



European
Commission

SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report
ITALY
Carlo Borzaga

This report is part of the study "Social enterprises and their ecosystems in Europe" and it provides an overview of the social enterprise landscape in Italy based on available information as of December 2019. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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This report is a second update of the original country report, submitted by ICF Consulting Services to the European Commission in 2014. The current version is based on available information as of December 2019.

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Countries included in the three social enterprise mappings by the European Commission

| No | Country | TYPE | 2014 | 2016 | 2018-2020 |
|----|-----------------|--------|------|------|-----------|
| 1 | Albania | Fiche | - | - | ✓ |
| 2 | Austria | Report | ✓ | - | ✓ |
| 3 | Belgium | Report | ✓ | ✓ | ✓ |
| 4 | Bulgaria | Report | ✓ | - | ✓ |
| 5 | Croatia | Report | ✓ | - | ✓ |
| 6 | Cyprus | Report | ✓ | - | ✓ |
| 7 | Czech Republic | Report | ✓ | - | ✓ |
| 8 | Denmark | Report | ✓ | - | ✓ |
| 9 | Estonia | Report | ✓ | - | ✓ |
| 10 | Finland | Report | ✓ | - | ✓ |
| 11 | France | Report | ✓ | ✓ | ✓ |
| 12 | Germany | Report | ✓ | - | ✓ |
| 13 | Greece | Report | ✓ | - | ✓ |
| 14 | Hungary | Report | ✓ | - | ✓ |
| 15 | Iceland | Fiche | - | - | ✓ |
| 16 | Ireland | Report | ✓ | ✓ | ✓ |
| 17 | Italy | Report | ✓ | ✓ | ✓ |
| 18 | Latvia | Report | ✓ | - | ✓ |
| 19 | Lithuania | Report | ✓ | - | ✓ |
| 20 | Luxembourg | Report | ✓ | - | ✓ |
| 21 | Malta | Report | ✓ | - | ✓ |
| 22 | Montenegro | Fiche | - | - | ✓ |
| 23 | The Netherlands | Report | ✓ | - | ✓ |
| 24 | North Macedonia | Fiche | - | - | ✓ |
| 25 | Norway | Fiche | - | - | ✓ |
| 26 | Poland | Report | ✓ | ✓ | ✓ |
| 27 | Portugal | Report | ✓ | - | ✓ |
| 28 | Romania | Report | ✓ | - | ✓ |
| 29 | Serbia | Fiche | - | - | ✓ |
| 30 | Slovakia | Report | ✓ | ✓ | ✓ |
| 31 | Slovenia | Report | ✓ | - | ✓ |
| 32 | Spain | Report | ✓ | ✓ | ✓ |
| 33 | Sweden | Report | ✓ | - | ✓ |
| 34 | Switzerland | Report | ✓ | - | - |
| 35 | Turkey | Fiche | - | - | ✓ |
| 36 | United Kingdom | Report | ✓ | - | ✓ |

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List of acronyms

- > **Act on SEaSE** Act on Social Economy and Social Enterprises
- > **CA** Civic Association
- > **COLSAF** Central Office for Labour, Social Affairs and Family
- > **EEA** European Economic Area
- > **EC** European Commission
- > **ERDF** European Region Development Fund
- > **ESF** European Social Fund
- > **Ltd.** Private Company Limited by Shares/Limited company
- > **NOPBS** Non-profit Organisations providing Public Benefit Services
(known as Public Benefit Organisations)
- > **WISE** Work Integration Social Enterprise

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Executive summary

Background

The history of social enterprise in Italy is closely linked to the characteristics and evolution of its welfare system. It spans nearly 40 years, encompassing diverse trends across the various organisational types that make up the social enterprise spectrum. These are: (i) social cooperatives, (ii) entrepreneurial associations and foundations, (iii) limited liability companies, and (iv) traditional cooperatives and mutual aid societies. Building upon a rather undersized non-profit sector that was traditionally focussed on advocacy activities, social enterprise has developed in different stages. In the first stage, voluntary organisations and social cooperatives were the crucial actors. Then, associations and foundations shifting towards a stronger entrepreneurial stance began to play an increasingly relevant role. Finally, limited liability companies qualified as social enterprises because pursuing explicit social aims and adopting inclusive governance have come into play.

Social enterprise initiatives were initially boosted by the strong tradition of civic engagement dating back to the pre-war period and sometimes connected to the Catholic culture. In the 1960s and 1970s, a number of activists inspired by either civic or religious engagement became the promoters of new bottom-up initiatives aimed at advocating the rights of vulnerable social groups against the profound transformations affecting Italian society. They set up new organisations—associations and "social solidarity cooperatives"—relying heavily on volunteers with the aim of supplying social services and integrating disadvantaged people into work. The progressive recognition of voluntary organisations and social cooperatives and the growth and diversification of needs arising in society have increasingly attracted public resources. As a result, over the years, such initiatives have grown dramatically in number, stimulating a collective debate as to the most suitable organisational arrangement for both guaranteeing a sufficient supply of welfare services and exploiting the contributions of civil society.

Concept, legal evolution and fiscal framework

The concept of "social enterprise" was introduced in Italy earlier than elsewhere to designate the first "social solidarity cooperatives", which emerged from the voluntary initiative of groups of citizens to undertake economic activities that formed part of a social project. In 1991, after more than 10 years of unregulated development, these organisations were recognised by law as "social cooperatives", that is to say, cooperatives operating with the purpose of "pursuing the general interest of the community in the human promotion and social integration of citizens". Legal recognition has stimulated both the establishment of collaborative relationships—

especially with local government—and the widespread diffusion and growth of this type of social enterprise.

The impressive development of social cooperatives did not prevent the emergence of other types of non-profit organisations (NPOs) or the transformation of pre-existing organisations into social enterprises (e.g., voluntary associations). In response, a more general legal framework was introduced in 2005-2006, creating the legal category of "social enterprise". It enables a wider set of legal entities to qualify as social enterprise and expands the permissible fields of engagement. While social cooperatives, associations and foundations involved in the provision of services have carried on growing in terms of numbers, turnover and people employed, the number of registered social enterprises has shown a disproportionately small increase. In effect, the law seems to have met with some resistance from eligible organisations due to prevailing cultural prejudices, the costs involved for associations and voluntary organisations wishing to qualify as social enterprises and the lack of fiscal advantages, including those awarded to social cooperatives.

With the aim of re-launching social enterprise under the "third sector" umbrella, new legislation enacted in 2016/2017 introduced some key changes with a view to providing a common framework for both the third sector and social enterprises. While safeguarding the non-lucrative mission of social enterprise, the law is targeted at rendering the social enterprise qualification more attractive both to potentially eligible organisations and to investors.

Mapping

When considering the entire range of social enterprises operating in Italy, regardless of their legal form, the phenomenon turns out to be significant in terms of numbers. Based on the available data on social cooperatives, *ex lege* social enterprises, and associations and foundations with market activity, the estimated number of social enterprises in 2017 amounted to over 102,000 accounting for almost 900,000 paid workers and an annual turnover of 42,700 million EUR.

Ecosystem

The ecosystem for social enterprises in Italy is shaped by the interplay among different key actors that have contributed to acknowledging the specificity of social enterprises, developed support policies and measures encouraging their replication and scaling up and played a role in rendering the social enterprise phenomenon visible. Key actors include social enterprise (especially social cooperative) networks, national and local policymakers, research and education institutions and financial intermediaries. It is important to highlight in particular the self-promoting role played by networks,

which have often compensated for the fluctuating strategies pursued by other actors, particularly policymakers.

Perspectives

Social enterprises are an important and growing sector of the Italian economy. While the integration of social enterprises into the welfare system has been key in boosting their replication, the strong dependence of social enterprises on public policies, coupled with the growing use of competitive tenders based on the lowest price, has contextually contributed to a constraint on their innovative behaviour and future development. Spending reviews implemented by the Italian government in response to the economic crisis have affected the amount of resources assigned to local authorities and sometimes reduced the availability of public resources in sectors that are fundamental for social enterprises, such as the welfare domain. This has, on the one hand, slowed down the expansion opportunities for social enterprises. On the other hand, it has created the impetus for social enterprises to diversify into new markets, including new demand from private users, capturing the large volume of resources spent in the informal market. A key challenge for social enterprises delivering general interest services is to experiment with new cycles of innovation in the health and educational domains and increase the delivery of corporate welfare services addressed to enterprises' employees, families and users. As for work integration social enterprises (WISEs), less dependent on public resources from the outset, a key challenge is to switch from domains with a low added value towards operations that can foster higher professional profiles to the benefit of disadvantaged workers who are already employed. Another strategy, which should be exploited further, is to reinforce partnerships with conventional enterprises. As demonstrated by good practices in this area, such a strategy can enable the continuing integration of disadvantaged workers in the open labour market.



1

BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

The history of social enterprise in Italy is closely linked to the characteristics and evolution of its welfare system. It spans nearly 40 years, encompassing diverse trends across the various organisational types that make up the social enterprise spectrum. These are: (i) social cooperatives, (ii) entrepreneurial associations and foundations, (iii) limited liability companies, and (iv) traditional cooperatives and mutual aid societies. Building upon a rather undersized non-profit sector that was traditionally focussed on advocacy activities, social enterprise has developed in different stages. In the first stage, voluntary organisations and social cooperatives were the crucial actors. Then, associations and foundations shifting towards a stronger entrepreneurial stance began to play an increasingly relevant role. Finally, limited liability companies qualified as social enterprises because pursuing explicit social aims and adopting inclusive governance have come into play.



16 | Background: social enterprise roots and drivers

In Italy, the history of social enterprise spans nearly 40 years, encompassing diverse evolutionary trends across the various legal forms that make up the social enterprise spectrum:

- > social cooperatives;
- > associations and foundations;¹
- > mutual aid societies;
- > limited liability companies; and
- > traditional cooperatives (e.g., community cooperatives).

The development of social enterprises is closely linked to the history of Italy and particularly to its civil society and welfare system.

The first social enterprise initiatives were set up at the end of the 1970s, during a period of poor economic figures and increasing unemployment, in response to the inability of the Italian welfare state to face new needs arising in society. The initiatives were aimed at meeting new needs resulting specifically from demographic transformations, economic recession and the growth of youth unemployment. Additional factors driving the creation of new initiatives included new social and health developments and innovative approaches to some types of disease that led to the deinstitutionalisation of mentally ill patients and the increased likelihood of survival at birth of infants affected by severe psychological and physical disabilities (Borzaga *et al.* 2016a).

Interestingly, the first initiatives were set up with little or no input from public policies. When the first social enterprise initiatives emerged, the Italian welfare system was facing the initial symptoms of financial crisis and the public and private—both non-profit and for-profit—supply of social and personal services was limited, predominantly public, standardised and poorly managed. Indeed, the family was the key actor entrusted by the Italian state to address new needs arising in society.

Except for health² and educational services, most public spending was allocated in the form of cash benefits (mainly pensions), and NPOs were primarily involved in advocacy functions. Cooperatives were mainly engaged in activities for the benefit of their members.

The new initiatives were boosted by a strong tradition of civic engagement, which has its roots in a tradition of self-help activities and associated activity dating back to the pre-war period. This tradition was revitalised in the 1960s and 1970s by new social movements advocating social justice in the face of the profound transformations then

(1) Religious organisations are included in this group. They can be regarded as foundations, with the difference that they are owned by religious orders, which appoint the members of their governing bodies.

(2) Since the creation of the National Health Service in 1979.

affecting Italian society. At the same time, a key role in supporting the development of new initiatives was played by Catholic groups. A number of activists, inspired by either religious or civic engagement, became the promoters of new bottom-up initiatives aimed at advocating the rights of vulnerable social groups. They set up new organisations relying heavily on volunteers and aimed at supplying welfare services and integrating disadvantaged people into work. Innovative initiatives included rehabilitation communities for drug addicts, shelters for homeless people and home-based services for the elderly.

Over the years, such initiatives have grown dramatically in number, stimulating a collective debate as to the most suitable organisational arrangement for best exploiting the contributions of civil society. Since associations and foundations were legally prevented from performing economic activities in a stable and continuous manner, a growing number of spontaneous groups of citizens willing to provide social services chose to institutionalise their activity in the form of cooperatives,³ contributing to the shaping of a new type of cooperative: "social solidarity cooperative". Over the last three decades, social cooperatives have multiplied, helping to change the Italian welfare landscape.

The impressive development of social cooperatives is attributable to a number of enabling conditions. These include the ability of cooperatives to develop in a unitary movement thanks to the support of cooperative movements (e.g., *Confederazione Italiana delle Cooperative and Lega delle Cooperative e delle Mutue*), the establishment of a favourable legal framework (to be discussed in section 2.2) and the decentralisation of public competencies, which paved the way for public financial support for the provision of social services by social cooperatives.

The increasing integration of social cooperatives in the welfare system has contributed, on the one hand, to impressive growth in the size of the sector and to an increase in the degree of coverage of social needs. On the other hand, the strong relationships that social cooperatives have established with public bodies have led to a progressive weakening of their autonomy, pushing several of them to adopt the organisational culture and managerial practices of the public sector. These isomorphic pressures have inevitably eroded the civic activism that marked the first social enterprise initiatives (Borzaga and Galera 2014). This is, however, not the case with all social cooperatives. Empirical research reveals that many social cooperatives, especially those engaged in work integration, have maintained solid ties with the community through governance

(3) Cooperatives in Italy are considered quasi-non-profit organisations. The Italian Constitution of 1946 recognised that cooperatives may have a social or community function and established that they must observe a profit distribution constraint. Later on, the same constraint was placed on social cooperatives in related legislation.

18 | Background: social enterprise roots and drivers

models that involve a plurality of stakeholders, including volunteers (Borzaga and Depedri 2015, Fazzi 2012).

Moreover, a new generation of social cooperatives, strongly rooted in forms of collective awareness, is emerging in innovative fields outside the traditional social service sector. New areas in which social cooperatives are expanding include the management of social housing and social tourism, the regeneration of areas and recovery of unused lands, and the marketing of organic and ethical products harvested by solidarity purchase groups (Borzaga *et al.* 2016a).


Furthermore, the spectrum of social enterprise has been enriched over the years by additional organisations, particularly associations and foundations increasingly engaged in the delivery of welfare services, which are the most widely dispersed and show very significant development potential. Some legislative changes have progressively allowed associations and foundations to conduct economic activities, thus modifying the regulation that prevented them from running such activities on a continuous basis and as their predominant activity. This change paved the way for the engagement of a growing number of associations in the delivery of general interest services, especially in the domains of culture, sport, recreation, research and health, and represents an increasingly relevant component of the social enterprise. A noteworthy addition to these associations are the traditional cooperatives whose salient feature is community development, and—after the approval of the law on social enterprises (see section 2.2)—also limited liability companies pursuing explicit social aims, which mainly deliver education/training, welfare/health and environmental/cultural services.

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

The concept of "social enterprise" was introduced in Italy earlier than elsewhere to designate the first "social solidarity cooperatives", which emerged from the voluntary initiative of groups of citizens to undertake economic activities that formed part of a social project. In 1991, after more than 10 years of unregulated development, these organisations were recognised by law as "social cooperatives", that is to say, cooperatives operating with the purpose of "pursuing the general interest of the community in the human promotion and social integration of citizens". Legal recognition has stimulated both the establishment of collaborative relationships—especially with local government—and the widespread diffusion and growth of this type of social enterprise.

The impressive development of social cooperatives did not prevent the emergence of other types of non-profit organisations (NPOs) or the transformation of pre-existing organisations into social enterprises (e.g., voluntary associations). In response, a more general legal framework was introduced in 2005-2006, creating the legal category of "social enterprise". With the aim of re-launching social enterprise under the "third sector" umbrella, new legislation enacted in 2016-2017 introduced some key changes with a view to providing a common framework for both the third sector and social enterprises.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways; it is their balanced combination that matters most when identifying the boundaries of social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined them again for the purpose of the current phase of the study (see appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in Italy

The concept of "social enterprise" was introduced in Italy earlier than elsewhere to underline the cultural and institutional innovation prompted by the first "social solidarity cooperatives". The concept was shaped to capture the voluntary initiative of groups of citizens who undertook economic activities primarily aimed not at pursuing the interest of their owners but at developing a social project. The innovative reach of these initiatives was attributable to three distinctive features: (i) the pursuing of a social aim in an entrepreneurial way, (ii) the non-profit nature, and (iii) the search for new democratic forms of management (multi-stakeholder) and governance based on the direct participation of the concerned stakeholders, including volunteers.

The main turning point in the development of social enterprise in Italy was the adoption of key legal initiatives at the end of the 1980s and the beginning of the 1990s, which created the conditions for the engagement of private entities in the delivery of welfare

services. These key initiatives were then followed by other acts that progressively enlarged the scope and types of entitled social enterprises.

