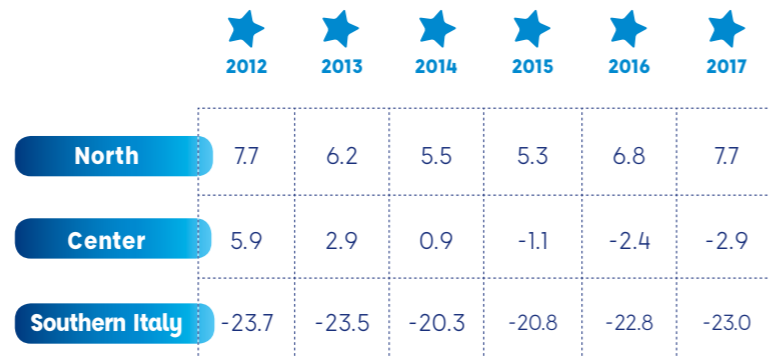


Figure 4.13. Rate of migration of Italian university graduates aged 25-39 by geographical area (per 1000 resident graduates), 2012-2017. Source: The European House - Ambrosetti elaboration of ISTAT data, BES report, 2018.

Another example of inefficient allocation of human and demographic capital already available in the system is given by the situation of the foreign population in Italy. As of 2019, there are 5.256 million foreigners present in Italy, compared with the 356 thousand present in 1990, amounting to 8.7% of the Italian population.

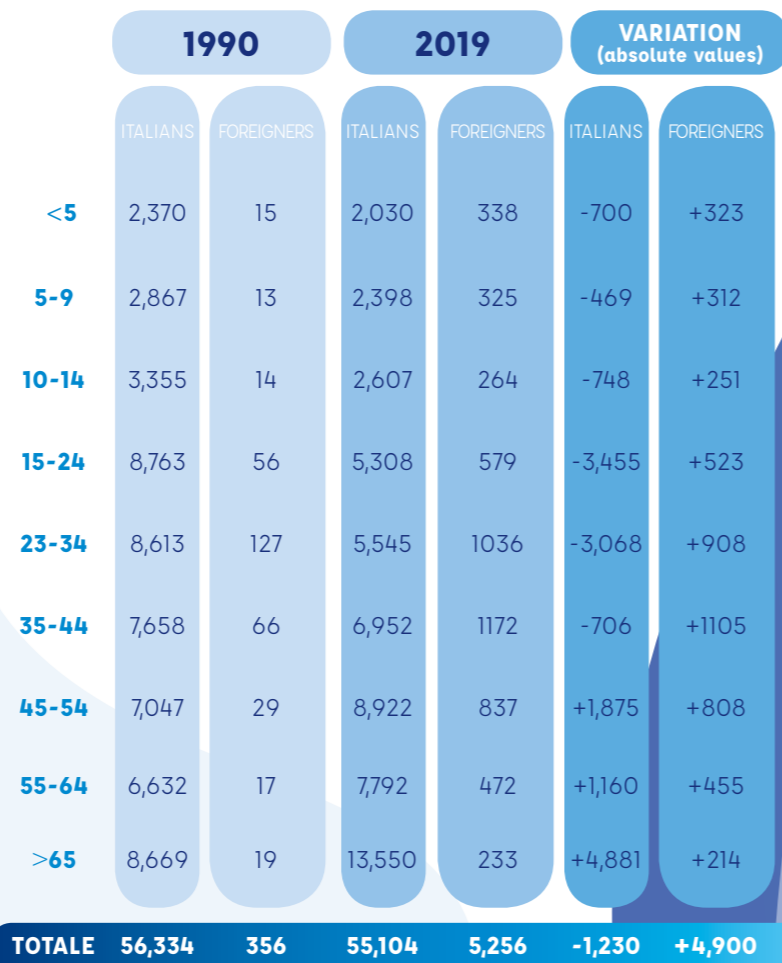


Figure 4.14. Resident Italian and foreign population by age bracket (in thousands), 1990 vs. 2019 (as of January 1st). Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

Italy could benefit from **great human capital** that it has not yet been able to utilize fully. Nationally, 51.7% of the foreign population performs a job which requires a lower professional qualification than that held, while the same is true for "only" 16.9% of the local population.

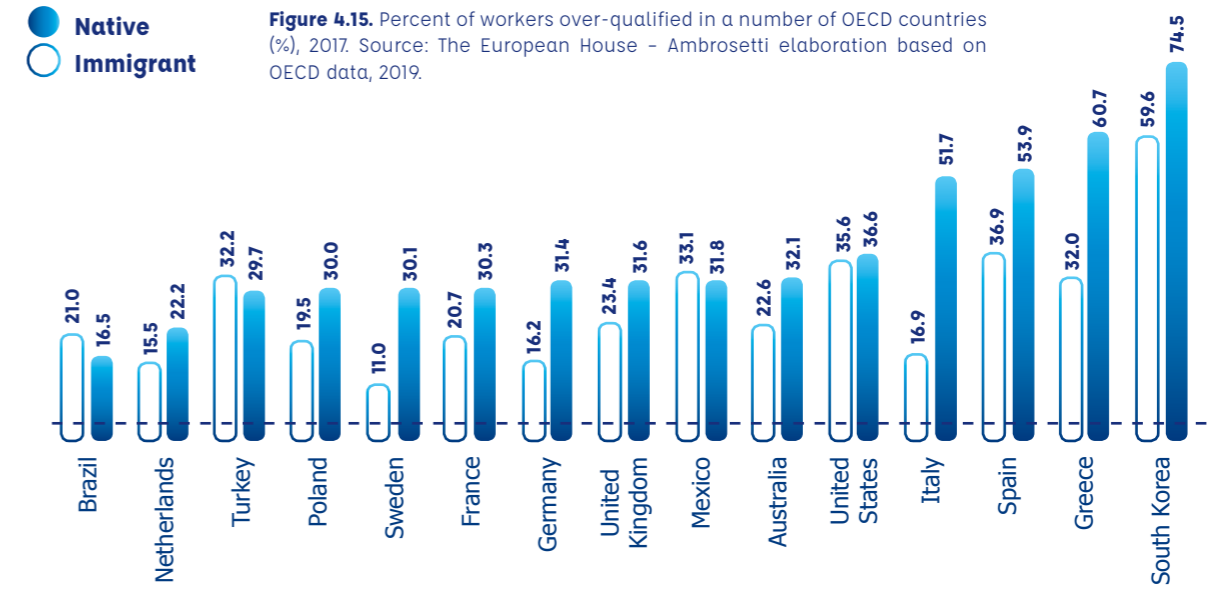


Figure 4.15. Percent of workers over-qualified in a number of OECD countries (%), 2017. Source: The European House - Ambrosetti elaboration based on OECD data, 2019.

Nearly all foreign workers are employees and more than 70% are in blue collar jobs. The distribution of job profiles, with a clear preponderance of foreign workers performing purely manual jobs, is clear and confirmed by the low number of those employed in managerial and similar positions. Just 0.4% of those employed are managers and 0.7% supervisors, compared with 1.9% and 5.8% of Italians.

