

## *SUPPLY - DEMAND GAP ANALYSIS*

PROJECT: "Attracting communities towards social enterprise investment - ACT SOCIAL"

CALL FOR PROPOSAL: "Supporting the demand and supply side of the market for social enterprise finance"

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## 1. Introduction

Before the industrial revolution, the economy of the systems which today are defined as welfare, was of a merely agricultural and subsistence kind: this implied that the primary and assistance needs were met within the networks of family solidarity; industrialization has changed such setup, requiring the birth of a new welfare system, structured mainly to answer the needs created by the work market. During the 20<sup>th</sup> century, this tendency changed in favour of a greater initiative at a central government level, warranting health assistance and social services to the entire population.

In the last decades of the 20<sup>th</sup> century, the situation changed again: the intervention of the central governments supporting a widespread social wellbeing showed some limits due to various factors. First of all, it became evident how difficult it was to plan centrally effective determinants of the collective wellbeing. The people and their direct networks – family, friends, community – revealed themselves to be keepers of knowledge and of the majority of the instruments needed to solve social problems. The role of the State and of public bodies proved to be instead irreplaceable in the function of security and redistributive solidarity towards the weakest people and social groups. Secondly, some increasingly growing limits have become more evident in terms of the public financial availability. These limits have caused a continuous withdrawal of the public intervention, which should favour the keeping of the essential role of political guidance, of monitoring and control and of security.

Italy has shown a great innovative ability, in the welfare sphere, at an international level, with the development of the first forms of solidarity cooperation, starting from the '80s, and then with the enactment, in 1991, of the law on social cooperation. With this law, Italy was the first European country to emphasize, at a legislative level, the phenomenon of social entrepreneurial class.

Today there are about 12,000 social cooperatives, generating a production value of more than 10 milliard Euros (for the most in the sectors of social and health assistance) and holding an invested capital of 8.3 milliard Euros (data 2011, Euricse)<sup>1</sup>. They employ 30% of the total employees in the cooperatives, that is more than 513,000 people, for more than 60% with an open-ended contract, and for almost 35% less than 35 years old (data 2011, Euricse)<sup>2</sup>.

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<sup>1</sup> Carlo Borzaga (edited by), *La cooperazione italiana negli anni di crisi. 2° Rapporto Euricse*, Euricse, 2014, pp. 105 – 116.

<sup>2</sup> Ibidem.

Recently Italy has considered a new important legislative innovation, introducing, with law 118 of 2005 and with decree 155 of 2006, the institution of the social enterprise. A social enterprise can be “any private organization practicing permanently and mainly an economic activity organized for the production or the exchange of goods or services of social usefulness, aimed at accomplishing ends of general interest” (art. 1, decree 155/2006) and which respects the obligations to be enforced by the regulations for the social enterprise (social usefulness, nonprofit, self-government).

The institution of the social enterprise has a revolutionary importance first of all from the cultural standpoint, after decades in which the mainstream in the economic field was dominated by the *homo economicus* and by the enterprise (corporate) aimed at creating value for the shareholders, the social enterprise claims the possibility that there are economic organizations (not only cooperatives) whose aim is social.

The *genus* is common, “it is the enterprise, that is to say the organization which through the combination of various factors produces goods and services and which gives to others on the market against a compensation, producing, through such activity, social and economic value”.

The *species* instead are two:

- “the enterprise for profit, which... aims at maximizing generation for itself, and so for its owners, of economic value, respecting the social and environmental obligations defined by laws and by property;
- the social enterprise, which, with a symmetrical reversal between ends and obligations compared to the enterprise for profit, aims at maximizing the production of social value, respecting the economic obligation which warrants its survival and development in the long term.” (Scalvini, 2005)<sup>3</sup>.

Alas, to date, this institution hasn't been widespread enough as it hasn't been accompanied yet by adequate promotional acknowledgments of taxation and contributory character.

There have been few social cooperatives which have obtained the status of social enterprise.

The social cooperatives currently represent the model of social enterprise more structured and widespread on the national territory; this statutory and organizational form, while uniting the two dimensions – economic and social – is characterized as a model of innovative

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<sup>3</sup> Scalvini F., 2005, La legge 118 e l'evoluzione del terzo settore, *Impresa sociale*, n. 2

entrepreneurship, acknowledged not only in relation to programming and managing the welfare services, but also regarding the processes of local economic development and the employment policies for the job placement of the most vulnerable subjects.

Today the third sector and, within it, the social cooperation are a focus of great attention for the financial world. We can observe the attempt to import towards the third sector and the cooperation intervention logics and instruments from the financial world, very often of Anglo-Saxon matrix.

In this analysis, we want to observe this great movement in a critical way, from the point of view of social cooperation and keeping in mind first of all the interests of the social cooperation.

The bottom-line thought is that finance is certainly an instrument of organizational business development but that it is necessary to manage the compatibility between finance and cooperation without altering the cooperative phenomenon.

Cooperatives are companies in which finance and capital play a subsidiary and instrumental role, at whose centre are the members and their interests: work, consumption, objectives of social character. They are formed with limited capitals, coherent with the activities to manage and they are financed essentially with their own activity. They grow more or less slowly, in a balanced way compared to the business dynamics and to the opportunities, coherent with the mission, offered by the context.

The cooperatives' first source of financing is self-financing, the profit generated and set aside as a reserve.

The role of finance is then subordinate and basically limited to solve the problems of financial deficit (more or less) temporary and to allow continuous investments, proportionate and adequate to the social purpose.

This doesn't rule out that one can study and consider sophisticated financial instruments supporting the social cooperation. The social cooperation itself, and its founders, minded them since the beginning (for instance with the foundation of CGM Finance, of COSIS, of Banca Prossima itself). However the risk must be avoided that finance, after having doped the traditional economic system, producing a total coming apart between financial profiles and real economy, also distorts social economy.

## 2. The Demand of Social Finance in Italy

301,000 organizations, 680,000 subordinate workers, almost 5 million people who volunteer their time and their skills for free (Istat data, 2013). These are the numbers of the Italian Third sector, a segment of the economy very often undervalued but which, in the latest years, has acquired a higher and higher weight, to the point of being worth 4.3% of the GDP. The Third sector organizations, in spite of the recent hardships due to the economic crisis, generally have increased the volume of their activities, kept a good economic and patrimonial balance, shown a marked propensity for social innovation and created, not only protected, employment and work (Unicredit Foundaton, 2012)<sup>4</sup>.

Since 2012 UBI Banca, with the scientific support of Aiccon (Italian association for the promotion of the culture of cooperation and of profit), has presented every year the so-called “Observatory on finance and the third sector”. This analysis aims at monitoring continuously the state and the evolution of the supply and the demand of finances for the Italian third sector, with a focus on three particular subjects: the foundations<sup>5</sup>, the associations<sup>6</sup> and the social cooperatives<sup>7</sup>. The survey is carried out through a sample analysis done with a questionnaire addressed to the people in charge (presidents and administrative officers) of these organizations.

With regard to the 250 foundations subjected to the sample survey, these turned out to be mainly of operative kind, that is they pursue their goals through their own direct activity, and they are located in the North-West of Italy.

Concerning the financial contributions (public and private) supporting the projects of the foundations for 2013, for over 40.0% of the interviewed organizations these decreased compared to the previous year, in keeping with the difficulties in raising funds. Despite this situation, the interviewed foundations maintained that almost half of their financial needs for 2014 would derive from internal management. The resort to the banks, whose attitude in terms of investments is perceived mostly in reactive terms – that is of counseling urged by the demand – results in fact marginal: the foundations, then, still aim at finding resources independently from credit obligations, choosing to turn to financing forms coming from their

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<sup>4</sup> Unicredit Foundation, *Ricerca sul valore economico del Terzo Settore in Italia*, 2012

<sup>5</sup> Osservatorio UBI Banca su Finanza e Terzo settore, *Indagine sui fabbisogni finanziari delle fondazioni in Italia*, 2013

<sup>6</sup> Osservatorio UBI Banca su Finanza e Terzo settore, *Indagine sui fabbisogni finanziari delle associazioni in Italia*, 2013

<sup>7</sup> Osservatorio UBI Banca su Finanza e Terzo settore, *Indagine sui fabbisogni finanziari della cooperazione sociale in Italia*, 2013

own members, donations or payments coming from public or private institutions. However, one must observe how 68% of the interviewed foundations claimed to be satisfied or very satisfied of the relationships with the banks and almost 40% of them positively valued the prospect for the future development of new banking instruments in support of their activity. As regards the survey on financial needs of associations in Italy, some 250 questionnaires were given out both to social promotion associations and to voluntary work organizations. Also the world of associations must deal with both the decrease of resources available for the public sector – forced to reduce their budgets – and with the lesser returns deriving from private donations, also due to the economic crisis affecting them. In spite of this situation, the two kinds of associations considered in the Observatory seem little inclined to use the credit channels offered by the banks, perhaps almost assuming the expectation of a return to the conditions preceding the crisis.

