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FESSUD

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The Italian Financial System

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Preface

This report on the Italian financial system is one of 15 studies of national financial systems undertaken as part of the research project Financialisation, Economy, Society and Sustainable Development (FESSUD) financed by the European Commission under the Seventh Framework Programme. The report main goal is to review the existing research and organize the most recent available data on the Italian financial system within in a framework that is broadly compatible with the studies undertaken in the other participating countries. The results of the study were first presented at the annual conference of the FESSUD project held in Berlin in October 2012, and were revised in August 2013.

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Costanza Consolandi

In 2009 a survey conducted by Mergermarket among 53 senior Italian corporate executives who have either undergone an IPO on the Borsa Italiana in the past two years, or are considering a listing in the future reported that 51% of respondents believe that one of the benefits of listing as opposed to raising capital through private equity or other such means is that it allows for a larger market of investors/more efficient access to capital (27% of respondents also consider that going public allows for greater corporate visibility and, similarly, 22% believe it allows for better transparency/corporate governance. Only 8% are unsure that going public confers any advantages over seeking private funding).

Nonetheless, it is widely acknowledged the importance of equity, compared with debt, as an external source of finance, especially in the case of innovative firms, on the basis of both agency theory (Jensen and Meckling, 1976) and control rights (Aghion and Bolton, 1992).

Once we consider the high proportion of SMEs within the Italian industrial economy, equity capital as a source of external finance, become even more critical.

The theoretical literature states that small companies, given their higher asymmetric information problems, which strongly affect their relationship with external financiers and the shape and nature of contracts, might find it more difficult to collect external funds. When they need them, due to their information problems, on the basis of the Pecking Order Theory, bank loans are the most frequent choice (Myers and Majluf, 1984).

The recent birth, in March 2012, of AIM Italia – Alternative Capital Market, the market of Borsa Italiana devoted to the Italian small and medium enterprises with high growth potential, might be considered an important step through the increase of equity capital funding by Italian companies, as it should ensure the leveraging of the experience of the British AIM and the specific needs of Italian entrepreneurial system on the other side.

This is particularly true if we look at the number of IPOs in the Italian market, as we can observe that at the end of September 2012, out of the 7 companies who have undergone an IPO, 6 of them have done it on the alternative market, thanks to the less expensive, faster and more flexible procedure of listing.

The traditional source of external equity funds for business investment is private equity.

The private equity and venture capital market in Italy is relatively young in relation to powerhouses such as the U.K. or United States; having just instituted the Italian Private Equity and Venture Capital Association, known as AIFI, in 1986 . Until mid 1996 only a limited number of professional investors played a role in the equity capital market, whilst between 1997 and 2001 we can observe a strong development in the private equity sector, thanks to the diffusion of ITC technologies which attracted significant amounts of financial resources , determining the entrance of new investors.

Latest official data show that SGR (the SGR is the management company authorized by Italian Law to manage closed-end funds) and others, different from generalist SGR, specifically focused on Italy (country funds) represented 52% of the total number of players, while pan-European funds2 accounted for 25% and regional and public investors for 10% (AIFI, 2009).

Statistically compared to other countries in Europe, Italy's private equity market is fairly weak. In 2007 the European Private Equity and Venture Capital Association (EVCA) ranked Italy 17th in Europe based on private equity as percentage of gross domestic product. Only reaching a mere 0.2% whereas the U.K.'s was 1.03 and Europe's average was at 0.57 (EVCA, 2007).

Focusing our analysis to venture capital investments, in the period 1994-2011 they registered – on an aggregate basis- a significant increase, from 26 million

€ in 1994 to 756 million € in 2011, with a compounded annual growth rate of 22%., average yearly investments for 675 million € and a standard deviation of 390 (table 14.1.).

Table 14.1. Venture Capital Investments in Italy (1994-2011)

Year	Invested amount (€ mln)		Invested amount (%)		Number of Investments		Average Investments (€ mln)	
	early stage	expansion	early stage	expansion	early stage	expansion	early stage	expansion
1994	8	18	31%	69%	n.a	n.a	n.a	n.a
1995	18	40	31%	69%	n.a	n.a	n.a	n.a
1996	52	123	30%	70%	n.a	n.a	n.a	n.a
1997	72	156	32%	68%	93	82	0.8	1.9
1998	109	300	27%	73%	94	92	1.2	3.3
1999	147	361	29%	71%	153	124	1.0	2.9
2000	540	966	36%	64%	339	235	1.6	4.1
2001	291	745	28%	72%	222	186	1.3	4.0
2002	66	806	8%	92%	49	745	1.3	1.1
2003	59	583	9%	91%	65	137	0.9	4.3
2004	23	458	5%	95%	50	126	0.5	3.6
2005	30	413	7%	93%	56	135	0.5	3.1
2006	28	1094	2%	98%	62	105	0.5	10.4
2007	66	786	8%	92%	88	102	0.8	7.7
2008	115	796	13%	87%	88	133	1.3	6.0
2009	98	371	21%	79%	79	112	1.2	3.3
2010	89	583	13%	87%	106	109	0.8	5.3
2011	82	674	11%	89%	106	139	0.8	4.8

Source: AIFI

Nonetheless, the investments' trend is not constant, as a consequence of the speculative bubble of 2000, when the amount invested reached the peak of 1,506 billion € (with an increase of almost 170% on 1999). In the following years the level of investments decreased until 2006, when the amount reached a level similar to the one of 1997.

