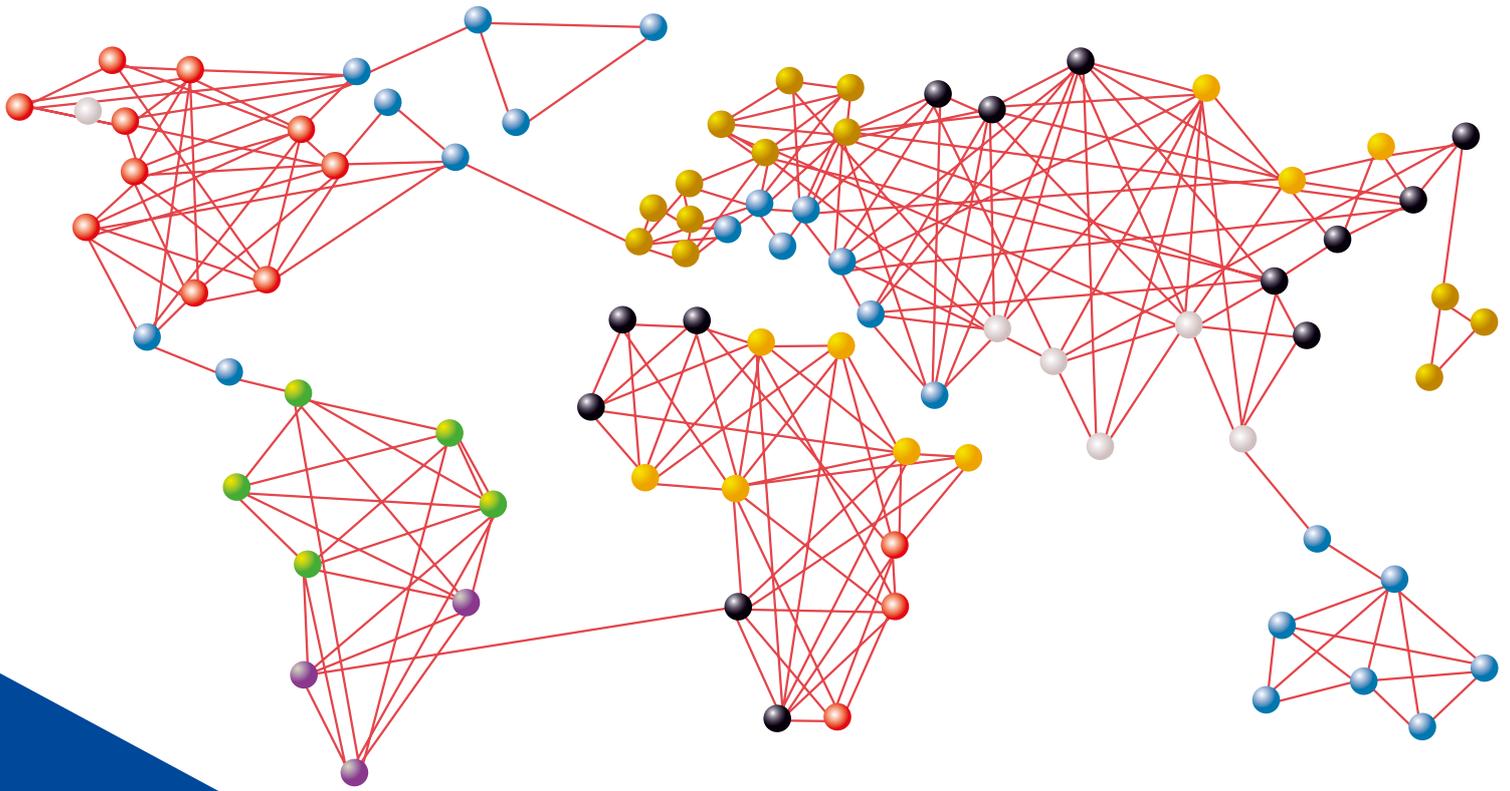




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Labour
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► **Financial Mechanisms for
Innovative Social and Solidarity
Economy Ecosystems:
The case of Italy**

Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems: The case of Italy

.....

Riccardo Bodini, Ivana Catturani,
Giovanni Sartori and Pieralberto Treccani

International Labour Organization 2021

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Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems: the case of Italy

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Abstract

This study presents an analysis of the social and solidarity economy (SSE) in Italy and of the financial mechanisms available to Italian SSE organisations to fund their operations and investments. The analysis is based on the latest available data and research and seeks to present an up to date snapshot of the Italian SSE ecosystem in all of its various components,

focusing in particular on the issue of finance for the SSE. The picture that emerges from the work is that of a highly diversified and resilient sector with various financial instruments at its disposal. While the Italian SSE has been negatively impacted by the COVID crisis, it is poised to play an important role in the recovery effort.

About the authors

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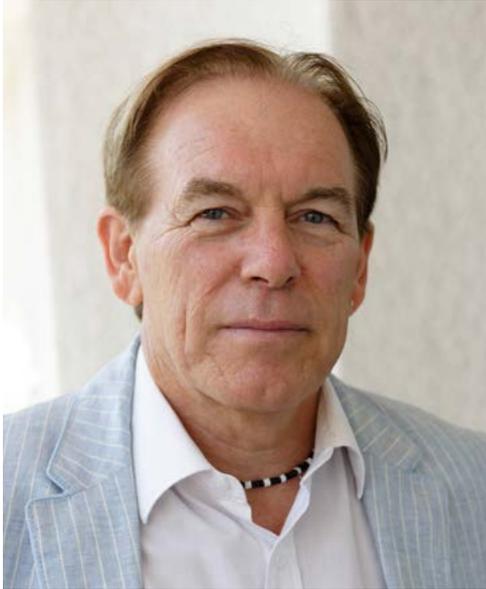
Cassa Centrale Banca in Trento. He collaborated with Euricse in 2018–2019, helping draft this case study within the scope of the 'Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems' project and contributing to the data collection for the 2019 edition of the World Cooperative Monitor.

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► Foreword



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The social and solidarity economy (SSE) is receiving increasing attention due to its role in addressing various economic and social challenges, ranging from the future of work to the provision of social services. This role is particularly important in light of the COVID pandemic, which has aggravated existing social problems, generated a major economic crisis, and generally brought in sharp relief of the need to reimagine many of the underpinnings of our economy and way of life. In this context, the organisations that compose the SSE, characterised by a strong focus on addressing basic human needs and a close alignment with the interests of the communities in which they are located, can be a major asset and one of the pillars on which to build a post-COVID recovery effort.

As public and private institutions seek out ways in which the SSE can be supported and developed, the availability of financial resources has been identified as a key lever for expanding the capacity of SSE organisations. Indeed, as SSE organisations engage in producing goods and services, finance is important for them as it is for many other types of enterprises: it can help cover start-up costs, address cash flow issues, fund investments, etc. What is less clear is the extent to which SSE organisations have more difficulties than traditional enterprises in accessing financial resources, what kind of financial resources should in fact be available to them, for what purposes these resources are being used and in what ways they can be accessed. While there are many discussions on these topics, empirical evidence remains scant.

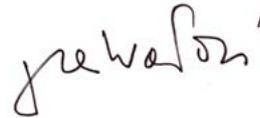
To answer some of these questions, in 2018, the ILO commissioned to Euricse a study on 'Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems'. The project, funded by the Government of Luxembourg, was structured in three stages. First, it developed a comprehensive overview of possible financial sources and mechanisms through which these resources could be accessed, both traditional and innovative, generic or tailored to the specific characteristics of SSE organisations. Second, assisted by national researchers, it investigated how SSE ecosystems are structured and what financial resources SSE organisations actually use in eight countries globally. Finally, it conducted a comparative analysis of the

findings to tease out cross-cutting themes and overarching issues and to develop a list of policy recommendations.

The national case studies developed regarding the 'Financial Mechanisms' project, in addition to being instrumental in developing the insights presented in the final report (ILO, 2019), were valuable pieces of research in their own right and are now available as free-standing documents. This report in particular presents the analysis conducted in Italy, updated to reflect the latest trends and data, and with the addition of a set of observations on the impact of the COVID crisis and the SSE role in post-COVID recovery.



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► Introduction

In this study, we seek to investigate the availability of financial resources for social and solidarity economy (SSE) organizations in Italy and the main financial mechanisms that could be used to access them. This issue is of particular relevance, as SSE organisations in Italy, traditionally active in sectors that did not require significant investments, have recently increased their engagement in more capital-intensive activities, such as urban renewal, waste management, management of cultural heritage sites, social housing, etc. This trend, coupled with the growing social needs resulting from the COVID crisis, is likely to increase the demand for finance for the SSE beyond what has been made available so far.

To address this topic, we first provide a detailed account of the SSE state in Italy, considering its roots, its drivers and the main actors that make up

its ecosystem. This analysis provides the backdrop for a review of the main financial mechanisms available to SSE organisations in Italy and of the opportunities and challenges they pose.

The report is structured in four sections. The first section describes the Italian SSE ecosystem, considering its roots and drivers, the main actors and stakeholders that compose it and the policy framework that regulates it. The second section examines the main financial mechanisms available to SSE organisations in Italy, analysing their features and providing specific examples. The third section then explores the COVID crisis's impact, regarding its effect on SSE organisations and the potential role of the Italian SSE in recovery efforts. Finally, the fourth section provides some policy recommendations on the issue of finance for the SSE in particular and for strengthening the Italian SSE ecosystem overall.



▶ 1. The Italian Social
and Solidarity Economy
Ecosystem

SSE is 'a concept that refers to enterprises and organisations – in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises – which specifically produce goods, services and knowledge while pursuing economic and social aims and fostering solidarity' (ILO, 2011). This definition thus comprehends both the diverse universe of the Italian non-profit sector and the cooperative movement, which has a long history and is regulated to guarantee the pursuit of its social functions through stringent constraints on the distribution of profits and assets. Overall, the Italian SSE is a key actor for economic and social development, provides new employment opportunities and represents a fundamental counterpart to the state in sectors like health, care and social services.

The analysis presented in this section seeks to outline the main features and characteristics of these organisations and to describe the dynamic ecosystem in which they operate and evolve.

1.1. Main trends and issues characterising the country

The outburst of the Global Financial Crisis of 2007 hit the Italian financial sector moderately, with only marginal losses compared to other countries worldwide. Indeed, Italian banks had a small amount of toxic assets at the time and were only partially exposed to international risk. Nevertheless, when the crisis moved from Wall Street to Main Street, Italy suffered from the same general reduction in investments, consumption and private wealth that affected many advanced economies worldwide. Moreover, these conditions depressed the demand for Italian exports, which, in turn, further affected GDP growth: the GDP decreased

by 1.1% in 2008 and by a staggering 5.5% the following year. While, in 2010, the effects of the financial crisis weakened, in 2011, another crisis—the sovereign debt crisis—exploded in Europe. This time the Italian banking sector suffered from huge losses due to the high share of government bonds and the significant increase in the formation rate of non-performing loans held in the portfolios of Italian banks: these conditions determined the beginning of a credit crunch. The difficulty in access to credit, matched with the persistently low consumption propensity of Italian families, contributed to the beginning of a long phase of stagnation and to the creation of a growth gap between Italy and the rest of Europe. In 2011, a new technocratic government enacted a series of reforms focused on growth and the consolidation of the public accounts. These reforms, which entailed large cuts in public sector spending and an increase in fiscal pressure for both households and firms, helped stabilise the economy. Concurrently, they determined an increase in inequality in income distribution and an increase in the levels of absolute poverty. Beyond these measures, the chronic political instability characterising the country, which has had seven different governments over the last 10 years, has made it difficult to enact long-lasting structural reforms and effectively face the various crises that have hit Italy (and indeed much of the world) over the past decade. Hence, the GDP growth rate of the country had yet to recover to pre-crisis levels when the COVID-19 pandemic hit Europe.

This new crisis is expected to impact all macroeconomic indicators. First, the public debt/GDP reached a peak of 155.8% in 2020. The harsh lockdowns enforced in the country since the first months of the pandemic adversely impacted demand and supply: long periods in 'red zones' (i.e. areas where only essential

businesses were left open), located especially in the richest regions of the country, caused consumption to plummet. Consequently, industrial production dropped drastically in the first trimester of 2020 (Confindustria, 2020). Such a critical situation persisted during the whole year, with revenue reductions for two-thirds of companies between June and October (ISTAT, 2020). Inevitably, this impacted the occupation rate, which has not yet reached the pre-pandemic levels. However, layoffs have been blocked until March 2021, so the actual impact on occupation has yet to be accurately quantified.

Furthermore, political and social instability, the psychological impact of several lockdowns and the implications of social distancing only compounded these problems. The second wave of infections that took place in the fall of 2020 further compromised the situation. Despite the increase in occupation in the third trimester of 2020, there are still 622,000 fewer employed people than in 2019. A recent forecast from the IMF puts Italy among the developed countries that will recover the slowest from the COVID crisis, and such recovery will likely happen unevenly and at different speeds nationwide.