Almost 2 associations out of 3 among the interviewed ones claimed moreover that they didn't foresee investments for 2013, indicating as primary motivation the difficulties deriving from the economic crisis. For those which instead considered making investments in the short term, 72.5 percent of the interviewed ones declared they wanted to use mostly self-financing, thus addressing primarily their own associative base, or as an alternative ask for public funding (19.6 percent). So only 5 associations out of 100 claimed to be willing to turn to bank loans to support their activity.

The survey, aiming at exploring the financial needs of social cooperation in Italy, saw the dispensing of as many as 500 questionnaires to the people in charge of these cooperatives. Most of the organizations of the sample are A-type social cooperatives and they work mostly with the public body as their buyer, payer. The observation of the relationships between social cooperatives and the banks has pointed out how, compared to the preceding years, there are fewer social cooperatives having relationships with only one bank and more with more banks, especially in Northern Italy. We can also confirm the positive tendency already emerged in the previous editions of the Observatory concerning the positive level of satisfaction in the relationships with credit institutes: 54.8% of the interviewed subjects declare themselves satisfied or very satisfied, with a growth of 12 percentage points compared to 2012 and of 16 compared to 2011. However, when asked how they perceive the application of particular conditions reserved to the third sector as opposed to the enterprises for profit, about half of the interviewed social cooperatives (46%) hold that the banks of which they are clients do not apply personalized methods of evaluation for the organizations of the third sector. The perception of the banks' personalization of the service is obviously

correlated to the level of satisfaction of the social cooperatives as regards the relationship with the banks.

While remaining still a residual component, there is a growing tendency in the awareness of social business to be able to find financial support also through credit institutes (the most dynamic sector of activities is that of environmental services): in fact there is an increase in the requests of financing for investments (32.3%), by the way with positive outcomes, considering that more than one social cooperative out of two received the total amount requested.

Self-financing anyway remains the main source of covering the investments (44.2%), which however are considered only by 4 social cooperatives out of 10, confirming a defensive attitude rather than a “pro-active” one as regards the future. In fact among the cooperatives which considered making investments, only 31 percent said they would ask for bank financing, while the remaining 26 percent meant to use public financing.

Most of the interviewed people then maintains they don't have any debts with banks, confirming the growing trend compared to the preceding editions of the Observatory (39.3%, +2.5% compared to 2012). So the document points out how the cooperatives still find it hard to trust the traditional credit system to meet their own financial needs: they seem to prefer to trust their own resources, such as members' contributions and returns from the sales of goods and services. However 38% of the interviewed people claim to be interested in receiving new services, which their bank currently doesn't offer. Among these new services, almost 3 cooperatives out of 4 indicate the support to fund raising, an activity that today more than ever is deemed indispensable for the development strategies of the third sector.

In conclusion, the results of the UBI Banca Observatory point out that a great part of the nonprofit sector continues to experience a certain caution towards the financial system and they prefer to continue to trust financing forms which don't imply debts, although, in many cases, the credit institutes developed programmes and operative units that deal specifically with the third sector and its needs.

This general picture, as pointed out in chapter 3 (“The social enterprises target of the research”) of the study accomplished by Socialis for the present project “An analysis of the social impact indicators”, is confirmed for Valle Camonica's social enterprises. They point out:

- “Scarce propensity to the capital market: the analysed social enterprises enjoy excellent financial autonomies, they are well capitalized and – even where the social capital is not particularly high – the relation of capitalization is kept strongly

positive. The modest level of indebtedness is certainly synonym with solidity, but also of scarce inclination towards investment and growth. Who is indebted is so because he has bought a property, but there are no financing operations to support innovation, new enterprise activities, etc.;

- (...) Limited knowledge of the possible instruments to increase the financing sources, whether they are financial, contributive or donation instruments. In this the Valley's enterprises should increase their knowledge and the managerial skills allowing them to present themselves as good entrepreneurial and social partners.”<sup>8</sup>.

This strategic attitude is, at least in part, linked to a specific modality of innovation and entrepreneurial development.

First of all, finance accompanies the development of nonprofit organizations but it is not their main engine. Since the moment of foundation, the unchaining element does not pivot around the entrepreneur, his ideas, and the capital, the investment that he is able to make or to mobilize, but around a set of united relationships, a social capital cemented by a vision, a desire of social and communitarian development. Also as the activity proceeds, the main productive factor remains human, with the composition, the characteristics, the skills, the relationships of the human capital.

Besides, the growth of nonprofit organizations is in most cases continuous and linked to the territorial rootedness and to reputation, not to “quantum leaps”, radical changes. Recalling the taxonomy of the kinds of innovation worked out by Osborne<sup>9</sup> and colleagues and retaken by Fazzi<sup>10</sup>, we could say that in many cases the innovation in the third sector is incremental and expansive, seldom evolutionary and even more rarely total.

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<sup>8</sup> Elisa Chiaf, *Socialis, Social Impact Indicators Identification*, a research made for the project “Attracting communities towards social enterprise investment - ACT SOCIAL”.

<sup>9</sup> Osborne and colleagues in *The innovative capacity of voluntary organizations and provision of public services: a longitudinal approach*, in “Public Management Review” (2008).

<sup>10</sup> *I percorsi dell’innovazione nelle cooperative sociali*, Luca Fazzi in *L’impresa sociale in Italia, Pluralità dei modelli e contributo alla ripresa*, edited by P.Venturi e F. Zandonai. Osborne, in the one that Luca Fazzi defines “the most important study on the theme of innovation, in the literature on the third sector”, defining four forms of innovation:

- an incremental innovation, which concerns the constant betterment of the quality and of the efficiency of the internal processes;
- an expansive innovation, which consists of the growth of business dimensions, through the acquisition, for instance through the assignation of contests, of new jobs, new work orders;
- an evolutionary innovation, which consists of the research of new solutions in the served areas of need;
- a total innovation, which consists of identifying new areas of need (for instance new social risks) and new solutions.

However it is evident that, with the growth of the business dimension, finance becomes an important managerial and strategic tool. The cooperatives should develop adequate competences of planning and financial management.

Moreover, it is necessary to consider that, if until a few years ago the development of third sector organizations was based essentially on work orders and public resources, today, because of the economic and public finance crisis, the organizations which want to evolve must do so by broadening the horizon of the sources of revenue and the financing sources.

Among the main evolutionary duties of the organizations at this time, besides proceeding in renewing the services in a promotional viewpoint and in weaving social connections, there is:

- “going beyond the restricted market of the resources managed by public actors, to intercept, wherever possible, the broader and more fragmented market of the resources of individual families”<sup>11</sup>;
- attracting to the welfare private resources, mobilizing also non-conventional actors of the so-called second welfare (companies, trade associations, private foundations, etc.) to invest on the values of solidarity, mutual aid, and common good;
- “integrating, optimizing and redirecting the use of resources, avoiding loss and waste, but mostly attracting new resources, both economic, through fund raising, and human and instrumental, through the construction and the “maintenance” of social relationships in the community”<sup>12</sup>.

Finance may have a more important role than the third sector, but, as we will see later, it will also have to take some steps forward.

1. In an institutionalist approach, the relationship with third sector organizations requires an increasingly greater alignment between company and operational aims and methods specific of the nonprofit and aims and methods of the financial brokers. From this point of view, the nonprofit must avoid becoming prey of commercial finance and especially speculations. It would be advisable to be more engaged and to pay more dedicated attention to the philanthropic institutions, the bank foundations and all the supplying foundations, in support of ways, methods, specific financial instruments for the nonprofit.
2. The nonprofit asks the commercial financial brokers a greater knowledge and an *ad hoc* approach (relationship, instruments, services). Even today, after 40 years of

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<sup>11</sup> Fondazione Cariplo, *Bando Welfare in azione, Welfare di Comunità e Innovazione Sociale*, 2015.

<sup>12</sup> Ibidem.

development, the nonprofit is flattened by many intermediaries, also with a mutual and territorial vocation, on the retail or at least on small business. The personalized approach comprises specific methods of relationship, of service and it must be pursued both in the financial instruments and in the methods of credit evaluation. The nonprofit organizations seek bank partners that should be able to “give sense and value” to their own peculiarities.

