Does Low Access to Finance in Italian SMEs really matter to Rampant Unemployment?

by Meysam Salimi

In 2014, the fifth most pressing issue amongst SMEs in EU-28 was low access to finance. SMEs on average rated finding customers as the most problematic issue they faced. In Italy 14% of SMEs lamenting the low access to finance, as the most pressing problem. Figure 1 and table 1 show bigger pictures of the issue in Europe.

Comparing across different types of enterprises, micro enterprises suffered the most, while large enterprises find it least pressing. Moreover, innovative enterprises experience more access to finance problems than less innovative enterprises.

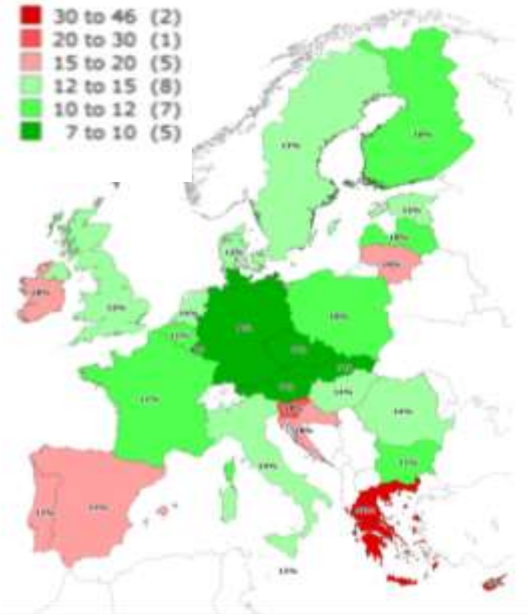
To address the issue, which is one of the longstanding structural barriers for entrepreneurs and for the survival and growth of small businesses, the EU governments have taken different initiatives. However, a major obstacle to policy making for them is insufficient evidence and data. To this aim, the recent OECD report on Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard published on April 16 represents a major step in addressing this obstacle by establishing a comprehensive international framework for monitoring SMEs' and entrepreneurs' access to finance over time. The scoreboard presents data for a number of debt, equity and financing framework condition indicators. The report recognises the significance of SMEs for tracing new paths to more sustainable and inclusive growth and continues to hog the limelight on the role of SMEs in providing employment in countries suffered the most from the crisis like Italy. The study highlights in the OECD area, SMEs provide the main source of employment and value creation, accounting for about 60 to 70% of employment and more than 50% of value added. The numbers in Italy comprise 99.99% of enterprises and account for nearly 80% of the industrial and service labour force (EU commission, 2014). Table 2 depicts the distribution of firms by size and the share of micro-enterprises (95.9%) in Italy, which is higher than the EU average and does not depend on the sector composition. Given that significant numbers of SMEs, between 2008 and 2013 about 50,000 companies in Italy were closed, bankruptcy nearly doubled reach a total of 104,000 in 2012 (Cerved, 2013), the total unemployment rate jumped from 6.7% to 12.1% and value added decreased by 5% (SMEs) and by 15% (large enterprises). Comparing the numbers does help to speculate the low performance of the SMEs in recent years as one plausible reason for the rampant unemployment in Italy.

Table 1: Proportion of SMEs reporting access to finance as most pressing problem 2009 and 2012-2013
Percentage values (%)

	2009				2012-13			
	SMEs	Micro	Small	Medium	SMEs	Micro	Small	Medium
Italy	20	20	22	20	18	17	22	20
France	12	11	14	11	13	15	12	12
Germany	18	23	16	16	8	11	7	7
Spain	34	31	40	35	25	24	27	26

Source: *European Central Bank (2013), Survey on the Access to Finance of Small and Medium-sized Enterprises in the Euro Area, April 2013, Frankfurt.*

Figure 1: Proportion of SMEs in EU-28, that consider access to finance the most pressing problem, by country in 2014



Source: *SAFE 2014, edited by Panteia*

Table 2: Distribution of firms (by firm size) in Italy 2011

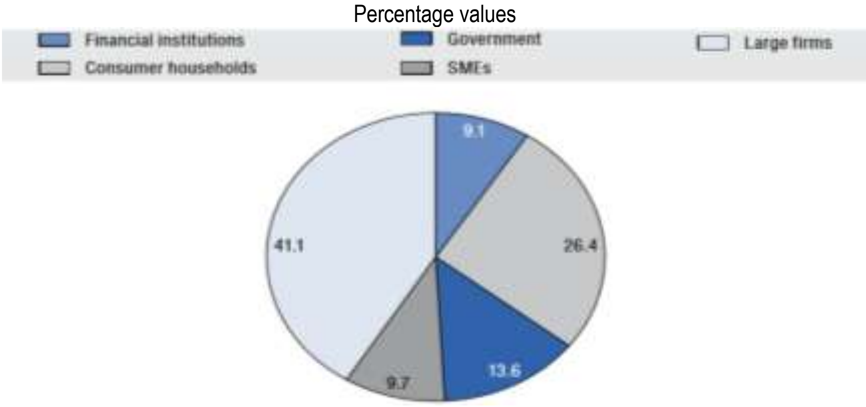
Firm size (employees)	Total active enterprises		of which according to the SBS Regulation (No 295/2008)[1]	
	Number	%	Number	%
All firms	**4 460 891**	**100**	**3 839 390**	**100**
SMEs (up to 249)	**4 457 205**	**99,9**	**3 836 191**	**99,9**
Micro (up to 9)	4 279 176	95,9	3 671 303	95,6
Small (10-49)	156 996	3,5	146 191	3,8
Medium (50-249)	21 033	0,5	18 697	0,5
Large (250+)	**3 686**	**0,1**	**3 199**	**0,1**

