

Small Business Finance Survey

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Overview

On the whole in 2004 investments grew by 2,1% thanks to the construction, wholesale and “pubblici esercizi” and financial services. The manufacturing industry and agriculture on the other hand have demonstrated yielding trends.

For the small economic operators the trends relating to investment are in contraction. According to the direct investigation, the results of which are expressed in Chapter 2, the big picture is prevalently negative. In particular, the largest contraction of 2005 with respect to the preceding year for small economic operators took place in the construction sector (-21,74%), while the smallest was for commerce (-6,69%). It is also in perspective that we see the small economic operators in construction who have registered the most relevant contraction (-17,09%). The positive element that emerges is that the contractions of investment activity foreseen are, in terms of variation, minor in respect to the contractions of the investment activities carried out between 2004 and 2005, except those for the small economic operators in services and public “esercizi” for which, in perspective, investment activity has reduced by more than the previous year (-14,31% and -9,61% respectively).

The scenario shows a complex reduction of the dynamicity and a growth in endogenous risk for the small economic operators, that is those relative to the behavioural characteristics of the enterprise.

From this point of view, the general and main problem is that of incoherence in the medium/long term finance sources for the investment activities, while the situation is improving as regards the short term management. This signifies that the small economic operators don't have enough room to manoeuvre to impose solid strategies in the long run and are obliged to “sail blind” to best confront the difficulties of debt management and commercial credit. The difficulties are prevalently management of relations with the markets, being both of capital or of property and services, while strong attention is dedicated to improving the basic management and organisation of the business.

The investment strategy actually presents a growth which penalises further the reduced business size, while more attention is reserved for the research into new markets and the improvement of the internal business structure.

This phenomenon is verifiable for all the zones of the country, nevertheless with diversified characters. Actually, while the small economic operators of the south and the islands have favoured the research into new openings in the market, searching to

bridge the gap of a belated diversification of the opportunities that could also allow a better equilibrium in the medium/long term; the small economic operators of the North have favoured the organisational and structural reinforcement of the enterprise, with the idea that a better managerial ability is the base for a better competitiveness on the market.

In general it is considered that the Italian economic juncture and the perspective of growth of our economy, both in relation to the European economy and the world economy, has notably compromised the margins as well as the climate of faith of the small business, which in the last year haven't managed to or haven't wanted to put resources into investment faces to obtain an improvement in the structure of the business and an expansion towards new markets.

Actually the contraction of the investments is generalised for the small economic operators of all sectors, as was the case in 2005, and perspective. Apart from those in Friuli Venezia Giulia, Basilicata and Sardinia the non-investing have grown in all regions, while in perspective signals of getting back the will to invest has taken over also in Lombardy. The largest criticalities are in the band of the north-east and of the so-called 'third Italy': Trentino Alto Adige, Veneto, Emilia Romagna, Tuscany and Marche are the areas where small business has seen a major growth and are also those which are suffering the most.

In detail the investments made between 2004 and 2005 are contracts both of material investments and of immaterial investments and that equal reduction is roughly at the same level (-17,32 and -16,86 respectively), while due to the investment forecasts, always facing a reduction scenario, the perspectives on the immaterial investments have largely contracted (-14,29) in respect of the material investments (-5,95). Besides, in perspective of the contraction of investment activity is concentrated on the computerisation (-9,54%), and on the research into new products (-10,54%).

With regard to these developments and bearing in mind that the small businesses which invest continue to demonstrate less risk than those who don't, the analysis of the relationship is concentrated on the sectors of activity that have seen a growth in endogenous risk (cap. 3) with the objective to make the point of the situation regarding the strong points and weak points of the businesses in three key sectors of our economy, that are also densely populated by small economic operators. Agriculture, metal mechanics and the system demonstrate to us effectively how they combine the need for transformation with the difficulties and the uncertainties of the bigger picture. In fact, the agricultural sector is in a deep transformation phase, not only for the tensions emerging in the course of the last few years regarding the problems with food quality and safety, but also for the determined wait for the reform by the Politica Agricola Comunitaria that proposes a radical revision of the incentive system in the sector; the system regarding a prolonged crisis situation determined by the contraction of the world demand and the concurrence of products at low cost being constantly more readily available on the international market; finally the metal mechanic sector is starting to undergo an International concurrence based on the flexibility, a typical

strong point of the Italian small economic operators of the sector, associated with a low cost production, which, in the absence of monetary devaluation, has always been a weak point in our production system.

