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MICRO AND SMES FINANCING AND CREDIT AVAILABILITY: THE ITALIAN CASE

Abstract: The problem of small and medium enterprises (SMEs) financing and credit availability is very important for the economic development of a country. The difficulty in accessing bank credit and its costs for small enterprises becomes even more interesting considering the imminent coming into force of the third version of the Basel Accord. The scope of the paper is to investigate if SMEs are still dependent on bank loans or if they are starting to raise money on capital markets. Using descriptive method and data analysis, this reflection aims to give a reading of the recent financial situation and the current relationship between actors on the Italian credit market, according to new trends in the behavior of markets and intermediaries, as well as the influences of the most recent regulatory measures.

Key words: credit, SME, bank loan, Italian case study.

1. Introduction

The problem of SMEs financing and credit availability is very important for the economic development of a country. The physiognomy of the Italian economy and financial system, in which a large number of small and medium-sized enterprises is accompanied by a broad, little and opaque capital market in which the presence of institutional investors is low, is still strongly oriented to credit intermediaries. Banks continue to play a major role in the process of lending, accounting for the preferential partner in the process of funding companies and, because of the amount of resources put into the system, a potential factor conditioning the effectiveness and efficiency of business decisions.

The recent crisis and recession seemed to frustrate the function attributed to financial intermediaries. Analyzing, in this scenario, the concerns that will arise in the near future, in the phase out of the worst financial and economic crisis in recent decades, it is possible to identify three main reasons for further apprehension. First, lenders often perceive a higher risk in smaller firms than in larger ones, even if it is not always true. Second, the fact that revenues generated by the relations maintained by each bank with a small company are, in absolute terms quite modest, which induces banks to try to recover on the side of interest rates, applying more expensive

conditions for this category of customers. Finally, the low bargaining power of small enterprises, compared to that one of credit intermediaries, prompts them to download the tension and the negative trend of the market mainly on these companies.

The problem of the difficulty in accessing bank credit and its costs for small enterprises becomes even more interesting considering the imminent entry into force of the third version of the Basel Accord.

Using descriptive method and data analysis, this reflection aims to give a reading of the recent financial situation and the current relationship between actors on the Italian credit market, according to new trends in the behavior of markets and intermediaries, as well as being influenced by the most recent regulatory measures.

Some scholars have indicated as the only possible antidote to the crisis the theme of the common good of the economy. Here, we try to emphasize that in dealing with this topic it is necessary to give adequate emphasis to the study of the mechanisms that govern the allocation of financial resources and it is equally important to analyze the role played in this direction by the proper distribution and reading of the available information.

2. The credit market

The credit market is generally defined as the economic place where demand and supply of financial resources meet each other, or the space, to be understood in a temporal sense, in which private individuals, families and businesses, get from intermediaries resources necessary to increase their own spending power consumption or investment or to use their excess resources. This definition clearly shows that in this “environment”, at the same time, they relate to the activities carried out by loan brokers, economic development, social growth, innovation and economic democracy.

Understanding credit as a service to be exchanged, it can be easily understood how such a “good” should be assessed by trying to grasp, through a functional analysis the individual elements, in an attempt to build a subjective ranking that can categorize, in order of importance, the same elements.

There are at least two fundamental aspects that characterize the credit, the amount and the risk. The credit intermediary, in fact, should not only consider the amount of resources (and hence the increase of purchasing power) which allows the debtor, but also gives a measure of the risk of each position, taking into account the personal profile of the borrower, the purpose of the acquisition of resources and how to use the funds lent.

The credit is, thus, to appear as a “multidimensional” product, in which are made up different profiles and it is precisely this peculiarity, even apart from the problems arising from the asymmetry of information, to cause imperfections on the market in which it is exchanged [Ardeni, Messori 1996].

In general, including all the considerations previously expressed, we arrive at a quality of efficiency in the credit market, placing the perspective of the intermediary, if all the information necessary to arrive at a correct analysis of the capacity of the obligor to meet its financial commitments is available and can be adequately processed and, therefore, arriving at a valid definition of the risk inherent in a given transaction and the remunerative price of this risk, that is the relative rate of return. If there is no base for all subsequent evaluations, that is the information, the fact that the risk profile of each operation cannot be properly considered undermines, from the start, the ability to classify the individual debt positions as a function of its rate interest, which is expressed in the so-called risk-screening function of the intermediaries.

The two most important economic phenomena against the sellers (i.e. banks) caused by distortions in the information on the credit market are those of *adverse selection* and *moral hazard*. Both end up penalizing the buyers (i.e. borrowers) who, under conditions of perfect symmetry, would be more deserving, and consequently to benefit those who are less so. The fundamental difference that distinguishes the one and the other phenomenon concerns the time interval in which they fit into the loan agreement.

Adverse selection¹ is an opportunistic behavior that occurs in the pre-contractual phase, at the time prior to the disbursement of money, and arises because of private information, qualitative and quantitative information that applicants do not make available to the financial intermediary. In the presence of hidden information, in fact, the choice of bank may be affected, and then go in favor of the less worthy customers, and the proper development of market mechanisms may also be affected.

The first theory of this phenomenon occurred in the Seventies by George Arthur Akerlof, the Nobel Prize winner. In his work *The Market for Lemons: Quality Uncertainty and the Market Mechanism* he implies, modeled on the used car market, that, due to asymmetric information, the actual quality of the products cannot be determined by the end, for which the seller has an incentive to bring lemons, pretending them to be high quality goods. The buyer, on his or her part, knows that in the absence of information and, imagining that the quality of the goods proposed to remain unknown, decided to rely on the better assumption and does not take into account all the products whose level is higher the average. In the long run, the only market equilibrium reached is that the exchange does not occur: in other words, in a scenario of complete uncertainty and lack of collateral, the market disappears.

Moral hazard, however, is a form of post-contractual opportunism, which may occur later in the supply of money. The intermediary, in fact, cannot control what happens after the granting of credit and is not aware of the actions the recipient takes is deliberately hidden.

¹ “The adverse selection indicates the problem that emerges when the quality of the object of the transaction before the transaction is known only to one of the two parties” [Zamagni 1992, p. 684].

In both cases, there is the inability of the market to fully and adequately inform their workers. That causes inefficiencies, and in particular more likely to bring losses for the intermediary and higher costs for the debtor, provided that the expected profit from the lender does not grow proportionately with the rate of interest. The report, not monotonically increasing, between interest rate and expected revenue, i.e. the fact that beyond a given level of risk the increase in rate of interest charged on loans is more than offset by the costs, arising from the expectations of loss related to the insolvency of the debtor, is the basis of another phenomenon labeled credit crunch.

With a view to maximizing the results of operations, banks, which for legal and social constraints are not always able to raise interest rates, and thus compensate for the riskiness of the projects funded, may decide to put a limit on the amount of the total credit to the market.

From the picture that has been so far outlined is well evident that, today more than ever, communication and accurate information from lenders, on the one hand, and families and businesses, on the other hand, is crucial to the achievement of higher levels of allocative efficiency in the processes of transfer of resources.

The function of pin, through which we can re-establish the relationship between banks and firms, however, was attached to the question of information from the combination of several elements. First, the reorganization of the intermediaries recently moved to an increasing concentration. The reduction in margins of profitability has also resulted in a wider range of financial and consultancy services offered. Finally, though not in order of importance, the recent legislative guidelines regarding supervision were directed to a greater extent to weigh the quality of intermediaries on the basis of their achieved performance.