The concept of social enterprise has been refined over the last decades through relatively intense legislative activities designed to regulate this new type of enterprise. The legal evolution has led to a clear definition of the key features that social enterprises must display, and this is consistent with—although more precise and restrictive than—the definition of social enterprise delivered by the Social Business Initiative in 2011.

When applying the European Union (EU) operational definition of social enterprise, the spectrum of social enterprise in Italy includes both legally recognised and *de facto* social enterprises, as illustrated in figure 1.

Figure 1. Spectrum of social enterprise in Italy



In order to identify commonalities and differences between the national concepts and the EU concept, table 1 maps the characteristics of the two legally recognised forms of social enterprise in Italy—social cooperatives and social enterprises, according to Decree 112/2017 (see section 2.2)—against the EU operational definition.

Table 1. Mapping the legally recognised social enterprises in Italy against the EU operational definition

| Dimension | Criterion | <i>Ex lege</i> SEs | Social cooperatives |
|------------|--|---|---|
| Economic | Engagement in economic activity. | Identical condition: SEs perform an entrepreneurial activity (Art. 1 of Legislative Decree 112/2017). | Identical condition: cooperatives are enterprises engaged in economic activities (Art. 2511 and 2082 of the Civil Code). |
| Social | Explicit and primary social aim. | Larger definition: the pursuit of a social aim is defined by law. Operationalisation of social aims by listing sectors of activities or employment integration (Art. 2 of Legislative Decree 112/2017). | Narrower definition of social aims: stronger focus on fulfilling social integration objectives and limited number of activities: only welfare (social, health and educational) services). |
| Governance | Limits on profit distribution. | Similar condition: distribution among owners/shareholders cannot exceed 50% of the total profits with a cap on each share (Art. 3 of Legislative Decree 112/2017). At least 50% of the profits must be reinvested in the core business or in increasing the assets of the organisation. | Similar condition: distribution among owners/shareholders cannot exceed 70% of the total profits with a cap on each share (Art. 2545-quarter of the Civil Code), and 3% must be allocated to mutual funds. The remaining profits must be moved to indivisible reserves. |
| | Asset lock. | Identical condition: no distribution of assets or parts of assets to owners/shareholders, employees or members. | Identical condition: no distribution of assets or parts of assets to owners/shareholders, employees or members. |
| | Organisational autonomy from the state and conventional enterprises. | Similar condition: public or private legal entities may become members and sit on the board but cannot constitute the majority of the members (Art. 6 of Law 106/2016). | Similar condition: public or private legal entities with the statutory objective of financing and supporting social cooperatives may become members of social cooperatives (Art. 11 of Law 381/1991). |
| | Inclusive governance — democratic decision-making and/or participatory governance. | Similar condition: SEs do not need to be governed by democratic principles; their governance will ultimately depend on the choice of institutional form (association, foundation, social cooperative or company). Regardless of the institutional form, however, SEs must involve workers in the governance of the organisation (Art. 11 of Legislative Decree 112/2017). This obligation is broadly construed to include any information sharing, consultation or participation process through which workers and customers can at least have a say in issues relating to the working conditions and quality of goods and services provided. An SE is obliged to detail its consultation processes in its "social balance sheet". | Similar condition: a social cooperative must have a general assembly, a board of directors and a supervisory body or an external auditor. Every member has one vote in the general assembly, regardless of his contribution to the capital, in conformity with the principle of democratic governance. However, there are some exceptions. Although the law does not oblige social cooperatives to be multi-stakeholder organisations, 70% of them involve diverse types of stakeholders in their membership and one-third of them include workers, volunteers and other types of stakeholders in their boards of directors. Social cooperatives also tend to be involved in networks and collaborations with local institutions and the community. |

2.2. Legal evolution

The first key action creating the conditions for the progressive emergence and widespread development of social enterprises in Italy was **Constitutional Court ruling 396 of 1988**. This ruling established the unconstitutionality of the Crispi Law (Law 6972/1890), which provided that welfare activities had to be organised exclusively by public entities and claimed that support for people in need was the responsibility of all citizens. The Constitutional Court pressed the Parliament to identify adequate legal forms suitable for the management of welfare services.

It is interesting to note that the new "social solidarity cooperatives" that emerged from the bottom up differed from traditional ones in the goals pursued. They did not aim to promote the interests of their members; rather, they were established to serve people in need, who had been neglected by public policies. Unlike traditional cooperative forms, the new cooperatives also included in their membership volunteers, who were not directly interested in benefitting from the services delivered or the new jobs created. Since they were not acknowledged by law, the diffusion of these new types of cooperatives inevitably faced various obstacles. Some of these barriers were subsequently overcome thanks to the contextual support of the cooperative movement, one section of the Christian Democratic Party and some local administrators who felt the pressure of a growing demand for social services that they were unable to meet. The new cooperatives, which in the mid-1980s amounted to approximately 600 (according to initial research),⁴ operated alongside voluntary organisations, which often transformed themselves into cooperatives as soon as their activity increased in importance and stabilisation became unavoidable.

After more than 10 years of unregulated development, this new type of cooperative was recognised in 1991 under **Law 381/1991 on "social cooperatives"**. This law did not just recognise a new form of cooperative, which had been developing since the 1970s: it introduced a new type of enterprise with an explicit social aim.⁵ The innovation consisted in changing the business objective of the enterprise: according to Law 381, the purpose of social cooperatives is to pursue the general interest of the community in the human promotion and social integration of citizens. They are not aimed at promoting the interests of their members/owners.

Law 381 regulates two types of social cooperative, according to whether they manage social-welfare or educational services (A-type social cooperatives) or undertake any other activity—agricultural, manufacturing or commercial—or deliver services (other than social) for the work integration of disadvantaged persons (B-type social

(4) See Borzaga and Failoni 1990.

(5) This generated uncertainty; while some courts approved cooperatives providing social services, some others did not.

cooperatives). Both types are entrepreneurial in nature and derive their income only or mainly from the sale of products and services. The former can operate only in the provision of social and educational services, while the latter have a specific focus on the employment of disadvantaged workers, who must constitute at least 30% of their employees and for whom the cooperatives are exempted from the payment of national insurance contributions. Examples of A-type, B-type and mixed A- and B-type social cooperatives are provided in the three illustrations below.

Illustration 1. Nuova Dimensione (A-type social cooperative)

Nuova Dimensione is an A-type social cooperative founded in 1981 in Perugia, Umbria with the aim of creating effective responses to deal with the numerous cases of social distress in the region. The first services offered by the cooperative included childcare and home assistance for disadvantaged people (the elderly, people with disabilities or psychiatric conditions).

After 28 years of activity, Nuova Dimensione employs more than 200 workers, almost 80% of whom are worker-members. The majority of the staff are women (72, 82%). The turnover for 2013 was EUR 5 970 million and the added value generated during the year was used to remunerate the workers and invest in the social mission.

Nuova Dimensione is engaged in three main areas of intervention:

- > Disability: the services offered, which include school and home assistance, are addressed to people with severely restricted personal autonomy, who are therefore at risk of social exclusion. The values and philosophy that inspire the services are characterised by attention to the people in order to improve the quality of their lives.
- > Elderly: the cooperative runs numerous home and hospital assistance initiatives and manages day care centres for non-self-sufficient elderly and Alzheimer's patients.
- > Social tourism: since 2009, Nuova Dimensione has been engaged in social and sustainable tourism. The primary objective is to promote the development of social tourism in Umbria through the socio-economic development of local communities and the organisation of summer and winter camps for children, the elderly and persons with disabilities (PWDs).

Website: <http://www.nuovadimensione.com/>

Illustration 2. L'Incontro Industria (B-type social cooperative)

L'Incontro Industria is a social cooperative that is part of the consortium InConcerto. Since 1997, this cooperative has been dealing with industrial assembly in the province of Treviso, Veneto.

L'Incontro Industria combines an entrepreneurial dimension (the cooperative supplies its products to more than 70 clients) with a specific social aim, namely, the integration of disadvantaged people into the labour market. The rehabilitation path promoted by L'Incontro Industria is based on the idea that work is the main vehicle for promoting the social integration of disadvantaged people as it contributes to supporting:

- > economic self-sufficiency,
- > exercise of responsibility by assuming commitments, and
- > professional qualifications.

After almost 20 years of activity, the cooperative counts 250 members, of whom 30% are disadvantaged people. In 2015, the turnover of the social cooperative amounted to EUR 10 million.

Website: <http://www.lincontroindustria.it/>

Illustration 3. K-Pax (mixed A- and B-type social cooperative)

K-Pax social cooperative was established in Breno, Val Camonica, Lombardia in 2008 by a group of social operators and recipients of assistance and reception programmes. The main aim is to address the needs of migrants, asylum seekers, refugees and people dealing with difficult life situations.

Services offered by K-Pax fall into five main areas:

- > social housing,
- > social and cultural integration,
- > training activities, prevention and counselling,
- > reception services, and
- > awareness-raising activities and entertainment in local communities.

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The core activity of the cooperative consists in the reception and integration of migrants and asylum seekers within the framework of the Service of Protection for Asylum Seekers and Political Refugees (SPRAR) system. The SPRAR system was established in 2002 by the Italian government to facilitate the integration of beneficiaries through a network of local authorities and NPOs in charge of managing reception services.

One of the most meaningful outcomes in the framework of these projects is the refurbishment of Hotel Giardino, an abandoned hotel located in Breno. The process of restoration and the enhancement of the structure focussed on three main aspects:

- > attention to ecological and environmental impact,
- > enhancement of local beauty, and
- > employment of migrants previously accepted by the cooperative as applicants for international protection.

Thanks to the regeneration of the structure and the implementation of a set of practices aimed at reducing environmental impact, Hotel Giardino has been awarded the prestigious certification "Certiquality" by the EcoWorldHotel platform. A particular feature of the new management is to focus on the local territory, through the use of locally produced organic products and the promotion of the craft and artistic experiences offered by the valley. Another key aspect of the new management concerns the process of social and labour integration of migrants who are beneficiaries of the reception projects carried out by K-Pax. At present, Hotel Giardino permanently employs four migrants, two with psychiatric disabilities, who assist four local workers in the management of the hotel.

Website: <http://www.k-pax.eu/>

Moreover, the prevalence of the non-profit aim does not simply depend on the attitude of the members. It is enforced by law through the obligation to comply with a partial profit distribution constraint on current profits and asset locks. It is noteworthy that this constraint was already in force for all types of cooperatives. Added to this is that the law prohibits changes in the legal form: social cooperatives cannot transform themselves into for-profit enterprises, nor can they adopt a different cooperative form.

Over the years, social cooperatives have become key players in the Italian welfare system and an important sector of the Italian economy. Since they were first created, these organisations have registered an average annual growth rate ranging from 10% to 20%, which was only slightly affected by the 2007-2008 economic and financial crisis.

While Law 381 played a role both in clarifying the identity of social cooperatives and simplifying their establishment, other acts and public policies progressively contributing to creating a public demand for the services provided by social cooperatives are also noteworthy. They allowed for the establishment of partnerships with local administrations for the provision of services.

Two acts that played a role in clarifying the modalities whereby local administrations can manage the welfare services falling within their competencies are Law 142 and Law 241 of 1990. They offered municipalities willing to provide new social services the option to choose among different modalities, including the possibility of entrusting the delivery of services to private providers. The lack of experience of local authorities in organising the provision of services, together with limitations on hiring additional staff imposed by the central government to limit public spending, prompted local authorities willing to increase the provision of services to enter into contracts with already existing or newly created social cooperatives (Borzaga and Ianes 2006).

Following these policy improvements, the process of outsourcing the delivery of social services to social cooperatives increased substantially. By contributing to the creation of new markets for social services and recognising the entrepreneurial character of the new initiatives, public contracting became a key element that stimulated the dramatic growth in the number and size of social cooperatives.

The impressive development of social cooperatives has not prevented the emergence of other types of NPOs. Over the years, several organisations previously engaged mainly in advocacy and voluntary activities have started to provide social services or have turned social service provision into one of their main activities. These include voluntary organisations, associations and operating foundations that had undergone a progressive transformation into *de facto* social enterprises.

With the approval of the law on voluntary organisations (266/1991), the legislative decree introducing the fiscal category of the non-lucrative organisation (ONLUS) (460/1997), and the law on social promotion associations (383/2000), there has been a progressive recognition of the potential of associations and foundations to run economic activities that are consistent with their institutional activities.

The willingness to recognise and regulate these transformations explains the introduction of a more general law concerning the organisations that are entitled to perform social enterprise activities and the permissible fields of engagement. The main innovation of the new legal framework on "social enterprise"—**Law 118/2005** and **Legislative Decree 155/2006**— consists in the enlargement of the legal forms that can be used to set up a social enterprise. The new legal framework does not consider the legal form a condition for eligibility as a social enterprise. The law introduces the legal category of "social enterprise", which takes the form of a voluntary "qualification". It allows any

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organisation to qualify and be legally recognised as a social enterprise regardless of its legal form, provided that it complies with the following criteria:

- > It is a private legal entity;
- > It engages in the regular production and exchange of goods and services having "social utility" (i.e., it engages in one or more of the entitled sectors specified by the same law) and seeking to achieve a public benefit purpose rather than to generate a profit. An organisation is considered a social enterprise if it generates at least 70% of its income from entrepreneurial activities (i.e., production and exchange of goods and services having social utility);
- > It is allowed to make a profit, but it cannot distribute it to its members or owners (non-distribution constraint). All profits have to be reinvested to further its main statutory (public benefit) goal or to increase its assets, which are fully locked;
- > It is registered in the Social Enterprise Section of the Register of Enterprises managed by the Chamber of Commerce; and
- > It publishes both its financial and social balance sheets.

In addition, social enterprises need to comply with a number of good governance principles, such as transparency, openness and participatory decision-making.

The law opens towards new sectors of activity other than welfare and the variety in the types of enterprises eligible to become social enterprises. As compared to the social cooperative legal form, the social enterprise legal category covers a wider range of activities, namely: (i) welfare; (ii) health; (iii) social care; (iv) education, instruction and professional training; (v) environmental and ecosystem protection; (vi) development of cultural heritage; (vii) social tourism; (viii) academic and post-academic education; (ix) research and delivery of cultural services; (x) extracurricular training; (xi) work integration; and (xii) support for social enterprises. Two examples of *ex lege* social enterprises are provided in the illustrations below.

Illustration 4. A.FO.RI.S. (*ex lege* social enterprise)

A.FO.RI.S. – Impresa Sociale was founded in 1988 in Foggia in the South of Italy (Apulia region). Its main activities include the provision of consulting and training services in the field of environment and energy and engagement in sustainable development and eco-management projects.

In 1997, A.FO.RI.S. decided to become an *ex lege* social enterprise with a view to emphasising some of its key features, such as networking, delivering services with high ethical and relational content and supporting local development processes. A.FO.RI.S. aims at being identified as a promoter of change in the fields of energy and environmental sustainability with the involvement of a wide range of stakeholders, including public authorities and private citizens.

As far as consulting and eco-planning activities are concerned, they are addressed to both the private and public sectors. A.FO.RI.S. operates for the integration of the environmental component in the decision-making processes followed by its clients, promoting the protection and sustainable use of cultural, natural and human resources.

As regards training services, they are addressed to unemployed people seeking their first job and recent graduates, as well as people already employed in the labour market, including representatives of public authorities. In addition, A.FO.RI.S. promotes the adoption of environmentally responsible behaviours and lifestyles through education, information and communication programmes in schools and local administrations. The ultimate aim of the various kinds of training offered is to build a new leading class more sensitive towards environmental issues and able to understand their interplay with the mechanisms of markets and public authorities.

Website: <http://www.aforis.it/>

Illustration 5. Welfare Milano Impresa Sociale S.R.L. (*ex lege* social enterprise)

Welfare Milano S.R.L. is an *ex lege* social enterprise based in Milan and operating in the healthcare sector. It is part of Welfare Italia Servizi, a network founded in 2009 and composed of a number of social cooperatives and NPOs. The network aims at enhancing and scaling up the good practices developed by social cooperatives and NPOs in the health sector, and it acts as a franchisor, providing affiliates with expertise, skills and services relating to the process of creating new businesses.

Welfare Milano was created in 2011 by the association of 11 social cooperatives and, since its foundation, has managed a medical centre and a dental centre in the city. Welfare Milano offers quality health services at fair prices, and services include medical examinations, physical therapy and diagnoses. Welfare Milano bridges the gap between the medical services provided by the National Health Service (which are offered at lower rates but are usually subject to long waiting lists) and private for-profit entities (which are much more expensive).

According to an interview carried out in 2015, this enterprise is completely self-financed and self-sustainable through market activities addressed to private and public customers.