It is curious that the cooperative credit, which by nature is nearest to social cooperation – the most organized and interesting form of nonprofit – and linked to it by common associative memberships, has not developed specialized competences and instruments of relationship with it, leaving the field to initiatives of different matrix (such as Banca Prossima). Specific initiatives in case are taken by individual banks of cooperative credit (such Cassa Padana, co-partner of the present project), but there is a lack of widespread, deepened knowledge of the different forms of nonprofit, of the organizations' financial needs and of the possible answers from the banks. Even more singular that, with some exceptions, these competences are lacking even in regions, like Lombardy, where there is a very remarkable density of social cooperatives, associations, foundations, voluntary work organizations.

### 3. The Supply of Social Finance in Italy

Today the social challenges on the overall horizon of society are more and more demanding: the growing demand of services from the poorest groups of society, the population's growth and aging, the climate changes. At the same time, as is well known, the economic supply of the public sector is more and more scanty and consequently less and less resources can be allocated by the State and by regional bodies. The organizations that work in the social field must then take into account both the decrease of the resources available from the public sector, forced to reduce the budget also at the local level, and the lesser revenues coming from private donations, in hardship because of the economic crisis and therefore less available for donations. To be able to continue to work at the levels reached so far, these organizations must necessarily identify their sources of financing in different fields from those they have relied upon so far. In this sense, in Italy as well as internationally, there is a development of some financial instruments aiming at supporting third sector enterprises and which may allow them also to obtain returns from the selfsame investments.

The European Commission and the OECD, in the paper “Policy brief on social entrepreneurship”<sup>13</sup>, identify in short the following possible sources of financing for the social enterprises:

- *Venture philanthropy*, that is a series of initiatives aiming at building more solid social organizations giving them support of both financial and non-financial kind, with the objective to increase the social impact;
- *Solidarity finance*, representing, according to the definition of the European network FINEUROSOL “the art of managing money through different forms – savings, investments, credit – in the public interest, so as to encourage individuals, through their actions as savers and investors, to help others”;
- *Institutional investors*, such as pension funds, insurance companies and traditional banks handling large capitals and which however remain still a financing source not adequately used by the social organizations;
- *Individual investors*, which comprises two kinds of individuals: on one side we find the people who own a high net patrimony and are inclined towards social investment, while the second comprises the small investors who support local initiatives;

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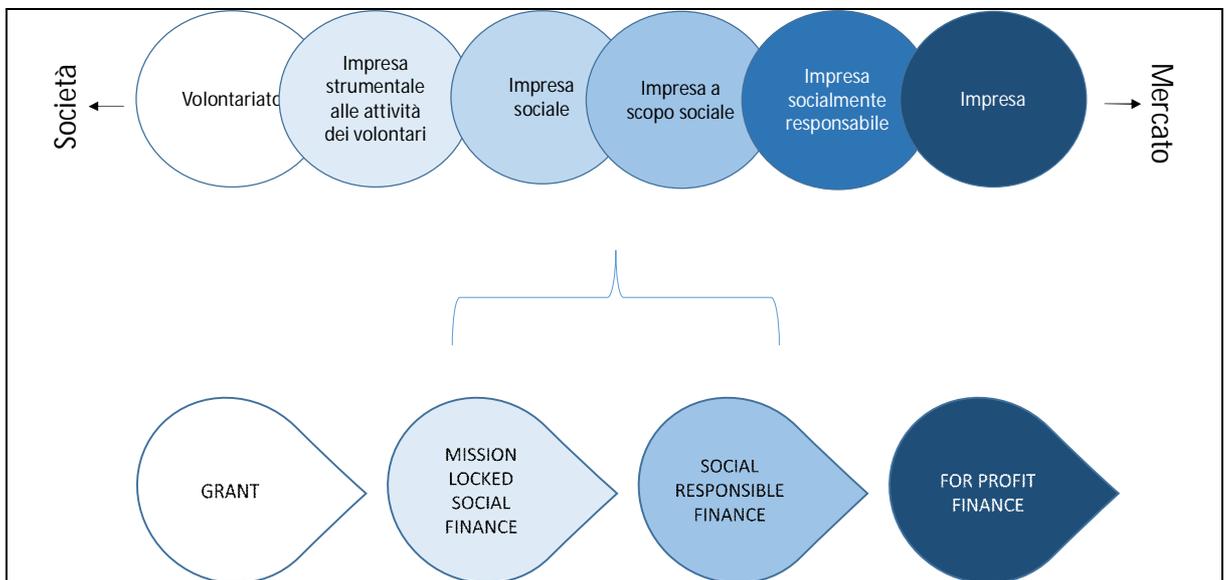
<sup>13</sup> European Commission, OECD, *Policy brief on social entrepreneurship – Entrepreneurial Activities in Europe*, 2013

- *Social capital market*, the market of social investments;
- *Crowdfunding*, a source of online financing which is quickly emerging in many Countries.

From the teleological standpoint, that of aims, finance in theory should be aligned to the aims of the receiving organization, as on the following scheme (revised from material by Alessandro Messina).

Traduzione del riquadro sottostante:

Company – Voluntary work – Enterprise exploitable for the volunteers' activities – Social enterprise – Socially responsible enterprise – Enterprise – Market



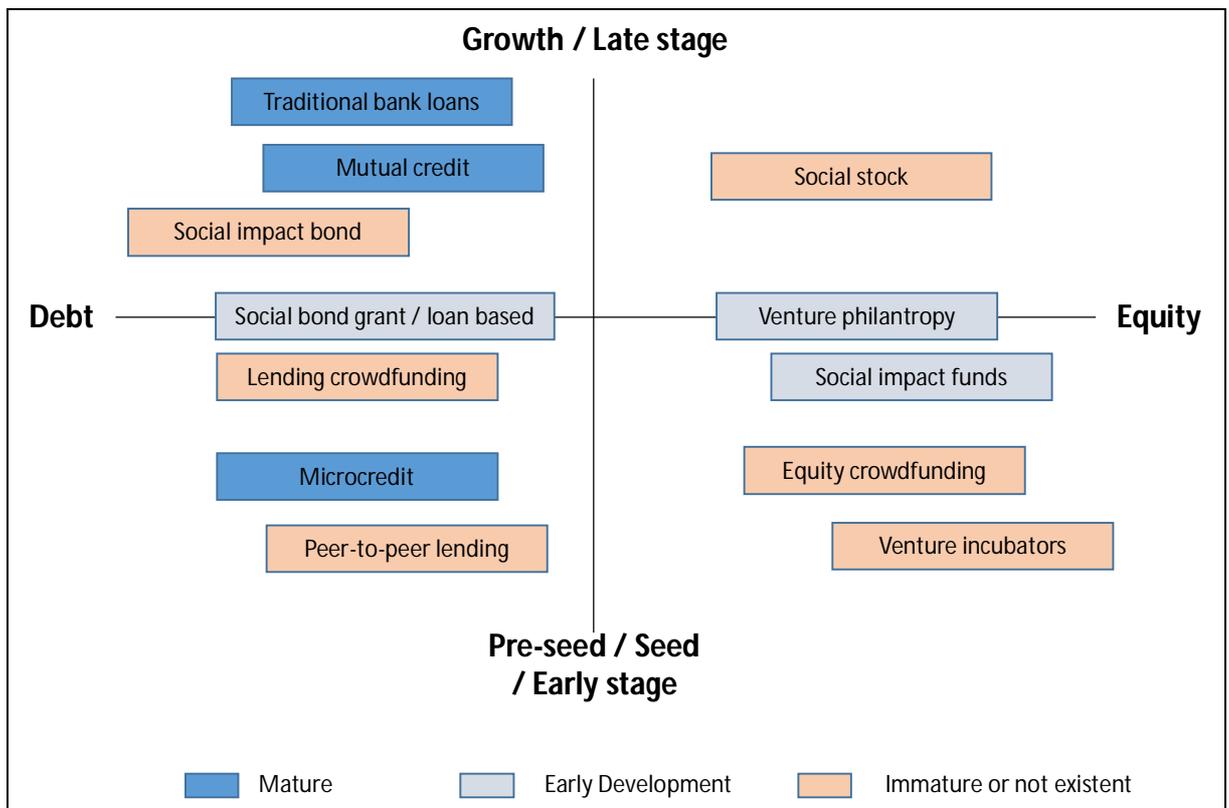
The financial offer for the social world is diversified in relation to the evolutionary stage of the requesting organization. It is also polarized between a number of instruments of debt, such as traditional credit, loans, microcredit, and some instruments, mostly experimental, afferent to the equity market.