A separate analysis of the data referred to early-stage and expansion investments, reveals that the latter are predominant, with an average share of invested amount higher than 80% over the total amount of venture capital investments. The weight of expansion investments is not constant over the period, especially after the dot.com bubble, when investment in seed financing and start up financing (mainly linked to new economy) strongly decreased to 2% in 2006.

In the most recent years, after a 2008 characterized by a considerable level of amounts and deals, the international financial crisis affected also the Italian private equity and venture capital market, that in 2009 experienced a slowdown.
In particular, the investment activity in venture capital decreased in 2009 of 57% in comparison with 2008, when the amount invested was equal to 911 million €. In the same year, analysing the distribution by stage, the largest part of resources continued to flow into expansion investment, even though the share of seed and start up financing started to increase. Considering the whole market, the crisis determined a decrease in the average invested amount per deal, that fell from 4.6 million € in 2008 to 3 million € in 2011.
The economic effect of venture capital investment on Italian companies is reported to be positive. An analysis conducted by AIFI and PWC between 2002 and 2004, venture capital backed companies increased staff members at a rate faster than medium enterprises benchmark and increased their revenues by 24.3%, more than 8 times higher than the medium enterprises benchmark with positive effect also on EBITDA, which registered a positive growth rate, compared to the negative one registered by the benchmark.
An explanation of these figures could be found in the nature of venture backed companies, typically characterized by high growth potential, innovation ability and small size, giving higher chances to private equity players to increase revenues than in consolidated companies.

Figure 14.1. Venture Capital Investments (1994 – 2011; million euros)

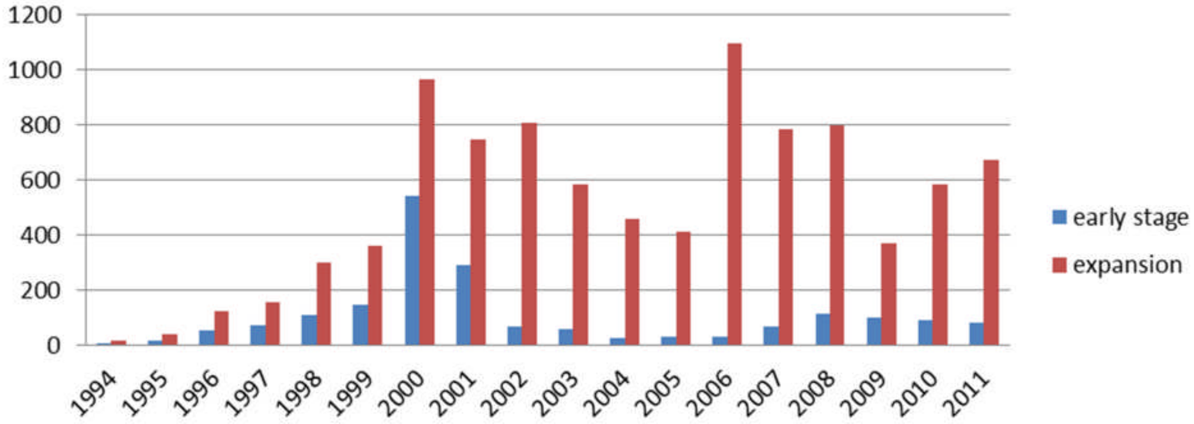
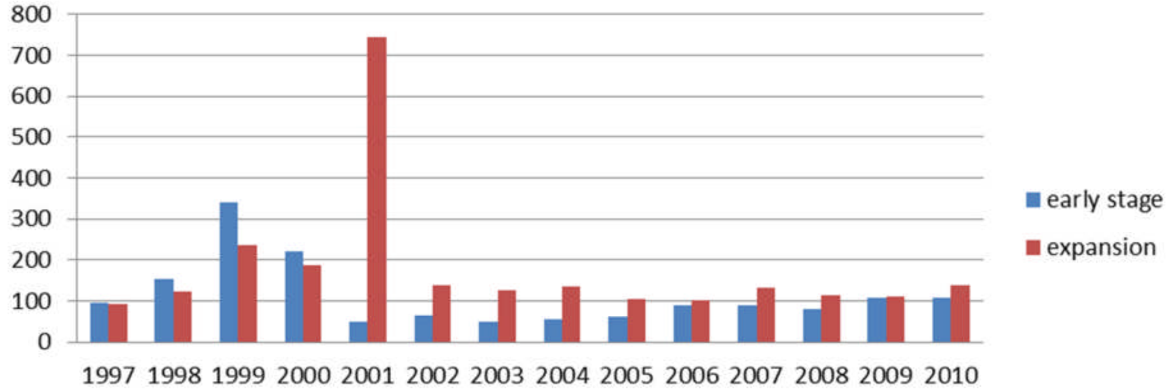


Figure 14.2. Number of Venture Capital Investments (1994 – 2011)



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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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