The welfare services provided are inspired by the principle of having relationships with the patients that are more human, along with more careful handling and greater accessibility of the service. Welfare Milano aims to take care of people, not just treat their disease. The motto of this social enterprise is "to take care of people and their families during every stage of their lives, from childhood to old age".

Website: <http://solari6.it/>

As stated above, the law crosses the boundaries of legal and organisational forms, enabling various types of organisations—associations, foundations, religious institutions, cooperatives, limited liability and shareholder companies—to obtain the legal status of social enterprise. The law also states that associations and foundations that want to register as social enterprises must provide evidence of their entrepreneurial nature; conversely, joint-stock and limited liability companies applying for social enterprise status have to comply with certain requirements regarding the distribution of benefits (namely, respecting a total non-distribution constraint) and participation of relevant stakeholders.

Nevertheless, the law has met with some resistance from eligible organisations due to prevailing cultural prejudices of associations not willing to qualify as enterprises.

Additional resistance has been generated by restrictions on the presence of volunteers and the participation of private for-profit and public entities in the governance of social enterprises. Two other issues are also noteworthy: the increased costs faced by associations and foundations willing to register as social enterprises and the lack of fiscal advantages, including those already awarded to social cooperatives.

Moreover, the law does not automatically assign the status of social enterprise to social cooperatives. It allows for their registration provided that they modify their statutes: they must comply with the new obligations to issue a social balance sheet and to further the participation of the relevant stakeholders. As a consequence, most social cooperatives, associations and foundations have continued to operate as before the law and decided not to register as social enterprises.

At the same time, newly established organisations that *de facto* operate as social enterprise have preferred to choose traditional legal forms, disregarding the new opportunity offered by the law to acquire the social enterprise legal status.

These trends explain why in the intervening years *de facto* social enterprises have kept on growing in terms of numbers, turnover and people employed and, at the same time, the number of organisations qualified by law as social enterprises has remained rather low both in absolute terms and when compared to the number of organisations that could potentially qualify as social enterprises.

In 2012 mutual aid societies were also included in the Register of Social Enterprises. These organisations were one of the pillars of the health sector until the 1978 reform that introduced a universal public health system. Following this reform, most of the health services delivered, premises owned and workers employed by mutual aid societies were taken on by government authorities as part of the process of constructing the Italian public health system. Only a few mutuals managed to survive, providing integrative insurance services to their members while continuing to be regulated under Law 3818/1886. In recent decades, following a progressive increase in the demand for health services and the contraction in the coverage of services by the public system, interest in these institutions has re-emerged and new mutual health societies have been established. As a result of this renewed interest, mutual aid societies were taken into consideration by the government, which required them to register as social enterprises with Legislative Decree 179/2012 and the Decree of the Ministry of Economic Development dated 6 March 2013.⁶

(6) For more details on the legal framework governing mutual aid societies, see Petrelli 2005.

Key changes have recently been introduced by **Law 106/2016 reforming the "third sector"**⁷ and Legislative Decrees 117/2017 (Code of the Third Sector) and 112/2017 (Revision of the Social Enterprise Law).

As stated by the government, the objective of Law 106/2016 was twofold: first, to provide a common framework for the sector with a view to overcoming its fragmentation from different perspectives, in terms of organisational types (induced by the various legal forms that had been introduced in the previous decades on voluntary associations, social promotion associations, social cooperatives and social enterprises, etc.), in terms of constraints and support measures, and in terms of fiscal advantages; and second, to promote social enterprise development by removing some of the key obstacles that had penalised its development.

A common framework was provided to the entire third sector by Legislative Decree 117/2017. It defines the meaning of "non-lucrative" and "general interest", identifies the activities that third-sector organisations can perform, and establishes the rules that third-sector organisations must comply with to be recognised as part of the sector (third-sector entity). The law defines and regulates the following forms: voluntary organisations, social promotion associations, philanthropic entities, social enterprises (including social cooperatives), the networks of third-sector organisations, and mutual aid societies. The same decree regulates each of these forms individually, except for social enterprises, which are the exclusive object of decree 112/2017.

Consistent with Law 118/2005 and Law 106/2016—and in line with the EU operational definition—a social enterprise is now defined as a "private organisation that runs entrepreneurial activities for civic, solidarity and social utility purposes and allocates profits principally to achieve its corporate purpose by adopting responsible and transparent management modalities and favouring the largest possible participation of employees, users, and other stakeholders interested in its activities".

The new regulation safeguards the non-lucrative mission of social enterprise (and its belonging to the third sector). At the same time, it introduces some important novelties:

- > It replaces the total distribution constraint with a combination of remuneration caps similar to the rules applied to social cooperatives. More specifically, social

(7) Law 106/2016 is referred to as the "Reform of the Third Sector, Social Enterprise and Regulation of the International Civil Service". The term "third sector" is here defined as "the group of private entities pursuing civic, solidarity and social aims that are not profit oriented. These entities implement the principle of subsidiarity consistently with their statutes and support and carry out general interest activities through different types of activity, whether voluntary, payment-free, mutual oriented or production and trading related". Law 106/2016 makes a clear distinction between the non-profit sector (which also includes political associations/parties, trade unions, professional associations and associations representing particular economic interests) and the above-mentioned organisations belonging to the "third sector".

enterprises established as cooperatives or limited liability or shareholder companies are now allowed to distribute up to 50% of the profits generated in a given year to investors (or donate them to other third-sector organisations), while at least 50% of the profits generated must be reinvested in the social enterprise and the assets must remain locked. The total distribution is applied to social enterprises set up as associations and foundations;

- > It allows for the appointment of both private enterprises and public authority representatives on the boards of social enterprises without allowing them to direct or chair the same boards, this with a view to encouraging the adoption of more inclusive governance models;
- > It enlarges the fields of engagement and the categories of disadvantaged workers integrated, and it provides for the recognition of benefits based on the degree of disadvantage such workers face. Compared with the 2005/2006 regulation, additional sectors of activity include community broadcasting, development cooperation, fair trade, social housing, services for migrants and refugees, microcredit services, social agriculture, organisation and management of non-professional sports, and re-use and requalification of premises seized from organised crime.
- > It recognises the qualification of social enterprise to all social cooperatives (without changing their by-laws), but it expands their activity to only a few sectors (health and training) without allowing for their operation in all the sectors where the other social enterprises are entitled to operate. In other words, social cooperatives remain specialised in the provision of welfare services.
- > It recognises tax exemption for non-distributed profits (in line with the social cooperative fiscal regulation already in place) and it introduces other targeted measures aimed at attracting investments (see section 2.3).

Although the adoption of the qualification of social enterprise remains voluntary, the law provides that third-sector organisations that operate like enterprises (i.e., commercial revenue exceeds the revenue derived from other sources, like donations and subsidies) must comply with the rules applied by the Civil Code to all types of enterprises.

During the process of approval of Law 106/2016, a new legal form was introduced by Law 208/2015 (referred to as the Stability Act 2016). This new law introduced the qualification of "benefit corporation" (*società benefit*). According to this law, the qualification of "benefit corporation" can be assigned to all enterprises that jointly pursue a profit aim and one or more common benefits. Since benefit corporations do not comply with the non-profit distribution constraint and are not required to have an inclusive governance, they cannot be included in the social enterprise universe. Given their regulation by law, they can be regarded as a sort of mark designed to

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communicate adherence to certain corporate social responsibility standards. The main difference with other private marks (as, for instance, B Corporations) is that in cases of benefit corporations, failure to fulfil promises can lead to a court report.

Table 2. Legal evolution of social enterprise in Italy

| Year | Type of legal act | Description – main aim |
|-----------|--|---|
| 1988 | Constitutional Court ruling 396. | Established unconstitutionality of Law 6972/1890 (Crispi Law) providing that welfare activities had to be organised exclusively by public entities. |
| 1991 | Law 381 (on social cooperatives). | Acknowledged a new cooperative form explicitly aimed at pursuing the general interest of the community (A-type provides social, health and educational services; B-type integrates vulnerable persons into work). |
| 1991-2000 | Law 266/1991 on Voluntary Organisations, Legislative Decree 460/1997 on ONLUS, Law 383/200 on Social Promotion Associations. | Progressive recognition of the potential of associations and foundations to run economic activities that are consistent with their institutional activities. |
| 2005-2006 | Law 118/2005 and Legislative Decree 155/2006 (on SEs). | Allowed the establishment of SEs under a plurality of legal forms (association, foundation, cooperative, shareholder company) and enlarged the set of activities of SEs. Introduced a total distribution constraint and asset lock. |
| 2012-2013 | Legislative Decree 179/2012 and Decree of the Ministry of Economic Development of 6 March 2013. | Established that mutual aid societies must register in the SE section at the Companies Register. |
| 2016 | Law 106/2016 (Reform of the Third Sector, SE and Universal Civil Service). | Re-launched the SE by introducing a new qualification. Established its non-profit purpose and placed the social enterprise within the third sector. Favours the development of social enterprises other than social cooperatives. |
| 2017 | Legislative Decree 112/2017 (revision of the previous legislation on SEs). | Repealed Legislative Decree 155/2006 and introduced a new discipline, which provides for partial distribution constraint, more inclusive governance, enlargement of the sectors of activity and exemption from corporate tax on retained profits. |

There are no marks, labelling schemes or certification systems for social enterprises in Italy. There are, however, systems for social reporting, which are specifically targeted at social enterprises *ex lege* and social cooperatives. Social cooperatives and social enterprises must compile a social report (*bilancio sociale*) every year, following the

guidelines provided by the Ministry of Labour and Social Policy. The reports—to be deposited at the Companies Register of the Italian Chambers of Commerce—are aimed at providing information about the compliance of the social enterprise with its social objectives and identifying the added value generated and its distribution within the reference community. Besides describing the mission of the organisation, the report also covers the resources used, the results achieved and the impacts generated by the organisation's activities.

2.3. Fiscal framework

The fiscal framework addressed to both the non-profit sector in general and social enterprises in particular is at the time of writing in a transition phase. Its final design depends upon the full application of the Reform of the Third Sector and Social Enterprise (Decreets 117/2017 and 112/2017), which is waiting for approval from the European Commission.

This notwithstanding, social enterprises enjoy and will continue to enjoy different tax regimes depending on the following conditions: i) whether they have the social enterprise legal status, and ii) what legal form they adopt. The main distinction is between associations and foundations on the one hand and social cooperatives and social enterprises on the other.

The tax regime for associations, foundations, social cooperatives and social enterprises other than social cooperatives is regulated by both dedicated legislation and Legislative Decree 460/1997, which introduced the fiscal category of "ONLUS" (non-lucrative organisations). This fiscal category is granted by law to voluntary organisations, social cooperatives and non-governmental organisations (NGOs) accredited by the Ministry of Foreign Affairs. It can be awarded by the Fiscal Agency to associations and foundations, provided that they demonstrate that they act on the basis of solidarity.

Associations and foundations (not only ONLUS) are exempt from corporation tax (IRES) on the basis of the non-commercial nature of the activities carried out. In principle, the criterion for tax exemption is the relevance of commercial activity over one fiscal year: when commercial activity is marginal, fiscal benefits are granted; when commercial activity exceeds 50% of the revenue, corporate tax is fully applied.

The fiscal framework for associations and foundations accredited as ONLUS follows the same principle of the commercial or non-commercial character of the revenue. However, it provides that given activities, as well as those related to institutional activities or those contracted out by public authorities, are by definition classified as non-commercial. As a result, these activities are not subject to corporate tax. Moreover, transfers to ONLUS

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are not subject to inheritance taxation and donations are tax-deductible. In addition, several regions exempt ONLUS operating under their jurisdiction from partial payment of the regional tax aimed at financing the health system (IRAP).

Social cooperatives enjoy more favourable and consistent fiscal treatment. They are exempted from payment of corporate tax (IRES) on retained profits, and this has actually contributed to strengthening the capitalisation of social cooperatives. When compared with the standard VAT rate charged to conventional enterprises (22%), A-type social cooperatives charge a nil or 5% VAT rate.⁸ Furthermore, B-type social cooperatives are exempted from the payment of national insurance contributions for the disadvantaged workers they have integrated, and since they are ONLUS by law, donations made to them are tax-deductible.

Conversely, at the time of writing, social enterprises other than social cooperatives, which are regulated by Decree 155/2006, do not enjoy any of the above-mentioned fiscal advantages: they are subject to the payment of corporate tax, VAT, IRAP and social security costs (if they engage in work integration activities) just as any other enterprise.

Provided that the new tax regime is approved by the European Commission, the legislation on ONLUS will be abolished. Third-sector organisations registered in the Third Sector Register will enjoy more favourable tax treatment similar to the one currently enjoyed by ONLUS. In addition, they will benefit from a number of other advantages on, for example, so-called "social bonds"; they will have the opportunity to use public premises at no cost or lower costs. As for social enterprises, the new Decree 112/2017 maintains the same treatment for social cooperatives as before, and it exempts social enterprises other than social cooperatives only from payment of corporate tax (IRES) on the retained profits. It introduces some new fiscal advantages designed to improve access to financial resources for all social enterprises; the most important one is the possibility offered to individual taxpayers to deduct from their tax payroll 30% of the capital invested (as risk capital) in new social enterprises (up to five years from their establishment), provided that this risk capital is maintained for at least 5 years up to a maximum amount of one million EUR. The same rule applies for businesses: the amount they can deduct from taxable income is 1,800,000 EUR.

(8) A 5% VAT rate for social cooperatives was introduced by Law 208/2015 (Stability Act of 2016). The rate was previously 4%.


Table 3. Fiscal framework for social enterprises in Italy (current and after approval of third sector and social enterprise reform)

| Fiscal Framework | Corporate tax exemption | Tax reduction on donations & investments | VAT exemption or reduction | Exemption from social security contributions | Full exemption or reduced IRAP (taxation on income generated by productive activity) | Exemption from registration charges & inheritance tax |
|---|--|--|---|--|---|---|
| Current tax regime approved by Decrees 112/2017 and 117/2017 | Associations and foundations: exemption on non-commercial revenues. Social cooperatives: exemption on 97% of non-distributed profits. | Individual and business donations to associations, foundations and social cooperatives registered as ONLUS: full exemption. | Associations and foundations: exemption on non-commercial revenues. A-type social cooperatives: VAT rate lowered to 5% (standard VAT rate is 22%). | Full exemption for B-type (work integration) social cooperatives. ⁽¹⁾ | Regions can reduce the tax rate for ONLUSs and social cooperatives to as low as 0 (provided that they observe the <i>de minimis</i> regulation). | ONLUSs and social cooperatives are exempted from payment of registration charges. ONLUSs and social cooperatives are exempted from payment of inheritance tax. |
| Discipline that will come into force after EU approval | Registered SEs will enjoy a corporate tax exemption on their non-distributed profits. Social cooperatives: exemption on 97% of non-distributed profits. | Individual and business donations to organisations registered as third-sector entities and social cooperatives: ⁽²⁾ full exemption. Individual and corporate taxpayers will be able to deduct from their tax payroll 30% of the capital invested (as risk capital) in newly established SEs. | - | - | Regions will be able to extend tax reduction to all organisations registered as third-sector entities, excluding SEs set up as limited liability companies, shareholder companies, traditional cooperative forms. | Exemptions from payment of registration charges and inheritance tax and charges will be extended to all organisations registered as third-sector entities, excluding SEs set up as limited liability companies, shareholder companies, traditional cooperative forms. |

3

MAPPING

When considering the entire range of social enterprises operating in Italy, regardless of their legal form, the phenomenon turns out to be significant in terms of numbers. Based on the available data on social cooperatives, *ex lege* social enterprises, and associations and foundations with market activity, the estimated number of social enterprises in 2017 amounted to over 102,000 accounting for almost 900,000 paid workers and an annual turnover of 42,700 million EUR.



3.1. Measuring social enterprises

Consistent with the EU operational definition of social enterprise, the universe of Italian social enterprises includes both officially recognised social enterprises (social cooperatives and social enterprises *ex lege*, including limited liability or shareholder companies fulfilling the legal criteria set by the Social Enterprise Law) and organisations complying with the EU operational definition but falling outside the legal frameworks specifically designed for social enterprises. These include associations and foundations pursuing social aims and oriented to deliver welfare services; religious institutions engaged in the provision of educational, health and social services; and traditional cooperatives pursuing general interest aims.

Consequently, assessing the size of the entire social enterprise universe and its evolution over time is a rather difficult task. However, an estimation is possible, although with some limitations. Aggregated data are available for all third-sector organisations and social cooperatives up until year 2017. Disaggregated data (by sector of activity, characteristics of the workforce, region, etc.) are available for social cooperatives for 2003 to 2017 and for associations and foundations up until year 2011. Data on social enterprises set up as other legal forms are incomplete and there are no data available for traditional cooperatives pursuing general-interest aims.

This section maps the scale and characteristics of social enterprise in Italy. It also describes the role and activities of social enterprises in contemporary society and the key enabling factors and constraints influencing their development.