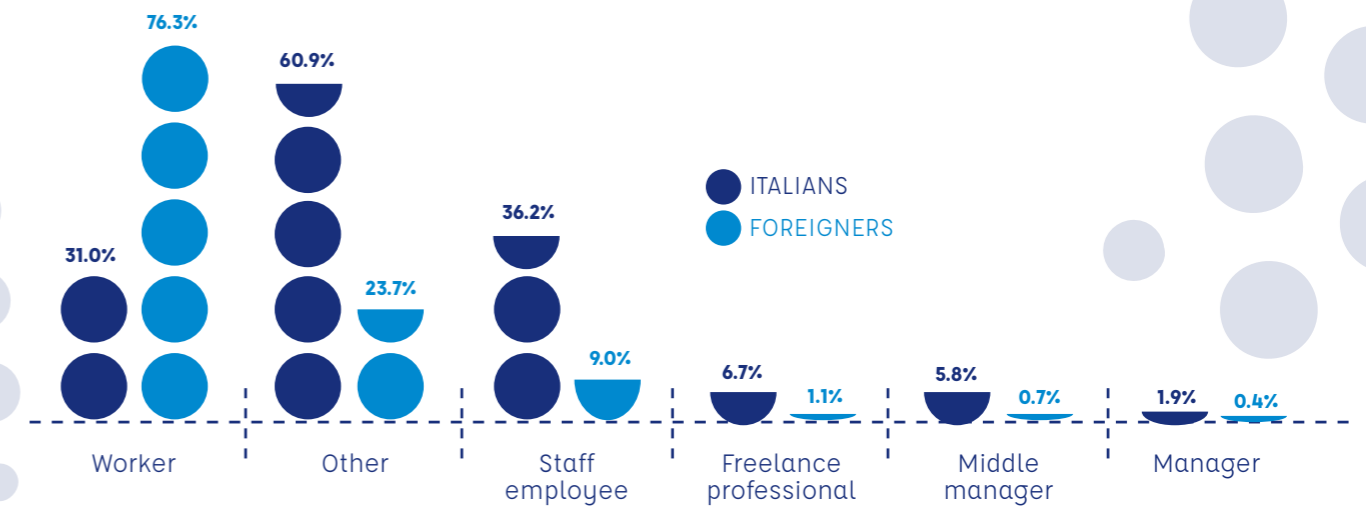


Figure 4.16. Employees by job profile and citizenship (percent), 2017. Source: The European House - Ambrosetti elaboration of Italian Ministry of Labor and Social Policy data, 2019.

Alongside the problems that characterize the nature of Italy's job market—aggravated by the profound demographic changes underway—in Italy in 2018 there was a slow-down in manufacturing activity, following a positive three-year period of recovery. In fact, the sector showed a **wide gap in production levels** compared with pre-crisis years, and a resulting erosion in the extent of the manufacturing sector itself, in which the number of companies continues to decline. The possibilities for expanding production now seem bound structurally by the weakness of domestic demand which, despite a slight recovery in recent years, remains less-dynamic than that of its primary European peers.

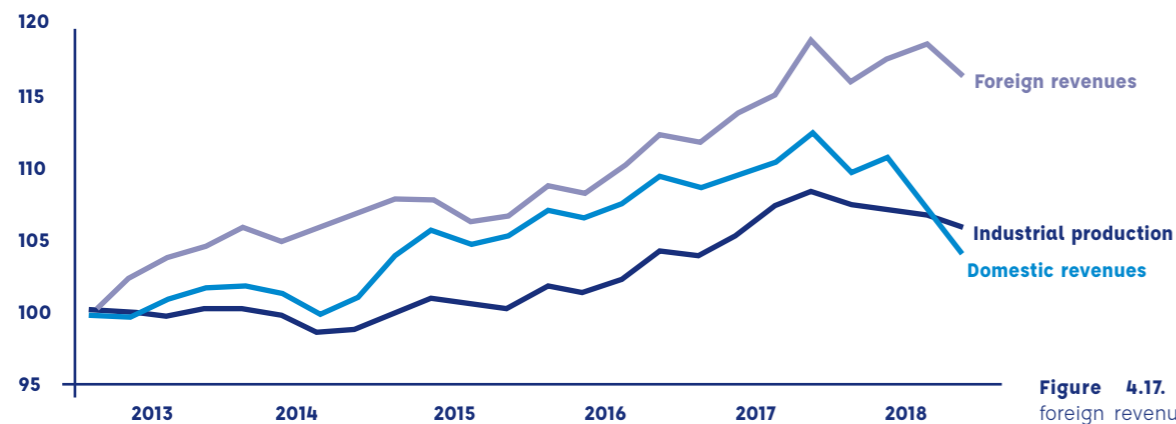


Figure 4.17. Domestic and foreign revenues and industrial production in Italy (Q1 2013=100, seasonally-adjusted quarterly figures), 2013-2018. Source: The European House - Ambrosetti elaboration of data from the "Dove va l'industria italiana" report ("Where the Italian industry is heading"), Centro Studi Confindustria, 2019.

This is why guaranteeing levels of occupation higher than current levels could unquestionably increase the purchasing power of Italian families and represent a significant boost to domestic demand, to the benefit of the manufacturing sector. In 2018, Italy was still the seventh manufacturing power in the world, but to continue to be competitive with other advanced countries from a technological standpoint, it will need to take full advantage of all the human resources it has available to contribute to creating the outlines of Manufacturing 4.0.



4.1.4

STABILITY AND CERTAINTY: INDISPENSABLE REQUISITES FOR SUSTAINABLE GROWTH

Stability can be defined as the capacity of a system to reduce the potential negative impacts resulting from the appearance of both internal and external harmful events and situations due to the system's intrinsic economic, social and organizational characteristics and the credibility of its rules. This aspect includes solving the inefficiencies related to the justice system and corruption which are responsible for lower levels of investment, not only in infrastructure and industry, but also in human capital.

In international comparisons, Italy's performance is reported as poor, both as regards the time and costs of justice, and for the inability of the public institutions to ensure efficient application in respect of the length of time established by law for trials¹⁷. In the past, the failure to resolve the inefficiencies in the justice system and instances of corruption has had a major impact on the Italian economy through noticeably diminishing foreign and Italian investment, not just in terms of infrastructure and industrial investment, but also in terms of investment in human capital.

The inefficiencies in the justice system and corruption discourage investment and growth in the size of companies, encouraging the "brain drain" and deterring the arrival of skilled immigration. An inefficient justice system and the existence of corruption generate critical situations that have a negative impact on companies and markets, as well as the **ability of businessmen to operate within a climate that is transparent and merit-based**, and on the possibility to free the innovative potential of the country. Moreover, the lack of certainty about the rule of law reduces and strips the incentives of their power to prevent opportunistic conduct, indeed, and may represent an actual pass for citizens and businesses to commit illegal actions.