1.2. The social and solidarity economy ecosystem: roots and divers

This section describes the social and solidarity traditions in the country that are at the core of the Italian SSE and their historical evolution into what can be considered today the country's SSE ecosystem. The word 'ecosystem' is used to stress the highly interactive and open nature of the actors that compose the SSE: indeed, the SSE is the product of the continuous interaction among its stakeholders – all characterised by

different features, roles and objectives – and not just the sum of individual entities.

The different components that make up the universe of the Italian SSE can be seen as an updated expression of the initiatives that, throughout the course of history, have been conducted privately by individuals or by social groups to meet the community's needs at large (Borzaga & Ianes, 2006). Among the numerous initiatives that shared these goals, all characterised by strong ideological, cultural and often religious connotations, it is worth mentioning that the so-called *Opere Pie* and the *Opere Associative*, along with Mutual Relief Societies and Pawnshops, contributed extensively to meet the demand for support from consumers and producers, alongside the demand for health services, social assistance and financial resources, which increased rapidly throughout the 19th century with the country's industrialisation.

The birth and development of the cooperative movement deserves a special reference. The first cooperative enterprises were founded in the major cities of the North of the country starting in the 1850s, mainly in the form of workers and consumer cooperatives. The movement then extended to other regions and to other circumstances – with a rapid expansion in the South and the rural areas of Italy – answering each time to the different needs and necessities of an extremely diverse country, in both social and economic terms. In the following decades, there was a rapid growth of cooperatives operating in the agricultural sector and of production cooperatives, and the birth of cooperative banks, which were fundamental to filling the gaps left by the financial sector, especially in rural areas. By the end of the 19th century, the cooperative movement was involved in most sectors of the economy and

featured national coordination structures (National League of Italian Cooperatives) with a well-recognised identity.

The beginning of the 20th century was characterised by the growing role of the state in the fields of health, care and social security, with the public sector taking over some of the functions that were previously performed by social and solidarity economy organisations. It was a direct consequence of the reformist stance that distinguished the Italian – alongside the foreign – political landscape of the time, which laid the ideological foundation for the welfare state's birth. The role of the state was expanded and distorted during the fascist period: in the 20s and 30s, the cooperative movement suffered from the actions of repression and control carried out by the Fascist party, which saw in every ideologically independent structure a threat to the State's unity. This situation led to a mild decrease in the total number of cooperatives, but after WWII, the movement started growing and expanding again, reaching 25,000 units in 1951. The following period, which lasted until the 1980s and corresponded to the development of the manufacturing industry, was characterised by a semi-stationarity in the number of cooperatives. Meanwhile, there was significant growth in the number of associations that started to organise various activities (sport, recreation, culture) according to a bottom-up and 'self-help' model, forming the bedrock of what to this day is the most widespread type of SSE organisation in Italy (see Tables 2 and 3 below).

From the 1980s onwards, the passage to a modern and more complex society highlighted the limits of an interventionist approach on the part of the public sector, affected by growing challenges in concurrently ensuring equity and freedom, a high burden for public finances and

the difficulty to meet the increasingly mutable needs – of *services*, rather than of goods – of the population with the necessary flexibility and responsiveness (Borzaga & Ianes, 2006).

The first reaction to this shortcoming came autonomously from civil society, with the birth and diffusion of volunteering organisations and social cooperatives, which contributed greatly to the development of the Italian SSE. Specifically, the use of the cooperative form became widespread in Italy, often replacing other associative types of organisations that remained dominant in other countries. Social cooperatives contributed to innovating the provision of social services, tailored to new groups like young people with problems of socialisation, the elderly, the disabled, drug addicts and the homeless, and specialised in those activities that aimed to integrate disadvantaged people into the labour market. In other words, they emerged as an attempt to organise and formalise the efforts in the SSE, aiming to reconcile the seemingly distant concepts of enterprise and solidarity.

A second reaction came from the government, which allowed private for-profit enterprises to close the gaps left by the public sector, believing that this would increase efficiency while ensuring equity. Nevertheless, for-profit involvement proved insufficient to meet the increasing demand for social assistance. This situation had two consequences: on one hand, the number of cooperatives – and particularly the above-mentioned social cooperatives – exploded, with growth rates of almost 40% per decade (Borzaga et al., 2010); on the other hand, additional innovative initiatives were introduced that greatly emphasized the necessity to create long-lasting relationships based on principles like trust, gratuity and participation: the

evolution of fair-trade and the introduction of the social enterprise qualification are additional examples of how the society creatively attempted to solve general interest problems in the social services and solidarity sphere.

1.3. Main actors and stakeholders in the Italian SSE ecosystem

In the SSE ecosystem, it is possible to distinguish between two main types of actors: there are the main actors, i.e. SSE organisations – like cooperatives (both social and not), associations and foundations – which follow principles of solidarity and mutuality and pursue social and general interest objectives; and there are

financial and institutional intermediaries, policy makers, public institutions, facilitators and other key players that, while not necessarily sharing the same principles, frequently enter into contact (or contracts) with entities belonging to the first group, facilitating their interaction, joint action and development, monitoring their health status, providing financial support and regulating the fiscal and legal framework in which they operate.

Table 1 below provides an overview of the Italian SSE ecosystem and divides the second group into four additional sub-categories: public institutions, networks, financial intermediaries and training/research institutes.

| ▶ TAB. 1 The actors and stakeholders of the SSE ecosystem | |
|---|---|
| Main actors | Cooperatives (non-social) Social cooperatives Associations Foundations Other nonprofit institutions |
| Public institutions | Ministry for employment and social policies Ministry of economic development Regional authorities Local authorities |
| Networks and support institutions | Representative bodies National, regional and local consortia Support networks Forums Networks running entrepreneurial activities and incubators Accelerators and workspaces |
| Financial intermediaries | Traditional banks Insurance Banks with a social orientation Specialised banks Cooperative credit banks Venture philanthropy funds Private debt/equity funds Crowdfunding platforms Financial Institutions for local development |
| Training and Research Institutes | Observatories Research centres Universities |

1.3.1. Main actors

Table 2 summarises the numerical relevance of the *main actors* of the ecosystem for 2018, displaying the number of organisations by legal form and the relative importance regarding occupation and the evolution of the same indicators throughout the last 18 years. It is clear that the association is the most widespread type of SSE organisation (76.3%), followed by cooperatives, which constitute 14.2% of the total. Social cooperatives and foundations featured extremely high growth rates from 2001 onwards and both more than doubled their presence in the country. High growth rates also characterise those entities grouped under the heading ‘Other nonprofit institutions’, which include, among others, mutual aid societies, committees and religious entities. Overall, in 2018, SSE actors constituted 9.19% of the total number

of organisations operating in the industrial and service sectors, up from 7.94% in 2011.

When looking at the central section of Table 2, showing the importance of each type of organisation regarding occupation, the situation is quite different. Associations account for slightly more than 10% of the total SSE workforce, while a large majority – 74.6% of all the people employed – is working for traditional or social cooperatives. Foundations and other nonprofit institutions share the remaining 15%. The social cooperative and foundation sectors had the highest growth rates in the last 18 years regarding employment as well, in a context in which all the different types of SSE organisations, besides non-social cooperatives, featured positive values. Today, SSE employees are just short of 10% of the total workforce in the industry and service sectors.

► TAB. 2 The SSE actors in numbers: entities and employees (Year 2018), volunteers (Year 2015)

| | Entities | | | Employees | | | Volunteers (2015) | | | | |
|-------------------------------------|----------------|------------------|-----------------------------|-----------|-----------------------|------------------|-----------------------------|------|------------------|-------|---------------------|
| | Number | % ⁽¹⁾ | % change 2001-11 2011-18 | | Number ⁽²⁾ | % ⁽¹⁾ | % change 2001-11 2011-18 | | Number | % | % change 2011-15 |
| Cooperatives (non-social) | 41,327 | 10.3 (0.94) | 5.1 | -17.6 | 725,472 | 46.0 (4.19) | 2.0 | -9.7 | -- | -- | -- |
| Social cooperatives | 15,751 | 3.9 (0.36) | 98.5 | 39.8 | 451,843 | 28.6 (2.61) | 129.4 | 23.8 | 43,781 | 0.8 | 3.3 |
| Associations | 305,868 | 76.3 (6.94) | 23.3 | 13.6 | 164,162 | 10.4 (0.95) | 26.3 | 11.7 | 5,020,810 | 90.8 | 13.9 |
| Foundations | 7,913 | 2.0 (0.18) | 102.1 | 27.2 | 103,909 | 6.6 (0.60) | 131.3 | 13.2 | 62,211 | 1.1 | 21.3 |
| Other nonprofit institutions | 30,042 | 7.5 (0.68) | 76.8 | 109.3 | 133,562 | 8.4 (0.77) | 21.5 | 9.9 | 401,957 | 7.3 | 1,122.9 |
| Total | 400,901 | 100.0 (9.19) | 24.2 | 14.1 | 1,578,948 | 100.0 (9.13) | 27.0 | 6.4 | 5,528,760 | 100.0 | 16.2 |

Source: Istat, Permanent census of nonprofit institutions (2017); Istat, Business Register ASIA (2020)

⁽¹⁾In parenthesis is the incidence of SSE organizations in the industrial and service sector.

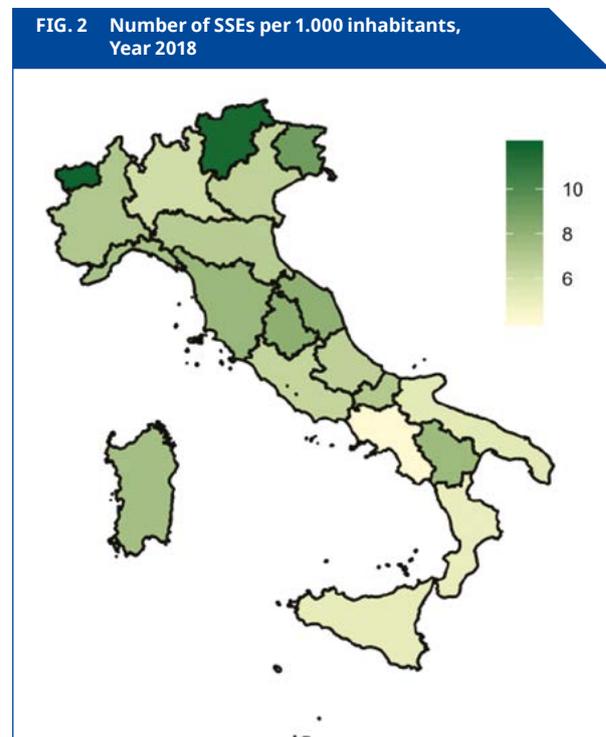
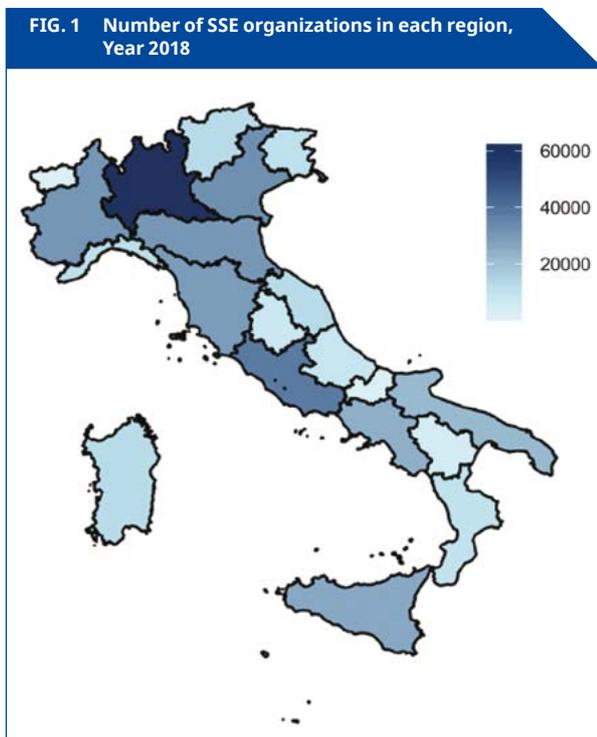
⁽²⁾Number of employees is the annual average.

To fully understand the importance of the SSE sector for the Italian economy and to complement the analysis of occupation, it is necessary to focus on the number of volunteers operating for each legal form¹. As shown in Table 2, in Italy, about 5.5 million people (9.14% of the country's population) offer their free contribution to the pursuit of SSE goals as voluntary participation in the organisation's activities. Most of them operate inside an association, which helps to understand the low value of employees reported in the previous paragraph for this legal category. A high number of volunteers also characterise the organisations called 'Other nonprofit institutions' – about three times the number of people employed there – and foundations too.