In these three sectors of activity the small economic operators present particular and persistent criticality and circles of change which demonstrate a certain managerial and strategic vivacity of the businesses.

In particular, it is noticed that the businesses respond with punctuality to the challenger of the markets adjusting their strategy to the dynamic of the sector, all of this on a financial level, whether on a short or medium term, that points out the main problems. The growth in endogenous risk for these three sectors determines the growth of the problematic financiers.

The agricultural sector as a permanent strong point has a substantial solidity in the financial structure for medium and long term, for which the endowment of capital is sufficient not only in the form of guaranteeing debut, but also as hereditary solidity. The persistent criticalities are, on the other hand, linked to an inadequate planning of the financial management. Considering the revision of the public incentive system taking place, this deficiency will have an impact on the capacity of the businesses to find adequate financing and, will depress further the investments in security and environments, that represent a key fundamental strategy for the sector.

The fashion sector on the other hand shows, given as persistent criticality, a substantial temporal incoherence of commercial debt. The sector in fact has, for a long time, found itself in a difficult situation regarding the management of takings and payments, for this reason it is not surprising that the businesses find themselves exposed to commercial debts. The important fact is that because of the sectoral difficulties the main strong point emerges from the sector, it is important to say a low financial exposure in the short term. This means that the temporal incoherence in the commercial system doesn't transform itself in debt in the short term in relation to the banking system. In this way, using the commercial credit the businesses in the sector maintain a fragile equilibrium.

The metal mechanic sector, also showing a large solidity in its financial structure in the medium and long term, persistently has difficulties in the management of short term finance. It is a delicate point in perspective, due to the chronic problem of the business in this sector and represented by the time imbalance of going into commercial debit, which in the course of 2005 worsened and involved the accumulation of warehouse stock. Not only do they tire of packing goods, but it also becomes difficult to sell.

These dynamics represent a general picture which is not particularly encouraging, in which the persistent problems for the small economic operators of the various sectors tend to confirm rather than solutions.

Each vision is also confirmed by the analyses of credit risk, contained in Chapter 4 of this Osservatorio, which demonstrates in the third trimester of 2005 a negative development of all the principle indicators of *delinquency*. (The delinquency rate went

from 4.76% in June to 4.88% in September while in the same time frame the rate of decline at 180 days went from 2,13% to 0,19%).

The analyses made particularly demonstrated the same tendencies for some areas and sectors.

Once again the acceleration of the risk is concentrated in the North East region (in the last trimester the delinquency rate went up by 0,13 percentage points) and also in the South (in the last trimester the delinquency rate went up by 0,18 percentage points) synthesizing the crisis of an economic example and of a business that shows signs of obvious difficulty: the competitive context which has mutated recently requires that the small and medium-sized businesses adapt in terms of technological innovation that improve the quality of the product and that allow the business to sustain the prices and volumes originating from the countries in East Asia.

The complex picture confirms the difficulty of the smaller businesses, in particular the individual companies (the delinquency rate for this type of business rose in September 2005 to 5,17% compared to the 3,89% of the association of people and the 4,56% of those of heredity), and of those operating in the traditional sectors *made in Italy*¹, or rather the businesses with a structure poorly heritaged.

The small economic operators still serve the prolonged phase of negative economic juncture that with the closing of the last part of the year seems, however, to have yielded to passing to a rediscovered climate of confidence and to a slight recovery in industrial production: an inversion in the tendency of the development of credit risk is already visible in the region of the North West (in which the riskiness in the last year was calculated at 0,74 percentage points) and in some divisions of Services and Chemicals (where the riskiness in the last year was calculated at 1,63 percentage points). It will therefore be interesting to observe the developments in the light of positive economic perspective.