The evolution that occurred in the area of capital requirements for banks and the growing attention paid by supervisors to the relationship between equity and banking risks are, in a particular manner, promoting the use of a broad-based information which allows, on the demand side, more detailed analysis of the needs of borrowers and, on the supply side, the identification of tools with which to meet the financing needs of families and businesses.

The quality and quantity of information required by the bank in order to arrive at a correct assessment of the creditworthiness of the counterparty have remained almost unchanged over the last few years. What has changed are the methods and techniques of investigation and the attention that is placed against some aspects of business management, primarily of typical business risks, which were evaluated in the past with less focus on the defining traits.

The most obvious corollary of this process is expressed in the passage that has been experienced by the traditional credit functional area of lending institutions to the credit risk management approach, which now seeks to ensure a more thorough analysis of the risk profile of counterparties.

3. Small businesses and access to credit

The Italian manufacturing sector is, of course, characterized by a large number of small businesses whose average size (approximately equal to four employees) is very low compared with that of other industrialized countries (Table 1). This appearance reflects the high incidence of sole proprietorships, consisting of the self-employed, businessmen and professionals, and has a profound effect on the financial structure of production activities.

Table 1. Italian industrial and service companies divided by classes of employees (data as for 31.12.2007)

Class of employees	Companies (number)	%	Employees (number)	%	Officers (number)	%
1–9	4,247,169	94.79	8,163,237	46.42	2,874,304	24.11
10–19	148,852	3.32	1,954,120	11.11	1,700,864	14.27
20–49	58,063	1.30	1,732,820	9.85	1,642,340	13.78
50–249	22,759	0.51	2,211,339	12.57	2,181,956	18.31
> 250	3,630	0.08	3,524,529	20.04	3,520,123	29.53
Total	4,480,473	100.00	17,586,044	100.00	11,919,587	100.00

Source: author's elaboration on the basis of data of Italian National Institute of Statistics, 2010.

The latest annual report of the Bank of Italy, based on data from the end of 2009 [Bank of Italy May, 2010, ch. 14], shows the degree of indebtedness of our businesses remains at high levels compared to the past. Italian companies, heavily exposed to any increase in market interest rates, have a leverage² around 46%, four percentage points lower than that of Spain, in line with Germany and the United Kingdom, and about ten points higher than France and the United States.

The ratio of the total financial debt of enterprises to GDP, at the end of 2009, was 83%, low by international comparison. The debt of our companies, however, stands out compared to other countries; the highest share of short-term funding and greater dependence on bank credit, and this is typical, as reported by Centrale dei Bilanci,³ for smaller companies, which – considering this type of loan more flexible and accessible – are more exposed to risks related to a rise in interest rates.

In general, small firms suffer more difficulties in accessing bank credit because of their low “attractiveness”, in both qualitative and quantitative terms, as opposed

² The figure is calculated as the ratio between financial debt and the sum of financial debt and equity of companies at market values.

³ It is an inter-bank company established in 1983 to promote the development of the financial analysis by collecting and processing of balance sheets' data.

to more structured and larger firms, and are, therefore, subject to financial costs on average higher and less security in the availability of funding sources. There are frequent, in this sector, difficulties for unequal treatment in obtaining the so-called “supplier credit”, which tend to further support the need for short-term capital.

There are difficulties of access to specific sources of funding, because of weaknesses in the governance model and/or small size, especially for companies such as those working, exclusively or mainly, under contract, who have no stable and long lasting equilibrium. The use of self-financing, along with the use of bank credit as the main source of investment coverage, is a constraint in a particular way in times of recession and tends to generate procyclical effects. Besides this, small businesses are lacking, if not absent, in the structures of technical and financial assistance, and what is frequent is the subordination of the finance function to production and sales functions, which, being considered a “service” rather than “management” function, is often very specialized. In particular, there are often overlooked the ongoing management of relationships with lenders, the forecast for short-term evolution of qualitative and quantitative characteristics of financial needs, as well as the analysis of the cheaper alternatives on the market.

In the frequent episodic management of relations with the credit market, in a situation of absolute lack of planning of cash flows and cost-benefit analysis of alternatives, the small entrepreneur usually accepts, without raising any doubts, the proposed financial product, even if it is equipped with a low degree of customization and is not, therefore, adequately respondent to the actual financial needs of the counterparty. For the sector in question, the use of credit provided by banking intermediaries is prevalent; this tendency decreases with increasing firm size.

In this scenario, in order to achieve an effective management of credit risk, banks have tried to build extremely fractionated loan portfolios, trying to maximize the number of open positions and minimize the amount per unit. At the systemic level, especially in the past, such behavior generated an extreme fragmentation of credit relations and forced companies, in search of ensuring the highest overall availability of resources to meet their needs, to build relationships with a high number of banks, following the practice extremely common in our country that goes by the name of “pluriaffidamento” (multiple bank credit).

In increasing the exposure of the individual borrower in respect of the entire banking system, there is inevitably an exponential increase in the number of banks (Figures 1 and 2). Since the refund, even in the presence of some signals of crisis in the borrower, is guaranteed in part by the increased use of credit lines open at other institutions, the risk associated with each position through the practice of “multiple bank credit” is “spread” over the entire banking system.

From one point of view, therefore, the multiple bank credit seems to meet the needs of both companies and banks. On the other hand, the split between several banks results in lower average unit amounts for each position, which, being evaluated by financial intermediaries as a symptom of particularly risky economic contexts,

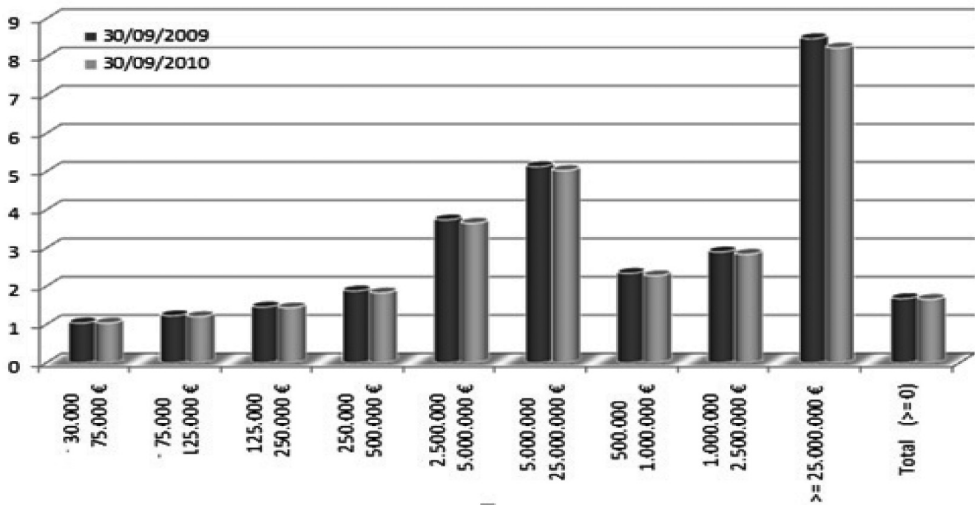


Figure 1. Average number of banks per borrower (distribution by size of the cash funding granted)

Source: author’s elaboration on the basis of the Bank of Italy data.