Another interesting aspect to consider is the distribution of SSE entities over the Italian

territory. In Figure 1, it is possible to observe the absolute number of SSE organisations in each region. The northwest of the country is the most densely populated, with 110,375 organisations, and more generally, about half of the total number of SSEs is located in northern regions; central regions, the south and the islands share the remaining 200,000 entities. In Figure 2, the demographic dimension is added to the measurement scale: the map reports the number of SSE organisations for every 1,000 people. Regions in the north of the country maintain a high score with this additional density indicator, although values change across regions when population differences are considered, particularly for border regions.

Table 3 summarises the main sectors of activity for SSE actors. The left section presents the data for nonprofit organisations, while traditional



Source: Istat, Business Register ASIA (2020); Istat, Permanent Census of Nonprofit Institutions (2020)

¹ For traditional cooperatives, the number of volunteers is close to zero.

cooperatives are accounted for separately in the right section of the table. The reason for this distinction is to differentiate between traditional cooperatives and other nonprofit organisations in terms of revenue composition, organisational structure and goals. Indeed, cooperatives are market-oriented enterprises in which the production and sale of goods and services are the most important activities. Therefore, they have been classified following the ATECO classification – the Italian version

of the Nace Rev. 2 classification adopted in the European context – that is normally used for for-profit enterprises in place of the ICNPO classification that is more appropriate to categorise the nonprofit sector at large. Construction is the activity in which traditional cooperatives are mostly involved, with 7,371 organizations, followed by transportation, business support services and manufacturing. Also, the distribution by sector varies significantly depending on the region: while in

► TAB. 3 Main sectors of activity per legal form (ICNPO/ATECO classifications). Year 2018

| ICNPO | Assoc. | Social coop. | Foundations | Other Nonprofit | Total | ATECO | Cooperatives (non social) |
|--|----------------|---------------|--------------|-----------------|----------------|---|---------------------------|
| Culture, sport & recreation | 219,011 | 420 | 2,228 | 9,616 | 231,275 | Manufacturing ² | 4,618 |
| Research and education | 6,845 | 1,344 | 2,068 | 3,736 | 13,993 | Construction | 7,371 |
| Health | 10,475 | 1,205 | 536 | 313 | 12,529 | Commerce | 4,390 |
| Social assistance & civil protection | 23,526 | 7,344 | 1,784 | 920 | 33,574 | Transportation | 6,675 |
| Environment | 5,276 | | | | 5,276 | Catering & canteen | 2,218 |
| Social cohesion & economic development | 980 | 5,252 | | | 6,232 | Information & communication services | 2,115 |
| Rights protection & political activities | 5,582 | | | | 5,582 | Financial & insurance services | 691 |
| Philanthropy & volunteering promotion | 3,351 | | 338 | | 3,689 | Real estate | 1,102 |
| International solidarity & cooperation | 3,966 | | 248 | | 4,214 | Professional, scientific & technical activities | 2,075 |
| Religion | 2,754 | | 246 | 14,072 | 17,072 | Rental, travel ag. & business support services | 5,865 |
| Unions relations & interest representation | 23,141 | | | | 23,141 | Education | 770 |
| Other activities | 961 | 196 | 465 | 1,385 | 3,007 | Health & social assistance | 578 |
| | | | | | | Culture, sport & recreation | 1,611 |
| | | | | | | Other services | 1,248 |
| TOTAL | 305,868 | 15,751 | 7,913 | 30,042 | 359,574 | | 41,327 |

Source: Business Register ASIA (2020); Istat, Permanent Census of Nonprofit Institutions (2020)

² Other than manufacturing activities, this sector includes cooperatives that work in extractive activities, electricity and gas providers, steam and air conditioning, water supply and sewer network, waste management and clean-up.

the South there is a prevalence of agriculture and construction cooperatives, in the North of the country, cooperatives operate mainly in the services sector, and the centre is more in line with the Italian average.

Regarding nonprofit organizations, what stands out is the extremely high number of organizations that fall in the 'culture, sport and recreation' sector, with a total of 231,275: more than 200,000 are associations, and traditionally, the great majority are related to sport activities (ISTAT, 2011). The organizations operating in the 'social assistance and civil protection' sector – mainly social cooperatives and associations – are 33,574, while 'research and education' and 'Health' gather around 26,000 entities. Also, the high value for the

'union relations and interest representation' section (growth of 21.5% in the 2011–15 timeframe) is also worth pointing out. This data could testify to the effort exerted by the nonprofit sector to obtain greater recognition in the Italian economy through a process of institutionalisation that would grant a relevant voice in the dialogue with third parties and in the definition of strategies and policies for future development.

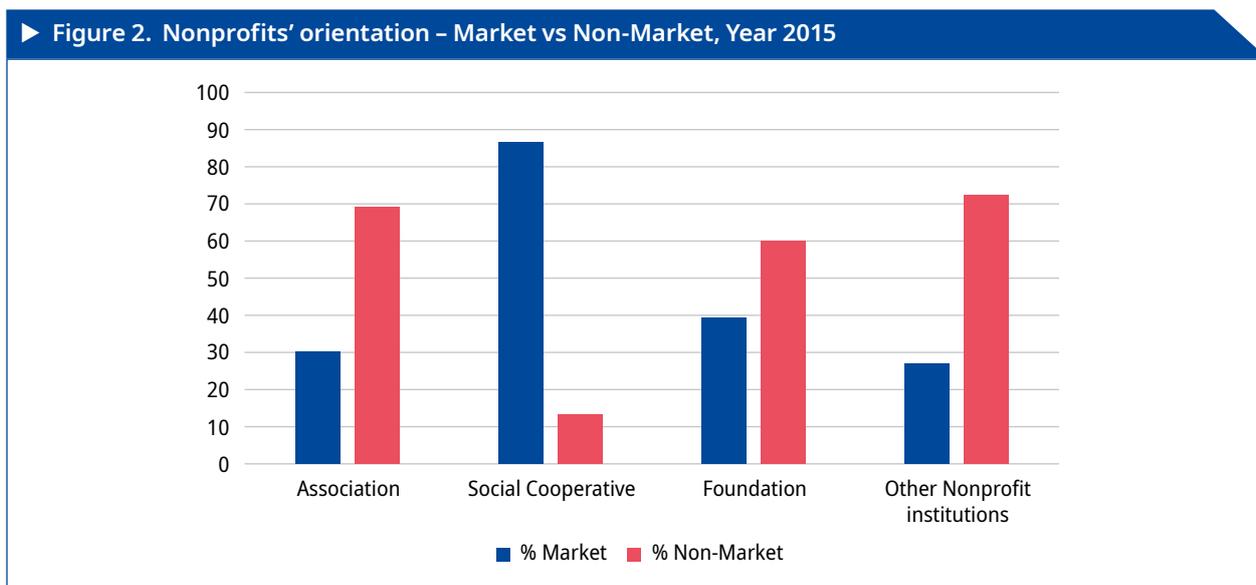
Table 4 shows the data about the revenue structure of each type of nonprofit organization: traditional cooperatives are excluded from the table, as for this type of organization, the sale of goods and services represents the quasi-totality of the revenues, with about 80.8% of total proceeds. The situation differs for

► TAB. 4 Revenue structure of the Nonprofit sector, Year 2015

| | Social Cooperative | Association | Foundation | Other Nonprofit Institution | Total |
|--|-------------------------------|-------------------------------|------------------------------|-------------------------------|--------------------------------|
| Subsidies and free contributions from national and international public institutions | 199,163 (1.40) | 1,312,125 (3.77) | 461,336 (4.68) | 475,671 (4.16) | 2,448,295 (3.48) |
| Revenues from contracts and/or conventions with national and international public institutions | 7,163,737 (50.13) | 3,892,836 (11.18) | 3,442,752 (34.94) | 3,162,598 (27.62) | 17,661,923 (25.10) |
| Annual contributions from members | 116,211 (0.81) | 17,134,260 (49.22) | 481,668 (4.89) | 1,517,380 (13.26) | 19,249,519 (27.34) |
| Revenues from sale of goods and services | 6,301,478 (44.10) | 4,053,559 (11.65) | 1,989,897 (20.20) | 3,768,217 (32.91) | 16,113,151 (22.89) |
| Contributions, offers, donations and testamentary bequests | 128,248 (0.90) | 2,598,800 (7.46) | 1,070,617 (10.86) | 1,060,460 (9.26) | 4,858,125 (6.90) |
| Revenues from the management of finances and assets | 73,947 (0.52) | 3,064,660 (8.81) | 1,983,046 (20.13) | 534,292 (4.67) | 5,655,945 (8.03) |
| Other revenues/Revenues from private sources | 306,134 (2.14) | 2,752,514 (7.91) | 423,679 (4.30) | 930,192 (8.12) | 4,412,520 (6.26) |
| Total | 14,288,919 (20.29) | 34,808,754 (49.45) | 9,852,995 (14.00) | 11,448,810 (16.26) | 70,399,478 (100.00) |

Source: Permanent census of nonprofit institutions (2019)

Revenues are expressed in thousands of euros. In parentheses is the incidence of each revenue item over the total revenues for each legal form in percentage.



Source: Permanent census of nonprofit institutions (2020)

nonprofit organizations, for which selling goods or services contributes only about 22.89% of total proceeds. Notably, the contribution of the sources of revenues changes according to the legal forms: contracts with public institutions, both national and international, are about 50.1% of the total revenues for social cooperatives, around 35% for foundations and approximately 28% for other nonprofit organizations but only 11.2% for associations. The latter rely heavily on annual contributions from members, which constitute almost 50% of total proceeds. Foundations benefit from the management of finances and assets under control more than any other legal form (20.13%), and they also receive substantial contributions and donations (10.86%). The sale of goods and services is a significant source of income for all legal forms, ranging from 11.65% of the total finances for associations to 44.1% for social cooperatives.

Taking a more general perspective, it is possible to split the nonprofit sector into two groups: on one hand there are social cooperatives, characterized by a strong market orientation, while on the other hand there are

associations, foundations and other nonprofits, which survive mainly thanks to non-market contributions.

1.3.2. Key stakeholders

Public institutions

The term *Public Institutions* refers to government bodies – in particular, the Ministry for Employment and Social Policies and the Ministry for Economic Development – public departments, regional and local authorities that construct and defend a favourable environment for developing SSE organizations, thus assuming a fundamental role for their survival and future growth. The recent *Reform of the Third Sector* is particularly relevant in this respect, as it is the result of the joint effort of institutions and active SSE players to ameliorate the existing apparatus of norms regulating the sector and the structure of fiscal incentives. The complete description of the legislative framework that regulates the SSE in Italy is presented in Section 1.3, alongside the most important fiscal tools available to SSE actors.

What is worth stressing here is the decision of the Italian public sector to systematically involve SSE actors in the implementation of public policies, and social policies in particular. This choice, which contributed to the growth and development of the SSE, is clearly reflected in the apparatus of norms regulating the procurement of social services. Indeed, the Code of the Third Sector focuses on methodologies like co-planning, shared design and the use of contracting agreements to broaden the scope of legal relationships between SSE organizations and the public sector. Articles 55, 56 and 57 of the Code regulate these aspects, ensuring respect for principles such as 'subsidiarity, cooperation, effectiveness, efficiency and economy, homogeneity, financial and equity coverage, responsibility and uniqueness of the administration, organizational and regulatory autonomy'.

SSE networks and support institutions

The system of Italian SSE organizations is structured on several levels, each answering to different needs. The first level comprises entities that are often local in their nature, responding to the specific needs of the community where they operate. The second and third levels serve business development and advocacy purposes to obtain voice, recognition, access to markets, support collaboration and promote innovation. This is particularly evident for the cooperative movement, which features a more complex and structured organizational system than other types of SSE organizations, where the role and competence of each body is well defined and in which the single cooperative can find voice and support by higher level institutions. Besides the single cooperative entity (first

BOX 1

The Italian Cooperatives' Alliance (ACI)

ACI is the Italian coordination body for the cooperatives' movement and comprises the three most representative cooperative federations: AGCI, Confcooperative and Legacoop. More than 39,500 cooperatives belong to the Alliance, for a total of 150 billion euros of revenue and about 1.150.000 people employed. ACI was created in 2011 to 'coordinate the action of representation with the Government, the Parliament, the European institutions and social partners',³ but the history of its members is much older. The first attempts to group cooperative experiences into a unitary organizational structure is traceable to the end of the 19th century, with the creation of the National League of Italian Cooperatives. After years of expansion, ideological and

political discrepancies among its promoters led to the fragmentation of the League, the first time in 1921 between its socialist and Catholic components and the second time after WWII into three federations: these were the precursors of the representative bodies we have today. Despite the marked differences, the action of representation facilitated the growth of the cooperative movement, while the evolution of the political panorama at the end of the century, with the disappearance of the Christian Democratic and socialist parties of reference, contributed to reducing discrepancies between the bodies and increasing collaboration among them, resulting in the creation of ACI.