The Public Administration in Italy also exhibits a gap in terms of efficiency with respect to many European countries. The number and lengthiness of bureaucratic operations in Italy puts an effective brake on the country's development.

It is estimated that the inefficiency and delays of justice, and the widespread corruption in the country, have a cost for Italy equivalent to over 1.0% of its GDP. The failure to find solutions for the inefficiencies connected with the justice system, as well as the extent of corruption, have also severely affected the economy of the country in the last several decades, slowing the potential for growth and innovation, and discouraging foreign and Italian investment in many sectors, including that in human resources. With regard to the inefficiency of the bureaucratic element, however, it has been estimated that the completion of bureaucratic operations accounts for 4.0% of the turnover of small businesses¹⁸ and 2.1% of the turnover of medium-sized enterprises¹⁹. In total, the Italian business community spends almost **€57.2 billion to manage its relations with the Public Administration** (for compliance, permits and all the other bureaucratic aspects).

The **judicial system**²⁰ in Italy costs about €4.5 billion a year, behind Germany and the UK which, with €10.0 billion and €5.0 billion a year respectively, are the countries that allocate the most resources in Europe to their judicial system. Parameterizing the expense to the population, Italy, with €75 per capita expense for the judicial system is still ahead of France and Spain, but behind Germany and the UK. Considering the expense for justice as a percentage of the GDP, however, Italy is still behind Germany but is tied with the UK (0.27%).

¹⁷For more detailed information on the subject, see the "Improving the justice system and fighting corruption: two priority areas for creating a pro-business environment in Italy" report, The European House - Ambrosetti, 2016.

¹⁸Source: The European House - Ambrosetti elaboration of Assolombarda data, 2019.

¹⁹Fonte: elaborazione The European House - Ambrosetti su dati Cerved, 2019. I dati si riferiscono al 2017, ultimo anno disponibile.

²⁰The perimeter of analysis includes the courts and public prosecutors' offices, as well as public advocacy for the account of the State. If we also consider the operating costs of the Ministry of Justice, the prison system, the advocacy of the state, the activities of application of justice and those related to services for political refugees and asylum applicants, the total budget comes to about €8 billion. Source: CEPEJ, "Study on the functioning of judicial systems in the EU Member States. Facts and figures from the CEPEJ questionnaires 2010-2012- 2013-2014", 2016.

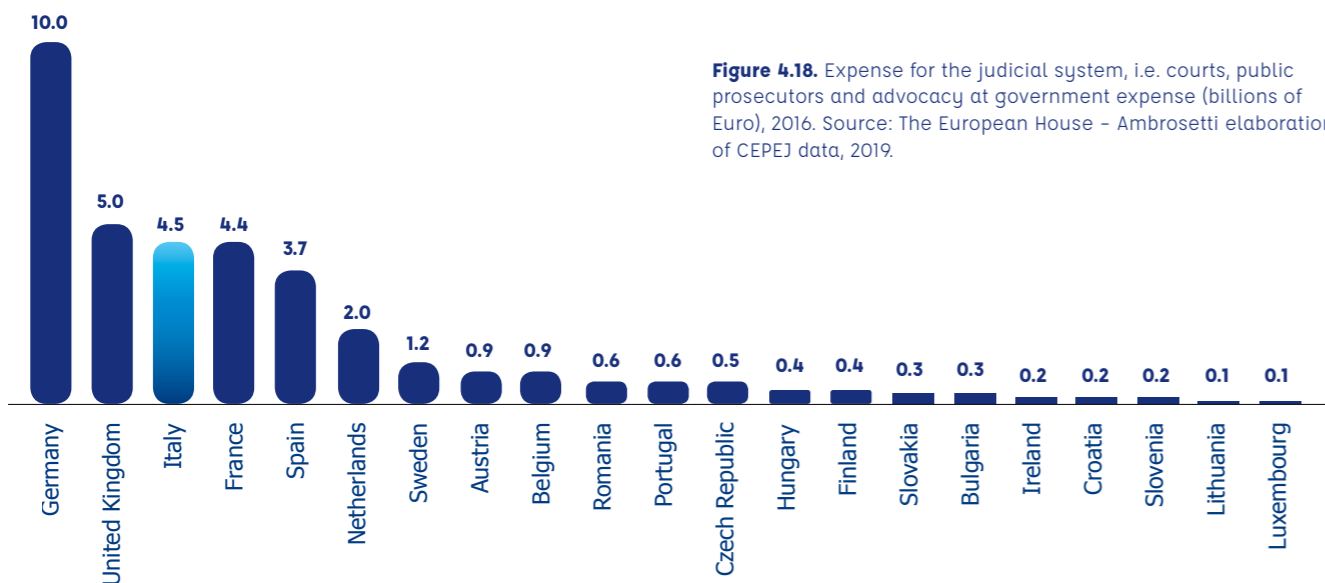


Figure 4.18. Expense for the judicial system, i.e. courts, public prosecutors and advocacy at government expense (billions of Euro), 2016. Source: The European House - Ambrosetti elaboration of CEPEJ data, 2019.

The situation does not change if we extend the analysis to the different levels of judgment: according to OECD data, Italy is the country with the longest settlement times not only in the first degree²¹, but also at the level of the Appeal and Supreme Court. As a whole, the OECD estimates an average time for the conclusion of proceedings extending over the three levels of judgment to be **788 days**, with a minimum of 368 in Switzerland and a maximum of 2,866 days in Italy, almost 8 years²².

The extreme length of trials has a direct negative impact on businesses and their ability to operate. The length of time necessary to settle disputes generates uncertainty and produces high costs for the companies, slowing or halting their investment activity.

Alongside the justice system, as described here, bureaucracy is another key element for the ability of a nation to function, because it allows the authorities to provide services and govern activities effectively as they take place within the country's borders, ensuring the equity, competitiveness and resilience of the system.

The presence of excessively pervasive, immobile and inefficient bureaucracy makes it necessary to enact a labor of simplification of the national administrative structure. It is an effort that Italy has attempted to make, not always with satisfactory results, since the Nineties.

Frustrating these attempts at reform, is to some extent the result of a few false legends that have distracted attention and focused it instead on sectors other than those that are, today, the real issues to be resolved in order to simplify the country.



²¹ The estimated average duration of civil proceedings at the first level of judgment in OECD countries is about 240 days, with Japan in first place with 107 days and Italy last with 564.

²² Source: OECD, "Judicial performance and its determinants: a cross-country perspective, Main Paper, Economic Policy Paper no. 5", June 2013.

In its report "The public administration from added weight to potential aid to the country's growth", The European House - Ambrosetti identified a number of problems and critical issues that affect good operation of the public administration in Italy, which can be grouped as follows:

- 1. Lack of a long-term vision, a Grand Strategy for the country, strategic planning for the offices of the public administration and absence of ex-post reviews of the reforms;
- 2. Lack of clear division of competences among agencies, which generates uncertainty at the legislative level and during the stage of execution or implementation;
- 3. Assignment of responsibilities to public officials that creates an incentive for inaction and a defensive attitude rather than a proactive problem-solving approach;
- 4. Inadequate permeability of the public administration with the private sector and inadequate training system;
- 5. Ineffectiveness of the system of evaluation and incentivization of public employees;
- 6. Lack of use of digitalization as a tool of effective process simplification;
- 7. Critical issues linked to regulatory overproduction resulting in a welter of conflicting laws;
- 8. General loss of prestige of the public official.