At last the financial instruments can be distinguished considering the maturity of the instrument, in relation to which it is possible to distinguish:

- a traditional segment, with mature instruments, offered by well-established, efficient intermediaries, who work according to defined rules, producing economic results;
- a segment characterized by still-developing instruments, offered by few intermediaries with a structured operative approach;

- a segment in which there is a concentration of instruments in phase of embryonic or even non-existing development, in which pioneering intermediaries have been working for a little time, whose efficacy isn't yet quite structured.

The following scheme, devised by Avanzi, Make a Change, (and retaken by Sodalitas<sup>14</sup>) offers a taxonomic representation of the financial instruments in relation to the above-mentioned elements: evolutionary stage of the requesting organization (pre-seed, seed, early stage, growth, late stage), debt and equity and maturity of the instrument (mature, early development, immature or not existent).



Coming to a precise illustration of the financial instruments, let's follow the dichotomy between equity and debt, conscious of the existence of hybrid instruments (e.g. of near equity) or compound.

For in-depth studies relative to the financial instruments, we suggest to view the Sodalitas Paper quoted in the footnote.

<sup>14</sup> Sodalitas, *Introduzione alla finanza sociale*, Quaderno Sodalitas, 2015

### **3.1. Equity Instruments**

In Italy the equity instruments are characterized by a very limited or not existent stage of growth, compared to those of debt. The instruments for which experimentations are first observed are:

- Social Impact Fund,
- Venture Philanthropy or Social Venture

#### **Social Impact Fund**

These are funds investing in form of risk capital in enterprises or organizations, with the objective to generate a measurable social or environmental impact along with a financial return.

For in-depth studies about the instrument it is possible to see the Sodalitas Paper, Introduction to Social Finance, 2015, which presents also some international cases (Big Society Capital, Venturesome, UK, Acumen Fund, USA, etc.).

#### **Venture Philanthropy**

Venture philanthropy takes concepts and techniques from venture capital and applies them to philanthropic objectives, social purposes, focusing in particular on the measurability of the results. It comes forward then providing risk capital for enterprises with social aims of early stage, high potential and growth start up.

How the social venture works depends on the legal and operative schemes, the ones of venture capital and of private equity, by now tested for decades: the social investors confer capitals in an “intermediary vehicle” and the investment is made in the risk capital of non-quoted companies and with high potential of development in terms of products, services and new technologies. In this case, the type of investors is interested first of all in pursuing a social impact objective and it gives so-called patient capitals as they participate in the initiative for a longer period and with a limited objective of return. Fundamental are both the role of promoters, who can identify and evaluate the social enterprises in which to invest, and the role of the *Anchor Investor*, represented by the one – or the ones – who pledge in the initiative the first significant figure besides the image and the organizational support. In Italy this instrument is still in an embryonic phase, given the experience, reported below, substantially isolated, of Oltre Venture by Luciano Balbo.

### **3.2. Loan Instruments**

The loan market for the social enterprises is composed of a series of instruments, some of them already well-known in the national context, others not yet experimented or of recent introduction, belonging to foreign experiences. Specifically it is about:

- Instruments of traditional and mutual credit
- Social Impact Bond
- Social Bond
- Mini Bond
- Lending Crowdfunding
- Microcredit

Below, we will describe the main characteristics of the above-mentioned instruments, including their degree of maturity and development in the Italian context.

### **Instruments of Traditional and Mutual Credit**

In Italy the traditional and the mutual credit represent mature instruments of debt. In the first typology belong the loan categories promoted by the traditional financial institutions, created to support the financial needs, of both long and short term, of the third sector organizations.

The second typology instead includes the paid financial aids, in form of debt:

- through funds of mutual loan fed by the payment of 3% of the yearly profit of the associated cooperatives, these are the funds of Centrali Cooperative, Fondosviluppo, Confcooperative, Coopfond of Legacoop and Generalfond of AGCI;
- through funds constituted by the collection of savings through the members' loan, this is CGM Finance, Consortium of social cooperation that refers to CGM.

### **Social Impact Bond**

The Social Impact Bond (SIB), often indicated also as Pay for Success Bond, is a financial instrument, born in the Anglo-Saxon culture, used by public subjects to collect private financing to be used to accomplish projects of public usefulness. This bond, differently from normal equity securities, doesn't warrant a certain return at the maturity date: the remuneration from the public subject depends on reaching some targets established at the moment of issue. Only if these standards are met, and in front of an evaluation made by an independent and unbiased subject, the public body must pay the investors at the maturity of the bond. The idea at the base of this instrument is that the public body thanks to the social activities accomplished and managed by nonprofit bodies – tendentially apt to avoid

emerging situations of social hardship – may save money and obtain more satisfactory results than those it would have by acting autonomously. The idea is also to multiply the available resources of social projects.

This instrument is complicated, theoretical and scarcely doable, hard to implement, currently not applied at national level.

The essential reasons that make it difficult in practice are:

1. the outcomes of projects financed through the SIB must be measurable and their measurability must be estimated in detail to be contractualized;
2. in the estimated triangular trade (public body, nonprofit, investor), the role of the investor results sustainable, in practice, essentially by nonprofit subjects (such as the Foundations), as the risk profile - yield can hardly reach market levels (the yields tend to be insufficient to make up for the risk of failure).

### **Social Bond**

These are “standard” equity securities which, besides warranting a return on the investments made, offer the subscribers the possibility to support (substantially through portions of share capital of grants) initiatives characterized by a high social value. They are defined social because the banks allocate a share of the subscribed amount to nonprofit associations and bodies or, simply, because the collected amount is exclusively dedicated to third sector organizations. At the base of every social bond there is a well-established relationship and/or a specific project of partnership between the beneficiary organization and the bank. For the bank, in many cases, it's an instrument of marketing, therefore of old style social responsibility.

In Italy among the institutes that have introduced such financial instrument we find: the UBI Banca group, Banca Etica, Banca Alpi Marittime and Banca Prossima (Intesa Sanpaolo group). The Italian Social Bonds are not linked to impact measures, but they are generically “generators of impact” currently not proven nor measured. The organizations which benefit from such instrument are generally significant ones, with a well-known mark.

### **Mini Bond**

Mini bonds are debt claims, specifically bonds that can be issued by an unquoted enterprise whose main objective is to collect new financial resources, diversifying its own financing sources in form of debt, with a consequent lowering of the risks linked to the strong dependence on banking channels. These financial instruments are meant for the small and medium enterprises – also cooperatives – with a staff from 10 to 249 employees, and a

yearly turnover or a total budget higher than two million Euros. The issuing company will have to have an audit company certify the last approved budget and publish a statement containing the persons in charge, the risk factors and the organizational structure. An analysis carried out by Alleanza delle Cooperative Italiane in 2014 identified on the whole 407 Italian cooperatives potentially apt to gain access to the market of debt capitals.

### **Lending Crowdfunding**

The term crowdfunding indicates a form of loan which, through an on-line platform, allows on one hand private investors, whether they are physical or legal persons, to disburse sums of money for projects with a social value; on the other hand it allows nonprofit organizations to obtain financial aid at sustainable rates.

Italy is the first country in Europe to have used a specific and organic set of rules relative to just equity crowdfunding. For what concerns the other models, the reward and the donation based fall back under the discipline of donations. The crowdfunding for the third sector in Italy is a form of fundraising that allows more people to share resources and efforts to finance a project with social usefulness, according to a principle of collaboration that starts from the bottom.

Crowdfunding may have aims, different characteristics classifiable in the following four categories:

- Reward-based, which considers a reward: whoever decides to invest on a project or anyway to give his contribution to see it one day fulfilled, receives a reward not necessarily in money;
- Donation-based: it lets one make donations to support a given cause or initiative, without receiving anything in exchange;
- Lending-based, also called social lending: it's based on the creation of a community where the applicants – those who ask for a loan – and the lenders – those who invest their money – can interact directly among themselves, without middle-men, thus obtaining the best conditions for both;
- Equity-based: it allows through online investment to acquire an entry title in a company;
- Hybrid crowdfunding is the combination of more typologies, among which prevail in general reward and donation.

### **Microcredit**

Microfinance refers to those financial products and services offered by specialized banks, or by other non-banking financial institutions, to clients who for their economic and social condition have difficulty to access the traditional financial sector. This instrument consists of a broad set of sub-elements: microinsurance, microleasing, housing microfinance and microcredit. Microcredit, which is today the most important part of microfinance, is a small loan, not covered by real warranties, associated to services of tutoring and coaching. It can be paid to support microentrepreneurship for small-sized enterprises – with no more than 10 employees – nonprofit organizations, such as associations and cooperatives, or to physical persons in conditions of particular economic and social vulnerability. In Italy the decree 141 of 2010 introduced for the first time the discipline of the disbursement activity of microcredit. The subjects working in this sector satisfy the need of credit of a certain group of economic operators who are not able to obtain financial aid from the traditional banking channels.