The Third Sector Forum ('Forum Terzo Settore')

The Ministry of Labour and Social Policies defined the Forum as 'the

most representative association of Third Sector entities' in Italy (2017). This title follows from the extremely large number of second- and third-level organisations adhering to the Forum, 88 national bodies for a total of 141,400 local entities (Ministry of Labour, August 2017). The Forum pursues the social and political representation of Third Sector organisations, both with the government and other institutions, coordinates and supports the action of its members and handles the communication of shared values and objectives (FTS, 2014). The members operate in the volunteering, social cooperation, fair trade and ethical finance sectors and have different objectives, structures and scopes of intervention. They are organised into a structure of 18 regional sub-forums that handle the application of the institutional objectives of the National Forum, with special regard to matters of regional competence.

³ Alleanza Cooperative Italiane (2018), 'L'Associazione', retrievable online at <https://www.alleanzacooperative.it/l-associazione>

level), the cooperative movement comprises second-level institutions, such as consortia, and representative bodies (federations and similar organisms), which stand at the highest level.

Representative bodies

Cooperatives, associations and other organizations often group together to obtain a relevant role in the marketplace: the bodies created are involved in various tasks that go from supporting the development of new business opportunities to advising and controlling the actions of the individual members. In Italy, their presence has been fundamental for the institutionalisation and legal recognition of the different forms of SSE organizations. One of the most interesting cases is social cooperatives, formally recognised only in the early 1990s (law 81/91) with the support and advocacy role of the national cooperative federations, especially Confcooperative, which grouped the majority of the cooperatives of Catholic tradition.

National, Regional and Local Consortia

Consortia represent a second level in the organizational structure of the cooperative movement, and they actively participate in the operations and business activities of their

members. Indeed, consortia leverage their large dimensions to internalise production and commercialisation processes that otherwise would be outsourced to match the demand for goods and services that single cooperatives could not bear alone. Sometimes they operate as general contractors in public tenders for services, concluding agreements on behalf of their members since they have preferential access to public services opportunities: their larger size relative to individual members allows them to provide guarantees, meet the financial requirements necessary to conclude agreements and operations and obtain discounts on the costs of financing. Consortia vary in dimension and geographical reach, which can be local, regional or sometimes even national. The objectives of regional and national structures are often to support the actions of their members by providing qualified services and involving local networks in national and European initiatives.

Support networks

Associations, foundations and other nonprofit organizations have also developed second-tier organizational structures, with the objective of coordinating their actions and achieving social and political representation. Moreover,

BOX 2

Consorzio Nazionale della Cooperazione Sociale Gino Mattarelli (CGM)

A relevant example of a national consortium is given by CGM: a network formed by local consortia of social cooperatives and social enterprises. It includes 58 territorial consortia, which

translates into 701 cooperatives and social enterprises all over the country, employing a total of 42,000 people⁴. The consortium promotes several national projects: *Cooperjob* – a digital marketplace to facilitate the matching between employers and people looking for a job; *CGM Finance* – a system that

sustains social cooperatives and supports their interaction with financial intermediaries; *Consorzio Mestieri* – an entity specialised in the provision of guidance, selection and mentoring services for people with socialisation problems or who face barriers to entering the labour market.

⁴ Consorzio Nazionale della Cooperazione Sociale Gino Mattarelli (2018), 'Chi siamo', retrievable online at <http://cgm.coop/chi-siamo/>

BOX 3

CSVnet

CSVnet is the national association of service centres for volunteering (CSV). It was created in January 2003 and grouped into 64 CSVs all over the country. The network represents 9,621 Italian volunteering associations on a national and international level⁵. In particular, CSVnet Europe is the department controlling the advocacy and promotion of Italian CSVs in the EU. The aim of this network, besides representation duties, is to reinforce collaboration among its members, provide technical support and ensure protection.

According to the data provided by CSVnet, the network supplied services to almost 46 thousand organisations, the majority of which belonged to the nonprofit sector (64% voluntary organisations).

Assifero

Assifero is the national association of Italian grant-making foundations and private institutional philanthropy. It was founded in 2003, and today, it supports more than 100 private foundations, including family, corporate and community foundations. Its objective is to promote and

strengthen the Italian philanthropic sector by acting as a strategic partner for achieving human and sustainable development. Assifero dialogues and collaborates with public institutions, private organisations and media for promoting the strategic role of institutional philanthropy; it promotes work groups and provides assistance on shared projects; it facilitates communication between members through 2.0 tools; and it offers specific legal, fiscal and strategic assistance. In other words, it develops projects and tools for the growth of philanthropy in Italy.

they created networks that aimed to provide specialised services and support the operations of their affiliates.

Financial intermediaries

The second section of the report provides an extensive discussion of the topic of financial intermediaries. What is worth underlining here is the peculiar financial needs of SSE organizations that are bound to distinct organizational structures and the types and sectors of activity. These features – in particular the nonprofit distribution constraint – often represent additional barriers in the access to traditional financial resources and imply the necessity to develop dedicated mechanisms to sustain operations and investments. These types of intervention can loosely be classified into three kinds: the initiatives of the government, which typically come as fiscal benefits to both sustain the capital accumulation and to incentivise intermediaries to finance these organizations; *bottom-up* solutions, which originate thanks to the strong innovation propensity characterising

SSE entities; and finally the initiatives of financial or governmental institutions that develop socially oriented or specialised branches to promote structured plans and well-defined *top-down* strategies to the benefit of SSE entities. Consequently, the Italian SSE ecosystem includes various financial intermediaries that provide financial products and services geared specifically towards the needs of SSE organizations.

Training and research institutes

The steady growth of the Italian SSE was matched in the recent past by the creation of some training and research institutes that focus specifically on SSE organizations. These institutions seek to better understand the characteristics of SSE organizations, their potential and their limits, supporting with the knowledge they develop the SSE and the public institutions that seek to regulate it. The continuously evolving nature of SSE organizations and the different sectors of activity in which they operate provide several

⁵ CSVnet (2018), 'Cosa è CSVnet', retrievable at <https://www.csvnet.it/csvnet>

research topics concerning both the analysis of the existing SSE ecosystems and of potential innovations and opportunities for future development.

1.4. The SSE and the policy framework

In their early stages, the different kinds of SSE organizations have followed independent evolutionary paths, with experiences that were focused on the needs of particular social groups, closely connected with regional or local communities, often spontaneous and occasional in their nature. The SSE legal and policy framework was developed as an attempt to regulate and reorganise this varied universe, initially with single measures addressing each specific legal form, some retracing the late 1800s and only recently – in particular, with the *Reform of the Third Sector* – with an action of rationalisation and unification of the existing apparatus of norms. Some of the most significant steps in this process are briefly summarised below.

In 1942, for the first time, the Civil Code recognised the civil freedom of non-profit organizations – even if the provisions confined them to the pursuit of ‘ideal aims’ – and introduced more detailed regulations for cooperatives, defined as variable-capital companies *with mutual purpose* (Borzaga & Santuari, 2000). A real turning point came with the Constitution of 1948, which granted the freedom of association for nonprofit organizations and recognised the *social function* of cooperatives. To obtain this recognition, cooperatives had to respect three restrictions: a cap of 20% on the distribution of profits (increased to 30% in 2003), a limit in the yields – that could not exceed by more than two percentage points the return of postal bonds –

and the so-called *asset lock*, which prescribes that profits should contribute to the formation of a reserve that cannot be divided among the members, neither during the life of the company nor in case of dissolution (Borzaga et al., 2008). The new constitution also implied a change in the attitude of the state towards SSE organizations and admitted the relevance of the non-profits’ role in the post-war social and economic recovery of the nation.

The legal apparatus was enriched with laws 266/1991 and 381/1991 that recognised voluntary organizations and social cooperatives, respectively: the former defined volunteering as an ‘activity provided in a personal, spontaneous and gratuitous way, through the organization of which the voluntary work is part, without profit, even indirectly, and exclusively for the purpose of solidarity’ and recognised the ‘social value and the function of voluntary activity’ of this kind of organization ‘as an expression of participation, solidarity and pluralism’ (Ld. 266/1991); the latter required social cooperatives to pursue ‘the general interest of the community in the human promotion and for the social integration of citizens’ (Ld. 381/1991) and to operate either in the management of social, health and educational services (type a) or in different sectors but to integrate disadvantaged people into the labour market (type b).

With law decree n. 155 of 2006, the legal definition of *social enterprise* was first established as a qualification for all those private nonprofit organizations that produce and exchange goods and services that satisfy a social utility and aim to achieve general interest objectives. However, the absence of fiscal advantages and the relevant costs to obtain the legal qualification translated into a partial failure of the decree: social enterprises featured minimal

BOX 4

Euricse, AICCON and Iris Network

Several research institutes focus on the topic of the SSE at the national level. Among them, it is worth mentioning Euricse and AICCON, which are the main ones, and the IRIS Network is a national network of research centres and universities focusing on social enterprises.

AICCON, the Italian Association for the Promotion of the Culture of Cooperation and of Nonprofit, was created in 1997 and promoted by the University of Bologna-Forlì, ACI and many other public and private institutions. The aim of AICCON is to 'encourage, support and organise initiatives to promote the culture of solidarity with particular attention to

idealities, perspectives, activities and problems connected to Nonprofit Organisations and Co-operative Enterprises'⁶.

Euricse (European Research Institute on Cooperative and Social Enterprises) aims to 'promote knowledge, development and innovation for the field of cooperatives, social enterprises and other nonprofit organisations engaged in producing goods and services' to 'deepen the understanding of these types of organisations and their impact on economic and social development, furthering their growth and assisting them to work more effectively'. The main activities are theoretical and applied research

and training and consulting for SSE actors'⁷.

The Iris Network is the national network of research centres that study social enterprises. The core activities are to empirically investigate the social enterprise phenomenon and provide theoretical reflection to foster knowledge of this peculiar typology of organisation and affirm their role in the Italian enterprise panorama⁸.

Research in the field is also conducted by universities: in the last 20 years, masters and courses were created that specifically focus on the topics of corporate social responsibility, social enterprise management and SSE.

growth rates in subsequent years in a context in which nonprofit organizations, all potential candidates, kept growing considerably.

The *Reform of the Third Sector* (Ld. 106/2016) is the latest and most comprehensive attempt to reorganise the vast universe of the Italian nonprofits. Indeed, unlike the recent legislations enacted in France (2014) and Spain (2011), the Italian reform does not address traditional non-social cooperatives, focusing instead on those entities belonging to the *Third Sector*, a new juridical concept that encompasses organizations pursuing general interest objectives through the production of goods and services or through voluntary and mutual aid activities.

The new *Code of the Third Sector*⁹ introduces the *National Registry* of the Third Sector, an instrument that collects and merges several existing registers. Once implemented, it will be public, accessible online and will comprehend – in distinct sections – the diverse entities composing the Third Sector, called since then *Enti del Terzo Settore* (ETS): Volunteering and Social promotion organizations, Philanthropic entities, Social enterprises, Social cooperatives, Association networks, Mutual relief societies and other ETS. ETS are prohibited from distributing profits, except for social enterprises that, anyhow, maintain stringent limits in this respect, similar to the ones existing for traditional cooperatives.

⁶ AICCON, 'About Us', retrievable at <https://www.aiccon.it/en/about-us/>

⁷ Euricse, 'Chi siamo – Mission', retrievable at <http://www.euricse.eu/mission/>

⁸ Iris Network (2018), 'Chi siamo', retrievable at <https://irisnetwork.it/rete/chi-siamo/>

⁹ <http://www.gazzettaufficiale.it/eli/id/2017/08/2/17G00128/sg>

Regarding social enterprises, the reform introduces important innovations and attempts to relaunch and make this legal type more attractive. The range of general interest activities covered is widened by including health and education/training services, and several fiscal advantages are introduced. Moreover, all social cooperatives and their consortia acquire *ex-lege* the legal qualifications of social enterprises.

The reform introduces important innovations on the fiscal level as well, reducing fiscal pressure directly on ETS and social enterprises (especially on retained profits), while introducing tax relief mechanisms on those – physical persons and organizations – who donate money and assets or provide financial means to the ETSs. Moreover, it performs an action of rationalisation of the existing support mechanisms and the introduction of tools like social bonuses, the development fund and social lending. Finally, the reform eliminates the ONLUS qualification.