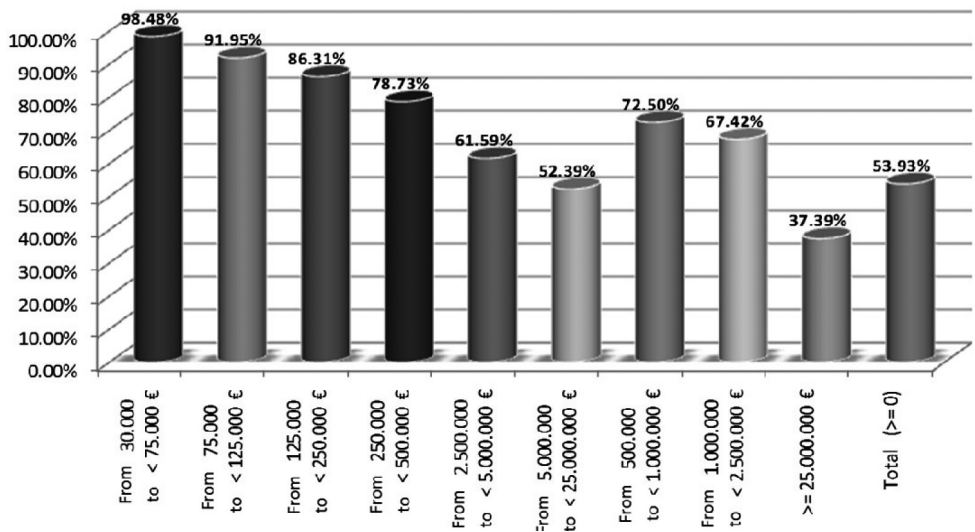


Figure 2. Percentage of total credit granted by first bank (distribution by size of the cash funding granted, data for 30.09.2010)

Source: author’s elaboration on the basis of the Bank of Italy data.

sometimes makes prohibitively expensive an in-depth analysis of borrowers’ characteristics, evaluated in a brisk way, especially in relation to the assets and

guarantees that can be provided. This attitude, combined with a greater willingness of banks to operate with short-term loans, more controllable and profitable, has made sure that businesses are not encouraged to implement the appropriate financial function and so remain anchored to the use of short-term or undated loans even to finance investments with a medium-long time horizon.

The practice of multiple banks also results in the loss of information about customers, because of the fractionation and distribution of this information among a plurality of banks, which hinder more than any other the evolution of bank-firm relationships to alternative models to those of ordinary credit. The information opacity of the companies, due in part to the difficulty of banks to assess them, results in the higher cost of debt (a sort of risk premium), as well as in their lesser willingness to provide credit in an adverse economic cycle. The persistence of this phenomenon demonstrates, among other things, the ability of a bank as the main interlocutor stable for smaller companies, certainly desirable for achieving an efficient financial management, which is in most cases difficult to realize.⁴ On the other hand, it can be easily imagined that the growth of bargaining power that a small company, considered individually, could achieve through the establishment of a stable customer relationship with a bank, can be accompanied with favorable effects in terms of availability and cost of bank loans. This must be recognized in the action for the organization of the application and standardization of interest rates pursued by the management of collective guarantee trust. As part of the relationship between a company and the guarantee institution which it relies on, in fact, the cost of funds is usually commensurate with the actual creditworthiness of the counterparty, which can best be defined within the same institution. In this scenario, analyzing the situation from the side of the bank, financing for small businesses involves the evaluation of their ability to repay the debt and the need to practice conditions consistent with the estimated risk profile and related to the characteristics of the loan portfolio and the risk-return relationship associated with it.

Depending on the intensity of the exchange of information and their quality, the conditions of access to credit vary, as does the flexibility of the relationship and the support offered to the debtors' financial management, especially in the presence of transitional difficulties; for which, the relationship between banks and firms affects

⁴ The establishment of a privileged relationship between bank and firm would reduce the information gap between lenders and borrowers via the accumulation of information over time about the real risk of the company and would help to access to credit for companies that otherwise would not have access to capital markets, as well. The expected benefits from a relationship with just a bank consist mainly of inter-temporal smoothing of contractual conditions, which results in better price conditions and greater availability of credit during the relationship, and improving the reputation of the company financed. An exclusive relationship is not, however, free of costs, which were mainly attributable to the creation of a monopoly information position from the bank. The bank may, in turn, be "captured" by the same relation, to the point of not being able to commit credibly to deny further credit to the firm in case of financial difficulties.

allocative efficiency and operational resources and, therefore, the contribution that the financial system can ensure to the production one.

Recently, the introduction of a methodology for classification of customers based on their risk has substantially changed the approach followed in the past in the evaluation of credits. The selection phase, for example, concluded in the past with a binary rating scale, trusted/not trusted. Today it is increasingly being assigned a rating, which is a synthetic evaluation of the probability of default related to the transaction, in which a proportion of the interest rate, or the price of credit, is reflected. Each position where the bank is responsible, in fact, must be reflected in the expected return and highlight the direct relationship between risk and interest rate.

The degree of depth of the analysis and its level of detail varies, as is natural, according to the amount of funding requested. It is for this reason that a modest amount of loans do not combine well with very accurate investigations, because the cost of investigation is too high compared to the corresponding expected benefit in terms of risk reduction. Thus, the analysis procedures are more standardized in the case of limited resources provided: for example, using the procedure of credit scoring, which allows the bank to quickly and cheaply evaluate the reliability of the applicant.

The subjective assessments, which tend to be based on considerations related to the quality, the sensitivity and the experience of the bank's employee, have given way to a more formal rigor and a growing standardization of procedures. The new statistical methodologies and quantitative risk measurement have gained an increasingly importance and strategic decisions regarding the granting of credit are oriented, with increasing frequency, by rating models and the results in terms of solvency of the credit positions that derive from these ones.

The assessment of the creditworthiness of the counterparty may then be influenced by the presence of collateral, bearing in mind that the Basel Accord establishes precisely the characteristics of the collateral or guarantees for their use, in recognition of risk mitigation and reducing capital requirements for the bank, and then a contraction of the transaction price.

4. Effects of the crisis and credit rationing

The financial crisis that began in 2008, whose effects have been still evident in the current economic scenario, affected the relationship between banks and businesses in two main ways.

First, the financial shock has weighed heavily on banks' balance sheets, which – after the events that followed the financial crisis – went back in large numbers to identify their core business on deposits and granting of credit and to identify loans to the retail market as the key by which to stabilize their levels of profitability, and were induced by the deterioration of their economic results to adopt more restrictive

policies in granting credit. On the other hand, then, the sharp downturn in the level of economic activity following the crisis has worsened the conditions of profitability of firms, making them more exposed to credit risk. The duty to deal with these issues has resulted, in addition to the general worsening of conditions, including effective credit rationing itself, in an increase in the number of firms that did not receive the requested funding, or have seen an increase in the obstacles and difficulties to get it.

Since the 1960s, with the aim to provide an exact definition of the relationship between a lender and a borrower, the economic literature has dealt with identifying the causes, internal to the relationship itself, leading to rationing phenomena. The fundamental aspect of the matter is, like the criteria for qualitative selection of funded projects, the determination of the total volume of resources allocated and the quantification of the cost of credit. The credit crunch has been defined in 1991 by the Council of Economic Advisors as “a situation where the supply of credit is contained below the level normally associated with the prevailing market interest rates and the current level of performance of investment projects”. The sudden reduction in credit availability, independent of interest rates governed by central banks, damages the proper functioning of the market, reducing external financing to deserving firms, and thus limiting their activities to below their potential if not causing their failure. For all the reasons mentioned so far, the vast majority being dependent on bank credit as a source of external finance, small and medium-sized enterprises are the entities most affected by recent trends.