#### **4. The Social Finance Actors in Italy**

In front of the hypothetical set of theoretical instruments represented above, the financial offer to the nonprofit world focuses strongly on bankers' financing made mostly by the traditional financial intermediaries, in particular the banks. The Italian scenario of social finance is then extremely affected by the predominance of the retail type of offer, typical of our financial markets, and by the dependence on banking debt (as opposed to equity and other forms of debt).

A relevant specific role, especially in the field of equity, is held by the mutual funds of cooperation and purpose funds, of public issuing, such as CFI.

A very important role, in the field of venture philanthropy, could be played (but isn't played yet) by banking Foundations and, to a lesser degree, by other disbursing Foundations.

According to some, there are other operators who could enter the field, by virtue of the great sums they handle and of the time frame (of long term) of the investments they make: the pension funds and the insurances. Moreover, new actors working in the world of impact investing are emerging at an international level, and understanding their nature and aims is the indispensable premise to deepen the knowledge of social finance instruments.

Although there are remarkable differences among the various actors, it is possible to group them into three main categories:

- the first is made of new types of financial institutions which emerged with the purpose of mobilizing capitals in the impact investment market;
- the second instead consists of the actors who offer various forms of support to the new financial institutions;
- the third finally gathers a variety of other actors who remain essentially inclined towards traditional philanthropic instruments, but who at the same time work with new methods.

Among the new financial institutions emerged to exploit fully the investment capitals for social ends, especially three are identified: the social capital aggregators, the social stock exchanges and the near-public investment funds. The first ones pursue the aim of collecting capitals for investments in enterprises and subjects inclined towards the social world: they can present themselves in different forms, take on different dimensions and get different types of capitals. Independently from their focus and scope, all these aggregators however

work as intermediaries in the market of social capitals: on the one hand they reach and gather subjects willing to invest their capitals in social activities, on the other they identify promising enterprises with social aims in which these capitals can be placed.

The social stock exchanges offer platforms through which each investor can allocate his resources in social investments that he considers interesting. These “social stock exchanges” have to – and ever more will have to – develop dispositions relative to the quotations, standard for the obligations of communication from the quoted subjects and exchange mechanisms that should be efficient and precise. The last new financial institution, the near-public investment funds, considers the disbursement of public or near-public resources in the market of social impact investments. Among these subjects are the development banks.

To assist the capital aggregators, the secondary markets and the near-public investment funds which have emerged in this new market of social impact capitals, new subjects have recently appeared who devote themselves to service provision. Among these new actors, one of the most significant ones could be defined as a social enterprise broker, that is single individuals or institutions who work as intermediaries: on the one hand they help the capital aggregators to identify promising entrepreneurial activities able to provide the desired combination of financial returns and social impact, on the other hand they support these companies so they can find their way towards potential investments aligned with their activities and needs.

Another subject which has grown and taken on new forms with the emergence of social impact investments is that of the so-called new *capacity builders*: these organizations and consultants, are different from the traditional ones who have been active for decades now in the third sector in the field of fundraising, executive development and accounting systems, as they have as a purpose the sustainability and the scalability of the organization. In fact they assist the organizations in the development of strategies for the increase and the stabilization of profit, in the access to the new forms of financing different from the classic subsidies and in measuring the social outcomes. Besides the mentioned subjects, there came up also a substantial network of organizations that work as infrastructure, with the purpose of supporting the level of the new actors at a more general level. These infrastructural organizations connect among themselves the operators of the sector, they spread the knowledge and the appreciation of the sector itself, and thus attract new subjects and further external supports, legitimizing and strengthening the practices underway from a cultural and social viewpoint.

Within the third category we finally find those subjects that are introducing new and creative methods of mobilization of resources inside the most traditional forms of philanthropic activities, through mechanisms such as the Internet exchange portals, philanthropic funds of

business origin and collaborative financing. One category of very innovative actors is that of the subjects who use creatively the new communication technologies to connect the donors and the investors directly with the beneficiary organizations. A new class of online portals has emerged to serve this function: these organizations, properly structured, act as transfer points between donors and beneficiaries, often with the advantage of developing databases and advanced security systems. These subjects also manage three different types of resources: the financial resources including short-term liquid assets, the raw material such as hardware and software products and finally the services, both paid and voluntary. Another kind of actor belonging in this latter category is represented by the conversion foundations: differently from the classic foundations, which are normally formed thanks to the fortunes accumulated by individual entrepreneurs, the conversion foundations start from the process of privatization of some public or near-public goods. The activity in question can be an enterprise owned by the government, a building or other goods in public property, specific revenue streams subjected to public scrutiny, debt exchanges and conversions of near-public organizations from nonprofit to profit.

As we already said, if it is necessary not to fear finance and indeed to think about how to use it so that it becomes a useful instrument to achieve the social purposes, one must however beware of fashions induced also by the potential of investments in the financiers' research and marketing.

The interest of finance in the nonprofit world is not gratuitous. We are in a phase of excess of capitals, in which the capitals are searching opportunities they no longer find, as they used to, in the for profit market. In times of crisis, the social enterprises have shown a remarkable capacity in holding economic outcomes and employment levels, and a low level of banking overdues.

The nonprofit world, and social cooperation in particular, must ponder over how to use finance but avoid at all costs to be colonized, governed by a part of the financial world.

## 5. The Qualitative Survey on the Field

On the supply side, the specific characteristics of the Italian financial system identify intervention profiles extremely different among themselves, for what concerns the market of debt instruments, that is equity. In fact on the one hand, Italy boasts a well-established market of credit brokerage, widespread over the territory, historically inclined towards the social dimension through the cooperative and mutual credit; on the other hand, inclusive finance experiences a capital market at an embryonic state, which inherits the reduced importance of the traditional equity markets and which manifests itself through some experiences of great significance, but certainly of very limited dimension.

A purpose of this survey was to be able to identify the possible characteristics required to the nonprofit organizations so that they can turn out to be "investable", through a series of interviews to the people in charge (mostly presidents and CEOs) of organizations which, somehow or other, work in the financial system addressed to the social economy in Italy.

The interviews concerned some of the main suppliers of social enterprises in the Italian context, selected so as to represent the varied complex of the actors on the field.

The organizations which made themselves available were:

- Banca Prossima, first Italian case of a bank exclusively devoted to the social world, in whose context some innovative initiatives and proposals got started (for example Third Value);
- UBI Comunità of UBI Banca group, leader in the social investment sector with numerous bonds already issued;
- Federcasse, the association of local federations and of the other bodies and Credito Cooperativo companies, characterized by a cooperative model of bank, strongly tied to the territory and to the social economy of the single territories;
- CGM Finance, a consortium of purpose which does mutual finance activity for the world of social cooperatives which refer to the CGM National Consortium of Social Cooperatives;
- Cooperfidi Italia, the national security body of the Italian cooperation;
- CFI - Cooperazione Finanza Impresa, an institutional investor with public participation and shared by the cooperative associations, which works in support of the cooperatives of production and work and of social ones;
- Oltre Venture, the first Impact Investment Fund in Italy;

- Pierrri Philanthropy Advisory, a company that deals in advising and training in the subject of philanthropy and social finance for firms, banks, family offices and foundations.

The analysis was carried out in a qualitative way, through semi-structured interviews done on the basis of the following reference grid made of 19 questions, divided into 5 macro topics regarding the structure of the market – from both sides of demand and supply – the match between demand and supply, the investable / financeable social enterprise and finally a section about examples of best practice. Having a qualitative objective, every interview was focused, following the specialization and the interest of the interlocutor, on specific aspects of the investigation field.

### **Interview grid**

<b>SUPPLY DEMAND GAP ANALYSIS</b>	
<b>Market Structure (Supply Side)</b>	
1.	Which families of financial products for the nonprofit world (lending, equity, near-equity)?
2.	The market from the standpoint of supply is structured in different subjects on the basis of products or on the basis of markets, or other?
3.	Which are the relevant subjects in Italy?
<b>Structure of the Market (Demand Side)</b>	
4.	Which are the organization typologies?
5.	Possible a taxonomy of the sectors? Which sectors are more expansive from the standpoint of the demand?
6.	Do different organizations require different families of products?
7.	Which characteristics does the request of financial aid from the nonprofit world have (e.g. only financial aid, in which form, or aid plus services, which services?)
8.	Is there an estimate of the dimension of the request of financial aid?
<b>Demand-Supply Match</b>	
9.	What are the main obstacles against a good match between demand and supply of financial products and services for the nonprofit world?
10.	Which ones of these obstacles are demand side (for example difficulty in evaluation and pricing of the sector or specific risk)?
11.	What is the weight of the price factor in the demand-supply matching? Do financiers

(investors) and lenders evaluate the risk in the same way? Is there an agreement on the characteristics of product price?