▶ 2. Overview of the main financial mechanisms

2.1. Access to finance in the country

The data presented in the first part of this paper demonstrate how the social economy in Italy has grown both in size and variety over the last 30 years. While it is extremely difficult to make blanket statements concerning such a heterogeneous universe of organizations, this growth and the available empirical evidence suggest that, overall, contrary to popular belief, these organizations to date have not encountered particular problems in finding financial resources. It is difficult to obtain detailed figures on the financial needs of all SSE organization types, considering that some of them are not required to make available their balance sheets or financial statements, but the data we have suggest that they are adequately capitalised and have been able to sustain investments and growth. For instance, Italian social cooperatives have demonstrated over the years that they can collect a sufficient amount of capital to finance their activities, which are usually more labour intensive than capital intensive. Even during the years 2008–2015, when the country was experiencing a harsh economic crisis, social cooperatives increased both their total invested capital and their equity. In fact, their growth rates in this respect significantly exceeded those of other forms of business (Borzaga & Fontanari, 2018).

Even when we consider cooperatives as a whole, we do not find significant differences compared to other types of enterprises. Indeed, the analysis of the financial situation of Italian enterprises conducted by Fontanari (2018) shows that Italian cooperatives are, both on average and in most cases, in a situation of good financial equilibrium in the short term and in the long term. They are at least as capitalised as for-profit enterprises, and in some cases, they outperform them.

Concurrently, for some segments of the Italian SSE, this outlook might change over the next few years due primarily to three interconnected phenomena: (i) the reduction of public expenditures, which constitute a relevant share of the income for many SSE organizations; (ii) the need to grow in size to become more efficient and capable of responding to needs that are growing more pressing and complex, especially following the COVID-19 pandemic; and (iii) the investments in technology that are likely to be needed to remain competitive even in traditional labour-intensive sectors like social services. Given these trends, access to finance is likely to become more important for Italian SSE organizations and might require both strengthening existing financial mechanisms and finding new ones altogether. Indeed,

► TAB. 5 Solidity and liquidity indicators by enterprise type and size. Average values, 2015

| | SOLIDITY | | | LIQUIDITY | | |
|--------------|------------|-------------|-------------------|-----------|-------------|-------------------|
| | Coops | Shareholder | Limited Liability | Coops | Shareholder | Limited Liability |
| Micro | 139 | 107 | 122 | 92 | 97 | 79 |
| Small | 133 | 112 | 137 | 91 | 94 | 95 |
| Medium | 115 | 123 | 135 | 83 | 90 | 96 |
| Large | 102 | 101 | 121 | 81 | 80 | 89 |
| TOTAL | 116 | 105 | 128 | 85 | 82 | 88 |

Source: Fontanari (2018)

over the past few years, the field of 'social finance' seems to be undergoing a phase of growth and experimentation. Hence, the mix of available financial resources is changing, including products and services borrowed from the for-profit financial sector and not specifically designed for enterprises with a social goal. In this context, there is a need for a more concerted effort on the part of both SSE organizations and financial institutions to develop better knowledge of their respective needs and approaches.¹⁰

Financial tools for SSE organizations are being developed and supplied by various types of actors: financial intermediaries, both for profit and not-for profit (such as cooperative banks); public institutions, which value the contribution of SSE organizations to the solution of social problems; and even private citizens. While traditionally grants and loans have been the main tools used to finance social initiatives, recently, more forms of investments and more resources have become available. Providing a detailed analysis of the supply and demand of finance for SSE organizations is challenging due to the fragmentation and heterogeneity of this sector and to the lack of reliable data at the national level. It is possible, though, to analyse this issue for specific types of firms and geographical areas, which can give us a sense of the situation at the national level, as will be shown in the next paragraphs.

2.1.1. Access to finance: the demand side

The most recent (and possibly most systematic) attempt at assessing the demand for finance on the part of SSE organizations is the research conducted by Musella et al. (2020) on the need for social finance in Italy. The research focuses on the Italian Third Sector and, thus, does not include traditional cooperatives and mutuals. The research is based on a questionnaire to a selected group of key informants deemed particularly adept at intercepting the financial needs of Third sector organizations and a questionnaire to the organizations themselves. Concerning the need for finance related to day-to-day business management, most of the key informants identified the main barrier in the long delivery times of many financial instruments. Regarding the needs of finance for development, many experts have specified the necessity of providing excessive warranties to financial institutions and the complexity of access procedures. Regardless of the type of financing or the needs of the enterprise, the study found that for the more popular instruments (like credit), the barriers could be lowered predominantly by operators on the supply side, while for less used instruments like equity crowdfunding, the problems were solvable mostly through an action on the demand side.

In the second phase of the investigation, the researchers focused on SSE organizations. The majority of the sample reports were optimistic, prospecting a growing market and increasing investments. Credit-based financing methods such as mutualistic credit and microcredit were used by more than 45% of the respondents, and

¹⁰ An interesting initiative in this respect is 'Cantieri Viceversa', a project promoted by the Forum del Terzo Settore (Third Sector Forum) that involves over 35 financial institutions and the main representative organizations of the Italian SSE to facilitating a dialogue between these two worlds and helping to develop more targeted financial products and strategies (<https://www.forumterzosettore.it/cantieri-viceversa/>).

67% of the interviewees reported being interested in financial instruments for development. However, respondents also identified the presence of relevant obstacles to their adoption; specifically, the lack of information about such instruments and the lack of competencies in the subject of financial investments were the two most specified barriers.

Although this research provides some interesting insights, it is based on a very small sample (14 key informants and 52 organizations). Moreover, the sample of organizations is not particularly representative of the entire SSE sector, considering that more than a third of the organizations are benefit corporations, which might share some traits with SSE organizations but are excluded from the SSE.

More data are available for particular subsets of SSE organizations. As described in Section 1, cooperatives represent a relevant component of the SSE in Italy, and social cooperatives in particular have been one of the most dynamic types of SSE organizations. Social cooperatives were the subject of a survey conducted by the UBI Bank Observatory (2020)¹¹, which contained useful data on their use of financial products. The survey showed that social cooperatives are becoming more market oriented, focusing on direct paying demand as a strategic element to pursue long-term economic stability. Contracts with the public administration remain highly significant and are expected to increase (+ 13.6%).

Considering banking intermediaries, the use of loans obtained by credit institutions to cover investments is decreasing (from 72.3% in the previous edition to 64.6%, considering both short- and long-term investments). The main support request to banks is coverage of current expenses — i.e. advance payments of revenues and contributions, surety advance payments (Baggio et al., 2018). Financing of activities (about 45% of cooperatives, 40% of consortia and 28% of Srl social enterprises) and investments (about 23% of cooperatives, 2.2% of consortia and 36% of Srl social enterprises) through the banking system is less frequent. The Observatory reports an increase in the use of financial tools directed to loans for activities and for investments (2.4% and 5% more, respectively, compared to 2018).

When applying for financing, social cooperatives generally report positive outcomes, obtaining, in many cases, the total amount they requested (7 out of 10). Unless suppliers perceive the requested amount as being too high, social cooperatives seem to not suffer from credit crunch. This is an important figure, which runs counter to many clichés related to the difficulties in accessing finance for these companies. However, according to a survey presented by Isnet together with BancaEtica in July 2018, social cooperatives could have made more innovation if they had more resources. This was reported as the most relevant reason for not having achieved their set goals regarding innovation (67.1% in 2017 and 84.3% in 2016).

¹¹ The IX survey on social cooperatives conducted in 2020 by UBI Bank Observatory analysed a sample of about 15.249 units. In the months of November and December 2019, 250 questionnaires were submitted to the heads of social cooperatives and consortia of social cooperatives (mainly Presidents, Directors and Administrative Managers). The survey was conducted using the CATI (Computer-Assisted Telephone Interviewing) methodology. 40.8% of the social cooperative interviewed were of Type A, 39.6% of Type B, while 5.2% were consortia of cooperatives and the remaining 14.4% comprised limited responsibility social enterprises. Moreover, 72.1% were older than 20 years, while 11.9% were younger than 11 years old. The size was medium small since only 30.7% accounted more than 50 members. Compared to the previous edition, the cooperatives working in the social and healthcare services sector increased (+ 3.2% compared to 2019 reaching 52.4%).

According to this survey, social cooperatives will maintain the traditional mix of self-financing resources (45.4%, + 4.5%) and resources from banks (35.3%, + 4.3%) to cover their investment needs. Public funding fell significantly (-10.7%) in favour of resources from private individuals (equal to 6.6%). One out of two cooperatives plans to make new investments (54%), including through financial instruments provided by the cooperative system like mutual funds and CFI (Cooperazione Finanza Impresa), an institutional investor funded by the cooperative movement along with the Italian state, whose mission is to promote the creation and growth of worker and social cooperatives.

2.1.2. Access to finance: the supply side

The Italian context is characterised by many actors that supply financial resources to SSE organizations. Some of these are in themselves part of the Italian SSE (cooperative banks, cooperative mutual funds, consortia, foundations, etc.), while others belong to the public sector (national and local governments and specialised government agencies) or to the for-profit sector (commercial banks). Moreover, due to their specificities, some SSE organizations (most notably cooperatives) have their own ways of raising capital, for instance, through loans or investments from their members.

Traditionally, the main suppliers of finance for SSE organizations have been other SSE organizations (including, in particular, cooperative banks) and the public administration. However, we are entering a phase in which new tools and actors are

coming to the fore. The recent reform of the Third Sector, for example, foresees new forms of financing for social enterprises, such as crowdfunding (donation, rewards, lending and equity), mini bonds and social impact funds. Along with new tools, new providers are challenging the prominent role of cooperative banks and public administrations in sustaining the SSE. In particular, two actors are being more active than they used to in the field of social finance. The first one is for-profit banks, which are starting to provide tailored products for SSE organizations, both as a corporate social responsibility strategy and because they increasingly recognise that the SSE is in fact a dynamic and generally low-risk sector.¹² Major commercial banks that have adopted commercial strategies targeted at the SSE include Banca Intesa (which recently incorporated Banca Prossima as a dedicated division for nonprofit organizations), Unicredit with the Universo non-profit package, Ubi Banca with the Terzo Settore (Third Sector) division. The second is private citizens, who are increasingly able to provide direct funding to the projects in which they are interested thanks to new IT platforms. The annual survey on Italian savings and investments conducted by Acri and Ipsos (2020) underlined that, despite the effects of the economic crisis, depositors feel the need to make increasingly careful and responsible choices for the social and civil life of the country.

The supply of finance to SSE organizations by these actors occurs through various financial mechanisms and tools, which are described in the following sections.

¹² In the years immediately following the financial crisis of 2008, when non-performing loans (NPLs) became a major issue for the banking sector, the banks that specialised in credit to the SSE had NPL rates that were very similar to the pre-crisis levels, with irrecoverable debts that were as low as one fifth of the banking sector average (source: ABI monthly outlook, <https://www.abi.it/Pagine/Mercati/Analisi/Scenario-e-previsioni/ABI-Monthly-outlook.aspx>).



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2.2. Overview of the main financial mechanisms

The classification of financing tools adopted for this section of the report moves from three macro groups based on return costs (Baggio et al., 2018):

1. *Donations*: they are resources given without the requirement of a counterpart regarding the provision of goods, services or interests by the beneficiary – the donor is motivated by a charitable, philanthropic and collaborative goal and does not obtain any tangible advantage from supporting the venture.
2. *Debt capital*: debts of a financial nature that require the payment of interest rates. It can be divided into short-, medium-, or long-term bank debt and bonds.
3. *Equity*: This is the capital provided by investors or by the owners of the organization at the time of its constitution and later for financing its activity.

The main financial instruments in each group are briefly presented below.

2.2.1 Donations

Fundraising: fundraising is a necessary activity for the SSE expressly introduced in the Third Sector Act (Art. 7) as a set of activities and initiatives established by a Third Sector body to finance activities of general interest. They include third-party legacies, donations and contributions. In 2016, for the first time, donations from citizens to the non-profit sector surpassed 5 billion euros (Report Giving Italy, Vita Magazine). The main source of fundraising for non-profit organizations is citizens, followed by organizations, providing approximately 873 million euros – 200 million of which is from foundations and 673 million from other organizations. The interest in leaving legacies is significant in Italy (11% of Italians intend to do a solidarity will). A major phenomenon to note

is the strong increase in digitalization, which conditions the form of donations. In Italy, 83% of internet users support a social project at least once a year, with an average annual donation of about €90 (Donate 3.0 - Doxa Duepuntozero with Rete del Dono and PayPal). However, the lack of a managerial fundraising culture in non-profit organizations can negatively interfere with the structural and economic development of fundraising. In fact, fundraising skills are very appealing in the job market.¹³

► *Crowdfunding* is an alternative way of collecting funds for specific projects or ventures based on the raising of small amounts of money from many people. However, no remuneration for the capital is foreseen. This type of crowdsourcing can take different forms (here, the donation types are presented, while the debt capital and the own capital forms are introduced below):

- a. Donation-based: A direct collection of funds, typically through online platforms, set up through small contributions from many individuals who do not receive any financial or material compensation for their donations.
- b. Reward-based: identical to the previous one, except in this case, a material reward (in goods or services) is provided later.

In the last semester of 2018 in Italy, €2 billion directed to social goals was collected thanks to crowdfunding. More than a thousand campaigns were active on the Italian section of the GoFundMe website, which opened just from 1 July.