The main sources of data on social enterprises in Italy include:

- > The National Institute of Statistics (*Istituto Nazionale di Statistica*, ISTAT): in its "Industry and Services Census" (hereinafter the ISTAT Census), ISTAT publishes structural data on enterprises, including figures on the number of active enterprises, employment, the legal form adopted by social enterprises and the main activities carried out. Since 2001, ISTAT has conducted a special census on the non-profit sector that provides information on the main legal forms covered by NPOs in Italy, namely, social cooperatives, associations, foundations and other NPOs such as religious institutions (ISTAT 2013, 2014, Lori 2019). Since completing the second census, which provides data for the year 2011, ISTAT has continued to collect data through a biennial "continuous census" that provides aggregated data on the sector. (The most recent available data refer to years 2015 and 2017.)
- > The National Institute for Social Security (*Istituto Nazionale di Previdenza Sociale*, INPS): INPS provides data on the number of people employed both in public and private Italian organisations.

- > The National Network of Research Institutes on Social Enterprises (IRIS Network): The IRIS Network's first report on social enterprises was published in 2009 (Borzaga and Zandonai 2009), the second in 2012 (Venturi and Zandonai 2012a), and the third in 2014 (Venturi and Zandonai 2014). The reports define social enterprises as organisations that are officially registered as social cooperatives and social enterprises at the Italian Chamber of Commerce.
- > The European Research Institute on Cooperative and Social Enterprises (Euricse): social enterprise data processed by Euricse draws on the AIDA (*Analisi Informatizzata delle Aziende*) database created by the Bureau van Dijk and on INPS data.

Based on the EU operational definition and data drawing on the above-mentioned sources, particularly on the ISTAT censuses, it is possible to: i) provide some general information on the size and evolution of the whole non-profit sector that allows a comparison of the dynamics of entrepreneurial and non-entrepreneurial organisations and ii) estimate the size of each social enterprise type. The information regarding social enterprises refers to social cooperatives, *ex lege* social enterprises and associations and foundations with market activity.⁹

No data are available on traditional cooperatives that have not registered as social enterprises, even though they may pursue explicit social aims.

Data on the whole sector refer to year 2017. For the sake of homogeneity, most data on the number of social enterprises and employees refer to year 2011 or 2015. However, in order to demonstrate the dynamism of social cooperatives, updated data referring to this particular type of social enterprise are also provided for the period up to 2017.

The following sections focus first of all on the whole sector and then on each legal type, namely, social cooperatives, associations and foundations, mutual aid societies, *ex lege* social enterprises and traditional cooperatives.

The non-profit sector: size and dynamics

According to the census conducted in 2018, in 2017 there were 350,000 NPOs active in Italy, of which 4.5% (15,770) were social cooperatives, 85.1% were associations, 2.1% were foundations and 8.3% were other legal forms (mainly religious entities) (Lori 2019). Overall, the counted organisations employed 844,774 workers. Their distribution across legal forms differed rather significantly, however, from their size: social cooperatives employed 52.2% (441,000) of workers over the total number of occupied persons as compared to 20% employed by associations, 12.1% by foundations and 15.7%

(9) Based on ISTAT criteria, more than 50% of the activity of associations and foundations must be market activity in order for them to qualify as social enterprises. The term "market" refers to any exchange that results from a contractual agreement.

by other legal forms. Some 71.7% of the overall number of persons employed were women, 79.6% of workers were employed via a permanent employment contract, and 53.8% were employed part-time.

The majority of counted organisations delivered cultural, sport and recreational activities (64.5%), followed by social and health services (12.7%). When considering the distribution of the work force the picture changes quite significantly: 36.4% were employed by organisations running social services and 22.6% by organisations engaged in health services; 11.6% were engaged by work integration organisations (i.e., social enterprises) and just 6.3% were employed by organisations delivering cultural, sport and recreational services.

Similarly interesting is the trend of both organisations and employed people in absolute terms and with respect to the more general economic trend. Since 2001, when NPOs amounted to 235,232, they have increased by 49%, from 5.8% to 8% of the total number of enterprises. Over the same period, the number of employees increased by 72.9%, from 4.8% to 7% of the total number of employees of private enterprises. Social enterprises, especially social cooperatives, have significantly contributed to this trend.

Social cooperatives

By cross-referencing ISTAT census data with INPS data and the economic-financial data stored in the Chamber of Commerce, Agriculture, Industry and Craftsmanship, it is possible to provide a fairly accurate picture of the Italian social cooperatives. According to the ISTAT Census,¹⁰ in the year 2017 there were 15,770 social cooperatives, which accounted for 4.5% of the overall number of NPOs. In 2017, social cooperatives were located mostly in the northern regions (36.8%), followed by the southern (28.0%) and central (18.0%) regions and the Islands (17.2%).

This distribution is also reflected in the analysis conducted by sector of activity: in 2017, approximately 54% of social cooperatives operated in sectors typically associated with A-type social cooperatives or, more precisely, 45.1% in the social service sector, 8.4% in education and research, 7.7% in health and 2.5% in sport, cultural and recreational activities. A further 34.9% were engaged in work integration and social cohesion.

According to the ISTAT census data, social cooperatives employed 365,006 paid workers in 2011 (Borzaga *et al.* 2015) and 441,000 in 2017. The overall number of people employed by social cooperatives is one-third of the workers employed by the entire cooperative sector and little more than 50% of the workers employed by NPOs. It is interesting to note that although social cooperatives represent only 4.5% of the overall number of NPOs, they show significant employment potential. Furthermore, it

(10) Data based on ISTAT database at <http://dati.istat.it/>.

should be highlighted that, in 2015, more than 42,000 volunteers offered their services in social cooperatives.¹¹

INPS data allow for both an extension of the analysis over a longer time span and an evaluation of the impact of the crisis on the occupational dynamics of these cooperatives. According to INPS data, at the end of 2011, social cooperatives had activated 381,248 payroll jobs, 71.9% of which were permanent positions and 18.9% of which were temporary or seasonal jobs¹² (Carini and Borzaga 2015). Finally, B-type and mixed A- and B-type social cooperatives employed more than 24,000 disadvantaged workers, accounting for 29.3% of the overall number of paid workers of such social cooperatives.¹³

Table 4. Key data on social cooperatives

| Social cooperatives | 2003 | 2005 | 2011 | 2017 | 2003-2017 (percentage variations) |
|---------------------------------|-----------|-----------|-----------|------------|--------------------------------------|
| Number | 5,515 | 7,363 | 11,264 | 15,770 | +186% |
| Paid workforce | 189,134 | 244,233 | 365,006 | 441,000 | +133% |
| Disadvantaged workers | 23,587 | 30,141 | 30,534* | 32,000 | +36% |
| Users | 2,403,245 | 3,302,551 | 6,000,000 | 7,500,000* | +212% |
| Total turnover (million EUR) | 4,826 | 6,381 | 10,000 | 11,900 | +147% |

Sources: ISTAT (2003, 2005, 2011), Lori 2019, * Euricse estimation.

Particularly interesting is the positive occupational dynamic of social cooperatives during the economic crisis, especially when compared with the rest of the economy. Between 2008 and 2014, the overall number of employees of social cooperatives increased from 340,000 to 407,000, registering a growth of 20.1%. Data provided by INPS show that, between 2008 and 2014, the number of payroll jobs related to permanent positions increased by 25.7% (against +15.3% for the cooperative sector overall) and the number of temporary positions increased by 19% (against +3.5%), whilst the occupational dynamic for collaboration contracts decreased by 20%. This

(11) See: <http://dati.istat.it/> (Accessed 28/01/2020).

(12) The remaining 9.2% refers to non-standard work contracts (e.g., in-house consultants, workers temporarily employed to carry out a specific project, etc.).

(13) As far as B-type social cooperatives alone are considered, they employed 21,942 disadvantaged workers.

positive dynamic continued after 2014. In the longer time frame of 2003 to 2017, the growth rate amounted to 186% for social cooperatives, 133% for employees, 212% for users, 147% for the amount of turnover and 36% for the disadvantaged workers employed. (This last figure refers only to workers for whom the cooperative enjoys exemption from social security payments, not all the disadvantaged workers employed.)

As regards the economic dimension of social cooperatives, data from the Company Registers at the Chamber of Commerce show that the 14,342 social cooperatives whose 2015 financial report was in the AIDA dataset generated an overall turnover of approximately 11.9 billion EUR and made investments amounting to 9.8 billion EUR. In 2011, 72.4% (62.3% in 2017) of the overall number of social cooperatives registered a value of production lower than 500,000 EUR. It is interesting to note that the social cooperatives registering a value of production higher than 1 million EUR generated 77.9% of the overall value produced in that year. In addition, economic and financial data confirm the relevance of the social assistance and healthcare sectors, which generated 69.9% of the total value of production (Carini *et al.* 2013).

As far as the composition of revenues is concerned, ISTAT data confirm the entrepreneurial nature of social cooperatives: during 2011, market activities accounted for 93% of their overall income. In detail, census data show that 65.3% of income was generated by contracts with public institutions and 27.7% by sales of goods and services to private customers or companies. The income generated from public grants and donations was negligible. The analysis focussing on cooperative types shows that A-type cooperatives rely mainly on public contracts: 68% of total income against 54.4% registered by B-type cooperatives.

During the economic crisis, social cooperatives managed to increase both turnover and employment and continued to invest. Some differences are noticeable, however, between the first and second wave of the crisis (2008 to 2011 and 2011 to 2014). Up until 2012, social cooperatives had been growing in number, but over the subsequent years many social cooperatives reacted to the crisis through a series of mergers. Cuts in both public and private resources coupled with unchanging levels of turnover and maintenance of employment levels and services delivered resulted in a gradual reduction in profit margins. However, this did not cause a decrease in the levels of capitalisation or employment.

Conversely, capitalisation increased thanks to growth in members' capital contributions. A recent analysis conducted on the financial budgets of a representative sample of more than 7,100 social cooperatives found that, from 2008 to 2012, social cooperatives increased the value of production by 32.4% while staff costs—and, proportionally, employment—rose by 35.6%. As a consequence, social cooperatives registered a decrease in operational margins of 91.7%, from 73 million EUR to 6 million EUR over the same time span (Alliance of Italian Cooperatives 2014). In essence, as a reaction

to the reduction of margins, the typical practice of allocating profits to reserves has been replaced by capital increases—usually directly provided by worker-members—which grew by 59.1%, rising from 258 million EUR in 2008 to 410 million EUR in 2013. When jointly considering resources provided by the members of social cooperatives and the indivisible reserves, at the end of year 2015, the total assets (resulting mainly from indivisible reserves) of Italian social cooperatives amounted to 2.5 billion EUR.

As regards the different typologies of needs addressed, it should be borne in mind that social cooperatives support a wide range of target groups. About 70% of social cooperatives offer social services to the wider community; 30% facilitate the work integration of disadvantaged groups, such as persons with physical or mental disabilities, current or former psychiatric patients, drug and alcohol addicts, young individuals from troubled families, migrants, asylum seekers, and criminals sentenced to punishments that are alternatives to detention.

Associations and foundations

To reconstruct the number of *de facto* social enterprises set up as associations and foundations it is necessary to refer to the ISTAT census of 2011. According to this census, the number of NPOs other than social cooperatives—associations, foundations and other organisational types¹⁴—stood at 289,927, of which 82,231 (28%) had at least 50% of their costs covered by revenues resulting from the sale of goods and services to private entities or public bodies based on contractual arrangements. More specifically, 28% of associations, 35% of foundations and 35.5% of religious institutions can be regarded as social enterprises.

When compared with social cooperatives, the group of associations and foundations consistently engaged in economic activities is much more diverse, because it ranges from very small organisations, often without employees, to large entities that manage hospitals and important research centres. When jointly considering market activities of more than 50% of the total turnover and the engagement of at least one employee, the number of associations displaying both features drops to 7,883 (2.9% of the total number of social enterprises) and that of foundations and religious institutions taken together drops to 3,324 (19.7% of the total number of social enterprises) (Borzaga *et al.* 2016b).

However, the 82,231 associations and foundations running market activities generated 33 billion EUR of total revenues in 2011—which is three times the total revenue generated by social cooperatives. In 2011, associations and foundations carrying out

(14) This group also includes religious institutions, mutuals, committees and other forms of NPOs. These are considered residual forms as they account for less than 5% of the total number of organisations belonging to this group.

market activity employed 451,736 paid workers, amounting to 60% of the overall number of workers employed by all associations and foundations. One distinctive feature characterising associations and foundations is the significant presence of volunteers: more than 1,640,000. In addition to this, and in contrast to social cooperatives that rely heavily on public resources, associations and foundations are mainly financed by private resources (77%, which amounts to 63,000 organisations).

Illustration 6. La Strada — Der Weg ONLUS (association)

"La Strada — Der Weg ONLUS" is a Catholic-inspired association founded by Don Giancarlo Bertagnolli in 1978 that carries out its activities in Alto Adige-Südtirol. The association originally dealt with the treatment of drug addicts and children in situations of social distress. Over its almost 40 years of activity, the association has developed by expanding its areas of intervention and is currently engaged in many different projects aimed at providing care services for the community. The association works to improve the skills, potential and aspirations of the users of its services by stimulating confrontation and participation processes. The key factors that inspire the action of the association can be summarised in four main points:

- > centrality of the person,
- > educational experiences,
- > dialogue and discussion with the territory and the stakeholders, and
- > promotion of volunteering.

Over time, the association has become an essential partner of the local authorities in the provision and management of welfare services in Alto Adige-Südtirol. The association currently employs 130 workers and has 140 volunteers.

Website: http://www.lastrada-derweg.org/?page_id=1298&lang=de

Mutual aid societies¹⁵

Mutual aid societies were originally established in the second half of the nineteenth century following the example of similar initiatives in neighbouring European countries (Petrelli 2005). They were made up of people volunteering to contribute to a fund with non-profit aims (Rago 2012). These organisations mainly provide grants with a view to assisting their members in cases of illness, temporary or permanent disability or old age and generally in cases of events affecting their life and work capacity.

Mutual aid societies decreased in importance and social significance after the creation of the national health system in 1979. However, some recent changes in public health service provision and social security schemes have stimulated a renewed interest in these organisations, which is expected to further boost their development. According to the IRIS Network (Venturi and Zandonai 2014), 109 mutual aid societies were registered as social enterprises in 2014.¹⁶

Shareholder and limited liability social enterprises

Under the Civil Code definition of "entrepreneur", it was not possible until 2006 (when the law on social enterprise was approved) to set up limited liability and shareholder companies in the form of NPOs, with an explicit, although voluntary, total or partial constraint on the distribution of profits. Following the introduction of Law 118/2005 and Legislative Decree 155/2006, it is now also possible to set up social enterprises in the form of shareholder and limited liability companies.

At the end of 2013, the number of private organisations assuming the form of a social enterprise by registering in section "L" of the Companies Register (Italian Chamber of Commerce) amounted to 774, including 228 social cooperatives and 11 associations/foundations. Of the 774 registered social enterprises, only 235 (30%) are joint-stock or limited liability enterprises. The remaining organisations are mainly social cooperatives that have decided to qualify as social enterprises, as well as mutual aid societies (which are required to join the Register under Law 221/2012, Article 23).

An investigation conducted by the IRIS Network (Venturi and Zandonai 2014) shows that conventional enterprises that have registered as social enterprises are mostly located in the southern regions of the country (47.5%) and are mainly engaged in preschool

(15) For the sake of consistency with the available ISTAT data, mutuals are counted in the group of *de facto* social enterprises referred to as associations/foundations together with other residual types of NPOs.

(16) Recent research has led to the identification of 1,114 mutual aid societies in Italy, of which 509 can be considered active as they perform non-occasional activity for members who pay annual fees (Isnet 2016).

education and other education and training activities (55%). To a lesser extent, they are engaged in the care and health domains (22%, mainly in medical and dental services).

Although the Law on Social Enterprise allows for an enlargement of the domains traditionally occupied by social cooperatives, this opportunity has not yet been exploited. The only innovations are to be found in the following sectors: health, environment, cultural production, protection of cultural heritage and social tourism (13%). Conversely, when compared with social cooperatives, the main sources of income of these types of social enterprise are from the sale of services to private users and families rather than from public contracting.

Limited liability and joint-stock companies that qualify as social enterprises are on average smaller than the other social enterprise types, in particular social cooperatives (which have less than 16 workers on average). Moreover, they are not particularly dynamic and have little inclination towards innovation and new investment. Most of the innovations introduced are actually aimed at improving the quality of the services provided (Venturi and Zandonai 2014).

Between 2013 and 2018, the number of social enterprises registered in the dedicated register has increased to 1,693. Their distribution across legal forms is unknown. It is possible, however, to estimate that the number of social enterprises in the form of joint-stock or limited liability enterprises has also increased.