12. What should the demand know of the supply to get to a higher understanding and negotiation skills?
13. What are the areas of improvement of the demand to approach and to discount back the potential market?

**“Investible” Social Enterprise**

14. What are the business model characteristics of an “investible” social enterprise (from the financiers' standpoint)?
15. What are the skills that make a social enterprise attractive or able to be financed?
16. What are the accountable frameworks, the characteristics of the reporting required by a social enterprise to be investible?
17. In short, what do the investors-financiers ask the social enterprise?
18. Is it possible to have a deeper vision, a sort of taxonomy of the “request” of typology of supply (institutional, for typology of offered products)?

**Best Practices**

19. Point out if there are social enterprises which you deem best practice (from the point of view of financiability), and the main reasons why you consider them so.

## **6. The Gaps between Demand and Supply**

The Italian innovative skill in the field of social entrepreneurship didn't go along with the parallel development of a fluid and efficient financial system of support to the social organizations.

Even though Italy has a long financial history, also of jointly responsible, mutual finance, which generated institutions like savings banks, cooperative credit banks and bank foundations, social finance, in the current connotations which it takes on at an international level, at the national level still turns out to be in a rather undeveloped phase.

Only recently some specialized financial intermediaries were born, like Banca Etica and Banca Prossima, for the social organizations: social cooperatives, associations, institutions and religious and church bodies, other nonprofit institutions serving families.

A market of social impact investments is yet to be developed, meant as the set of facilities (such as a social stock exchange could be), subjects, products and rules aimed at making investments to produce both a positive and measurable social impact, and an economic return.

Much the less there is a market relative to financing, with risk capital, for social start ups, both in terms of supply of capitals (asset owners as business angels or the like) and in terms of broking subjects, asset managers such as SGR, incubators, other structures (crowdfunding platforms).

The reasons for the sector's immaturity are ascribable to more elements.

The delay in the specialization of the traditional market of loans is probably tied essentially to history, to the elements of historic governance of our financial system, characterized mostly by structures of public nature: Comit, Banca Commerciale Italiana, then become Banca Intesa, privatized only in 1994, Credito Italiano, from which, after a series of merging actions, Unicredit was born, privatized in 1993; and by structures such as the Savings Banks of collective, common ownership, which led to the foundation of an all-Italian institute, such as the banking Foundations.

As far as equity is concerned, one must take into account the fact that in Italy there is no market for the start-up enterprises, not just social ones. There is a lack of competences, of a professional corpus, to evaluate the economic-financial risk of new businesses and metrics to evaluate the social impact in perspective; there is a lack of instruments, facilities, rules for

the early stage brokerage and incubation hard to sustain from the economic standpoint without public funds and tax concessions.

The near absence of a risk capital market for the social world is also due to the characteristics of the Italian nonprofit entrepreneurial world, made up of bodies, institutions owned by the church, with evident limits and governance problems and, to a lesser degree, of management and of managerial transparency and by social cooperatives.

For what concerns the latter, many maintain that just the key characteristics that distinguish social cooperation are the main obstacles to the development of a social equity market. The private and institutional investors (funds, pension funds, insurance companies, investment banks) would not consider “investible” the social cooperation and likewise the social enterprises (ex decree 155/2006), for the following reasons:

- the limits of direct and indirect distribution of dividends, which make it difficult to remunerate the investors' capital at levels coherent with the risk profiles and comparable to alternative investments;
- the obligation, in case of dissolution, to relinquish the social patrimony (less the paid capital), for purposes of public usefulness, which doesn't allow the investors to regain the patrimonial value of the investment in case of closure of the undertaking;
- the fact that no member can have a share above 100,000 € or 2% of the capital for the cooperatives with more than 500 members;
- the so-called “one-man-one-vote” system and the anticipation that the owners of financial instruments cannot in any case be assigned more than one third of the votes due to the whole of the members present in each meeting and there is no right to elect more than one third of the managers, which doesn't give the investors the control and the direction of the enterprise in any relevant way in terms of relative shares of capital.

They suggest broadening the field of social business, basically getting out of the regulations of the 381 and the 118, to consider social the enterprises which produce high environmental and social benefits that can be measured and reduced negative external effects, “through the production of goods and services for disadvantaged categories and in reply to emerging problems of the community and of ecosystems” (Make a Cube, 2012). They also suggest overcoming the traditional profit-nonprofit dichotomy, through the definition of a new model which, in some countries (USA and UK *in primis*), has been ratified in the form of the Community Interest Companies, of the Low Profit, of the Benefit Corporations.

“A Low profit enterprise with high environmental and social value could be characterized by:

- the possibility to make a profit;
- restrictions on the distribution of profits;
- a cap on the return of capital;
- a cap on the return of management;
- a maximum relationship between the managers' pay and the pay of people at lower hierarchic levels;
- compulsoriness of a statement of the mission and of a recurrent evaluation of the environmental and social impacts” (Make a Cube, 2012).

Regarding these requests and suggestions one should wonder where the demand comes from.

Is the third sector asking more finance, or is it finance that asks to enter in the third sector?

In my opinion there is an evident attempt to distort the cooperative DNA from capitals searching yields and control, in a sector, like the social one, broadly understood, in which there seem to be still significant opportunities of development.

Cooperative were not born to be governed by assisting members and/or financiers. They were born because they were founded by physical persons, workers, lecturers, consumers, etc. and it is in the interest of these subjects and of the territorial communities that they must be managed.

The possible entrance of a financing member must be instrumental to the making of a precise business development plan (as considered by law 59/1992) defined and governed by a members' meeting.

Surely, social cooperation has many areas of improvement compared to finance.

1. **Long-term vision and structured projects of entrepreneurial development:** turning to finance, where this doesn't cover mere needs of temporary deficit of the financial cycle, makes sense when there are investment strategies. The investment profiles in social cooperatives often look more like those of families than those of enterprises: the cooperatives buy property, in many cases productive premises and therefore element of production, but very seldom and to a lesser degree they invest on research and other immaterial products, plants, technologies, etc. Ideas and planning character, although with different motivations and aims from the economic end, moreover abstract, remain the central core of entrepreneurial, as well as social spirit. Ideas are not enough, social enterprises must acquire and develop competences of structured planning, that is the capacity of translating ideas into

enterprise plans in which the single aspects in which an entrepreneurial project is articulated, are analysed, and must be adequate to make assessments and to make conscious and thought-over decisions.

2. **Governance** (replacement, participation, competence): the third sector organizations are essentially requested to manage the power as coherently as possible with their own institutional profile. An articulated governance, multistakeholder is moreover a specific field of innovation for the social enterprises. The interests that the property incorporates are decisive compared with actual aims that the enterprise pursues and with its possibility to accomplish them. Let's add that, in an increasingly complex social context, the capacity to articulate and involve resources, multiple and many-sided competences, inside the enterprise but also widespread in the context of its action, is a decisive factor of success.
3. **Competences in the financial field and more active management of the financial profiles.** There is much literature about the possible sophisticated developments of social finance but already today, the system of the proper institutional rules of cooperatives considers a series of possibilities that the cooperatives themselves don't know adequately and don't exploit. They (also those in which mutual assistance prevails), with the suitable limits considered by the rules, could:
  - a. promote interventions of recapitalization by shareholders (in Lombardy, since 2008, the investment Fund Jeremy FSE, supports, through financial interventions, the recapitalization of small and medium cooperatives by members-workers. From this standpoint the cooperatives of the Brescia province have been very active);
  - b. distribute dividends (and before the profit, utilize more efficiently the instrument of drawback in favour of the different members, not only workers, who hold a mutual exchange with the enterprise);
  - c. reassess the shareholders' capital;
  - d. consider and develop plans of business development through the support of financing members;
  - e. turn on a loan for members (with relative regulations);
  - f. issue mini bonds...

The problem is that many social cooperatives have rudimentary instruments of analysis and financial planning. They just manage the enterprise economic profile from which the self-financing derives and they conceive the relationship with the banks as the instrument of management of liquid assets.

4. **Organizational structure:** complex projects require organizational structure. The arguments that one could bring about this theme are innumerable. Suffice to say that the organization must warrant the protection of the vital functions of the enterprise and be the fruit of a point of balance between prescriptibility, normativeness, automatism and flexibility, creativity, capacity to face unforeseen circumstances and to personalize actions and interventions. Among the vital functions of the enterprise, if the enterprise wants to renew and appropriate the opportunities offered by the financial world, there must be competences, distinctly managerial functions, relative to entrepreneurial development, to strategic planning, to the planning and the control of management, to financial planning and management. This is a point particularly emphasized by the financial brokers.