► *Foundation grants*: Grants are provided to SSE organizations in large part by various types of foundations operating all over the country. Among the most interesting are:

- a. *Banking foundations*: non-profit organizations with legal, private and

autonomous forms whose purpose is to support social and economic local development. In fact, they are closely linked to the territory in which they operate and their governance requires a composite presence of representatives of public, economic and Third Sector institutions. Figure 4 shows their distribution across national territories and their assets. Specifically, they contribute to the financing of activities promoted by nonprofit organizations and other entities, allocating, both through calls and direct assignments, resources and skills in 21 sectors as defined by the Law. In 2016, the donations surpassed €1 billion. Figure 5 shows the percentage distributions of financing allocated to SSE organizations by organization type. The supported projects were more than 20 thousand.

- b. *Community Foundations*: these are nonprofit organizations with legal, private and autonomous personalities, created and developed in a specific territory. They are mainly present in the north of Italy (Figure 6). Their purpose is to improve the quality of life of the community in which they are located. They operate as a junction between the social partners present in a specific geographical area, working with them on emerging needs and on the implementation of culture and grant giving. Community Foundations operate as intermediaries of philanthropy and as activators of public and private resources and competences for achieving impact objectives. These subjects act as a point of reference and hub of philanthropic activity, coordinating and financing local

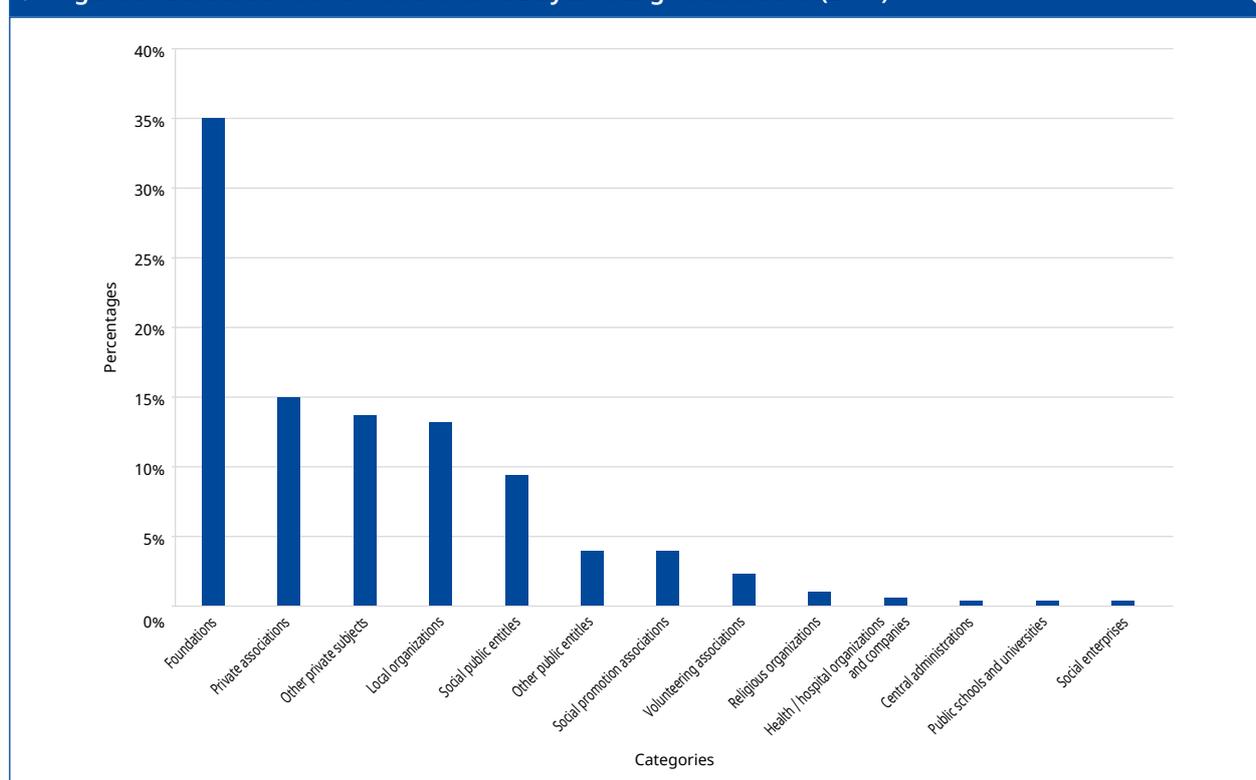
¹³ Source: www.vita.it/it/article/2018/03/03/fundraising-come-cambiano-le-donazioni/146109/

► TAB. 6 Geographical presence of Italian banking foundations, 2018

| Groups | | Small Foundations | | Small-Medium Foundations | | Medium Foundations | | Medium-Large Foundations | | Large Foundations | | Total | |
|----------------|------------|-------------------|-------------|--------------------------|-------------|--------------------|--------------|--------------------------|---------------|-------------------|---------------|------------|-----------------|
| Areas | Mln. Euros | N° | Mln. Euros | N° | Mln. Euros | N° | Mln. Euros | N° | Mln. Euros | N° | Mln. Euros | N° | Avg. Mln. Euros |
| North-West | 36 | 1 | 174 | 3 | 437 | 3 | 931 | 4 | 17,279 | 5 | 18,858 | 16 | 1,178 |
| North-East | 58 | 7 | 136 | 2 | 899 | 6 | 2,859 | 9 | 7,109 | 6 | 11,064 | 30 | 368 |
| Centre | 250 | 7 | 731 | 10 | 797 | 5 | 1,125 | 3 | 5,447 | 5 | 8,351 | 30 | 278 |
| South | 74 | 2 | 174 | 2 | 605 | 4 | 222 | 1 | 919 | 1 | 1,996 | 10 | 199 |
| Total | 419 | 17 | 1217 | 17 | 2739 | 18 | 5,139 | 17 | 30,756 | 17 | 40,271 | 86 | 468 |
| Average | 24 | | 71 | | 152 | | 302 | | 1,809 | | | 468 | |

Source: ACRI, XXV Annual Report (2019)

► Figure 3. Distribution of donations to SSE by Banking Foundations (2019)

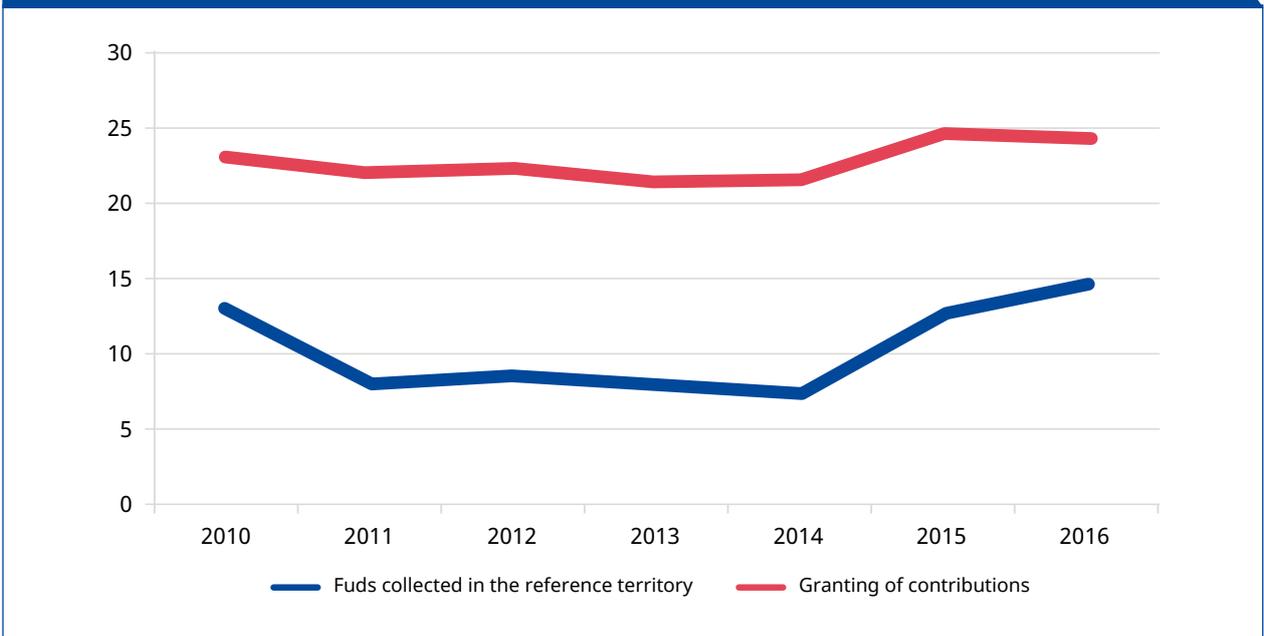


Source: ACRI, XXV Annual Report (2019)



Source: italianonprofit.it

► **Figure 5 A comparison between the collection and the granting of funds by community foundation (billion €)**



Source: Own elaborations on Fondazione Cariplo in italianonprofit.it

of funds and operational). While still not well known these foundations have grown both in Italy and Europe since the 2000s, doubling their numbers (Figure 8 shows the situation in 2005).

- ▶ *Grant and co-financing contributions from public bodies:* public authorities support SSE organizations both with grants and with co-financing contributions designed to support organizations that provide social or general interest services. One of the most interesting instruments in this respect is the *5 per 1000* donations: taxpayers have the option to allocate 0.5% of their income tax (IRPEF) to support a registered institution or in favour of a specific purpose of social interest. The funds come from the state since they are subtracted from tax payments, but their use is at the discretion of the citizen-payer, underlining the responsibility of the citizen to allocate his or her taxes. The amount of the donation is proportional to the tax effectively paid, and the state imposes a ceiling of €400 million maximum that can be allocated through this contribution. The number of nonprofit associations financed by this mechanism is quite large – in 2018, the volunteer associations alone (including those with social goals) numbered 44.433 (Agenzia delle entrate, 2019).

2.2.2 Debt capital

- ▶ *Credit / mutual credit / microcredit:* These are the most common financing methods, especially for small and medium-sized companies (current accounts, credit lines, loans, mortgages, etc.). However, there could also be traditional financing tools dedicated to social projects. For example, the average loans given to social economy organizations by Banca Intesa is about €800.000, and social economy organizations represent approximately 1/16 of the bank's clients. The division of Banca Intesa specialised in Third Sector organizations and lends, on average, a smaller amount, approximately 180.000€, but with a higher ratio of SSE organizations as its customers (1 in 5). The investments are smaller in size, but the clients are similarly treated. Moreover, Third Sector loans have a lower default rate compared to other sectors (Morganti, 2018).
- ▶ *Solidarity certificates:* The Third Sector Act (art. 77) introduces these bonds (or other debt securities) or certificates of deposit issued by authorised credit institutions. Issuers are obliged to allocate the collected funds to the financing of Third Sector entities. Furthermore, intermediaries can choose whether to disburse a sum, as a contribution, proportional to the nominal amount of securities placed, to the most deserving Third Sector bodies, to finance a submitted project.
- ▶ *Crowdlending:* through an online platform, the beneficiary collects loans from many individuals (small individual shares), guaranteeing an interest payment. In 2005, in Great Britain, Zopa Ltd. introduced social lending, now also known as P2P (Peer-to-Peer) lending. In just a few years, it has become an alternative financial model that works on a large scale. There are now over 40 social lending platforms active in the world. As an example, in Italy, Banca Intesa, one of the two largest commercial banks in the country, introduced the Terzo Valore crowd lending service.
- ▶ *Social bonds (SBs):* these bonds are similar to traditional obligations with earnings directed to financing projects with specific benefits or social impact. In Italy, both

social and green bonds can be issued by the state, local authorities, regional bodies and companies (the so-called corporate bonds can be issued by cooperatives). There are two categories of SBs: grant-based and loan-based. The main advantage of the SB tool lies in its flexibility. It is suitable both for the needs of non-profit organizations thanks to the grant-based form and for the needs of entrepreneurial non-profits, with the loan-based form with which beneficiaries can obtain loans at more favourable conditions.¹⁴

- Grant-based SB: bonds that devolve a percentage of the total amount to support projects of high social value, in many cases performed in the bank's and investor's territory. In almost all cases, the share donated is 0.5%, and in practice corresponds to the bank's commissions. No contribution is requested from the subscriber, who receives remuneration identical to that offered by similar bonds. An exception to this viewpoint is the experience of Banca Alpi Marittime (BAM), which first introduced this instrument to the Italian market and is, together with UBI Banca (now part of Banca Intesa), one of the most active institutions on the supply side. Unlike other issues, BAM's ethical obligation subscribers renounce to a percentage of their earnings. BAM also distinguishes itself concerning the methods of payment of the contribution to beneficiaries based on annual payments. These SBs have been the most successful over time for transactions and capital raised. For example, the two issues 'Serie Speciale' of Banca Prossima and the SB issued by UBI Banca for CGM member companies have reached an approximate amount of €65 million until 2015, compared

to the €600 million collected by the UBI Banca. However, only 3 million has been released as grants, for an average amount of approximately €56,000, limiting the social impact of this tool.