Traditional cooperatives

Social cooperatives are not the only cooperative form committed to pursuing general interest aims. There are also labour cooperatives of medical doctors, nurses and psychologists that deliver health and social services. Also noteworthy are cooperatives that cooperate with labour policies to engage workers in socially useful works. "Community cooperatives" that deal with the provision of general interest services to the community other than the ones usually offered by consumer and social cooperatives are also emerging. However, it is still difficult to determine their number or their economic and occupational relevance (Euricse 2016).

3.2. Social enterprise characteristics

Since an in-depth analysis of the characteristics of social enterprises requires disaggregated data that are collected through the traditional census, unless otherwise specified, the information below refers to year 2011. It is indeed able to provide a representative picture of the characteristics shown by Italian social enterprises.

3.2.1. Sources of income

Over the last two decades, social enterprises have diversified in both the typology of users and the sources of income. Situations differ depending on the legal forms covered and activities run.

In 2011, revenues from public contracts amounted to 65% of the total income of all social cooperatives, while 28% of revenues were generated from the sales of goods and services to private clients. However, it should be noted that this situation applies mainly to A-type social cooperatives. B-type social cooperatives derive about 50% of their income from private users, mainly companies. The public sector, therefore, represents the main engine of development for social cooperatives providing social services; conversely, work integration social enterprises are more inclined towards transactions with the private sector. However, as explained by representatives of the social enterprises consulted for this study, the significant dependence of social cooperatives on public resources is currently affecting their growth due to the decreased availability of funds in crucial areas such as social welfare and the substantial delays in payment for the services offered.

Associations and foundations tend to have a more balanced revenue structure. Associations are mainly distinguished by private revenues, especially membership fees (43%), whereas public revenues are slightly greater than 20%. Moreover, foundations depend on private revenues for 60% of their funding thanks to the share of revenues derived from financial assets and real estate.

Interestingly, in all of the above-mentioned cases, the limited recourse to public subsidies is evident.

Table 5 summarises the sources of income for social cooperatives, associations and foundations as a percentage of total 2011 income.

Table 5. Sources of income for social cooperatives, associations and foundations¹⁷

| Sources of income | Social cooperatives | Associations | Foundations |
|---|---------------------|---------------|---------------|
| Public subsidies | 1% | 6% | 6% |
| Public contracts | 65% | 15% | 34% |
| Members' contributions | 2% | 43% | 7% |
| Sales of goods and services | 28% | 10% | 17% |
| Donations | 1% | 8% | 11% |
| Revenue from financial assets and real estate | 1% | 9% | 19% |
| Other private revenues | 2% | 10% | 6% |
| Total income (million EUR) | 11,157 | 14,746 | 11,120 |

Source: ISTAT Census (2011, data extracted on 19/09/2014).

Note: Lines with a lighter blue shade indicate private sources of income.

Reactions to the financial and economic crisis have varied, depending on the type of social enterprise and the relative degree of dependence upon public funding. Some of the social cooperatives consulted for this study have faced substantial financial losses, forcing them to sell some of their assets (properties) to cover their increasing debts. In many cases, delays in payment from public authorities have led to these organisations being unable to pay their employees on time.

Conversely, some social cooperatives responded to these challenges by focussing on growth, improved internal efficiency and expansion into new sectors. A strategy followed by a growing number of social cooperatives—including some of those consulted for this study—has been to diversify their client base by providing services to private companies and users in order to reduce their dependence on the public sector.

3.2.2. Paid workers and volunteers

A deep analysis of the characteristics of workers and their working conditions is key in light of the employment relevance taken on by social enterprises. A detailed analysis is possible only for social cooperatives.

(17) Data on associations and foundations refer to the income of the overall number of organisations belonging to the universe of associations and foundations.

In terms of quality of employment, social cooperatives and *ex lege* social enterprises presented the following key characteristics in 2013 (Centro Studi Unioncamere and Si.Camera 2014, Carini and Borzaga 2015):

- > A larger proportion of part-time staff, particularly female employees: in 2013, about 61% of non-seasonal female employees in social enterprises were part-time, compared with 47.1% in other enterprises.¹⁸
- > A greater orientation towards hiring immigrant workers: in 2013, up to 20% of non-seasonal employees in social enterprises were immigrants (persons with a nationality other than Italian), compared with 15% in other enterprises.
- > A trend towards permanent contracts: in social cooperatives, most workers are employed on permanent contracts (76.3% of workers in 2013), while the percentage of occasional or short-term contracts is lower than in conventional enterprises.
- > The increasing need to employ staff with planning, management and commercial skills: between 2010 and 2013, the share of graduates hired by social enterprises increased from 21% to 25% of the total number of new employees. Additionally, 34% of new hires in social enterprises were highly skilled employees (management, scientific skills and other technical skills requiring a high level of specialisation), compared with 17% in other enterprises.¹⁹
- > Job satisfaction of workers: empirical research recently conducted on a sample of 320 social cooperatives based in the North of Italy shows that both ordinary and disadvantaged workers are satisfied with their jobs and especially with their relationships with colleagues and supervisors, their autonomy in decision-making, their professional and personal growth, and the flexibility of their working hours (Depedri *et al.* 2012).

3.2.3. Fields of activity

The analysis of fields of activity is based on legal form, given the strong relationship existing between fields of activity and legal form.

Social cooperatives deliver services mainly in the social care and work integration sectors, which account for 40% and 32%, respectively, of all social cooperatives, and employ almost 75% of all social cooperative employees.

(18) In 2017, part-time female workers employed in the entire non-profit sector accounted for 53.8% of the total number of employed workers.

(19) These data exclude enterprises that are engaged in the agricultural sector (NACE code A).

Table 6. Main fields of activity of social cooperatives

| Sectors | Organisations | | Paid workers | | Volunteers |
|--|---------------|-------------|----------------|-------------|---------------|
| | Total | % | Total | % | Total |
| Social care | 4,452 | 40% | 170,617 | 53% | 17,959 |
| Work integration | 3,654 | 32% | 68,855 | 21% | 13,472 |
| Health | 1,192 | 11% | 54,327 | 17% | 4,867 |
| Education and research | 899 | 8% | 15,950 | 5% | 3,117 |
| Culture, sport and recreational activities | 747 | 7% | 6,518 | 2% | 2,111 |
| Environment | 128 | 1% | 1,881 | 1% | 166 |
| Other | 192 | 1% | 2,365 | <1% | 676 |
| TOTAL | 11,264 | 100% | 365,006 | 100% | 42,368 |

Source: ISTAT Census (2011, data extracted on 18/02/2014).

Associations and foundations that carry out market activity and have at least one employee mainly deliver cultural, sport and educational services (37%), with significant variations between the fields of activity. Conversely, half of the foundations (52%) are engaged in the education and research sector.

Table 7. Main fields of activity of associations and foundations²⁰

| Sectors | Associations (%) | Foundations (%) | Other (%) |
|--|------------------|-----------------|-------------|
| Culture, sport and recreational activities | 37% | 11% | 16% |
| Education and research | 19% | 52% | 29% |
| Health | 13% | 12% | 10% |
| Social care and civil protection | 15% | 20% | 25% |
| Environment | 3% | 0% | 3% |
| Economic development and social cohesion | 2% | 1% | 8% |
| Other | 12% | 4% | 10% |
| TOTAL | 101% | 100% | 101% |

Source: ISTAT Census (2011).

(20) With at least 50% of income generated from market activities and at least one employee.

3.3. Summary of mapping results

The mapping exercise led to the identification of three organisational types that can be regarded as fully meeting the eligibility criteria: social cooperatives, *ex lege* social enterprises, and associations and foundations carrying out economic activities. It is not possible to count the number of those organisations that may meet (fully or partially) the criteria such as, for instance, traditional cooperatives.

Table 8.a. Mapping social enterprises in Italy according to the dimensions of the EU operational definition

| Dimension | Criterion | Legally recognised SEs | | <i>De facto</i> SEs | |
|------------------------------------|---|--|---|---|---|
| | | Social cooperatives | <i>Ex lege</i> SEs | Foundations | Associations |
| Entrepreneurial dimension | Share of income derived from: fees; trading income; rental income on assets; income from public contracting; grants and donations, etc. | Yes | Yes | Yes Some may | Yes Some may |
| | Distribution of profits | Yes but capped | Yes but capped | Yes | Yes |
| | Existence of asset lock | Yes | Yes | Yes | Yes |
| | Use of paid workers | Yes | Yes | Yes | Make large use of volunteers |
| | Engagement in economic activity | Yes | Yes | Yes Some may | Yes Some may |
| Social dimension | Fields of activity | Provision of social goods and services | Provision of social goods and services | Provision of social goods and services | Provision of social goods and services |
| | Social aim (public benefit) | Yes | Yes | Yes | Yes |
| Independence and governance | Organisational autonomy | Yes | Yes | Yes | Yes |
| | Inclusive governance | Yes | Yes | No Not a legal requirement | Yes |
| | Transparency A system for measuring and reporting impact | Mandatory for some social cooperative | Mandatory for all registered social enterprises | Mandatory over a certain turnover level | Mandatory over a certain turnover level |

Table 8.b. Mapping social enterprises in Italy according to matching level of eligibility criteria

| Typologies and figures | Legally recognised SEs | | <i>De facto</i> SEs | |
|---|------------------------|--|---------------------|--------------|
| | Social cooperatives | <i>Ex lege</i> SEs | Foundations | Associations |
| Legal form | Social cooperatives | Wide range: social cooperatives, cooperatives, associations, foundations, etc. | Foundations | Associations |
| Estimated number (2017) | 15,770 | 1,693* | 7,360 | 298,269 |
| Estimated percentage meeting eligibility criteria (appx.) | 100% | 100% | 35% | 28% |
| Estimated number meeting eligibility criteria | 15,770 | 1,693* | 2,576 | 83,515 |

* This figure includes associations, foundations and social cooperatives registered as social enterprises and already counted in the related data.

When looking at the entire universe of social enterprises operating in Italy, regardless of their legal form, the phenomenon turns out to be quite significant in terms of numbers. The data provided do not quantify the number of traditional cooperatives that are, as already highlighted, engaged in the provision of services of general interest even though they have chosen not to register as social cooperatives.²¹

Based on the available data on social cooperatives, *ex lege* social enterprises, and associations and foundations with market activity, the overall number of social enterprises amounts to slightly more than 100,000 and accounts for slightly fewer than 900,000 employees (see table 9). Since many associations with market activity are small and do not have employees, the universe of social enterprises is restricted to organisations carrying out market activities but also relying on at least one paid employee. When relying on this criterion, the picture changes quite significantly from 86,081 to about 10,100 (8,650 associations and 1,450 foundations), whereas the overall number of people employed remains unchanged.

Against this background, and even excluding cooperatives other than social ones, it is possible to state that the Italian social enterprise sector has gained a more than significant size.

(21) The reasons for this decision have not yet been investigated.

Table 9. Estimated number of social enterprises in 2017

| Legal type | SEs | Paid workers | Annual turnover (million EUR) |
|----------------------------|----------------|----------------|-------------------------------|
| Social cooperatives | 15,770 | 441,000 | 11,900 |
| <i>Ex lege</i> SEs* | 600 | 50,000 | 800 |
| Associations & foundations | 86,091 | 403,800 | 30,000 |
| Total | 102,461 | 894,800 | 42,700 |


Source: Lori 2019.

* Estimates based on the Register of Chambers of Commerce, excluding associations, foundations and social cooperatives already counted in the related data.

4

ECOSYSTEM

The ecosystem for social enterprises in Italy is shaped by the interplay among different key actors that have contributed to acknowledging the specificity of social enterprises, developed support policies and measures encouraging their replication and scaling up and played a role in rendering the social enterprise phenomenon visible. Key actors include social enterprise (especially social cooperative) networks, national and local policymakers, research and education institutions and financial intermediaries. It is important to highlight in particular the self-promoting role played by networks, which have often compensated for the fluctuating strategies pursued by other actors, particularly policymakers.



The development of social enterprises in Italy has not taken place according to specific national planning. Rather, it has mainly followed a spontaneous path, which benefitted significantly from regional support schemes, although these are extremely diversified and sometimes of an occasional nature. Similarly, the legal framework and policy support measures have so far evolved essentially in response to requests from civil society or with a view to meeting the needs of public authorities interested in increasing the supply of services without being directly engaged in their provision.

In the first phase, when the non-profit sector started to grow in relevance, *ad hoc* legal and support measures were designed for specific legal forms (e.g., social cooperatives in 1991, voluntary organisations in 1991 and social promotion associations in 2000). From the 1990s onwards, several attempts were made to reorganise the sector and provide a coherent framework.

The three main attempts were the legislative decree regulating NPOs with social utility (ONLUS, Legislative Decree 460/1997), the law and decree on social enterprises (Legislative Decree 155/2006) and the decrees reforming the third sector and social enterprise (Law 106/2016 and Decrees 112/2017 and 117/2017). However, the first attempt failed to unify the legislation for the sector, while the second attempt was unable to regulate the different forms of social enterprise in an integrated way or to define the boundaries of social enterprises with respect to NPOs not performing entrepreneurial activities. At the same time, both attempts failed to design consistent support measures for organisations pursuing similar objectives and activities. The new Law 106/2016 and the subsequent decrees have succeeded in providing a more homogeneous legal framework for all legal entities making up the third-sector universe. However, despite having simplified the fiscal framework, the latter remain rather complex and not fully consistent.

At the same time, *de facto* social enterprises (e.g., associations and foundations) are free to decide whether to adopt the legal status of social enterprise. Hence, the new legal framework is unable to clearly set the boundaries of the social enterprise sector. Indeed, in spite of the new fiscal advantages, the high costs of running an *ex lege* social enterprise tend to discourage their formal qualification and registration.

4.1. Key actors

The ecosystem of social enterprises in Italy is shaped by the interplay between the key actors that have contributed to acknowledging the specificity of social enterprises, have developed support policies and measures supporting their replication and scaling and have had a role in rendering the social enterprise phenomenon visible. Key actors

include national and local policymakers, research and education providers, social enterprise networks and financial intermediaries.

Table 10. Main actors in the Italian ecosystem

| Type of institution/Organisation | Actor |
|--|--|
| Policymakers | <ul style="list-style-type: none"> > Ministry for Labour and Social Policies > National Council of the Third Sector (chaired by the Ministry of Labour and Social Policies) > Regional authorities > Local authorities |
| Research institutes & observatories | <ul style="list-style-type: none"> > Network of Research Institutes on Social Enterprises (IRIS Network) > European Research Institute on Cooperative and Social Enterprises (Euricse) > Italian Association for the Promotion of the Culture of Co-operation and of Nonprofit (AICCON) > Research Centre of the Italian Union of Chambers of Commerce, Industry, Handicraft and Agriculture – (Centro Studi Unioncamere) > Centro Studi Legacoop > TIRESIA (Technology Innovation and REsearch for Social ImpAct) > National Institute of Statistics (ISTAT, Industry and Services Census) > UBI Banca Observatory (<i>Osservatorio UBI Banca su Finanza e Terzo Settore</i>) |
| Networks | <ul style="list-style-type: none"> > Representative bodies (e.g., Federsolidrietà, Legacoopsociali, Forum of the Third Sector) > National, regional and local consortia (Consorzio nazionale Idee in Rete; Consorzio InConcerto, Gruppo Cooperativo Gino Mattarelli-CGM, Con.Solida, Sol.Co consorzio di imprese sociali siciliane) > Networks running entrepreneurial activities and social enterprise incubators (e.g., Impact Hub, FabriQ, Make a Cube3, SocialFare) |
| Financial intermediaries | <ul style="list-style-type: none"> > Traditional banks (e.g., Unicredit, UBI Banca) > Banks with a social orientation (e.g., Banca Etica, Cooperative Credit Banks-BCC) > Specialised banks (e.g., Banca Prossima) > Innovative instruments for social finance (e.g., Oltre Venture, UBI Banca social bonds) |

4.2. Policy schemes and support measures for social enterprises

Policymakers include government departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures, as well as local authorities. Consultees for this study explained that close cooperation with public authorities represents one of the most important best practices in the development and implementation of support initiatives for social enterprises. In a few cases, public support was provided by public authorities even before Law 381/1991 was introduced.

Public support schemes are classified on the basis of the type of enterprises served (e.g., all enterprises that fulfil specific criteria; social economy/NPOs; and, specifically, social enterprises). A number of selected examples of public policy schemes are provided below.

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (that may also benefit social enterprises)

At the national level, if one excludes the support measures for companies in crisis, the most important interventions addressed to enterprises are those supporting investments, especially innovative investments in the manufacturing sector in the form of fiscal breaks or the granting of public guarantees.