5. **Capacity to measure one's impact on the territory:** the aims are neither enough nor convincing, the social enterprise more and more must prove what it is actually able to do and accomplish. This is all the more true if, with the risks involved, one goes towards non-institutional forms of social entrepreneurship, at broad social-environmental value, low profit (as in the recalled proposals of *Make a change* and as, in some ways, it appears to be in the third sector reformation). On this subject the already mentioned Socialis research dwells at great length. If the social cooperatives want to keep their advantage, their position (local, communitarian) in the channel of social entrepreneurship, they can't lose this game to the world of finance for profit and to vaguely social entrepreneurship defined in terms of object and of "quality" of their services.

Certainly, in this sphere, it is a minus that they consider forms of minimal and insufficient reporting such as the social budget (in Lombardy already a must), as a mere regulatory constraint to discharge with the minimum expenditure of energy and thus obtaining the minimum result.

The cooperatives must start specific workshops on this subject within which they can borrow the sectorial competences matured in decades of activities in favour of minors, disabled, persons with psychiatric problems, elderly, youth, disadvantaged workers. The social cooperative model is too specific and important, when it is really and fully accomplished, to be diluted inside a broad "low profit" universe.

6. **Methods of communication, fund raising activities and in general link with the territory:** this subject is connected to the preceding one. More and more one goes towards an effectiveness and a substantiality, the link with the territory is an element of mission but it implies also the capacity to attract broader resources. The system is

evolving quickly and the third sector organizations with more adaptive capacity, which will survive in the medium term, are certainly the ones more deeply rooted and imbricated in the community.

*Attachment: Report of the single interviews relative to the qualitative survey<sup>15</sup>*

Interview: Guido Cisternino – Person in charge of Bodies, Associations and Third Sector of the UBI Banca group

In 2012 the UBI Banca group equipped itself with an organizational unit of Bodies, Associations and Third Sector devoted to the management of the relationships with nonprofit clients. The following year it launched UBI Comunità, a platform of services and instruments devoted to the third sector organizations and to religious institutions. UBI Comunità is thus a model of services dedicated to respond efficiently to the needs of the third sector, through a platform of specific products and services to give adequate banking and credit support. Guido Cisternino, person in charge of the structure Bodies, Associations and Third Sector of the UBI group, besides clarifying how the UBI group for the third sector works mostly in the field of lending, identified 4 operators among the subjects that in the Italian market address specifically the nonprofit organizations: the banks born from the third sector like Banca Etica, the community banks like those of cooperative credit, the specialized banks like Banca Prossima, at last the specialized banks like UBI Comunità or, although to a lesser degree, Universo Valore of Unicredit. UBI Comunità, as the interviewed man explained, distinguishes itself from other credit institutes because besides offering specific products and services for the nonprofit organizations among which Social Bonds, assesses completely the credit worthiness in function of the typical qualitative/quantitative variables and of the current and perspective situation. The financial instrument dedicated to the nonprofit world which characterizes UBI Comunità is surely the Social Bond: it is an equity security which, besides warranting a return on the investments made, offers the subscribers the possibility of supporting initiatives of great social value. There are two kinds of Social Bond: the first considers the transmission to associations, foundations or bodies of a part of the sum arranged through the bonds, normally equivalent to 0.5% (for example UBI Comunità for Dinamo Camp); the second model instead considers that the whole sum collected through the bond, and so not only a percentage of it, be used to finance initiatives of social entrepreneurship (for example UBI Comunità for the CGM system). These instruments allow the economic support needed to start or to strengthen projects in the health, educational, cultural and social fields. The Social Bonds placed by UBI Banca until March 2015 were 61 for a countervalue of over 600 million Euros, and allowed the transmission of contributions of donations equal to over three million Euros, thus attesting the UBI Group as undisputed leader in the offer of such instrument. Recently UBI Comunità has also introduced a criterion, the SROI (Social Return On Investment), to measure the social impact generated by this instrument: it's a system of evaluation that allows to have a quantification in economic terms of the social or environmental value generated by a project, or an initiative developed by a social organization. The interviewed man however has also pointed out that the request of aid

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<sup>15</sup> We specify that the reports of the interviews have been edited by the author and not by the interviewed people.

from the nonprofit world is at the moment scanty and addressed mostly to the request of credit for short-term financing. Despite the efforts made by the bank at proposing more complex and articulated services dedicated to the third sector, the nonprofit world appears at the moment still little inclined to weave solid relationships with the world of banks. Nonetheless, he points out how the nonprofit world should be able to take two big steps ahead to approach the market of social finance: on the one hand to be able to improve on the definition of enterprise projects, on the other to acquire higher financial competences, considering the scanty knowledge in the subject.

Interview: Alessandra Dal Colle (President, Support Committee – Banca Prossima) and Marco Morganti (CEO - Banca Prossima)

Another actor which is undoubtedly performing important actions with the nonprofit world is Banca Prossima, started in 2007 and belonging to the Intesa SanPaolo group. This subject is the only Italian bank whose services and activities are specifically thought for meeting the needs of the third sector. Alessandra Dal Colle and Marco Moranti, respectively President of the Support Committee and CEO of Banca Prossima, pointed out two main instruments promoted by their institute and dedicated especially to the nonprofit world: Third Value and one first attempt at Italian Social Impact Bond. Third Value is an online platform through which anybody can lend money to nonprofit bodies, free of charge or agreeing in advance on the rate of return; the bank warrants totally the dependability of the initiatives promoted by Third Value, thus freeing the citizens from any risk of losing their own capital. The third sector organizations instead are granted loans with remarkably lower rates than those which could be given by the bank, also allowing the investors to support social interest activities. After selecting projects and organizations considered dependable, Banca Prossima, through Third Value, offers private citizens the opportunity to contribute, up to a maximum of 67 percent of the total.

The second instrument, which takes shape as a first attempt of Italian Social Impact Bond, is instead placed in Naples, where a new road will be taken to face the serious problem of garbage. This Municipality in fact has started a new project which considers the building in Scampia of a compost plant costing 14.6 million Euros; the financing of this work will occur through a bond, called TRIS (Titolo di Riduzione di Spesa Pubblica – Title of Reduction of Public Spending), issued by the Intesa SanPaolo group through Banca Prossima. TRIS is planned as a zero-risk bond, since Intesa SanPaolo warrants the entire intervention; moreover, it will be able to answer the needs of those investors who want to obtain an economic return while contributing to accomplish a social work, by virtue of an impact on the reduction of public spending. Compared to the classic scheme of Social Impact Bonds of British origin, the Naples initiative is different in various ways: the municipal Administration saves on the waste disposal, the private or institutional investor takes upon himself at zero risk, and finally the issuer of the securities won't be a public subject, but indeed, the Intesa group.

The services and the instruments of Banca Prossima are addressed to three typologies of

organizations: the associations which represent the most important clients in terms of numbers, the social cooperatives which instead are the most entrepreneurial clients, and the foundations in which belong both the operative and the disbursing ones. The associations' requests to Banca Prossima concern mainly the advance of public and private contributions, while for the cooperatives they concern the advance of credits they have with the Public Administration. According to Morganti and Dal Colle the scanty development of the social finance instruments in the Italian territory from the side of equity is linked not only to the limited spreading of the social enterprise model, but also to the third sector organizations' poor managerial ability and capacity of both control and accounting. Another obstacle which often restrains the nonprofit world's approach to financial services is represented by the rating model used; concerning this, Banca Prossima was able to develop a particular system of *ad hoc* rating to evaluate the dependability of the third sector organizations: such mechanism instead of measuring national fixed indicators, got structured so as to keep track of the peculiarities of the territories and communities, in order to meet the needs of a broader number of subjects. This model of internal rating, approved by Banca d'Italia, considers not only the organization's budget, but also several qualitative elements: the quality of management (the years of experience and training), its turnover in the short or long term, the possible presence of cases with the personnel, the composition of the earnings and also the inclination to innovation (for example the presence of investments aimed at improving the quality of services or at offering new services).

There are finally three social enterprises which are pointed at as examples to follow from the standpoint of financiability: Fondazione Cometa, a foundation from Como which for over ten years now has worked in the field of family reception and youth education; the Giotto social Cooperative in Padua which deals in detention and disability, managing activities inside and outside the Due Palazzi home of imprisonment in Padua, and finally the Alice social Cooperative in Milan, born inside the San Vittore home district in Milan, with the intention of offering job opportunities to persons who followed tailoring courses.