Despite the many problems, the report indicates that the Italian public administration possesses elements of excellence that place it at the top among its main European competitors. There is a need to start from these cases of success in terms of planning, rendering the system more efficient, improving the quality of service and implementing a digital transformation.

Another problem is the phenomenon of corruption. As acknowledged by ANAC (the National Anti-Corruption Authority), **corruption is a complex political, economic and social phenomenon** that is difficult to define univocally and even more difficult to measure and evaluate²³. This is particularly true of Italy, where corruption is widespread and pervasive, to the point that it has acquired a systemic character that permeates the daily life of citizens and mixes with other forms of criminal and illicit behavior²⁴.

Between September and October 2015, the European Commission carried out a special edition of the Eurobarometer, a Community-wide survey of public opinion, focused on the businesses of the 28 member countries. The survey found that 98.0% of Italian companies consider corruption to be a widespread problem in the country (it was 97.0% in 2013). This is the highest percentage at the European level (the average of the 28 countries is 71.0%, down 4 points compared to 2013).



Figure 4.19. Response to the query "How widespread do you think corruption is in your country?" (percent of the sample), EU-28, 2015. Source: The European House - Ambrosetti elaboration of Eurobarometer data, 2019.

Legend:
 Widespread
 Rare
 Don't know
 Does not exist

²³ ANAC and ISTAT, "Protocollo d'Intesa tra l'Istituto Nazionale di Statistica e l'Autorità Nazionale Anticorruzione in materia di integrità, trasparenza e analisi del fenomeno della corruzione" ("Memorandum of Understanding between ISTAT and ANAC on the subject of integrity, transparency and analysis of the issue of corruption"), 2016.

²⁴ ANAC, "Relazione annuale al Parlamento per l'anno 2015" ("Annual report to Parliament for the year 2015"), July 14, 2016.

In addition, 60.0% of Italian companies think that corruption in the country is a factor hampering their business (+11 percentage points compared to 2013), while 33.0% declare that, in the last three years, they have lost tenders for public contracts because of corruption. Moreover, only 22.0% think that those found guilty of corruption will be subject to heavy fines or imprisonment²⁵.

These indicators, though with the limits connected to reporting of data that is non-objective, but rather based on subjectively perceived levels of corruption, must be taken into serious consideration: on the one hand they are a cry of alarm regarding the inadequacy of the anti-corruption policies implemented in recent years; on the other, they damage the country's reputation, discouraging investors and thereby weakening, indeed undermining, economic growth.

In short, at the international level, there is ample evidence of how the inefficiency of the justice system and critical issues linked to the bureaucracy, as well as the extent of phenomena of corruption in a country, have extremely negative effects on its economy and society. For this reason, the solution of these critical issues must be a top priority for Italy.

4.1.5

CIRCULARITY AND RESILIENCE: ADAPTING AND EVOLVING TO SUPPORT THE CHANGE

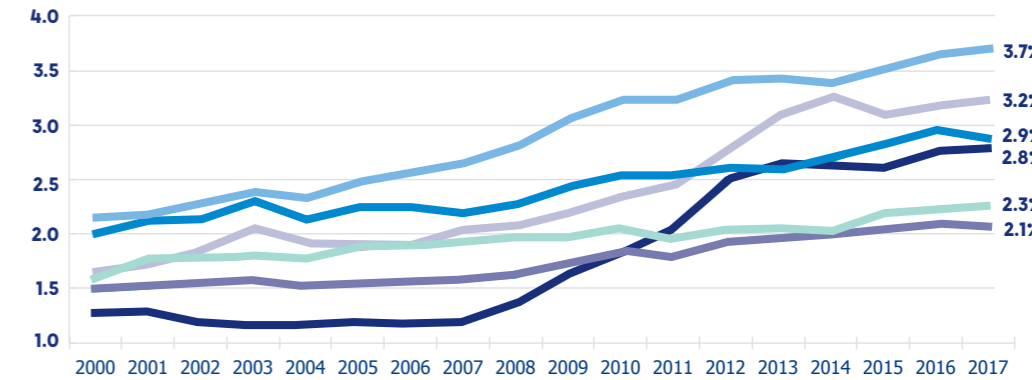
A social-economic system can be defined as **resilient** if it is able to react to shocks and/or periods of crisis or uncertainty, and positively adapt to change through reform of its institutional, social and economic models and structures.

In this regard, a circular development model can guarantee greater adaptability and, as a result, resilience of the system in the face of economic and social challenges, both current and future. The circular economy is an attempt to rethink the economic model that for centuries has dominated the paradigms of production and consumption - largely based on the extraction of unlimited and cheap raw materials, which were processed, consumed and discarded at the end of their productive life, the aim being that of

making those paradigms more capable of responding to the environmental and economic challenges of the 21st century.

Italy characterizes itself as a virtuous nation at the European level as regards the implementation of a model of circular economy to its processes of production and consumption.

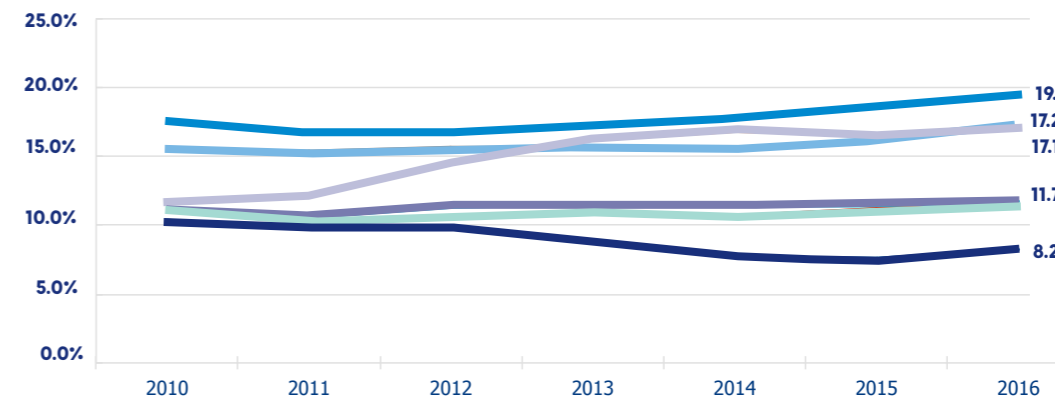
If we look at the productivity of resources, defined as the ratio between GDP and domestic consumption of materials, Italy generates - the purchasing power being equal - €3.2 of GDP for every kg of resources consumed, compared to a European average of €2.1, ranking fourth in Europe and reporting a CAGR of 4.1% from 2000 to 2017.