Since the last quarter of 2008, the sharp reduction in official interest rates to levels not seen in the history of central banks, and the virtually unlimited supply of funds made available by the same national central banks have greatly expanded the opportunities to ask for and obtain credit. Under normal conditions, low rates and high resources' availability would have made the credit granted grow rapidly. In contrast, statistics from the Bank of Italy and several research institutes clearly show the tendency of a severe tightening of credit supply for firms involved in almost all the major sectors. Only in the last months of 2010 did we see timid, though widespread, signs of loosening of the credit crunch. The most worrying aspect is related to the fact that the worsening of the credit burden perceived by firms has been accompanied by an effective rationing of funds, mainly due to the willingness of financial institutions not to further increase their level of exposure to default risk.

A further element of concern is the awareness that the crisis stems from the collapse of trust in relations on the internal financial system, where the credit worthiness and the confidence (reliability) are normally considered to be highest. Having less confidence in other banks, the banks have been curbed in having confidence in those who question their funding, especially since in this scenario the banking system may have more difficulty and expense in obtaining the funds necessary to carry out the intermediation activities. Then in a completely vicious circle, the selectivity of lending has been accentuated by the growing risk of default of the counterparty due

to deterioration of the accounts of households and firms, following the recession, and in turn fed by the same credit crunch. The best measure to assess and evaluate the intensity of the phenomenon of credit rationing is data about the performance of short-term loans.

The statistical information collected by the Bank of Italy on the current account financing to companies and almost non-financial companies over the past seven quarters in different geographical areas of the country show a trend that is not uniform, but in any case tends to decrease (Figure 3). The national average showed a decrease between December 2008 and September 2010, which amounted to about 6%. The

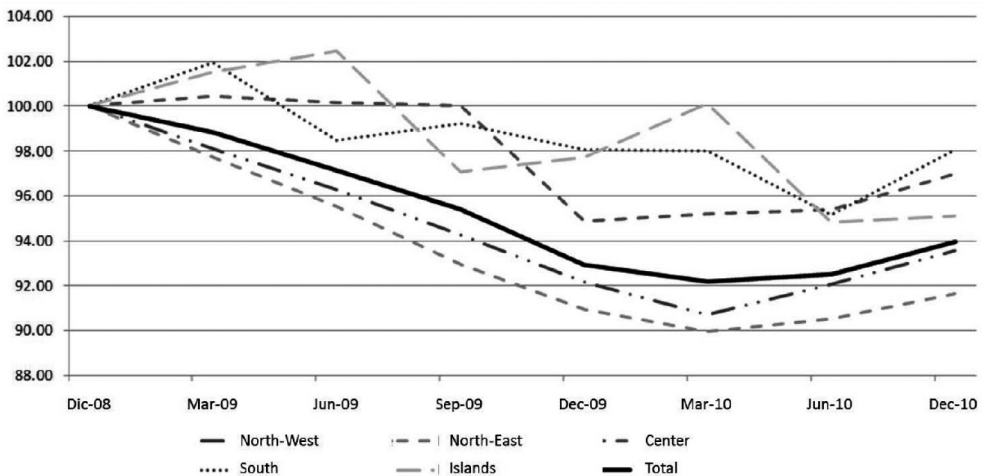


Figure 3. Current account financing to non-financial corporations (distribution by geographical areas; index numbers, December 2008 = 100)

Source: author's elaboration on the basis of data from the Bank of Italy.

determinants of the generation process of bank loans, however, can be captured in different shades through other statistics, qualitative even before quantitative, as detected through surveys on the perception of businesses about access to credit. In this regard, there are two main sources of information on the subject of bank-firm relationships, as seen from the side of the borrowers: the “Survey on inflation and growth expectations” given by the Bank of Italy on a sample of manufacturing and service firms and recent research of the Institute for Studies and Economic Analysis, “The Italian companies and access to the credit market”. Both the sources, though taking as reference different samples by number and sampling methods,⁵ indicate

⁵ The Bank of Italy survey is directed to a sample of 500 firms in industry and services, with more than 50 employees, stratified according to the size, geographical area and sector. The ISAE sample, however, is constructed as follows: for the manufacturing sector, it is composed of 4000 firms with

how the financial crisis has triggered a trend of credit squeeze that has been shown as not related to the dynamics and the general trend in demand for loans.

From Figure 4 it is clear how firms, between 2008 and 2009, showed a strong difficulty in access to bank credit, which has been, however, weakening in subsequent quarters. No positive signals can be found, however, from the data on the perception of the last quarter of 2010: 80% of companies surveyed reported unchanged conditions, and the incidence of those who reported more difficulties with access to loans increased slightly during this period (13.9% *versus* 12.4% in the previous quarter). The trial at that time was particularly severe by smaller firms operating in the service sector and in central Italy (Figure 5).

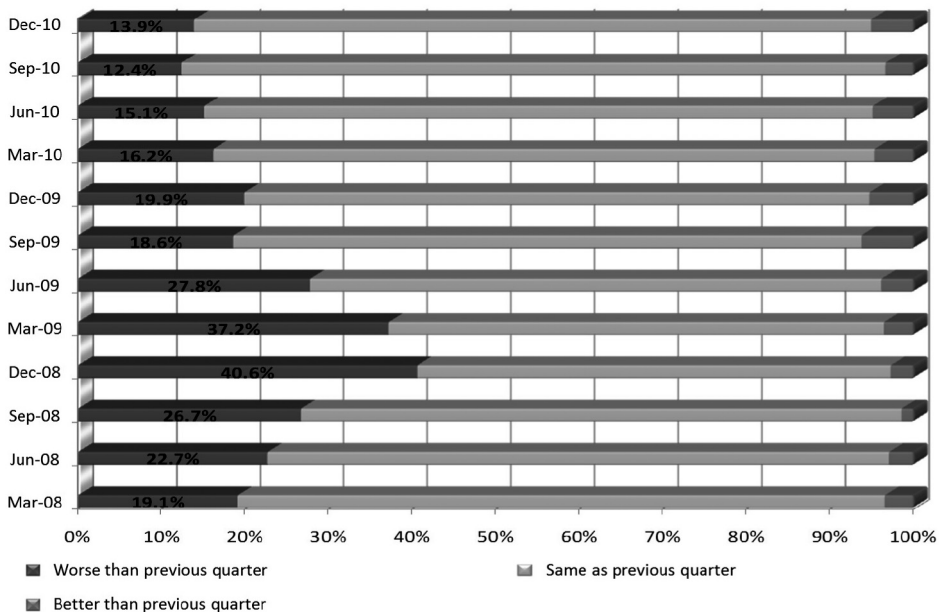


Figure 4. Judgement on the conditions of access to credit for the enterprises (percentages)

Source: author's elaboration on the basis of data from the [Bank of Italy December 2010].

According to manufacturing companies surveyed by the ISAE, however, the conditions of access to credit markets had gradually worsened between March and December 2008, with a significant doubling in this period of the share of firms that

at least 10 employees, selected by geography, sector and size; for the service sector, the sample is of 2000 firms with at least five employees, stratified by geography and sector; for trading companies, the sample is of 1000 firms, stratified on size and geography. Since May 2009, the investigation was extended to the construction sector, in which the sample consists of 500 firms with at least three employees, selected by geography and sector.