- Loan-based SB: bonds whose purpose is to create a plafond of loans granted at favourable conditions to entities operating in sectors with a strong social value. These bonds, unlike the grant-based SB, are aimed at companies and social cooperatives that perform an entrepreneurial activity. The only experience in Italy that specifically falls within this category was that of UBI Banca, with a bond issue aimed at the disbursement of medium-long-term loans to consortia, companies and cooperatives associated with the CGM system. Notably, the merger between UBI and Banca Intesa has thus reduced the offer in this field, limiting it to the products offered by the main company. Considering bonds issued without a precise indication of the beneficiaries but whose purpose is nevertheless to finance projects in the social field, SB in the 'Serie Speciale' bonds of Banca Intesa and those issued by Banca Etica also make a significant contribution to this group. Banca Etica has expanded its operations over the last few years to the so-called 'responsible profit'. The only case in which an economic sacrifice is expressly requested to the investor is that of Banca Intesa: the 'Serie Speciale' issues provide for a lower return than that offered to similar bonds. The lower return is entirely transferred in better conditions of loans for the beneficiaries, in particular as a reduction of the passive rate. The bank's active contribution is guaranteed

¹⁴ See Osservatorio Socialis, www.osservatoriosocialis.it/wp-content/uploads/2015/09/I-social-bond-per-il-non-profit.pdf

by the waiver of fees related to the issue and placement of securities.

- ▶ **Community bonds:** these are interest-bearing bonds for small investors issued by a non-profit organization for their financing. Non-profit organizations receive funds from investors directly to finance a defined project, such as buying a property. Investors receive a document with the details of the repayment, the amount and frequency of interest payments. The earnings for investors comprise the invested capital, the interests and the positive social impact generated by the financing.
- ▶ **Social impact bond (SIB):** it is also known as Pay for Success or Pay for Benefits Bond and defines a partnership between different actors aimed at promoting innovative public policies. It could take the form of bilateral contracts between the parties involved, through which the SSE institution provides the product or service agreed upon by the public administration. Once the social objectives established in the SIB contract have been achieved, the investor will be repaid. The remuneration of the capital is therefore bound to the achievement of a certain social impact, which is measured either by the PA or by an independent assessor. In Italy, only two cases of SIB have been documented: (i) 'the Lorusso-Cutugno' district house in Turin and (ii) Scampia, a waste composting plant in Naples. Both cases are described in boxes 6 and 7, though it is worth noting that neither project has been completed yet, and thus it is not yet possible to assess how effective this tool has been in achieving the stated goals.
- ▶ **Investment funds:** funds with medium risk profiles invested in companies sensible to social issues and not involved in industries such as armaments, tobacco, alcohol,

gambling. Banca Etica, for instance, offers this kind of investment vehicle to its clients.

- ▶ **Member loans:** this tool is one of the main ways in which Italian cooperatives in particular can raise capital, and its use is so widespread that outstanding cooperative member loans in Italy are estimated to exceed 12 billion euros. Member loans for cooperatives are a kind of short-term debt, in the form of loans from cooperative members to the cooperative. In practice, this tool consists of short-term deposits made by members of the cooperative and remunerated by the cooperative at a relatively low interest rate. Member loans are used primarily by consumer cooperatives, although all types of cooperatives resort to it. It should be noted that, while the instrument is meant to be used as a way to raise capital for investments, it is sometimes used by cooperatives as a way to supplement their revenues. To avoid excessive risks for cooperative members, there are strict limitations to the amount of member loans that cooperatives can take out.

2.2.3 Equity

- ▶ **Equity crowdfunding:** it is a fundraising through the sale of company shares in exchange for monetary investment to many investors. It is a new tool available to social enterprises as bottom-up investment. In particular, equity crowdfunding is a financing system that is particularly in tune with social enterprises. The investors are very varied and, on average, for each campaign, they are between 50 and 60. They could be family and friends of the entrepreneur or strangers who consider it interesting to focus on a new project or business model. In 2016, the value of the average loan was around €6.000, but the distribution is unequal, with



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40% of loans under 500 euros. However, although there has been a growth recently, the numbers from 2013 to today remain low, with €19.4 million collected with this instrument overall, of which 4 million only in 2017. This tool faces considerable obstacles, including, in particular, the fact that there is still a strong resistance to investing online, and most of the people who have significant resources to invest are not digital natives. Still, the Crowdfunding Observatory expects that the expansion of the instrument to SMEs and social enterprises will induce an increase of 50% compared to 2017.

▶ *Financing members*: this tool, specific for cooperatives, is based on support by members through the purchase of nominal and tradable shares. A more detailed presentation of the way in which this mechanism works in Italy can be found at the end of this section.

- ▶ *Membership fees*: payments by members, which can be an important source of financing, especially in associations.
- ▶ Management of surplus and assets and tax-free profits
- ▶ *Impact investing funds*: these are funds that are aimed at investing exclusively in companies that provide a positive environmental or social impact. The reasoning behind them is to incentivise the production of positive externalities in for-profit companies and maximise them in non-profit organizations. Furthermore, regarding the COVID-19 crisis, impact investing aims to guarantee a homogeneous recovery across the country and to provide funds to those sectors that need them with more urgency (GIIN, 2020). Over the past four years, the availability of capital for impact investing in Italy has more than doubled, going from 46 million euros in 2017 to 109 million in 2020. During the

same period, the number of investments has increased from 9 to 39.¹⁵ This activity is carried out primarily by five different organizations: OltreVenture, Sefea Impact, a|impact, OPES and Fondazione Social Venture Giordano Dell'Amore. OltreVenture is a pioneer in the sector, active in the field since the early 2000s with two active funds; to this day, OltreVenture has invested approximately 50 million euros in a portfolio of 18 companies, mainly in Italy. Another important actor is Sefea Impact, which is investing through its Fondo Sì almost 8 million euros in projects that span from sustainable food to innovation hubs. Similarly, a|impact is an investment fund aimed at facilitating the scale-up of social companies, integrating the social innovation ecosystem and measuring the effect of their investments. OPES is another impact fund with the mission of sustaining enterprises that generate positive outcomes for low-income people and the more vulnerable sections of the population. Specifically, they are investing over three million euros in 16 different companies, three of which are located in Italy. Finally, Fondazione Social Venture Giordano dell'Amore is an initiative of the Cariplo Foundation (the largest foundation in Italy) set up specifically for impact investing with a portfolio of approximately six million euros in 2020. Adding to investing directly in 13 companies, Fondazione Giordano dell'Amore also invests in the four social impact funds mentioned above. Furthermore, the public sector is also a participant in many of these funds: public sector resources are invested in Italian Impact Investing Funds, both by the European Investment Fund and by the

CDP Venture Capital, an institution aimed at making venture capital a pillar of economic and innovation growth. In addition to having several impact investment funds, CDP Venture Capital also intervenes as an investor in other impact funds through both its own funds and European funds.

2.3 Description of specific mechanisms

Of the various financial mechanisms designed to support SSE organizations in Italy, two in particular deserve attention, as they could be interesting cases to potentially replicate in other contexts: the rotatory fund Italia Economia Sociale and the financing member mechanism in Italian cooperatives.

2.3.1 IES – Italia Economia Sociale (Italy Social Economy)

The Italy Social Economy (IES) program, with a total fund allocation of 223 million euros, is the first subsidised systemic lending and grant tool directed specifically at social enterprises in Italy. It aims to promote the birth of cooperatives and other enterprises with explicit social goals and to support their growth. The beneficiaries are as follows:

- ▶ Social enterprises set up as a company (D.Lgs 112/2017, art 1);
- ▶ Social cooperatives and related consortia (L. N. 381/1991);
- ▶ Cooperative societies with the status of ONLUS (D. Lgs n. 460/1997)

The Ministry of Economic Development issues this tool, and the financing mechanism is based on a double line of financing: a subsidised loan (70% of lending) and market-based financing

¹⁵ Source: Fondazione Social Venture Giordano Dell'Amore Impact Investing Report 2020, available at: https://www.fondazione-socialventuregda.it/wp-content/uploads/2021/05/FSVGDA_Impact-Investing-Report-2020-4.pdf

from one of the banks registered in a specific list at the ministry (30% of lending). The loan can cover up to 80% of eligible expenses. The subsidised rate applied to the subsidised loan granted is equal to 0.5% nominal annual interest rate, while the rate applied to the bank loan share is negotiated with the beneficiary according to the trend in market rates. The loan is granted for up to 15 years, including a maximum pre-amortisation period of four years at a subsidised rate of 0.5% per annum. Moreover, up to 5% of the total amount is provided as a grant.

To access IES, firms must first obtain approval for their financing project from the bank and the central body. The bank defines the contract, which will rule both financing lines. The loan can take a duration of between 4 and 15 years, including a pre-amortisation period of a maximum duration of four years starting from the date of signing the loan agreement.

IES finances investment projects proposed by enterprises working in the social economy. The eligible expenses should be in the range of 200.000 to 10.000.000€ and the projects should aim to:

1. Increase the employment of disadvantaged workers.
2. Enhance the social inclusion of vulnerable people.
3. Achieve specific objectives aimed at safeguarding and enhancing the environment, the territory and the historical-cultural heritage;
4. Achieve any other benefit derived from an activity of public interest or social utility able to fill a specific need within a community or territory through an increase in the availability or quality of goods or services.

To be eligible, programs must be compatible with the statutory purposes of the proposing enterprise and focus on the social activity sectors, while the type of expense must also be defined within certain limits.

IES is a promising tool, able to support social projects through subsidised capital. It should be addressed to those enterprises whose projects are overlooked by the banking sector because either banking intermediaries cannot assess the value of the proposal or because the requested interest rate is too high. However, even in the early stages of implementation, some criticisms are emerging, including, in particular, the length of the process, as the preliminary phase takes a long time since the documents must be approved both by the banks and by the central public authorities. Regarding these challenges, some changes to IES are currently being discussed to make it more appealing, including a provision to shorten the approval times and to increase the grant component from 5% to 20%.

2.3.2 Socio Finanziatore - Financing member

Cooperatives might have among their membership persons who are not directly involved in the activity carried out, but who can contribute capital. Parallel to the so-called 'socio cooperatore' (cooperating member), who actively participates in cooperative activities with a mutual exchange of services and goods, Italian law thus introduced the 'socio finanziatore' or financing member, who contributes to the capital of the cooperative. This type of member is limited in their possibility to participate in the life of the cooperative (limited voting rights, possibility to administer within certain limits, etc.) but can obtain a return on the invested capital within certain legal limits.

In particular, the Civil Code (Art. 2526) introduced the possibility for cooperatives to issue 'financial instruments' to support their business. Articles 4 and 5 of Law n. 59/92 introduce in the cooperative legislation the option of issuing shares to either subsidise a cooperative or participate cooperatively in its business. The capital supply by financing members is registered in a specific section of the share capital on the cooperative balance sheet. The contributions of the financing members may concern money, assets in kind or loans.

The goal is to attract financial investments by investors other than the cooperating members and to remunerate them so that the investment will be attractive. Although the law has allowed cooperatives to use financial tools usually adopted by limited liability companies or by joint stock companies, the cooperative, whose business is based on prevalent mutuality, will maintain some limitations. For these cooperatives, a ceiling on the remuneration of the financial tools offered to members is required. Furthermore, a maximum limit is

fixed to the total number of votes attributable to financing members (no more than one-third of the votes of all members present or represented at each general meeting). Finally, the privileges given to the holders of financial instruments cannot, in any case, 'undermine' the indivisible reserves.

Cooperatives can use various financing tools whose actual specifications should be regulated by the statutes. In particular, regarding the issuing of bonds, cooperatives are subject to regulations for joint-stock companies. Moreover, cooperatives that adopt the limited liability company form can issue financial tools that do not give administrative rights to the investors except for institutional investors as defined by law (rotation funds for the promotion and development of cooperation, mutual funds and pension funds set up by cooperative companies). The main differences between cooperatives that adopt the joint-stock company versus the limited liability company model are shown in Table 7.

► TAB. 7 Comparison between cooperative forms

| Cooperative Forms | Joint stock company | Limited liability company |
|----------------------------------|---|--|
| Members Assets | Shares and stocks | Members shares |
| Financing Member | Yes | No |
| Cooperative Participation Shares | Yes, but the balance sheet needs to be certified | Yes, only for institutional investors |
| Other forms of financing | Yes, all those provided for by law for these types of companies | Yes, but without administrative rights and addressed only to institutional investors |

Source: ww.farecooperativa.it/fare_coop/socio_finanziatore

In summary:

- ▶ The financing member has limited ownership rights (max 30% votes in assembly and board)
- ▶ The financing member has privileged access to the remuneration of capital since the share capital contributed by the financing members can be remunerated to a higher rate than that provided by ordinary members.
- ▶ A contract between the cooperative and the financing members regulates the minimum duration of the financing.
- ▶ Partial withdrawal of the member is possible.
- ▶ The financing member mechanism facilitates the economic participation of citizens, creating forms of widespread ownership in

support of SSE projects, mitigating, in part, the patrimonial risks and reducing the costs of the governance.