Ranking vs. EU-28	CAGR '00-'17
2 nd	+3.3% United Kingdom
4 th	+4.1% Italy
5 th	+2.2% France
6 th	+4.8% Spain
9 th	+2.0% Germany
	+2.0% EU 28

Figure 4.20. Productivity of resources for Italy vs. its main European peers (€/Kg), 2000-2017. Source: The European House - Ambrosetti elaboration of Eurostat data, 2019.

With regard to the rate of circular use of materials, Italy is classified as the best performer at the European level. With 17.2% of secondary materials on total material consumption, Italy's performance is considerably higher than that of all the other major European countries.



Ranking vs. EU-28	CAGR '10-'16
2 nd	+1.8% France
4 th	+1.6% Italy
5 th	+6.7% United Kingdom
	-0.9% EU 28
7 th	+0.6% Germany
12 th	-3.9% Spain

Figure 4.21. Rate of circular use of materials, Italy vs. its main European peers (percent), 2010-2016. Source: The European House - Ambrosetti elaboration of ISTAT and Eurostat data, 2019.

²⁵ Source: European Commission, "Flash Eurobarometer no. 428. Businesses' attitudes towards corruption in the EU", December 2015.

In 2017, almost 16.5 million tons of waste were separated, which is **more than 100% higher than the amount separated in 2004** (a little over 7 million tons). Despite the important goals met, Italy is still paying for a delay accumulated over the years in this regard, positioning itself, for the entire time period analyzed, at a lower level than the expected results. In fact, the target of 50% of waste sorted, forecast for 2009, was not reached until 2016.

Viewing the situation as reported by the individual regions, the Northern regions are performing at a higher than average level, while the Central and Southern regions are at lower levels (with a few exceptions). It should be noted, however, that there has been a significant improvement in the southern and central regions that have, respectively, quintupled (from 8.1% to 41.9%) and almost tripled (from 18.3% to 51.8%) the percentage of sorted waste compared to 2004.

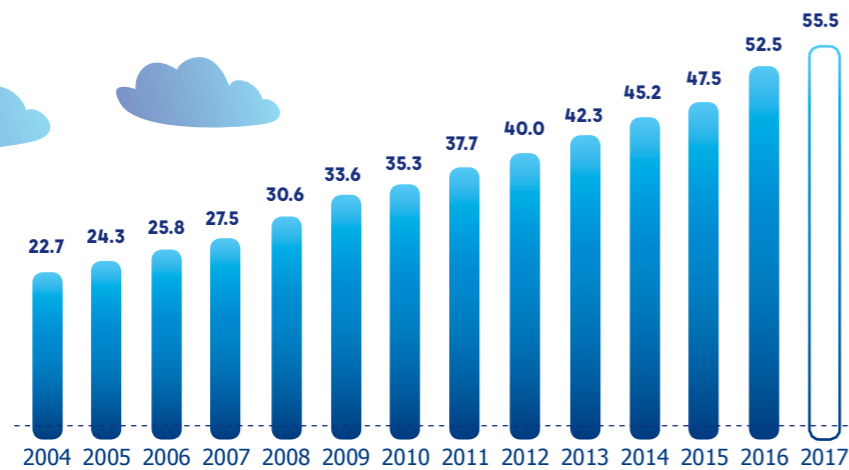


Figure 4.22. Urban waste subject to separate collection (percent of the total of waste materials), 2004-2017. Source: The European House - Ambrosetti elaboration of ISTAT data, 2019.

In light of the percentage of waste collected separately, the percentage of recycling, an indicator that accounts for the ability of the economy to reuse raw materials as resources in the production activity, also showed increasingly positive performance in time: from 36.7% in 2010, to 49.4% in 2017, with a total increase of 12.7 percentage points²⁶ and, with respect to 2016, of 1.7 points. Italy is thus closer than ever to reaching the goal of 50% established by the EU for 2020.

Considering water withdrawals, it has been shown that there is, on the one hand, excessive use of the resource and, on the other, much of that use is highly inefficient. Europe, in fact, is characterized by high water consumption and **Italy is one of the countries with medium-high depletion of the resource**. In addition, in Italy, a quarter of the water withdrawn is wasted. Consumption accounts for only 78.0% of use due to the leakages (22.3%) along the supply system. The main causes of waste along the mains are: economic (insufficient investment in the mains and high cost of repairing them); physiological (errors of measurement, construction flaws and defective materials, as well as improper laying conditions) and behavioral (illegal connection and consumption not billed).

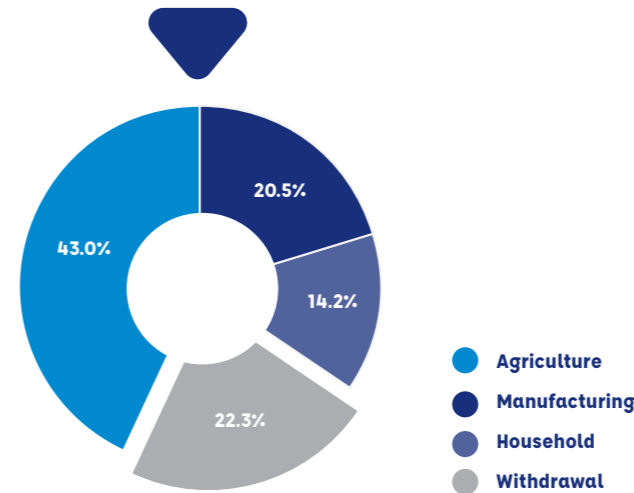
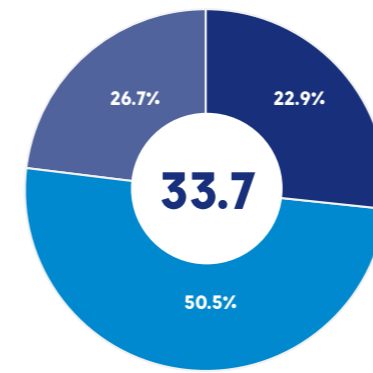
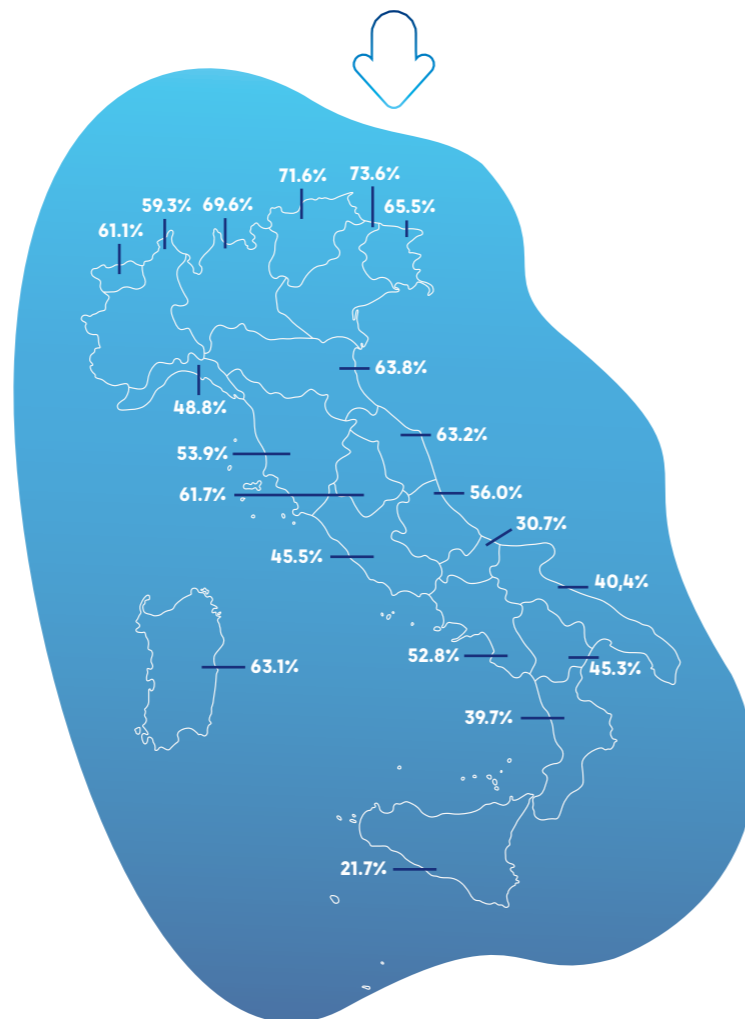