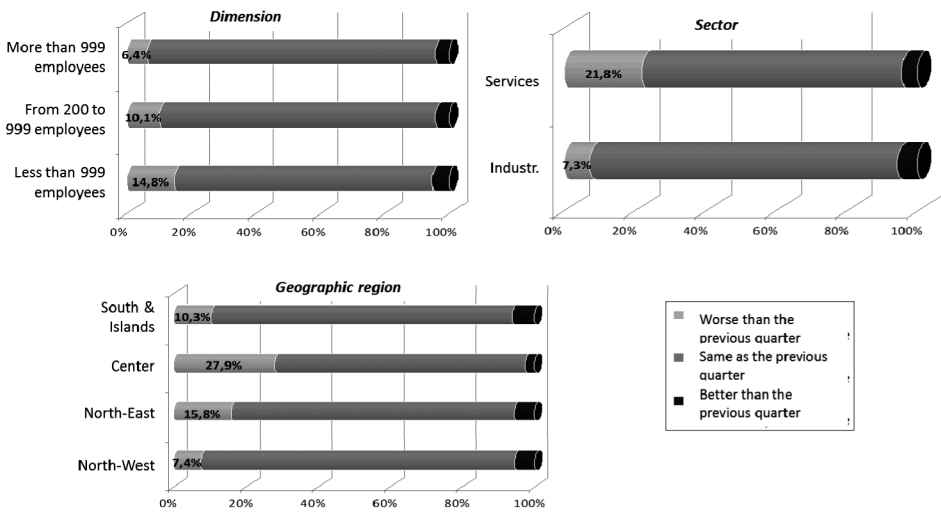


Figure 5. Findings on the conditions of access to credit for businesses (percentages; data as of December 2010)

Source: author’s elaboration on the basis of [Bank of Italy December 2010].

reported a tightening supply conditions (from 22.2 to 43%). In services and trade, concerns were already reported at the beginning of the survey, at the end of the first quarter of 2008, and remained elevated throughout the course of that year (Figure 6).

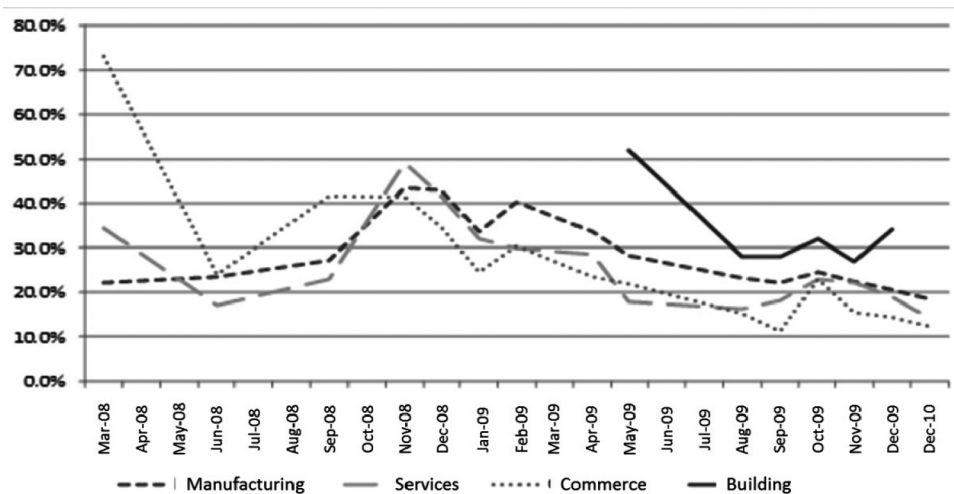


Figure 6. Companies that consider less favorable conditions of access to credit (percentages)

Source: author’s elaboration on the basis of Istituto di Studi e Analisi Economica data.

Gradual, but widespread, signals of the easing of credit rationing emerged notably in all sectors during 2009 and in January 2010, the latest month of data availability. In particular, in early 2010, the share of firms reporting a worsening of the condition was equal to 18.4% in the manufacturing sector, 14% in services and 12.3% in commerce. The ISAE data also allow to distinguish between rationing in the strong sense, that is, the explicit refusal to grant credit by the bank (which occurs even if the company is willing to bear a burden of the general conditions for loans), and rationing in the weak sense, or the refusal of the applicant to accept the burden of the conditions proposed by the financial institution. As the graphs that follow show, in all the sectors the rationing was and is, in general, mainly due to an explicit rejection by the bank (Figure 7).

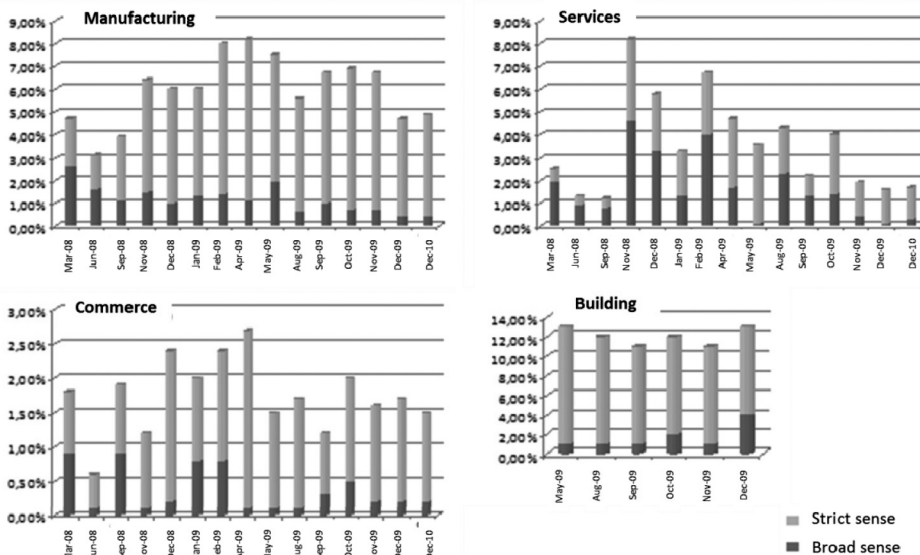


Figure 7. Credit rationing in strong and weak sense (percentages)

Source: author's elaboration on the basis of Istituto di Studi e Analisi Economica data.

The financial crisis results in a phenomenon of credit crunch and it seems, from the results that follow, also to have contributed to aggravating the conditions of obtaining credit for companies that still managed to get the funding, although in this case, the latest trend is towards an easing of the difficulties (Figure 8). Regarding the reasons underlying the exacerbation of these conditions, the results are very different depending on the sector of enterprises surveyed (Figure 9).

The fact, however, that one of the most common justifications is the increase in interest rates seems to support the argument that banks, despite the wide availability of funds for them by the central banks, have not only decreased the offer but also

increased the price of money. Up till now, this has been concerned with borrowers and their perceptions with respect to the changes that have occurred in the credit markets following the crisis period.