Source: *Istat, Statistical Business Register, 2011.*

Given the importance of SMEs to the labour market, the challenge of low access to finance remains unprecedentedly important issue that unfortunately the crisis made it worse. The report continues highlighting some key findings saying that after **seven years since the start of the crisis, bank lending to SMEs has still not recovered to pre-crisis levels in many countries and it is quite prevalent across the OECD area that SMEs were much more affected by the financial crisis than large firms were.**

In Italy, new lending to SMEs fell by almost 20% between 2007 and 2014. Figure 2 shows the distribution of total bank lending in Italy in 2011. More surprisingly, the report states in the UK and the US, SME lending has not returned to 2007 levels either, despite relative high GDP growth in recent years. The report continues that credit conditions also tightened significantly in the years after the crisis, and despite a recent loosening, they remain much tighter for SMEs than for large enterprises. The scoreboard predicts that these credit restrictions for SMEs at least for the foreseeable future will not be changed. This could be the result of rising non-performing SME loans in the aftermath of the financial crisis which has constituted an additional barrier to SME lending, particularly in the countries most affected by the financial crisis. There is therefore a pressing need to enable SMEs to diversify their sources of finance in this area. In Italy, the total amount of non-performing SME loans was 27 EUR billion in 2013, up from 12 EUR billion in 2007. These numbers show the vulnerability of credit guarantee schemes. Despite the fact that Italy has a highly developed system - typically operates among groups of interconnected SMEs in particular sector to mitigate the asymmetric information problem that makes many banks reluctant to lend to small businesses - of local mutual guarantee schemes (MGSs) known as “Confidi” (OECD,2014).

Figure 2: Distribution of total bank lending in Italy, 2011



Source: *OECD (2013), Financing SMEs and Entrepreneurs: An OECD Scoreboard 2013*.

Subsequently, the scoreboard illustrates the alternative financing instruments, which include **factoring**, **venture and growth capital**, **business angel investment**, **mini-bonds**, **mezzanine finance** and **crowdfunding**. However, the alternative schemes represent only a very small source of SME funding and cannot compensate for a retrenchment of bank lending, the report added.

Regarding the usage of equity financing in the Euro area, compared with bank loans or overdraft, the report says only 7% of SMEs use equity financing, compared with more than 60% and 50% of bank loans and overdrafts respectively. Even in the UK, where SMEs have better access to financial markets, traditional bank lending still accounted for 75% of gross funding of SMEs in 2014, the report stated.

Concerning the new approaches to SME financing, the OECD report suggests three key actions to support the development of access to finance: **regulation needs to navigate potential trade-offs between financial stability, investor protection and innovative financing channels for SMEs.** This is critical to foster development in the riskier segments of the market where potential to finance SMEs is still confronted by the lack of an appropriate regulatory framework in many countries.

The scoreboard discusses Italy as a good example that has paid good attention towards reforming the regulated market for "mini-bonds"; corporate bonds for non-listed SMEs; and the first country in Europe to adopt regulation on equity crowdfunding for innovative start-ups. The second suggestion includes **better credit risk assessment** to improve transparency and reduce information asymmetries. The report creates an example from France, highlighting the standardised credit rating assessment system of the Banque de France which has contributed significantly to steady growth in SME bank lending in recent decades. Finally, the study suggests it is critical to **address SME skills and literacy gaps in finance** as most SMEs even innovative, fast-growing ventures are not able to meet the due diligence requirements of professional investors.

The report concludes tracking of government policies to facilitate SMEs' access to finance shows a new emphasis on innovative approaches, notably with respect to the development of alternative financing instruments**.** Moreover, credit guarantee schemes e.g. national Credit guarantee fund (CGF) in Italy remain the most widely used instrument, complemented by tax incentives, export credits and direct lending schemes. Taken together, governments are increasingly introducing schemes to encourage investments in equity, in recognition of the role of high-growth SMEs as drivers of economic competitiveness and development. Last but not least, the report acknowledges, there have been some encouraging signs that credit conditions for SMEs are gradually improving, largely as a consequence of the unprecedented monetary easing in many parts of the world, which eventually can be translated into employment growth and decent job creation.

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