Figure 4.23. Water withdrawal by sectors of use in Italy (percent and billions of cubic meters), 2015 (left) and Ratio between water consumption/withdrawal by sectors of use in Italy (percent), 2015 (right). Source: The European House - Ambrosetti elaboration of ISTAT and Arera data, 2019.

Even looking at the most typical indicator for analysis of the environmental impact of anthropic activity, i.e. pollutant emissions in the atmosphere, the data are shocking: the industrialized countries are responsible for over 70.0% of the total CO₂ emissions on a global level, with a significant impact on human life: exposure to air and water pollution costs 9 million lives every year²⁷.

As has already been pointed out, the levels of greenhouse gas emissions in the atmosphere show an alarming upward trend also and above all in the more recently industrialized countries. From 1995 to today, the quantities of CO₂ in the atmosphere have increased +201% in China, +204% in India, +171% in Saudi Arabia and +148% in Iran, compared with a reduction of -16% in Europe and -3% in Japan and the United States.

To proceed along the path of emission reduction, the Paris Agreements (COP₂₁), signed in December 2015 by 195 countries, set the universal goal of keeping the rising temperature of the planet within 2°C and, if possible, below 1.5°C with respect to preindustrial levels. The agreement went into effect in 2016 and

requires every participant to commit to reducing emissions through specific Nationally Determined Contributions. NDCs are independent and voluntary for every country, to the point that some of them (like the EU and Russia) have set 1990 as the base year for the reduction of emissions, while others (like China and India) have set 2005. The stricter nature of these agreements with respect to the Intended Nationally Determined Contributions (INDCs), that formerly regulated the subject, was one of the main results achieved by the Paris Agreements.

Following COP₂₁, the sense of urgency for coordinated action to reduce emissions was reiterated powerfully by the report of the Intergovernmental Panel on Climate Change (IPCC), the main forum of international experts appointed to study climate change. The report for 2018 reveals, in fact, that - with regard to the commitments made at the international level only two years before - **the situation of global emissions is not in line with the goals set in Paris**.

²⁶ Source: ISTAT, 2017.

²⁷ The U.N. has estimated that exposure to air pollution causes the premature death of a person every 5 seconds.

Within this international framework, the European Union - through the goals established in the NDCs - set important targets for the reduction of emissions with respect to the levels of 1990: by 2030 the quota would be 40%, and the subsequent goal, coherent with the long-term strategy enunciated by the EU, would increase the reduction to 80%-95% by 2050 so as to achieve carbon neutrality.

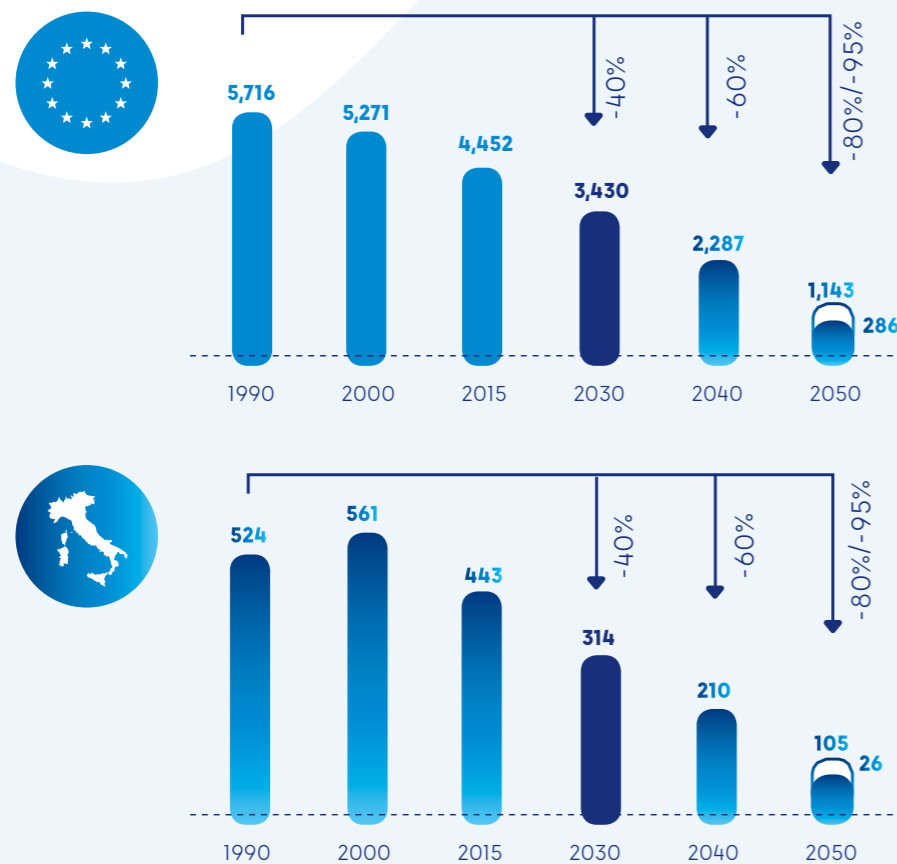


Figure 4.24. Emissions of CO₂ and targets for reduction set as of 2030, 2040 and 2050 valid for the EU-28 and for Italy (millions of tons of CO₂ equivalent). Source: The European House - Ambrosetti elaboration of Eurostat and European Commission data, 2019.

In addition to posing serious problems in terms of sustaining the economic and social systems of the different countries, the use of natural resources - when it exceeds their natural ability to regenerate - can cause **environmental disasters** without sparing any area: hydro-geological instability phenomena as well as forest fires are widespread, more and more frequent and dangerous, also affecting Italy.