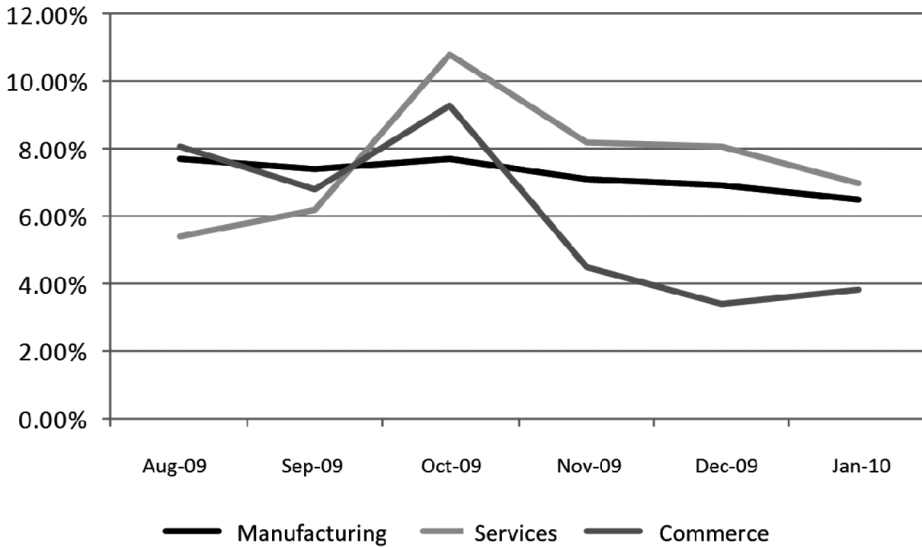


Figure 8. Obtaining credit on more onerous terms (percentages)

Source: author’s elaboration on the basis of Istituto di Studi e Analisi Economica data.

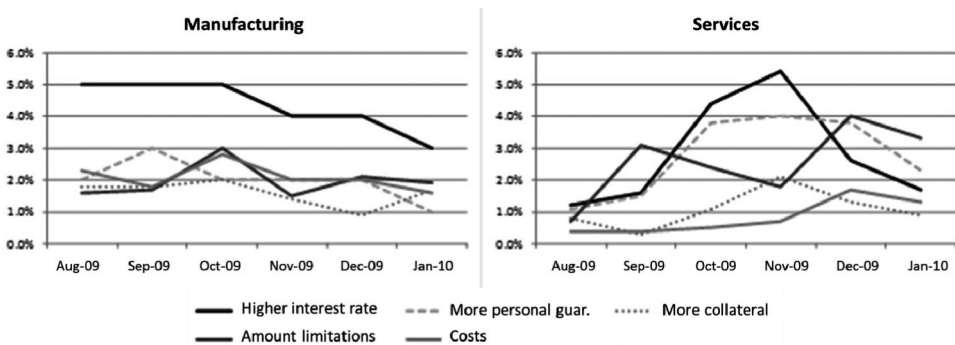


Figure 9. Reasons for the aggravation of the conditions of obtaining credit (percentages)

Source: author’s elaboration on the basis of Istituto di Studi e Analisi Economica data.

Consistent with the information coming from non-financial firms, the data of the “Survey on Bank Lending” by the Bank of Italy enable us to observe, on the supply side of credit, a tightening of conditions in the second half of 2008. According to the

financial institutions surveyed, the criteria used for granting credit lines had a further tightening in the first quarter of 2009; the situation has now returned to settle at values similar to those before the financial crisis in late 2009 and the beginning of 2011.

Correspondingly, financial firms found the demand for loans received by the market in sharp decline since the second half of 2007; in detail, for the balance of the trend in demand for loans and credit lines, there is a prevalence of failure rates during 2009 and a significantly positive trend for 2010 and the start of the year (Figure 10).

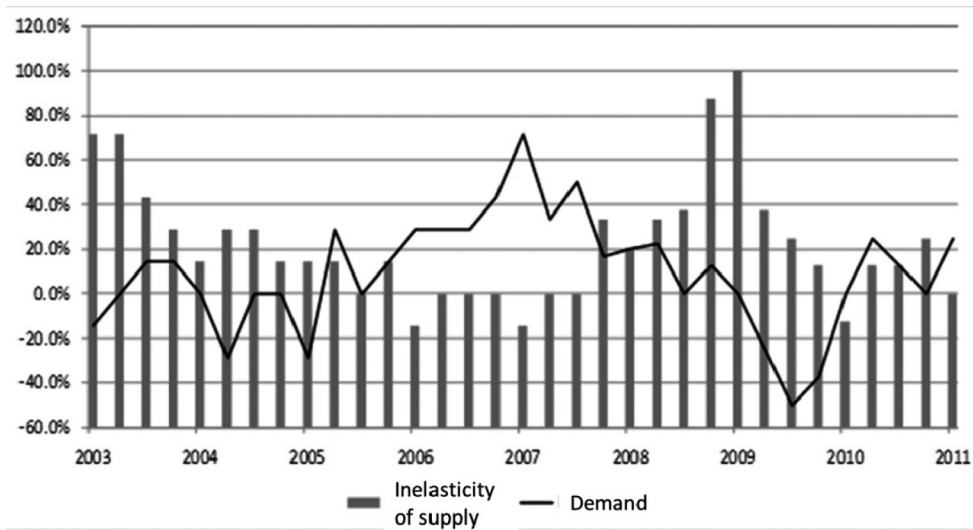


Figure 10. Demand for loans and stiffness of the credit (balance of answers)

Source: author's elaboration based on [Bank of Italy 2011].

5. Some trend data of the credit market in the Umbria Region

Umbria's economy is characterized by a network of small and medium enterprises in which the model of the family business is still, in many cases, the most common form of government. The bank credit has, in this context, traditionally played the role of the main support for the local economy. The process of concentration that has affected the banking system in recent years has however resulted in a depletion of banks with a local vocation, with a general perception of the tendency to worsening of relations between small and medium enterprises and banks. The stable and lasting relationships established over time by local businesses with local intermediaries had represented, for the enterprises themselves, a reason for the relative safety of access to bank credit. This condition is less when the company becomes a partner

of a big national or international bank. As mentioned above, prudential constraints imposed by the supervisory authorities, in terms of risk-taking by intermediaries, also led to the development of ever more sophisticated models for evaluating the creditworthiness of the applicant, in which the relational component can be detected to a lesser extent.

In what follows, we propose to analyze some data in the trend of the credit market in Umbria in the period December 2008 – September 2010, in order to derive, in particular, some observations on the relationship between the regional banking system and the business system of the territory during the crisis. Briefly, Table 2 represents the structure of the financial system in Umbria: at the end of 2009, 46 banks were operating in the region, including 10 based in Umbria, 6 banks S.p.A. and 4 cooperative banks. Branches of banks based in the region account for 41% of the total, demonstrating the widespread presence of local banks in the territory.

Table 2. Structure of the financial system in Umbria (end of periods, units)

Item	2007	2008	2009
Active banks	49	47	46
Based in region	10	10	10
S.p.A. banks ^{a)}	6	6	6
Popular banks	–	–	–
Cooperative banks	4	4	4
Foreign banks' branches	–	–	–
Branches	566	572	577
Banks based in region	242	236	238
Municipalities served by banks	84	84	84

^{a)} Includes the category of central and refinancing institutions.

Source: [Bank of Italy, May 2010].