Guarantee Fund for SMEs (national, ongoing)

The "Guarantee Fund" regulated by Law 662/96 has been designed to support small and medium-sized enterprises (SMEs). It has been operational since year 2000 and it is managed by the Ministry of Economic Development. Through the granting of a public guarantee that complements (and often replaces) real guarantees, the Guarantee Fund promotes access to finance for SMEs. Thanks to the Fund, SMEs have a real chance of securing funding without the obligation to provide additional guarantees (such as sureties or insurance policies) on the resources as these are guaranteed by the Fund. However, the Fund does not provide monetary contributions. New operational provisions regulating the Fund were adopted in 2015. Social enterprises are potential beneficiaries of this measure as well as business incubators and innovative start-ups.

In addition to national support measures, there are regional support measures normally addressed to SMEs, which are aimed at supporting start-ups and investments, mostly in the form of contributions accessible to all enterprises, including social enterprises. The amount and modalities of intervention vary across the diverse Italian regions.

4.2.2. Support measures addressed to social economy/non-profit organisations (that may also benefit social enterprises)

Both at the national and regional levels, Italy has a long tradition of measures targeted at cooperative enterprises (which are acknowledged by the Italian Constitution) and the social economy. Social enterprises, especially when set up as social cooperatives, can access them. Support modalities adopted have changed over time depending on the particular objectives pursued by each region. They range from start-up subsidies to measures supporting financial consolidation, from investment to training support. At the time of writing, a significant number of regions had some support measures in place. Two of the most important interventions existing at the national level are described below.

Marcora Fund²² (national, ongoing)

The Marcora Law (Law 49/1985) provides for a blending of self-financing and financing mechanisms specifically for cooperatives through the creation of two funds aimed at promoting and securing levels of employment in times of crisis and for the conversion of businesses in crisis into worker cooperatives. The first is a rotating fund consisting of low-interest loans controlled by *Banca Nazionale del Lavoro*, while the second is mainly managed by *Cooperazione Finanza Impresa* (CFI), a second-tier cooperative institutional investor formed in 1986 and mandated by the state to coordinate and facilitate worker buyouts within the Legge Marcora framework. The Marcora Fund has played an important role in supporting the Italian worker and social cooperatives, especially for the establishment of new cooperatives.²³ In 2014, a decree of the Ministry of Economic Development (the "New Marcora Law") established a new fund to complement the measures instituted by the Marcora Law of 1985. The subsidised loans are granted to support the creation of cooperatives from worker buyouts as well as social cooperatives and cooperatives managing assets confiscated from organised crime. In addition, the Fund supports the development or renovation of existing cooperatives located in the southern regions.

(22) A recent study found that CFI has intervened in 77.43% of the 257 worker buyouts, often partnering with organisations of the cooperative movement or local authorities. For more details on the Italian worker buyouts and the Marcora Law framework, see Vieta 2015 and Vieta and Depedri 2015.

(23) At the end of the 1990s, the application of the Marcora Law was temporarily suspended due to conflict with EU competition rules. In 2001, a reform of the Marcora Law was enacted (Law 57/2001). Based on the good results obtained from its application, this framework was put forward for adoption as a model in a Resolution of the European Parliament on 2 July 2013, which called on Member States to support the transfer of businesses to employees in order to avoid closures, with reference to "the Marcora Law in Italy, which allows to finance the establishment of new co-operatives through unemployment benefits".

Support measures for innovative social start-ups (*start-up innovative a vocazione sociale - SIAVSs*) (national, ongoing)

Although not targeted exclusively at the social economy, support measures for innovative start-ups deserve some attention. Innovative social start-ups are defined by Legislative Decree 179/2012 as those that, in addition to fulfilling all criteria required for innovative start-ups,²⁴ operate exclusively in the sectors identified by Legislative Decree 155/2006. Beneficiary enterprises must pursue explicit general interest aims, provide evidence of the social impact generated²⁵ and register in a special company register for innovative social start-ups. Innovative social start-ups are entitled to fiscal benefits that are more advantageous than those already awarded to innovative start-ups.

4.2.3. Support measures specifically addressed to social enterprises

Over the years, thanks to the European Social Fund (ESF), a variety of measures supporting social enterprises have been activated. Some were targeted specifically at supporting specific activities carried out by social enterprises, such as work integration and social agriculture.

Support measures for the spreading and strengthening of the social economy (national, ongoing)

With the aim of promoting the growth and strength of the social economy, a dedicated support scheme was established by the Ministry of Economic Development (with a decree dated 3 July 2015), conceived to support the creation and growth of social enterprises pursuing general interest aims. The benefits envisaged by this support scheme address the following types of enterprise:

- > social enterprises as per Legislative Decree 155/2006; and
- > social cooperatives and consortia thereof, as per Law 381/1991.

The scheme is financed through 223 million EUR and is managed by Invitalia.

This measure, which is connected to the Guarantee Fund for social enterprises previously mentioned, provides for the granting of aid measures in accordance with the European regulations *de minimis*, to be disbursed in the form of both subsidised

(24) Innovative start-ups must show, among other features, the following characteristics: be less than four years old; be based in Italy; have an annual turnover amounting to less than 5 million EUR; non-distribution of profits; trading in innovative or ICT goods and services.

(25) For this purpose, SIAVSs must draft a specific document every year illustrating the social impact generated (*documento di descrizione di impatto sociale*). According to the guidelines for this support measure, the document must include both a descriptive section and a set of indicators.

loans and subsidies for investment programmes undertaken by the above-mentioned enterprises in any sector, as long as it is consistent with their institutional purposes.

Support measures related to this instrument are based on an evaluation procedure and are covered by the Revolving Fund for the Support of Enterprises and Research Investment (FRI) established by Law 311/2004 at Cassa Depositi e Prestiti SpA,²⁶ once the allocation of resources has been approved by the CIPE (Interministerial Committee for Economic Planning). Resources can also be assigned to this support instrument by the Italian regions and other public bodies through European Structural Funds and funds derived from specific legislative provisions that can be used to blend such subsidised loans with other types of aid granted in the form of non-repayable contributions.

Exemption from payment of national insurance contributions (national, ongoing)

As already mentioned, work integration (or B-type) social cooperatives are exempted from payment of national insurance contributions for all the certified disadvantaged workers employed. This measure contributes to significantly reducing the cost of labour (by about 20% to 25% depending on the sector of activity) and compensates, at least to some extent, the reduced level of productivity of disadvantaged workers.

Fertilità project (national, concluded)

Three editions of the Fertilità project have been carried out: in 2001, 2006 and 2016. They have been launched and managed by the national agency Sviluppo Italia (now Invitalia) in cooperation with the Ministry of Labour and Social Policies. The project supports the starting up of social cooperatives or consortia of cooperatives in the southern regions through the provision of training, consultancy services and coaching by established social cooperatives and consortia. In the different editions of the project, more than 700 projects have been submitted for funding and subsidies have been provided totalling about 26 million EUR for the creation of new social cooperatives operating in the following sectors: tourism and environment, care services, training and education, work integration, communication in the social sectors, agri-food and manufacturing. The most recent edition of the project ended in December 2016.

Oasis Fund (national, concluded)

The Oasis competitions were held in 2001 and 2007 with funding from the European Regional Development Fund (ERDF). They were managed by two NPOs (Fondazione Europa Occupazione and Compagnia Sviluppo Imprese Sociali) and targeted at small and medium-sized social cooperatives (A-type and B-type) in the southern regions of Italy. The support granted included equity loans and funding for the acquisition of goods and services. The main objectives of the project were the creation of new social cooperatives and the strengthening of networking activities. The results of the 2001

(26) <http://www.cdp.it/>.

edition were encouraging: 24 social cooperatives and 10 consortia were created with a budget of 22.53 million EUR. The Oasis Fund also helped to boost employment in the selected regions. By the end of 2001, despite the fact that some funded projects had not yet been fully implemented, 249 workers (102 of whom were disadvantaged workers) were employed (ISSAN 2002).

Start-ups for social entrepreneurship (start-up imprenditoria sociale)²⁷ (national, concluded)

This initiative, now concluded, was launched in 2013 by the National Union of the Italian Chambers of Commerce (38 chambers of commerce at the local level) and Universitas Mercatorum, the university promoted by the same organisation. The initiative envisaged the provision of consulting services for the creation of social enterprise start-ups. The initiative also addressed already-existing organisations that provided general interest services and that were willing to become social enterprises under the provisions of Legislative Decree 155/2006.

Global Grants ESPRIT and ESPRIT3 (regional, concluded)

The ESPRIT3 Global Grant has been promoted by the Tuscany region with the support of the European Social Fund within the programming period 2007 to 2013. The ESPRIT3 Global Grant was aimed at fighting the causes of poverty and deprivation by supporting projects focussed on disadvantaged people's personalised development plans. The general action framework envisaged the involvement of NPOs for the promotion of labour market insertion paths and the creation of new enterprises. The entire available budget has been implemented (more than 7.5 million EUR) to fund 167 projects involving 549 disadvantaged people as direct beneficiaries (42% of whom were PWDs). The results of this support measure include the creation of 28 start-ups and the activation of 130 labour market insertion programmes. ESPRIT, a previous support measure with similar aims, was carried out in the programming period 2000 to 2006. It involved 829 direct beneficiaries, created 109 start-ups, activated 160 labour insertion programmes and implemented organisational strengthening activities in more than 120 NPOs.

Global grant "Piccoli Sussidi" (regional, concluded)

This measure, promoted by several Italian regions, targeted a wide range of NPOs, including social cooperatives and legally recognised social enterprises. This initiative was developed through the support of the European Social Fund 2000-2006 and 2007-2013 and focussed on three main areas of intervention: (i) the development of existing organisations through technological innovation and improvement of the quality of the services provided; (ii) support for the starting up of new organisations; and (iii) support for long-term work and social integration activities. One of the most important local

(27) <http://www.unimercatorum.it/start-up-imprenditoria-sociale-2/>.

measures within this policy was "Piccoli Sussidi Puglia" in the Apulia region. In 2013, "Piccoli Sussidi Puglia" had at its disposal a budget of 5.4 million EUR and received more than 700 applications for funding.

Guarantee fund for investment and low-interest financing for social cooperatives (regional, ongoing)

This initiative, launched in January 2014 by the Piedmont region, supports social enterprises through the provision of guarantees for investments and low-interest financing. For the purposes of this fund, social enterprises are identified through the legal form of the social cooperative. The assistance takes the form of a loan of up to 100% of the capital required for investments of at least 15,000 EUR aimed at acquiring machinery and equipment, purchasing or constructing properties, activating or adapting technical equipment and premises required for the performance of activities, etc.

Intervento 18 (regional, ongoing)

This initiative was launched by the Province of Trento in the late 1990s under the name "Azione 9" and was renamed "Intervento 18" in 2012. The initiative is aimed at supporting the employment and social inclusion of disadvantaged people and PWDs through the provision of subsidies to social cooperatives. The subsidies take the form of partial coverage of the costs borne to pay disadvantaged workers or workers with disabilities and trainers and to promote workers' inclusion in the labour market. As stated by the European Confederation of Industrial and Service Cooperatives (CECOP), the cooperation between social enterprises and the public sector has been one of the key strengths of this initiative (Il Trentino 2011). Borzaga and Depedri (2013) estimated that "Intervento 18" generates savings for the public sector of up to 6,000 EUR per disadvantaged worker per year. This estimate takes account of both the costs supported by the public sector (including public funding) and the benefits resulting from the reduced costs for public agencies. These include lower costs related to the provision of social and healthcare services due to the improved health conditions of the socially included disadvantaged workers. The relevance of this public scheme was highlighted by a recent peer-review of the initiative, which classified it as a good practice (Social Entrepreneurship Network, 2013).²⁸

(28) The Social Entrepreneurship Network (SEN), is a project funded by the European Social Fund in Poland (2013-2015). It comprises managing authorities of the European Social Fund and social enterprises of nine countries and regions of the EU. It is devoted to improving the way the EU Structural Funds are used to promote social enterprise, and conversely to ensuring that social enterprise makes the best possible contribution to the Structural Funds' objectives. For more information, see: <https://socialeconomy.pl/taxonomy/term/121/all>.

Support to social enterprises (sostegno alle imprese sociali) (regional, concluded)

This initiative was launched by the Emilia Romagna region with funding from the European Social Fund and was carried out between 2000 and 2006. The aim of the initiative was to promote projects for social inclusion and employment of disadvantaged people. The initiative, targeting social cooperatives, supported micro-enterprises by financing investments in growth and innovation.

Table 11. Examples of supporting measures**Support measures addressed to all enterprises**

| Policy | National/local | Source | Source of financing | Status |
|-------------------------|----------------|------------|-----------------------|---------|
| Guarantee Fund for SMEs | National | Law 662/96 | National and EU funds | Ongoing |

Support measures addressed to social economy/NPOs

| Policy | National/local | Source | Source of financing | Status |
|--|----------------|--|---------------------|---------|
| Marcora Fund | National | Law 49/1985 | National | Ongoing |
| Support measures for innovative social start-ups | National | Legislative Decree 179/2012 and Law 221/2012 | National | Ongoing |

Support measures specifically addressed to SEs

| Policy | National/local | Source | Source of financing | Status |
|---|----------------|---|-----------------------------|-----------|
| Supporting measures for the spreading and strengthening of the social economy | National | Ministerial Decree 3 July 2015 | National and EU funds (ESF) | Ongoing |
| Exemption from payment of national insurance contributions | National | Law 381/1991 and Circular 296, 9 December 1992 (INPS) | National | Ongoing |
| Fertilità project 2016 | National | - | National | Concluded |
| Oasis Fund | National | - | European (ERDF) | Concluded |
| Start-ups for social entrepreneurship | National | - | National | Concluded |

| Policy | National/local | Source | Source of financing | Status |
|--|-------------------------------|---|---------------------|-----------|
| Global grant "ESPRIT3" | Regional (Tuscany) | Implementing measure of POR FSE 2014-2020 | EU funds (ESF) | Concluded |
| Global grant "Piccoli Sussidi" | Regional | Regional laws | EU funds (ESF) | Concluded |
| Guarantee fund for investment and low-interest financing for social cooperatives | (different regions) | Regional Law 18/1994 | - | Ongoing |
| Intervento 18 | Regional (Piedmont) | - | Regional | Ongoing |
| Support to social enterprises | Regional (Province of Trento) | - | EU funds (ESF) | Concluded |
| | Regional (Emilia-Romagna) | | | |

4.3. Access to market

Depending on the type of activity run, Italian social enterprises (*ex lege* and *de facto*) operate in diverse markets. Three clusters of social enterprises can be identified:

- a. Social cooperatives and social enterprises engaged in the delivery of social, health and educational services: their market consists of local public administrations that have a responsibility to guarantee their citizens access to these services.
- b. Work integration social cooperatives whose clients include both public administrations and private clients. In aggregate terms, these two markets are equivalent. However, there are more than a few territories where the majority of clients are private.
- c. Social enterprise (normally set up as associations and foundations) engaged in cultural, sport and recreational activities or running scientific research (especially in the health domain), whose revenues mainly come from membership fees, donations or subsidies.

4.3.1 Subsidies and public procurement

Over the last 30 years, the demand for social and educational services from public administrations has increased in relevance. Financing modalities and selection procedures of contracting holders have changed significantly. From the 1970s until the 1980s, subsidies were the most widespread tool used by public agencies to support social enterprises in their endeavour to pursue their institutional aims. Subsidies were not expected to cover all costs but were conceived as partial support for the activities carried out by recipient organisations. As a result, subsidies were in most cases largely inadequate for guaranteeing the survival and growth of the newly established social enterprises engaged in the delivery of welfare services. To support and develop their activities, social enterprises relied significantly on volunteers and donations.

During the 1990s, a gradual shift took place from grants towards public contracting. Through public contracting, parties started to agree on given criteria, namely, the type, quantity and costs of the services to be provided. Another key change introduced to comply with EU criteria and reduce public expenditure took place in the 2000s. It consisted of the growing use of competitive tenders, in which the winner is selected on the basis of the lowest price and little attention is paid to the quality of the services delivered.

In Italy, Legislative Decree 163/2006 — "Code of public contracts relating to works, services and supplies, Directives 2004/17/EC and 2004/18/EC" — and the Decree of the President of the Italian Republic 207/2010 provided an opportunity to subordinate the economic requirements of the procurement procedures to social or environmentally sustainable aims. Nevertheless, awarding based on the criterion of the lowest price rather than the most economically advantageous bid has generally prevailed. The widespread application by public authorities of the lowest price criterion has reduced the autonomy of social enterprises, which has inevitably tended to weaken their ability to address local needs.

Up until now, the EU rules for public procurement (Directives 23, 24, 25/2014), which have recently been transposed through Legislative Decree 50/2016, had a limited impact: direct contractual assignments and contractual assignments through reserved tenders for WISEs have only been used marginally. In the case of service assignments, local administrations have continued to favour competitive procedures based on price.