In conclusion, preserving the environment is a top priority challenge in our era, not only for ethical reasons: although it is also true that human beings should live in harmony with the other creatures that share the same ecosystem and with the planet that is our only home, what is really at stake are the long-term growth and durability of the economic and social activities on which we have built our world of individuals. Indeed, ignoring the climate emergency is already producing tremendous economic and human costs.

4.2

KEY MESSAGES OF THE ADVISORY BOARD WPP/THE EUROPEAN HOUSE - AMBROSETTI

The important technological, economic and social changes currently taking place at the global level seem to contribute, also in Italy, to the preparation of conditions conducive to the growth of a new awareness and concrete impetus toward the construction of a **more inclusive and sustainable world**²⁸. It is now impossible, for example, to be unfamiliar with the concept of "climate change" and neither the citizens nor the leadership of businesses and governments can continue to deny the problem of the long-term unsustainability of current models of production and consumption, on which we have based our economy and our worldview.

At the national level, it seems that the new government has decided to implement a strategy in pursuit of environmental sustainability, reinforced by numerous measures of support to families and parenthood. From his inaugural speech, upon obtaining the vote of confidence of the Parliament, Italian Prime Minister Giuseppe Conte has spoken of a "Green New Deal" for Italy. The government's program also echoes the ambition of Italy to "strengthen social cohesion, reduce inequality and meet the challenge of environmental sustainability". These statements were confirmed in the allocation of resources expressed in the 2020 Budget Law, currently being reviewed by the European Union.

THE 2020 BUDGET LAW

In mid-October the Italian Council of Ministers launched the Tax Decree-law and the 2020 Budget Law merged into the Draft budgetary plan sent to Brussels, on which Europe's leaders will have to express their opinion. The budget amounts to €30.2 billion and also provides for a series of actions in support of welfare, mainly set forth in the so-called "family package". The environment is also a core issue when it comes to public policies, infrastructural investment, corporate governance and policies for innovation. The Italian "Green New Deal" takes the form of two funds for €50 billion to be used to finance green investment. The goal is to act to support projects of urban regeneration, energy conversion and incentives for the use of renewable energy sources. The government plan also introduces a series of cuts and new taxes to safeguard environmental sustainability.

Source: The European House - Ambrosetti elaboration based on a number of sources, 2019.



It is hoped that the actions in question serve to establish an **integrated strategy** and a long-term program for the country, able to guide and direct Italy's sustainable, inclusive development with the participation of all the players - enterprises, society at-large and institutions - to overcome sectarianism and provide advantages to all. In fact, as repeatedly stressed, it would be an error to focus sustainable development only on environmental concerns, neglecting the equally important aspect of respect and protection of the community and of fostering of the so-called "human factor".

The technological, environmental and economic disruption plaguing Italy requires urgent answers, covering the full range of issues, but also a plan for the medium-long term, so as not to dissipate the efforts.

With regard to governance, the presentation of the "Benessere Italia" ("Wellbeing in Italy") Control room is an important sign of progress. It was announced last May by the Prime Minister on the occasion of the opening of the Sustainable Development Festival, organized by ASviS and now in its third edition. The Control room was

²⁸ For a more detailed discussion on the considerations of this scenario, refer to Chapter 2 of this report.

created to "coordinate, i.e. monitor, measure and improve the policies of all the ministries in the direction of the wellbeing of Italian citizens". It met for the first time in July. The initiative is particularly significant because it should direct the coordination of economic, social and environmental policies with a view to attaining the Sustainable Development Goals by 2030.

What seems still to be lacking is the courage to actually engage the country in a process of transformation which would break away from the short-term view in regard to policy and instead start concerted communications activities to focus the great attention reserved at the national level - and elsewhere - on the concept of environmental sustainability, fostering an organic and integrated view of sustainable development.

That is why, according to the view of the Advisory Board WPP/The European House - Ambrosetti, in the context of Italy and of its groups and enterprises, a strategy of inclusive and sustainable development will have to include a series of interconnected and synergistic elements.

The strategy for Inclusive and Sustainable Development

(WITHIN THE CONTEXT OF THE ITALY AND ITS GROUPS/COMPANIES) MUST INCLUDE THESE ELEMENTS:

- ★ Protection of human rights and **social and cultural integration**
- ★ Respect for the **rights of the younger generations**
- ★ Ongoing attention to the nation's most urgent **economic, social and environmental challenges**
- ★ clear strategy to promote **industrial transformation** that does not disadvantage people and the environment
- ★ Increasing, long-term support to guarantee scientific progress, access to the best education and **strengthening of human capital**

Figure 4.25. The vision of the Advisory Board WPP/The European House - Ambrosetti on inclusive and sustainable development Source: The European House - Ambrosetti data elaboration, 2019.

Safeguarding human rights and achieving social and cultural integration is still a huge challenge for Italy. From the standpoint of employment, there is still a long way to go to destroy the obstacles that currently prevent the job market from functioning well and to favor the full inclusion of all the social categories, especially women and young people, who struggle to find a place for themselves in the often very limited spaces reserved to them, or prefer to leave the countries or even abandon the job market. But when we talk about inclusiveness, this does not mean only women. Another category "missing" from the Italian economic and social scenario are individuals with disabilities: about 4 million 360 thousand people²⁹ in Italy have **difficulty accessing the job market**, not to mention the architectural and "intangible" barriers they have to deal with every day. That is why sustainable and inclusive development cannot fail to

involve all the resources and individual specificities, and must necessarily also focus on respect for the rights of the new generations.

The situation becomes more serious if we consider that many of the actions planned by the new government mentioned above, though praiseworthy, risk being only temporary stopgaps and, above all, causing greater indebtedness of the country, thereby canceling their effectiveness and increasing the weight to be borne on the shoulders of the new generations. That is why some of the actions contained in the latest Budget Law on the subject of intergenerational and gender inequality are still limited and perceived by many to be insufficient³⁰.

²⁹ Source: National Observatory on Health in the Italian Regions.

³⁰ For example, the Budget Law for 2019 the nursery school bonus was increased from €1,000 to €1,500. This is a contribution that families can obtain for payment of tuition, without economic requisites. However, in 2019, only €300 million were allocated, with which it was possible to reach only a limited number of applicants.

THE FRENCH MODEL OF WELFARE

The entire French system of aid to families revolves around the CAF network (French centers for the assignment of aid to families), whose job is to assign the public subsidies. The system is extremely accessible, to the extent that to determine whether or not someone has the right to government assistance, the French government has developed an Internet website that in a little over five minutes enables individuals to assess their situation.

Among the measures provided is the right for the families to receive a premium at the birth of every child, amounting to about €940, linked to specific income thresholds. French families then have the right to further support from birth to three years of age of the child, also within a given income range. In the highest group, for example, a couple whose income is a little less than about €46,000 is entitled to a check for about €1100 annually, paid monthly, for each child. In the lowest (couples with income below €38,600), the amount is doubled. In case of families in hardship conditions, there is also public aid for about €1,000 for moving into another home, if necessary, if there are more than three children.