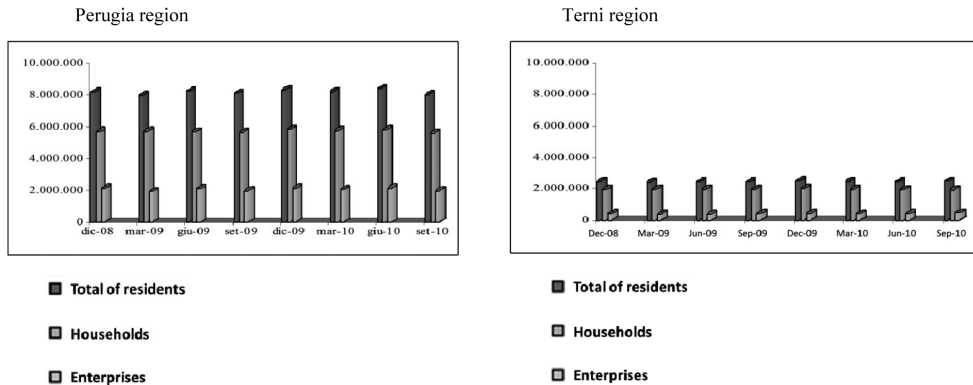
In the twelve months ending in March 2010 the growth rate of bank deposits of households and firms remained stable at 2.1%, even below the national average; there was a slowdown on the part of households, while the component of companies had a recovery (Table 3).

The bank deposits of households account for 70% of the total in the province of Perugia, with rates remaining stable in the period December 2008 – September 2010 (Figure 11). The figure for households is even higher in the province of Terni, even if it shows a decrease in the considered period (79% in December 2008, 77% in September 2010).

Table 3. Bank deposits in Umbria (twelve-month percentage changes)

	June 2009	September 2009	December 2009	March 2010
Total business and consumer households	7.0	4.5	2.1	2.1
<i>consumer households</i>	5.3	3.7	2.9	0.9

Source: data of Bank of Italy, 2010.

**Figure 11.** Bank deposits by customer – Provinces of Perugia and Terni (thousand euros)

Source: author's elaboration on the basis of data from the Bank of Italy.

With respect to the contribution of the banking system to finance the region's economy, it is observed that the rate of growth in the loans adjusted for securitisations, in the first quarter of 2010, was equal to 1.8% (Table 4), in recovery compared to the end of 2009 (1.2%). The loan growth has remained above the regional average. The acceleration of the loans is mainly due to the performance of credit to households (+5.1%), while the figure for companies is low.

Table 4. Bank loans in Umbria (twelve-month percentage changes)

	June 2009	September 2009	December 2009	March 2010
Total business and consumer households	3.3	1.3	1.2	1.8
Business	2.5	0.2	-0.2	0.3
Consumer households	5.4	3.1	4.0	5.1

Source: data of Bank of Italy, 2010.

In the province of Perugia, bank credit is composed of approximately 70% in corporate financing, although there has been a decrease in the percentage in the

period December 2008 – September 2010 (70% in December 2008, 67% in September 2010).

In the province of Terni, however, the share of bank loans to companies account for only about 60%, with values, in this case, decreasing in the considered period (64% in December 2008, 61% in September 2010).

The analysis of the distribution of business loans by sectors of economic activity shows, in the province of Perugia, that lending to businesses operating in the services sector represents about 40% of the total; manufacturing industry benefits from the bank financing for 32% and the construction for about 17%. The percentages remain stable in the period December 2008 – September 2010. Even in the province of Terni, the services sector is the one that benefits from bank lending to a greater extent (40% approximately), followed by similar percentages by manufacturing industry and construction. In March 2010, loans to companies have even recorded a slight increase (0.2%): the signs of improvement were concentrated in manufacturing, compared with a stable datum for the construction industry and, instead, a reduction of the portion reserved for services (Table 5).

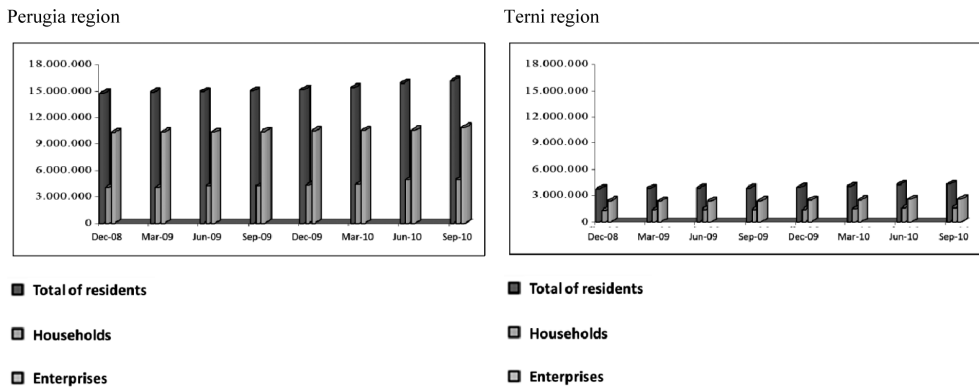


Figure 12. Bank loans by customer – Provinces of Perugia and Terni (thousand euros)

Source: author’s elaboration on the basis of data from the Bank of Italy.

Table 5. Bank loans to enterprises for economic activity (twelve-month percentage changes)

	June 2009	September 2009	December 2009	March 2010
Total	2.5	0.3	-0.3	0.2
Manufacturing firms	-1.6	-4.2	-5.6	-3.7
Construction	6.8	2.7	0.2	0.2
Services	4.5	2.3	3.8	1.8

Source: Bank of Italy, 2010.

With regard to the size classes, there has continued, albeit slow, the downward trend in lending to small firms (−1.5%), confirming that small businesses suffer from difficulties in gaining credit from banks, even more pronounced in times of economic crisis (Table 6). In the province of Perugia, loans to enterprises with 20 employees represent 72% of the total; the percentage is slightly higher in the province of Terni (74%).

Table 6. Bank loans to enterprises by size (twelve-month percentage changes)

	June 2009	September 2009	December 2009	March 2010
Total	2.5	0.3	−0.3	0.2
Less than 20 employees	1.2	0.5	−2.8	−1.5
Others	3.0	0.2	0.7	0.8

Source: Bank of Italy, 2010.

The percentage of the non-performing loans on total loans granted by banks in the province of Perugia (Table 7) was increasing in this period (5.63% in September 2010, 3.45% in December 2008). Similar behavior is observed in the province of Terni (5.39% in September 2010, 3.44% in December 2008, Table 8). Data confirm the major difficulties faced by borrowers in honoring their redemption obligations with banks, due to the economic downturn; this difficulty leads often to the application of higher interest rates for borrowers, and this reflects, again, negatively on the solvency of the debtor companies.

Table 7. Total loans and non performing loans – Province of Perugia (thousand euros, percentages)

	Total loans			Non performing loans		
	Total resident customers other than MFIs	Households and similar (%)	Enterprises (%)	Total Resident customers other than MFIs	Households and similar (%)	Enterprises (%)
Sept-10	16,192,089	30.6	67.0	911,011	18.4	81.4
Jun-10	15,897,801	31.2	66.4	884,971	17.7	82.3
Mar-10	15,340,644	28.9	68.6	799,678	17.7	82.3
Dec-09	15,153,036	28.6	68.9	747,110	17.4	82.5
Sept-09	15,011,651	28.1	69.3	675,390	19.0	81.0
Jun-09	14,921,421	28.3	69.1	596,075	19.2	80.8
Mar-09	14,845,660	27.6	69.8	558,113	18.7	81.2
Dec-08	14,759,881	27.5	69.9	527,410	18.7	81.2

Source: author's elaboration on the basis of data from the Bank of Italy, 2010.