- ▶ The financing member mechanism facilitates the participation of institutional investors of various kinds.

The financing member option expands the range of possible investors in a cooperative. In particular, it allows citizens to become partners of a social project, providing support as in the case of crowdfunding and stakeholders of the project itself. However, this tool is applicable only to cooperatives and should be 'handled with care' to avoid potential governance issues.



▶ 3. The SSE and COVID:
Impacts and Outlook

3.1. The impact of the COVID crisis on SSE organizations

Although the available data and the measures in place do not allow for a complete understanding of the actual consequences of the pandemic on the entire Italian SSE, it is still possible to get a sense of the way in which important parts of this sector are being affected.

Table 2 shows that cooperatives are the largest component of the SSE regarding employment and the second largest concerning the number of organizations. A report from Cooperatives Europe (2020) shows how all around the continent cooperatives of all sizes were impacted in their business activities, turnover and workforce. Legacoop revealed that 200,000 workers operating in general interest sectors could be at risk, and 65,000 more people working in catering, cleaning, tourism, entertainment and transport could be affected (ILO, 2020).

Looking at third-sector organizations, the available data seems to suggest that the overall impact of the COVID-19 crisis has been overwhelmingly negative: based on the results of the Italia NonProfit report (2020), almost 60% of the surveyed third-sector enterprises had to suspend formative and cultural initiatives, while almost 30% had to cease operations of people support and work inclusion. The most affected aspect of the business model is fundraising, followed by institutional activities and volunteering management. During the first lockdown, 78% of SSEs stopped their activities completely, thus further reducing income and accentuating financial losses. Consistently with what has been said about the impact on cooperatives, the whole Third Sector is worried about job losses: in fact, a third of the respondents are worried about

losing between 20 and 50% of their workforce, while 22% say that more than half of their workers are at risk. Furthermore, to follow the new public health rules and guidelines, most entities had to redesign the business model and the work environment: smart-working, video conferences and digital fundraising have become the new normal for many institutions, although this forced digitisation is perceived either as unnatural (for almost 40% of the surveyed subjects) or too expensive (for 46%).

The huge growth in the number of people in need due to the pandemic, the increase of help requests for basic needs such as food or shelter and rising educational poverty are all factors that put heavy pressure on SSE organizations. Concurrently, the COVID-19 crisis deprived these enterprises of relevant income sources, limited their productivity and affected the work conditions of the employees, putting the social economy in a hotspot. For instance, while donations were frequent and substantial from both private citizens and corporations during the first wave of the pandemic, putting Italy in third place worldwide for donations for the COVID crisis, the vast majority of these funds went to the national sanitary system or the civil protection corps, leaving to the Third Sector mostly crumbs (Salvatori et al., 2020). Coherently, with these findings, the Italian Institute on Donations (2020) detected marked pessimism in non-profit organizations: 52% of the interviewed entities forecast a decrease in crowdfunding and donations against 16% of 2019. This trend translated in 62% of the non-profit institutions to declare a reduction in gathered resources, with 7.5% seeing their income zeroed altogether. Similarly, Gaboardi et al. (2020) found that most surveyed entities in the Third Sector of the city of Padua are worried about loss of income and donations, while lamenting a work overload,

communication issues and health/security concerns for the employees.

Table 2 also shows the importance that volunteering has for many SSEs, especially for associations. The Observatory on Donations report (2020) suggests that this form of donation may have become even more important during the pandemic since many non-profit organizations cited for the first time volunteering as one of the most important contributions to the enterprise. In line with these findings, the Caritas Observatory in Tuscany (2020) detected a significant increase in the number of volunteers who wanted to participate in social and solidarity initiatives or join third-sector organizations, confirming the resilience and adaptiveness of the social solidarity business model.

From this brief overview, it is possible to understand that the Italian SSE has been heavily impacted by the sanitary emergency. Despite their adaptability and improvements in volunteering participation, many SSE organizations are struggling to tackle the crisis. Concurrently, the pandemic also highlighted the role that the SSE could play in the recovery effort.

3.2. The role of the SSE in post-COVID recovery

In Italy, as with many other countries globally, the COVID pandemic has highlighted, and in some cases exacerbated, various issues that were already plaguing the socioeconomic system: rising income inequality, environmental problems, difficulty in reconciling technological advances and job loss prevention, etc. The pandemic has made these matters worse, leading to rising unemployment and poverty

levels, alongside a widespread lack of confidence in the ability of the public sector on the one hand, and of traditional for-profit enterprises on the other, to provide viable solutions. In other words, there is a growing need for the types of organizations that make up the SSE, that can combine the ability of public sector institutions to pursue general interest goals with the entrepreneurial nature of private sector enterprises.

Throughout their history, one of the key features of SSE organizations has been their ability to identify and meet the emerging needs of their communities. In some cases, they were actually created to respond to those very needs, while in others, their governance and management structures enabled them to address issues that were being neglected by other actors. The wide variety of sectors and activities in which SSE organizations are engaged today (as evidenced in the first part of this paper) are a testament to their capacity to adapt and evolve, and it is precisely this ability, combined with their attention to social and environmental sustainability, that makes them a key resource for post-COVID recovery.

Indeed, SSE organizations are the key actors in various fields that will be increasingly important in the near future, as they determine social welfare but are not well suited to the intervention of public sector organizations or for profit enterprises. From elderly care in a rapidly ageing society to the integration of healthcare and social services at the community level, from social housing to work integration of a rising number of people that are increasingly difficult to employ, there are some challenges related to the welfare system that cannot be addressed without a key role of SSE organizations because public resources are increasingly scarce and

SSE organizations are often better positioned to identify these types of needs and devise entrepreneurial solutions.

At the same time, the strategic role of the SSE in the post-COVID recovery goes well beyond the area of welfare services. As discussed above, SSE organizations are important actors in almost every sector of the Italian economy, from banking to agriculture and retail to services. Following all this, the SSE is well positioned to help address the pervasive challenges related to the future of work and the ecological transition, fostering a more sustainable model of economic development.

To fully tap this potential, the SSE should become one of the pillars on which the recovery effort is built and should be featured prominently in any national recovery plan. Unfortunately, this has not been the case thus far. In the first draft of the Italian Recovery Plan, there was no mention of the social economy, although many voices highlighted the importance of a more cooperative approach to economic matters to change the post-pandemic paradigm. This has improved slightly in later drafts, but the SSE is still not sufficiently recognised.



▶ 4. Conclusions and Policy Recommendations

Italy undoubtedly has one of the most developed SSE ecosystems in the world. The Italian SSE includes hundreds of thousands of organizations employing over 1.5 million people and over five million volunteers. It is a highly diversified universe, regarding both types of organizations and sectors of activity, articulated on many levels and with its own governing bodies and institutions. Its roots date back to centuries ago and are deeply embedded in the country's history and culture, albeit with significant variations from region to region. This importance is also reflected in the Italian legal framework, which explicitly recognises the specificities of these organizations, starting with the explicit recognition of the role of cooperatives in the Constitution all the way to the recent effort to provide a more unified and cohesive set of regulations with the Third Sector Reform.

At the same time, this strength is not fully recognised by policymakers and sometimes by SSE organizations themselves. A unified vision and approach to the SSE as a whole remains lacking, as representative organizations tend to focus on individual components of this universe (cooperatives, volunteer associations, philanthropy, etc.), and there is much room for improvement in many areas to further increase the capacity of SSE organizations. The specific juncture in which the country finds itself at the moment, with the prospect of massive investments to support the post-COVID recovery effort, is a great opportunity to build on the strengths of the Italian SSE ecosystem and address some of its weaknesses.

4.1. Strengthening the SSE as a whole

Euricse recently published a position paper (Euricse, 2021) detailing a set of actions that would go in this direction. The document identifies eight areas of focus that should be addressed in a national action plan supporting the Italian SSE. The first area is consolidation and development, and it includes new financial support initiatives aimed at improving capitalisation and access to credit and capacity-building activities aimed primarily at improving access to European funds. The second area is innovation and includes a set of measures designed to strengthen the capacity of SSE organizations to innovate their processes and services, including establishing closer collaborations with universities and research centres. The third area concerns the relationship between the SSE and the public sector, which could be improved by implementing and refining the new collaborative mechanisms envisaged by the reform of the Third Sector. The fourth area is employment and suggests both measures to incentivise work in SSE organizations and initiatives to position the SSE as a platform for work integration across a broad spectrum of categories and policies. The fifth area is education and training and calls for a national initiative to include the SSE in the curriculum of universities across the country and new training programs designed specifically for public administration officials. The sixth area addresses the issue of visibility of the SSE, which could be improved by developing new data (for instance, national satellite accounts for the SSE developed by the National Institute of Statistics) and new communication and outreach initiatives. The seventh area concerns institutional dialogue, calling for a more unified voice and representation of the entire Italian SSE. Finally, the eighth area

focuses on the international dimension of the Italian SSE and advocates for more concerted efforts to participate in the various international initiatives and institutions where policies for the SSE are discussed.

4.2. Improving the availability of financial resources for the SSE

Beyond these general recommendations, which concern all the different ways in which the Italian SSE could be strengthened, it is possible to draw a few conclusions that pertain specifically to the issue of finance. The first point that should be stressed is that the Italian SSE includes a very heterogeneous universe of organizations, with very different financial needs. It is impossible to compare the financial needs of a multi-billion euro cooperative enterprise like Coop Italia or Conad with those of a small association. Still, in very general terms, the reasons why SSE organizations need financial resources are the same as those of other enterprises. Their specificity regarding finance rather resides in their goals and governance structures. As stakeholder-oriented organizations that do not seek to maximise profits and have democratic governance structures, they have more difficulty accessing some sources of finance readily available to traditional for-profit corporations. At the same time, though, they can access sources of capital that traditional companies have more trouble tapping. These include, for instance, internal sources of capitalisation facilitated by a constraint on profit distribution, philanthropy and donations, the collection of capital as loans or equity from their members and other stakeholders, etc.

In this respect, the analysis presented in Section 2 shows that Italian SSE organizations

have various mechanisms at their disposal that are consistent with their specificities and that many sectors of the Italian SSE are well equipped to access credit products from the banking system as well. Having a well-developed ecosystem is extremely important in this respect, as it increases the ability of SSE organizations to raise funds in various ways. The cooperative sector is the most advanced in this respect, as it can rely on the resources of its mutualistic funds, specialised mechanisms like financing members and guarantee consortia that can help cooperative enterprises access bank loans and other debit instruments. It is important, then, to further strengthen this ecosystem, increase the awareness of these mechanisms on the part of SSE organizations and further develop areas that still have potential for growth. Italian philanthropy, for example, is still at a relatively early stage of development compared to other countries and could grow significantly in the near future.

Having a strong financial support ecosystem will be particularly important following the COVID crisis. As described in Section 3 above, the full scale of the impact of the pandemic on the Italian SSE is still unclear. However, at least three effects are probable and all point in the direction of a greater importance of financial resources. First, the crisis is likely to erode the assets of SSE organizations due to lost revenues and the tendency of SSE organizations to continue providing goods and services to their members and stakeholders, even when margins drop, as we have seen in previous economic crises (Euricse, 2015). Second, the crisis is likely to accelerate the pace of innovation in many SSE organizations. As several recent reports show (ItaliaNonProfit, 2020; Fondazione Italia Sociale, 2021), many organizations are already reorganising and changing their business

model to face the aftermath of the emergency, investing predominantly in digitalization, income diversification, volunteer research and brand awareness. Third, as social needs increase and the public sector deficit skyrockets, SSE organizations will likely be called on to play an even bigger role. All of these trends point to a heightened need for finance to strengthen the capitalisation of SSE organizations and enable them to fund new investments.

Indeed, even before the COVID crisis, SSE organizations had started engaging in more capital-intensive activities, including, for instance, urban renewal, waste management, management of facilities for cultural activities,

social housing development, etc. and as we have seen, there is great potential for their involvement in many new areas of activity. This trend, coupled with the growing needs resulting from the COVID crisis, is likely to further increase the demand for finance beyond what has been made available so far. The scale of intervention called for by the change in Italian society requires the equipment of SSE organizations with new models and tools that can handle a more massive demand for their goods and services. Concerning finance, this means developing an adequate and accessible supply of funds that can be tapped through a mix of different mechanisms and strategies, all consistent with the specificities of SSE organizations.

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