The French system also provides a series of aids to facilitate the conciliation between holding a job and taking care of the family. Beyond a vast network of public nursery schools, the government covers part of the cost (up to 85%) for hiring a childcare assistant to take care of the child at home if both parents are employed or students. Alternatively, provision is also made to pay a subsidy for hiring a babysitter, for amounts that vary depending on the number of children, their age and the family income. In addition, if one or both parents decide to devote more time to caring for a child under three, it will be possible to access a special subsidy for six months, on condition of having worked for at least two years.

Finally, there are also forms of support for families in case of disability or serious illness according to a mechanism very similar to the one applied in Italy, as well as aid to the families in case of separation of the parents, not recognized children, orphans and children living in foster homes, in this case not linked to income.

Source: The European House - Ambrosetti elaboration based on a number of sources, 2019.



To facilitate the use of practices capable of transforming the system, a clear strategy is necessary, which moves in the direction of promoting a **transformation of industry** that does not generate disadvantages for people and the environment. Since the 2008 crisis, in nearly all European countries, restrictive tax policies have caused public sector investment to decrease, accompanied by reduced access to credit and lower propensity of companies to invest. In the case of Italy, the decrease in public sector investment has been especially significant. Investment fell by 20%, from €54.2 billion in 2009 to €37.1 billion in 2018. Every proposal involving the country's attractiveness must necessarily start from this point—the relaunching of public and private sector investment—to reactivate the job market and, as a result, growth.

Long-term investment is necessary, indeed, in sectors and areas considered strategic, including infrastructures, energy, environmental sustainability, employment, and also education and welfare. Also needed are clear guidelines for the sustainable development of innovation policies. Planned investment should be oriented towards digital technologies, energy transition, the circular economy and fight against climate change, sectors in which important public resources are concentrated at the international level, with the possibility of partnerships across countries with high spillover. In all these areas, the government can and must provide guidance, including through subsidies and tax breaks in order to channel investment to those areas with the highest impact in terms of environmental and social

sustainability³¹. Towards this, it is useful to think of Italy's plan in conjunction with the planning for the upcoming European budget in order to take advantage of opportunities not yet being considered, especially in a number of major areas such as innovation and research.

Investment should not be rethought only in terms of quantity, but, above all, quality, to make it more "efficacious" by focusing on areas, sectors and environments that can have a **"multiplier" effect** on the system to avoid waste, excessive red tape and bureaucratic overlapping. Every proposal must necessarily start from this point—the relaunching of public and private sector investment—to reactivate the job market and, as a result, growth.

THE GREEN INVESTMENT PLAN LAUNCHED BY GERMANY

In October 2019, Germany launched a plan to save the climate, for a cost of €100 billion, of which a little more than half (54 billion) will be allocated by 2023 and the rest by 2030. The measures planned by Angela Merkel are based on the guiding principle that "those who pollute must pay" which is widely shared throughout Europe.

Among the main measures is the plan connected to mobility, which provides for a gradual increase in the price of gasoline and diesel fuel, from 3 to 10-15 cents a liter by 2026. At the same time, fiscal deductions on fuel for commuters will increase (with an increase of 5 cents per kilometer, passing from 30 to 35 cents a kilometer) to offset the disadvantages of the increase in gasoline prices, and taxes on the consumption of green electrical energy will also be lowered. Germany set itself the goal of getting almost 10 million electric cars on the road by 2030, and about a million recharging stations.

VAT will also go up on air tickets, while it will be reduced on train fares. The taxes on long-distance trains will be lowered from 19.0% to 7.0%; in addition, to modernize and expand the railway network, the government will allocate €1 billion extra funds a year to the Deutsche Bahn by 2020 and 2030. The government and Deutsche Bahn together will invest a total of €86 billion. All-day public transport tickets will be offered experimentally in a number of cities at €1.

The plan also leaves room for the energy requalification of buildings by offering incentives for the replacement, in particular, of gas-oil boilers. Their replacement will be supported with an aid for the expense of 40% of the cost, and their installation will be prohibited starting in 2025.

Finally, the government wants to reduce the use of fertilizers, and the use of peat should be limited. New impetus will be given to renewable energy sources; by 2030 they will have to account for 65.0% of the total production.

Source: The European House - Ambrosetti elaboration based on a number of sources, 2019.

Constant attention to the most urgent economic, social and environmental challenges has to take account of the need for **in-depth educational activities and pervasive communication** by institutions, companies and the school system. The collaboration between society at-large and institutions in the world of education must be at the center of a shared mission: that of bringing about a change in the educational system toward the culture of sustainable development. That means making educators and students real "agents of change". Companies also have important responsibilities in this sense, in acting to provide a better future through the development of authentic sustainability strategies that are the object of effective communications and contribute to a full-scale process of transformation.

In Italy, a growth strategy oriented towards increasingly greater inclusiveness and sustainability is possible, but it currently faces a number of obstacles that are not only technological or economic in nature, but also **"cultural"** and human. Given this, government and business—and the people who comprise them—must be placed at the center of this new paradigm shift.

While this transformation will certainly require close collaboration among world leaders and companies, in order to be effective it must also be **communicated, accepted and implemented into everyday life**. In this, technology and talent can be valid instruments for taking action. Now present in every aspect of our lives, from smart technologies in daily use to high-tech, new technologies can represent a truly effective means, as can the younger generation which is less-willing to accept inequitable growth and could be the heart and guiding spirit for the social transformation the nation faces.

And it is precisely in the interest of young people that we must welcome this change as soon as possible, but it is also business and today's leaders that must provide the educational tools and structural framework required for this to happen.

Lastly, the world is changing more rapidly than ever before, with consequences on the ability of the educational system to provide the job market with appropriately trained personnel. In implementing the new paradigms of innovation, Italy risks being left behind due to a yawning gap in the level of technological and digital skills. Italy must therefore pinpoint as a strategic priority that of minimizing the skill mismatch between the disciplines studied and the demands of the labor market, considering future demand as the criterion on which to structure the system of educational offer and to understand how the system has to adapt to **grasp the global trends of change**, including the need for authentic sustainable and inclusive development³².

In order to respond effectively to the five above stimuli, **it is important to keep in mind that individual initiatives aimed at relaunching the country in a sustainable way cannot be seen as a one-time action, short-term incentive and/or sporadic assistance**. That is why a single guiding institution is needed - for example - under the patronage of the Prime Minister, which would also benefit from the work of the Control room on Wellbeing in Italy. In fact, it is essential that the policies be structural in nature and have a stable impact on a number of aspects that can rectify the weaknesses of the country.

This is not merely a statistical observation: it reflects the need to act on all the variables in play, according to the model of the Triple Bottom Line (environmental, economic and social) to stimulate **that process of radical transformation** that can be delayed no longer.

³¹ For more detailed study on the subject, refer to the "Global Attractiveness Index 2019" report, The European House - Ambrosetti, 2019.

³² For more detailed study on this subject, refer to the report "The Age of Exponential Technological Changes", The European House - Ambrosetti, 2019.