New public procurement modalities have also been in use for some time: vouchers and co-programming/co-planning. Vouchers entrust the decision to choose the welfare provider (which has to be accredited) to users. Co-programming and co-planning are regulated by Article 55 of Legislative Decree 117/2017. Rather than providing for calls for competitive tenders, it allows for the involvement of welfare providers in the assessment of needs, design of possible responses, identification of resources and

subsequent distribution of tasks among the concerned welfare actors. Various local administrations are experimenting with co-programming and co-planning despite the resistance they are encountering due to a restrictive interpretation of EU legislation.

4.3.2 Preferential purchasing from work integration social cooperatives

Preferential purchasing, the foundations of which were laid by Law 381/1991, was designed to support the growth of work integration (B-type) social cooperatives. Preferential relationships were contested by the European Union, but further legislation in 1996 clarified the situation, allowing municipalities to accept tenders for contracts only from organisations meeting certain requirements (minimum share of disadvantaged people employed). The revised preferential system has been approved by the European Union, provided that contracts come under the 200,000 EUR threshold. According to Article 5 (recently revised by Law 190/2014, "Stability Act of 2015") tenders reserved to B-type social cooperatives are allowed for contracts below EU thresholds.

Thus, overall, there is a fairly favourable ecosystem for B-type social cooperatives contracting under the 200,000 EUR threshold. A key turning point in rendering the ecosystem for social enterprises more favourable is the new Code on Tenders (*Codice degli Appalti*) that was approved by Legislative Decree 50/2016. By enlarging the possibilities to make recourse to social and environmental clauses, the new code has simplified, improved transparency and supported innovation in public tenders. It is interesting to note that contracts can now be reserved even above the EU threshold for WISEs at which disadvantaged workers account for at least 30% of the total workforce (Article 112 of Legislative Decree 50/2016). Recourse to social clauses by public administrations is rather widespread, and there are more than a few interesting collaboration experiences between conventional enterprises and social enterprises that follow the disadvantaged workers integrated. Conversely, direct contractual assignments are still rarely practised.

4.3.3 Support measures aimed at supporting the development of demand for private enterprises

Two measures favour the development of commercial relationships between private enterprises and social enterprises: they are regulated by Article 14 of Legislative Decree 276/2003 and the development of corporate welfare.

Article 14 enables conventional enterprises to fulfil the obligation to hire workers with disabilities regulated by Law 69/1998 with the purchase of the amount of goods and services by a social enterprise sufficient to cover the hiring and training costs of the workers that the company would be required to hire. Recourse to this possibility has significantly grown in relevance over the last few years.

Similarly, the spread of corporate welfare practices through which conventional enterprises provide their workers with the opportunity to access social (assistance to non-self-sufficient relatives), educational (childcare), and cultural and sport services is expected to develop new private markets for social enterprises. Since 2016, these practices have been fiscally beneficial for amounts varying over the years and according to income. These markets, which have been so far only marginally exploited by social enterprises, have great development potential.

4.4. Networks and mutual support mechanisms

Networks have, since their early emergence, played a key role in boosting the widespread replication and growth of social enterprise. In Italy, networks can be classified into four main groups:

- > representative bodies,
- > national, regional and local consortia,
- > support networks, and
- > networks running entrepreneurial activities.

4.4.1 Representative bodies

These include federative bodies that provide political representation, advocacy and trade union support. The creation of a national federation for social cooperatives in the late 1980s (Confcooperative-Federsolidarietà)—and of Legacoopsociali in 2005—has played a key role in the institutionalisation and development of social cooperatives in Italy. The Federation's objectives were to promote the development and consolidation of social enterprises by raising awareness among the general public and policymakers (Borzaga and Ianes 2011). These confederations and associations were both mentioned by the social enterprises consulted for this study as having contributed to supporting social enterprise growth.

4.4.2 National and local consortia

Consortia of social cooperatives at the national and local level have played a key role in supporting new, developing and established social cooperatives and have sometimes directly participated in the development of new business activities. Consortia have become increasingly important as a strategy for spinning off new initiatives and thus matching the growing demand for services without having to increase the size of

individual cooperatives. In essence, consortia pursue a specialisation strategy and thus reap the advantages of large size by grouping into local second-level organisations.

Consortia supply services aimed at supporting members' capacities and management activities with respect to both internal functions (e.g., support services for individual cooperatives, mainly in the form of training services, technical-administrative services, and knowledge and information transmission services, etc.) and external functions (e.g., project planning and coordination, development of policies and guidelines for the creation and expansion of social cooperatives, bids for tender and participation in other forms of public funding procurement, etc.). As explained by the interviewees, one of the key objectives of local consortia has been to act as the "general contractor" when participating in public tenders for services. The consortium concludes agreements on the supply of services to public authorities on behalf of its members. This allows small organisations to access procurement opportunities and to satisfy requirements that individual organisations would otherwise not be able to satisfy due to the limited size of the enterprise, for example, or the absence of the skills and financial capacity required. Furthermore, consortia are also able to negotiate collective discounted interest rates on loans from financial institutions. They may also act as guarantors for bank loans or for contract delivery.

Consortia of social enterprises are funded from various sources, including membership fees, and act at either the local or national level. According to ISTAT census data, there were 405 local consortia of social cooperatives in Italy in 2011. An example of a local consortium is provided in the illustration below.

Illustration 7. InConcerto (consortium of social cooperatives)

InConcerto is a consortium that brings together 21 social cooperatives active in the provinces of Padua and Treviso, Veneto.

The consortium was created on the initiative of the social cooperative L'Incontro. This cooperative had been active for more than 10 years in the field of work integration of disadvantaged people, especially people affected by mental illnesses. Over the years, other social cooperatives have been founded to increase work integration opportunities. The consortium was established in 2002 to coordinate the activities of the newly founded cooperatives.

The main goal of the consortium is to strengthen the network of social cooperatives through the creation of an "internal market" between the associated cooperatives, which reinforces internal bonds and also contributes to boosting the local economy.

The consortium brings together 21 cooperatives, five of which deliver social care services, while 16 operate in the work integration sector. Member cooperatives generate a turnover of EUR 55 million and employ 1,500 workers, of whom 15% are disadvantaged people. Against this background, InConcerto can be regarded as a social enterprise district.

Website: <http://consorzioinconcerto.it/>

Local consortia may be linked together in national bodies.²⁹ The most important national consortium is Gruppo Cooperativo Gino Mattarelli (CGM),³⁰ which brings together 70 local consortia involving more than 1,000 social cooperatives. In addition to CGM, several of the social enterprises consulted for this study were reported to be part of the "Idee in rete" consortium,³¹ representing 14 local consortia and 150 social cooperatives across 12 Italian regions. This consortium undertakes a number of activities aimed at supporting cooperatives, including knowledge sharing, general contracting and fundraising.

4.4.3 Support networks

Support networks are large bodies representing NPOs. They provide social and political representation and also perform a coordination role. Examples of support networks are provided by Forum del Terzo Settore,³² which performs a key lobbying role in Italy, and Rete Misericordie,³³ which has a history going back eight centuries. Rete Misericordie is the widest network, bringing together voluntary groups committed to providing assistance to local communities and to vulnerable people in particular.

(29) Local and national consortia are included in the total number of social cooperatives reported in this document (11,264).

(30) www.cgm.coop.

(31) www.ideeinrete.coop.

(32) www.forumterzosettore.it.

(33) www.misericordie.it.

4.4.4 Networks running entrepreneurial activities and social enterprise incubators

Over the last few years, a few entrepreneurial networks have been established in the form of *ex lege* limited liability social enterprises. They engage in the direct production and/or running of trading activities (Venturi and Zandonai 2016). These networks running activities, especially in the field of health or complex social services, are a typical example of the innovative social enterprise initiatives that were able to seize the opportunities offered by Law 118/2005.

Incubators have also played a key role in providing social enterprises with important resources and skills. It is worth mentioning that social enterprise incubators and accelerators select, fund and provide support to innovative and social/environmental impact-oriented entrepreneurial initiatives during their start-up or development phase (e.g., Avanzi-Make a Cube, FabriQ, Impact Hub, etc.).

4.5. Research, education and skills development

Social enterprises have been studied in depth in Italy. The good availability of data and knowledge from both official and administrative statistics and private research has boosted the visibility of the sector and has contributed to clarifying the role of social enterprises for policymakers at both the national and local levels. Section 3.1 provides a detailed description of the main sources of data on social enterprises in Italy.

In addition to a growing number of individual researchers committed to studying social enterprises, there are three main research institutions focussed on social enterprises that are worth mentioning:

- > IRIS Network, the national network of researchers and research institutes on social enterprise. The IRIS Network supports empirical investigation and theoretical ideas to facilitate a deep understanding of social enterprise organisations, affirming their role and improving their ability to act. The IRIS Network promotes ideas and the exchange of information between research centres, universities, single researchers and the world of social entrepreneurship through key initiatives such as the Scientific Colloquium on Social Enterprise, which has come into its 13th edition with more than 400 papers presented and discussed.
- > European Research Institute on Cooperative and Social Enterprises (Euricse). The Institute promotes knowledge development and innovation for the field of social enterprises, cooperatives and other NPOs. Euricse aims to deepen the understanding of these types of organisations and their impact on economic

and social development, furthering their growth and helping them to work more effectively. Through activities directed towards and in partnership with both the academic community and practitioners, Euricse addresses issues of national and international interest to social enterprises and other organisations within the social economy.

- > The Italian Association for the Promotion of the Culture of Co-operation and of Nonprofit (AICCON) is an association established on the initiative of the University of Bologna, the Alliance of Italian Cooperatives and other public and private entities engaged in the field of social economy. The aim of the association is to encourage, support and organise initiatives to promote the culture of solidarity related to NPOs and cooperative enterprises.

In Italy, education and training on social enterprise are developed at different levels and with various durations. The same representative organisations and social cooperative consortia have been delivering training activities since the 1980s. Several universities now offer courses and programmes on social enterprise and related topics. The most consolidated courses are the following:

- > Bocconi University in Milan (SDA Bocconi School of Management) in 1993 became the first Italian university to offer a bachelor's degree in economics for non-profit, cooperative and social organisations. A few years later, it established a master's in the management of social, cooperative and NPOs, now the Master's in the Management of Social Enterprises, Not-for-Profit Organisations and Cooperatives.
- > The University of Trento and Euricse have, for 24 years, run a master's programme in the management of social enterprise. The GIS master's programme has so far helped to train about 370 students, of whom 87% have found employment in a social enterprise within one year of obtaining their master's degree.
- > The University of Bologna offers master's degrees in social economy; economics and the management of NPOs and cooperative enterprises; and fundraising for NPOs and public bodies, the latter in its 18th edition.
- > The Catholic University of the Sacred Heart in Milan offers an executive master's in social entrepreneurship that is now in its sixth edition.

4.6. Financing

Since section 4.3. on access to markets analysed non-repayable resources aimed at supporting the production costs of the services delivered by social enterprises, the next paragraphs focus on the demand for and supply of repayable resources.

4.6.1. Demand for finance

Italian social cooperatives, which are the most developed type of social enterprise in Italy, have increased the amount of their investments over the past decade. Therefore, despite their notably labour-intensive nature, they have also increased their demand for finance.

An interesting indicator is provided by the volume of debt contracted by social cooperatives, which amounted to about 7.9 billion EUR in 2014 (data processed by Euricse, drawing on the AIDA database).³⁴

Against this growing need for finance, Italian social enterprises, both *ex lege* and *de facto*, have largely relied on their own financial resources. It is estimated that about 70% of these organisations are mainly self-funded (Venturi and Zandonai 2012a). The main sources of self-financing are contributions provided by members and surpluses resulting from business activities. These surpluses are accumulated through indivisible reserves (i.e., reserves that cannot be distributed to members).

According to research on social cooperatives in Italy, social enterprises tend to address their credit needs to the traditional banking system when necessary, and lack of financing is seldom listed among the main obstacles faced by social enterprises. This type of obstacle normally ranks after "delays in public authority payments". Additionally, according to a survey carried out in 2012 (UBI Banca and AICCON 2013), about 37% of social cooperatives declared that they planned to make investments in 2013, and 26% of them (or less than 10% of all social cooperatives, including those that expected to make investments) declared that they would rely on public finance.

Although self-financing represents the first source of investment in most cases, based on the research undertaken for this study, social enterprises are also financed by different actors and sources, including traditional banks, specialist financial intermediaries, foundations and public grants. Therefore, according to this research and more general research, social enterprises do not face particular problems in accessing traditional financing channels, particularly the traditional banking sector.

(34) Euricse 2013 and Borzaga 2015.

In 2012, a sample of 250 social cooperatives took part in a survey aimed at investigating their financial needs (UBI Banca and AICCON 2012). Key results of the study include the following:

- > On average, each social cooperative used the services and/or products (such as requests for funds and online banking) of at least two credit institutions.
- > About 50% of social cooperatives did not believe that banks apply assessment methods that are tailored to NPOs.
- > Overall, 65% of social enterprises were, however, satisfied with the relationships established with the traditional banking sector (UBI Banca and AICCON 2013).

Based on the analysis of the financial structure of almost 600,000 Italian enterprises (Borzaga and Fontanari 2017), the currently existing 10,159 social cooperatives have a turnover of almost 12 billion EUR, an invested capital of 9.8 billion EUR and an equity capital of (especially indivisible reserves) 2.5 billion EUR. As confirmed by other research analyses, social cooperatives depend on bank credit more than other enterprises. However, they have liquidity levels (ratio between cash plus cash equivalents within 12 months and the short-term payables) and solvency levels (ratio between the value of shareholders' equity and long-term payables and the value of fixed assets and receivables exceeding 12 months) normally higher not only than all other cooperative forms but also than conventional enterprises. This explains the widespread availability of traditional banks to finance social cooperatives.

It is, however, foreseeable that if social enterprises expand their activities into fields other than social services and enhance their work integration interventions, their demand for credit will grow. That said, it is rather unlikely that the banking system will be able to cope with the credit needs of social enterprises.

4.6.2. Supply of finance

Financial intermediaries include traditional banks, banks with a social orientation and specialised providers.

Traditional banks

All types of banks work with social enterprises. Traditional banks address most of the credit needs of social enterprises, both short-term and long-term. In 2012, the five largest banking groups in Italy accounted for close to 47% of the bank lending to social cooperatives; other large, small and medium-sized banks covered about 38% of the lending. Foreign banks provided less than 1% of the overall loans (Gobbi 2012).

Various traditional banks have created specialised institutions or particular sections (UniCredit and UBI Banca) that are meant to address the financial needs of NPOs.

As reported by the Bank of Italy, over the 2007 to 2010 period, social cooperatives have been offered favourable credit terms by Italian banks for the following reasons:

- > A large proportion of social cooperatives operate in a sector (i.e., the provision of products and services to public institutions) that is less affected by the economic situation than for enterprises operating in private markets. It is estimated that 45% of social enterprises in Italy have public bodies as their main clients (Venturi and Zandonai 2012a).
- > The relatively small size of the majority of social cooperatives allows for the diversification of risk.
- > Overall, social cooperatives have shown a low level of risk for investors, with the exception of some larger operators.

Banks with a social orientation

Banks with a social orientation include cooperative credit banks, which are traditionally oriented towards supporting locally based initiatives, and Banca Etica, which is the first ethical finance institution in Italy. Created in 1999, Banca Etica originated from a previous initiative of self-funding developed by an association of cooperatives and targeted at socially oriented projects. It offers credit to organisations operating in social areas, such as welfare and education, and developed special conditions for the access to finance that are customised to the needs of social enterprises. By 2012, Banca Etica had more than 35,000 clients and financed 5,280 organisations and 2,943 individuals, and had total financing of 619 million EUR at the end of 2013 (Banca Etica 2013). Cooperative Credit Banks (Banche di Credito Cooperativo, BCC) are responsible for about 16% of the lending (Gobbi 2012).

Specialised banks

Banca Prossima is a specialised bank that was created in 2007 by the Intesa Sanpaolo banking group: it is the first European bank with the exclusive aim of providing financial support to social enterprises and other enterprises active in the non-profit sector. Although it was recently re-internalised for organisational reasons by the group leader (Banca Intesa) it has significantly contributed to the development of social enterprises. Similarly to Banca Etica, Banca Prossima employs a specific credit rating system for NPOs. In 2012, Banca Prossima reported 22,000 non-profit clients and provided total finance of 1.5 billion EUR (Banca Prossima 2013). The illustration below provides more detail on Banca Prossima.

Illustration 8. Banca Prossima S.p.A (bank)

Banca Prossima specialises in providing financial support to social enterprises. Banca Prossima's statutory objective is the creation of social value, and the only potential barrier to the provision of finance to social enterprises is the economic or social unsustainability of the organisation.