Table 8. Total loans and non performing loans – Province of Terni (thousand euros, percentages)

	Total loans			Non performing loans		
	Total resident customers other than MFIs	Households and similar (%)	Enterprises (%)	Total resident customers other than MFIs	Households and similar (%)	Enterprises (%)
Sept-10	4,318,556	37.6	60.8	232,953	24.6	75.3
Jun-10	4,269,049	38.0	60.5	211,402	25.4	74.4
Mar-10	4,038,306	35.7	62.4	190,498	26.1	73.6
Dec-09	3,944,838	35.7	62.6	180,369	26.4	73.4
Sept-09	3,888,213	36.5	61.5	170,717	26.5	73.2
Jun-09	3,859,560	36.4	61.7	150,029	28.5	71.2
Mar-09	3,798,300	35.7	62.3	140,878	29.1	70.4
Dec-08	3,785,231	34.4	63.9	130,393	29.0	70.6

Source: author's elaboration on the basis of data from the Bank of Italy, 2010.

Finally, it is important to consider the economic conditions under which economic actors can get credit from the banking system. The incidence of financial burden on the budgets of enterprises often reaches very high values such as to generate significant tensions in the financial management of the company, especially in the short term. Umbria has long been considered a “case” for the presence of heavy interest charges more than other regions of Italy: observing the percentage values to the period June 2009 – March 2010, there is a fall, but limited to 52 basis points, in interest rates on short-term loans, which amounted to 5.1% (Table 9), remaining, however, higher than the national average.

Table 9. Bank interest rates – Umbria (percentages)

	June 2009	September 2009	December 2009	March 2010
	Lending rates			
Short term loans	5.65	5.15	5.32	5.13
Medium and long term loans	4.07	3.57	3.27	2.99
	Deposit rates			
Current accounts	0.65	0.47	0.38	0.31

Source: Bank of Italy, 2010.

6. Conclusions

The physiognomy of the Italian economy and financial system, in which a large number of small and medium-sized enterprises is accompanied by a capital market

which is broad, little and opaque, in which the presence of institutional investors is low, still strongly oriented to credit intermediaries. Despite the recent evolution of the structure of financial markets which has facilitated the direct access to a growing number of these operators, the bank loan, in fact, continues to be for small businesses the primary source of coverage of their capital needs. This is because it is flexible and easily manageable and because of the impossibility of self-financing alone to ensure sustainable growth of small businesses, becoming a constraint for their development in the absence of external capital contributions. In Italy and Umbria in particular, the banks continue to play a major role in the process of lending, accounting for the preferential partner in the process of funding companies and, because of the amount of resources put into the system, a potential factor conditioning the effectiveness and efficiency of business decisions. So it is obvious, even in terms of variables to manage in the political sphere, that the need to promote a radical change for the relationship bank-enterprise, marked by correctness and transparency of counterparties, in a market still heavily influenced from the effects of the crisis. Analyzing, in this scenario, the concerns that arise in the near future, in the phase out of the worst financial and economic crisis in last decades, it is possible to identify three main reasons for further apprehension.

First, lenders often perceive a higher risk in smaller firms than in larger ones, but this is not always true: for example, in recent years, the average time of recovery of loans has been extended for the first in a much less significant way than it has for the second.

Second, the fact that revenues generated by the relations maintained by each bank with a small company, especially on the side of commissions and ancillary costs are, in absolute terms, quite modest induces banks to try to recover on the side of interest rates, applying more expensive conditions for this category of customers.

Finally, the low bargaining power of small enterprises, particularly of those constituted as sole proprietorships or partnerships, compared to that of credit intermediaries, prompts them to download the tension and the negative trend of the market mainly on these companies.

The problem of the difficulty in accessing bank credit and its costs for small businesses becomes even more interesting when considering the imminent coming into force of the third version of the Basel Accord. In fact, it is expected that Basel III will link, even more than in the previous version of the document, the minimum capital requirements of banks to the assessment of the creditworthiness of customers, making it even more clearly the need for intermediaries to refine their knowledge of companies, and therefore exceed the currently prevailing model of the bank-firm relationship. In this context, the problems of external financing, which are crucial for small businesses, will cover not only their quantitative dimension, but also the qualitative composition of their assets and liabilities.

As well as more competition which in recent years has characterized the banking landscape, the introduction of the new rules may pose a risk, but it can – and should –

be interpreted as a favorable opportunity to reset the relationship between the various actors in the credit market.

The solution must reconsider the credit relations and interaction between companies and banks in global terms: small and medium entrepreneurs must act to give their companies a financial structure more complex, robust and open to market opportunities; on the other hand, the banks have to do as much as possible to capture trends and timely solutions to support enterprises, economically and technically efficiently. In a more pragmatic sense, there are wide margins of improvement of the current situation in various contexts.

First, with regard to longer-term strategies, considering that the Italian and Umbrian companies suffer a disproportionately heavy burden of financial charges on bank debt and a chronic shortage of equity capital, it should be encouraged a potentiation of equity funds and the use of venture capital, focusing on the development of alternative channels of financing, especially for companies in start-up and with high technological production.

Although the investment in venture capital, for example in the form of venture capital or private equity investors, can ensure wide margins of profitability and result in new impetus for the development, without borrowing costs, yet it is still not widespread in Italy compared to our major European competitors. The reasons for this are related to the cultural roots of our family capitalism, against the entry of new subjects in the corporate structure, and to tax rules, that often lead companies to borrow, focusing almost exclusively on the supposed benefits of leverage.

A further impetus could be reflected in the revival of the credit guarantee collective institutions, which could be a key success factor especially if based on the merger and recapitalization of those firms that promoted the same interventions, the trade associations and the local government. The main aim should be to enhance the operation of these subjects, extending from the usual commitment to credit support, pursued through the provision of collateral, to a consultancy activity specialized in financial management for small entrepreneurs. Consortia or cooperatives trusts could, in fact, participate with the entrepreneur in the assessment of convenience and costs related to the different forms of financing and, subsequently, also support the company in all procedural and administrative matters related to the performance of the different phases of financial transactions.

In a total reconsideration of the relationship between banks and small and medium-sized enterprises, the role of institutions for collective guarantee of trust and their activities of information and training to the consortium members may be particularly useful, because of their ability to reduce the information asymmetry between lenders and borrowers, to improve the conditions of access to funding streams and help to strengthen the fragile financial structure of the smaller firms. All this is even more significant considering how the greater degree of concentration that has characterized the banking market in the last decade has caused a shift away from the local bank, which is the natural habitat for small businesses, and has

weakened the relationship of trust on the interpersonal basis, which was the heart of the relationship in the past.

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FINANSOWANIE I DOSTĘPNOŚĆ KREDYTÓW SEKTORA MŚP NA PRZYKŁADZIE WŁOCH

Streszczenie: Problem z finansowaniem oraz dostępność kredytów dla podmiotów z sektora MŚP są istotnymi aspektami w rozwoju ekonomicznym państwa. W związku z wprowadzaniem regulacji Bazylea III trudność w pozyskaniu kredytów, a także poziom kosztów związanych z tym rodzajem finansowania dla małych przedsiębiorstw stanowią coraz bardziej interesujące zagadnienie. Celem tego artykułu jest zanalizowanie, czy podmioty z sektora MŚP są nadal zależne od kredytów bankowych i czy można zauważyć zwiększenie pozyskiwania finansowania na rynku kapitałowym. Stosując metody opisowe oraz analizy danych, autor przedstawia aktualne zależności pomiędzy podmiotami włoskiego rynku kredytowego w świetle ostatniego kryzysu finansowego, biorąc pod uwagę nowe kierunki w zachowaniu rynków i pośredników finansowych oraz wpływ wskaźników zgodnych z Bazyleą III.

Słowa kluczowe: kredyt bankowy, sektor MŚP, Włochy.