The bank developed a rating system based on indicators that take into account the specificities of the non-profit sector, such as the social enterprise's governance structure, the mix between public and private customers, the internal forms of stakeholder engagement and fundraising ability. The bank has introduced a series of innovative forms of funding and support services for social enterprises, including:

- > special bonds that can be transformed into low-interest loans;
- > guaranteeing funds in support of activities in regions less well-served by the banking system because they are riskier compared with the national average;
- > Terzo Valore (Third Value), a service that provides individuals and organisations with the possibility of funding projects developed by NPOs with a guarantee of repayment of the capital invested.

In order to be efficient, according to representatives of Banca Prossima, financial support to social enterprises needs to be based on innovative forms of cooperation between different actors, including private investors, public authorities, banks, foundations and social enterprises. These innovative sources of finance would need to combine different financial instruments and forms of investment, such as loans, social bonds, public authority guarantees, crowdfunding, equity and donations. Stability in public policies in support of social enterprises is considered an important factor to ensure the predictability of revenues.

Source: information provided for this study by representatives of Banca Prossima.

Innovative instruments for social finance

Over the last few years, innovative instruments for social finance have emerged in the financial market. These instruments include impact investing, social impact bonds and social venture capital (Rago and Venturi 2013). Recent examples of venture capitalists specialising in social investment include the venture philanthropy fund Oltre Venture, as explained in illustration 9 below (Venturi and Zandonai, 2012b). Another example is represented by UBI Banca's social bonds: in 2012, UBI Banca and the national consortium of social cooperatives, CGM, introduced bonds with the objective of supporting the development of social enterprises and carrying out social projects that create value for local communities. The total amount of bonds issued was 20 million

EUR and loans ranged from 15,000 to 500,000 EUR, with a maximum maturity of 60 months (UBI Banca and AICCON 2013).

Illustration 9. Oltre Venture (impact investing operator)

Oltre Venture was created in 2006 from a previously established foundation (Fondazione Oltre). It supports social venture capital investments and provides financing opportunities to organisations aimed at creating a positive social impact. The first fund (Oltre 1) was launched in 2009 and supported the starting up and development of a network of medical centres based in Milan (Centro Medico Santagostino) through an investment of EUR 2.5 million and participation in 90% of the organisation's equity. A second fund (Oltre 2) was launched in 2016. So far, it has collected EUR 25 million from the European Social Fund, the Italian investment fund Cassa Depositi e Prestiti and private investors. Investments to be supported by the fund can be made either in existing enterprises (that need to grow further) or in start-ups. The main sectors of investment are the social sector (education, health, social housing, work integration); services that address the needs of families, the elderly, youth and children; and sectors that are strategic for the development of the weakest areas of the country and focus on enhancing local strengths (such as agriculture and tourism).

Oltre Venture defines social enterprises as businesses that exist to address social or environmental needs while adopting a profitable business model in order to be sustainable. As explained by the representative of Oltre Venture consulted for this study, the existence of a social mission is a key criterion for investment. The products and services provided in support of social enterprises include unsecured loans, equity and quasi-equity, pre-start business support, investment readiness support and investment structuring.

Website: <http://www.oltreventure.com/>

4.6.3. Market gaps and deficiencies

Social enterprises face similar problems to those of small and medium-sized enterprises. It is likely that the situation will change over the coming years as social enterprises will probably expand their field of activities into sectors requiring significant investment. Against this background, there is a need for guarantee funds aimed at incentivising capitalisation and tools capable of attracting private savings.


This latter need has been met by the recent reform of the third sector (Decree 117/2017) and social enterprise (Decree 112/2017). New fiscal benefits tailored to new instruments that are devoted to attracting dedicated resources (social bonus, microcredit platform, social lending) and encouraging the participation of individuals and enterprises in risk capital have been introduced.

However, key deficiencies, which jeopardise the full exploitation of these opportunities, are noteworthy. They include, in particular, the weak management skills of social cooperatives: indeed, the poor management of social cooperatives significantly influences their investment risk profile (Gobbi 2012).

5

PERSPECTIVES

Social enterprises are an important and growing sector of the Italian economy. While the integration of social enterprises into the welfare system has been key in boosting their replication, the strong dependence of social enterprises on public policies, coupled with the growing use of competitive tenders based on the lowest price, has contextually contributed to a constraint on their innovative behaviour and future development. Spending reviews implemented by the Italian government in response to the economic crisis have affected the amount of resources assigned to local authorities and sometimes reduced the availability of public resources in sectors that are fundamental for social enterprises, such as the welfare domain. This has, on the one hand, slowed down the expansion opportunities for social enterprises. On the other hand, it has created the impetus for social enterprises to diversify into new markets, including new demand from private users, capturing the large volume of resources spent in the informal market. A key challenge for social enterprises delivering general interest services is to experiment with new cycles of innovation in the health and educational domains and increase the delivery of corporate welfare services addressed to enterprises' employees, families and users. As for work integration social enterprises (WISEs), less dependent on public resources from the outset, a key challenge is to switch from domains with a low added value towards operations that can foster higher professional profiles to the benefit of disadvantaged workers who are already employed. Another strategy, which should be exploited further, is to reinforce partnerships with conventional enterprises. As demonstrated by good practices in this area, such a strategy can enable the continuing integration of disadvantaged workers in the open labour market.



This section focuses on debates surrounding social enterprises and barriers and opportunities to their development, as well as on the trends, challenges and main perceptions with respect to the role of social enterprises in the provision of general-interest services and products.

5.1. Overview of the social enterprise debate at national level

Any analysis of perspectives cannot disregard the recent reform of the "third sector" and the public debate on social enterprise that preceded and accompanied it. The debate that preceded the reform of the law on social enterprise was rather confused. Many commentators confused the very low impact of the law on social enterprise (as pointed out earlier, a very small number of organisations have registered as *ex lege* social enterprises) with the failure of the entrepreneurial model that has continued to thrive in the form of the social cooperative. The substantial failure of the law can be ascribed to the following factors:

- > the strength of social cooperatives;
- > the inability to attract NPOs (particularly associations) owing to the additional costs and responsibilities it entails without offering any compensatory benefit;
- > the discouragement of investors due to strict legal requirements and rules on setting up an activity and scarce incentives (fiscal advantages are not seen as attractive enough);
- > the difficulties of attracting risk capital because of the total profit distribution constraint preventing *ex lege* social enterprises from distributing any profits (as opposed to the partial distribution of profits allowed for social cooperatives);
- > the impossibility of inviting conventional entrepreneurs to participate in the governance of social enterprises; and
- > the limited opportunities granted by the law to *ex lege* social enterprises in sectors such as environment, health and culture.

As already noted, the approved text of the reform (Law 106/2016 and Decree 112/2017) reaffirms the non-speculative nature of social enterprises independently of the legal form taken. At the same time, it introduces some key changes with a view to overcoming, at least in theory, some of the above-mentioned shortcomings and supporting the widespread development of social enterprise in a larger number of

fields. The final judgement should, however, be postponed to the next few years after the full implementation of the reform.

Another controversial issue that has lately gained prominence in the press relates to the negative reputation of some social cooperatives resulting from scandals they have been involved in when managing services contracted out by public agencies. Recent events involving, in particular, the management of reception centres for asylum seekers and refugees overshadow the contribution of social enterprises to innovating and democratising the welfare system. Conversely, they give strength to the view that social enterprises provide an excuse for the withdrawal of public agencies and an opportunity for private providers to exploit the contracting out of public service delivery.

5.2. Constraining factors and opportunities

Social enterprises are an important and growing sector of the Italian economy. While the integration of social enterprises into the welfare system has been key in boosting their replication, the strong dependence of a significant portion of social enterprises—those providing social and educational services—on public policies has also contextually contributed to constraining their development. The integration of social enterprises into the welfare system has progressively induced them to sideline their ability to discover new needs and meet the demand for unmet services better than public providers. By restricting their role to that of mere providers of social services as decided by public policies, these social enterprises have gradually abandoned one of their key added values: the ability to innovate the provision of social services and create a "public dimension" (Laville *et al.* 2014, Borzaga *et al.* 2016a).

Moreover, spending reviews implemented by the Italian government in response to the economic crisis have reduced the availability of public resources in the welfare domain and other sectors that are fundamental for social enterprises. This has, on the one hand, reduced opportunities for social enterprises to expand. On the other hand, it has created the drivers for social enterprises to diversify into new markets. As recent evolutionary trends show, these include new private demand both from private users (capturing the large volume of resources spent in the informal market) and from enterprises interested in developing welfare services for their employees and to comply with the obligation to employ workers with disabilities. Good practice in this area is seen both from *de facto* social enterprises (e.g., associations/foundations, community cooperatives), *ex lege* social enterprise and the growing resort to Article 14 of Decree 276/2003.

Interviews undertaken for this study confirm the relevance of public procurement. At the same time, the social enterprises consulted explained that one major problem constraining social enterprise stability is the delay in payment for the services delivered to public authorities.³⁵ Delays have increased social enterprises' debts to banks for advancing the payment of invoices due and has affected the ability to remunerate employees with the required level of regularity. That notwithstanding, social enterprises are in general taking on the risk, as confirmed by the fact that more than 70% of social enterprise workers have a permanent employment contract.

Another barrier to the development of social enterprises is the confusion caused by the complexity and fragmentation of the legislative framework, both civil and fiscal, which currently regulates the operation of NPOs (excluding social cooperatives, which benefit from a well-established legal framework) and *ex lege* social enterprises. The result can be the imposition of complex and restrictive bureaucratic and administrative tasks, which complicate the enterprise's management. That said, the decrees to be adopted implementing the third sector reform have only partially overcome the fragmentation of the fiscal framework, and doubts remain about their ability to stimulate a full exploitation of the opportunities offered by social enterprise legislation.

Additional obstacles are generated by the insufficient managerial skills of many social entrepreneurs, whose profiles are often that of the social worker.

The increase in competition is a further obstacle mentioned by the social cooperatives consulted for this study. As a result of the 2008 economic crisis, work integration social cooperatives are increasingly competing with conventional enterprises, which are entering markets traditionally covered by social cooperatives. A growing number of conventional enterprises is also entering the sectors of social and healthcare services provided to disadvantaged people; large service-providing social cooperatives are also increasingly competing with each other and the smaller and locally rooted social enterprises to secure contracts from public authorities (Venturi and Zandonai 2012a and 2012b).

The social enterprises consulted explained that public procurement opportunities are accessible to work integration social enterprises more rarely due to the limited interest of public authorities in implementing social clauses supporting social enterprises in public procurement. The recently transposed EU public procurement rules (2014/24/EU) that could in principle boost the capacity of social enterprises to contribute to the Italian economy and welfare system have so far not been concretely implemented.

(35) One stakeholder estimated that the average delay in payments from public authorities is 36 months.

5.3. Trends and future challenges

In Italy, the social enterprise phenomenon is quite heterogeneous as it is closely connected to the specific development perspectives faced by each social enterprise type. While the potential of some social enterprise types has yet to be fully harnessed, other social enterprise types are in the process of concluding their cycle of development for different reasons. These include public budget stagnation, delays in the payment of public contracts and still-limited satisfaction of demand for the services delivered, especially for elderly people and refugees/immigrants. This is the case with A-type social cooperatives that are mainly engaged in the supply of social services to public authorities.

As evidenced by a growing body of experience, the major challenge for A-type social cooperatives is to increase efficiency and experiment with new cycles of innovation through the production of innovative services targeting a new demand. These could include, for instance, health and educational services as well as traditional services, which could be delivered in a more sophisticated way than at present; corporate welfare services addressed to enterprise employees, families and clients; and services addressed to workers and clients of health insurance mutual companies.

Unlike A-type social cooperatives, B-types depend much less on public finance. About half of their total turnover results from the sale of goods and services to private customers or companies and a consistent part of the remaining half comes from successful participation in tenders that are only partially reserved. Nevertheless, social cooperatives are mainly engaged in domains with a low added value, such as cleaning, gardening and assembly. The crisis has reduced the demand for these services while also increasing competition from conventional providers, which were until a few years ago not interested in these market sectors. Typical activities run by B-type social cooperatives are unable to provide disadvantaged workers with high-profile training. B-type social cooperatives thus run two risks: losing market share and failing to ensure the turnover rate of the disadvantaged workers they have managed to ensure in the past. The challenge, therefore, is to switch towards production with higher added value that makes it possible to provide higher professional training profiles to benefit the disadvantaged workers already employed. This is a key challenge given the increase in the number of workers with employment difficulties that are not necessarily as severe as those identified by Law 381/1991. What is needed, therefore, is a stronger recognition of the ability of social cooperatives to facilitate the work integration of people otherwise excluded through the adoption of further support measures in addition to the exemption from the payment of social security contributions. Many social cooperatives are already carrying this burden as they are unable to qualify for the exemption from payment of social security contributions. The 2017 decree reforming the social enterprise has

enlarged the categories of disadvantaged workers, but social enterprises cannot benefit from tax exemptions that remain granted only to the categories of workers recognised as disadvantaged by Law 381/91.

An additional challenge that many B-type social cooperatives are already facing is that of starting new businesses in domains with higher income-generating capacity and a more stable demand, such as organic agriculture and trading in agricultural products. Finally, another strategy that is making it possible to maintain the employment levels of integrated disadvantaged workers and that might be exploited further is the establishment of partnerships with conventional enterprises.

Associations and foundations that are *de facto* social enterprises normally have a low awareness of the beneficial implications of organising the supply of social, cultural, sport and recreational activities in an entrepreneurial manner. They are often reluctant to adopt an entrepreneurial structure and are not aware that organising such activities in a fully entrepreneurial form is not only possible but is often an opportunity to strengthen their activities to the advantage of both their direct beneficiaries and the community. The main challenge is hence to increase the private demand that can generate income and new employment while also encouraging associations and foundations to take advantage of the possibilities offered by the law on social enterprise.

The last challenge concerns the possibilities for social enterprise development in new business sectors of general interest other than those in which NPOs normally engage. These include waste management, scientific research, advanced education and training, network services, management of facilities for cultural activities, production of renewable energy, and social housing, where the gap between supply and demand is not only high but is showing a tendency to increase further due mainly to the contraction of public resources.

In contrast to the sectors in which social cooperatives and associations typically thrived over recent years, these new sectors are marked by a large presence of public bodies, which in some cases have both the monopoly on supply and the ownership of productive structures. Their transfer to social enterprises would, therefore, imply the downsizing of powers of public administrators. In addition to this, the key capital in these fields is not human capital, as in the case of social and cultural services, but financial capital. Indeed, the development of these activities presupposes the ability to invest in real estate, infrastructure and expensive equipment. The ability of social enterprises to enter these domains depends on a number of factors, involving both the supply side and the predominant political and administrative culture, which has to change significantly. Some promising signals shed light on the still unexpressed potential for social enterprise in this domain. These are related to the debate that is currently taking place on commons, the emergence of collaboration experiences between citizens and public authorities, the rise of social housing projects managed

by NPOs, and the emergence of innovative initiatives from community cooperatives for the management of public interest services. All these initiatives suggest that there is still considerable space for the growth and development of social enterprise. The challenge in this case is to seize the potential by adjusting the institutional structures of both social enterprises and public authorities.

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of "social enterprises" based on the Social Business Initiative (SBI) promoted by the European Commission.³⁶

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|---|---|---|
| Entrepreneurial/ economic dimension | Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises . | <ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is or is not controlled by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. | SEs must be market-oriented (incidence of trading should be ideally above 25%). | <ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e., SEs at an embryonic stage of development may rely only on volunteers and mainly on grants). |

(36) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, "an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities."

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--------------------------------------|---|--|--|---|
| Social dimension (social aim) | <p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. "Social" shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p> | <ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE's members. > Whether the product/activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SE's action has induced changes in legislation. > Whether the product delivered—while not contributing to fulfilling fundamental rights—contributes to improving societal wellbeing. | <p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p> | <ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g., from educational services to the supply of water). > What is conceived to be of a meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what "public benefit" means in her/his country. |

| Main dimension | General definition | Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high) | Initial minimum requirements (yes or no) | Examples/boundary cases comments |
|--|---|--|---|---|
| Inclusive governance-ownership dimension (social means) | <p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance to various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalized in different ways.</p> | <ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels that give voice to users and workers in special committees). > Whether a multi-stakeholder ownership structure is imposed by law (e.g., France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long-term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). | <p>SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.</p> | <ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time—hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g., most successful solution: capped dividends supported by total asset lock such as Italian social coops, CIC, SCICs). |

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- > Ministerial Decree 3 July 2015 on Supporting measures for strengthening the social economy
- > Constitutional Court ruling 396 of 1988 on the unconstitutionality of Law 6972/1890
- > Civil Code (Art. 2511 and 2082) on cooperatives and social enterprises

Endnotes

- 1 Registered social enterprises other than social cooperatives (limited liability companies, shareholder companies, traditional cooperative forms) are not eligible.
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