Interview: Alessandro Messina – Person in charge of the Relationships with enterprises and of the special Projects for the Italian Federation of the Banks of Cooperative Credit and Rural Banks (Federcasse)

Social cooperation inherits the typical characteristics of the Italian financial market: little or no equity, lending supported by warranties. Other problems are added to this, typical and specific of cooperatives. From data of Banca d'Italia, if the enterprises make few deposits and are the receivers of many jobs, the nonprofit moves the other way around (it makes many deposits and requires few jobs). Among the intermediaries we distinguish the specialized banks (Banca Etica, Banca Prossima), the general banks (such as the BCC), the banks with specialized products, segments (such as UBI Banca and Unicredit). The BCCs have all the limits of the general offer even though one by one they have

(or should have) a good knowledge of the territory, of the territorial system, of the single nonprofit of the area.

In general, the supply doesn't know adequately the nonprofit. The cooperative credit should and could do much more, but there is a problem of governance and of organization.

The main limits from the standpoint of the demand (nonprofit) are, as for any enterprise, the capacity to plan, much short-term request and little middle or long-term demand. Some sectors and activities are potentially very innovative (environment, social agriculture, local transportation). Other sectors are risky, if not accompanied by processes of change in the public market. In the nonprofit organizations the financial competences must still develop.

Interview: Luciano Balbo – President and founder of Oltre Venture

Oltre Venture is a company of social venture capital, born in 2006 from the experience of Fondazione Oltre, the first Italian foundation of Venture Philanthropy promoted in 2002 by Luciano Balbo; this company's objective is to support and strengthen nonprofit organizations through an economic, organizational and strategic contribution.

Oltre Venture proposes itself as a referent that can offer private and institutional investors the opportunity to create a positive social impact, through investments in the risk capital of enterprises which promote social innovation.

The main areas of intervention concern access to credit, social-health housing, work in particularly depressed areas, as well as training and relational goods in general.

Balbo believes that the main limit to the spreading of a true market of social finance in Italy is tied to the concept itself of social enterprise: without a revision of the legal status of social enterprise, in fact, one runs the risk of not getting over those normative barriers that this far have strongly limited the development of a market of social impact investments. To date the social finance market for third sector organizations is pretty much identifiable with the traditional credit promoted by the banks; the instruments on the equity side are in fact still in the developing phase if not inexistent; it is moreover a market in which only recently pioneering intermediaries like Oltre Venture in Italy, Budgen Venture in England and Social Venture in Germany have been working, moreover with an efficacy not yet structured enough.

According to the president of Oltre Venture the “new” social enterprise shouldn't be considered like an organization belonging to the nonprofit world, but like an enterprise to all effects, enabled to offer quality services at affordable prices in some fields, like health, university, work and training. The main obstacle that keeps the cooperatives from approaching the market of social impact investments is identified by Balbo in their lack of those competences in terms of planning and then accounting, considered indispensable to attract the social investors. The cooperatives should then try to acquire the style, the professionalism and the rules of the private companies to be able to stay on the market

autonomously. The social enterprise considered an example to follow in financial terms is the Meridiana social cooperative of Monza, whose services are addressed to the elderly.

Interview: Paola Pierri – founder of Pierri Philanthropy Advisory

Pierri Philanthropy Advisory is a consulting and training company specialized in the subjects of philanthropy and social economy, born in 2009 from an idea by Paola Pierri. The company turns to enterprises, families, foundations and individuals with the objective to develop a culture of modern and conscious philanthropy able to maximize the social benefits.

Pierri at the moment identifies the market of social finance substantially with the traditional credit of banks, considering the marginal role performed by the instruments of equity within our territory. The banks all too often end up reducing their financial intervention within the nonprofit world to the short-term credit only, while the third sector organizations – which should be aware of the banks' “modus operandi” – would need more instruments from the equity side for their growth. Then from the side of the supply the market turns out to be too centered on banks – mainly because of historic implications and regulations – and therefore scarcely differentiated and segmented.

Among the few subjects which are considered relevant in Italy, we find Oltre Venture, Balbo's company, and PerMicro, a microcredit company born in Turin and specialized in the disbursement of loans to subjects that would be excluded from the traditional credit channels.

However, the microcredit market is not very widespread in our Country, due to the high cost of each paperwork. The founder of Pierri Philanthropy Advisory considers also the structure of social enterprises as a main obstacle to the development of a “true” market of social finance in Italy: the reduced size of these enterprises, the principle of one-man-one-vote and the constraint of non-distribution of the profits, are some of the characteristics that according to the interviewed woman prevent the spreading of a market of impact funds. The lack of an adequate evaluation of the generated social impact is the other great limit found in the development of social finance in Italy; this is different from what happens in the Anglo-Saxon market, where the external measurement of the social impact is an action that cannot be disregarded for this kind of investments, which can also reach high yields.

An adequate measuring system, besides the function of internal growth and accountability, would help the social entrepreneurs to document their importance for the community; from the enterprise's side it would improve access to financial sources, while on the investors' side it would provide an additional and discriminating factor on which one could found the future choices of investment.

Interview: Ferruccio Vannucci – General manager of Cooperfidi Italia

Cooperfidi Italia is a national guarantee institution of Italian cooperation, born in 2009 from the merging of nine regional cooperative trusts. It is a cooperative with three members, namely the cooperative Headquarters, the two BCC federations, the mutual cooperative funds of the headquarters and numerous cooperatives (more than 3,500 subjects).

Cooperfidi disburses in favour of the banks guarantees on first demand at affordable costs, in order to allow the cooperative companies to access to credit on favourable terms. The Trusts of the Italian cooperation also places check up services at disposal of the associated cooperatives to identify their strengths and weaknesses in the business management of the financial resources. The social cooperatives are 30% of the social base and commit the 35% of the total collateral; the social base and the activity of risk covering is intersectoral: the two sectors with the least rate of decay are agriculture and the social world. From the territorial standpoint the most important districts are Emilia Romagna, Lombardy and Tuscany; in Veneto and Piedmont the activity is not considered satisfactory, also for the presence of other subjects of the system which perform the same activity, like Solidarfidi, a syndicate trust specialized for social cooperation.

The commercial network and in general the organizational structure of Cooperfidi is very small and, according to Vannucci, the activity should be developed towards a higher synergy with the local branches of the associations and of the cooperative credit banks; the collaboration with the BCC is in fact high, but it could be implemented, since the current volumes of most Cooperfidi activities turn out to be those with Banca Etica and Banca Prossima.

Today the cooperatives ask mostly for short-term coverings, linked mostly to the advance invoices, differently from what happened in the past, when the coverings were requested mostly for the medium term. Cooperfidi's covering concerns only 50% of the credit risk for the cooperatives and the price of the guarantee, which varies depending on the beneficiary, is determined on the basis of:

- analysis of the historical series of activities in the last 5 years (for each body, territory, sector);
- examining the financial statements of the company (quantitative data);
- data relative to the use of banking credit (Central Financial Risks, Central Risks);
- riskiness of the undertaking and sector of belonging.

The classic rating procedures thus end up penalizing the social cooperatives which get a higher probability of default than they should have. According to the interviewed person this happens mainly for three reasons: the first concerns the difficulties the cooperatives have in presenting their own company, the second concerns the undercapitalization of these organizations while the third is relative to the presence of problems in the structure of cooperatives. In addition to this the general manager of Cooperfidi Italia pointed out how too often the cooperatives have a limited financial culture, and in some cases – especially in the big ones – there is not even a financial manager. As a consequence there are companies with few managerial competences, having a hard time to manage properly their own financial resources and avoiding to work for long-term objectives.

Today the best opportunities for the investors are spotted in the sectors of health and in the elderly; the

future model for the cooperatives will also see a growing development of services of closeness, whose main characteristic is that of being close to the problems of persons and families in difficult conditions, noticing their expressed and unexpressed needs, the situations of fragility and hardship and promoting the network. The strategy of intervention of closeness services considers an approach which is multidimensional and not sectorial, preventive and not only repairing, in relation to the various problems of social, economic, dwelling and employment hardship.

Interview: Alessandro Viola (Person in charge of Proceedings and development of Cooperazione Finanza Impresa CFI) and Camillo De Berardinis (CFI Vice President and CEO)

CFI (Cooperazione Finanza Impresa) is a limited cooperative company which has been working since 1986 for the promotion of cooperative enterprises of production and work and of social cooperatives. It is a company participated by the Ministry of Economic Development, by Invitalia Spa, by more than 270 cooperatives and by the Agci, Confcooperative and Legacoop funds of development.

CFI is born for the management of the funds of the Marcora Law and to support the operations of *workers buy out*: the latter consist of the support to workers who, when they see their work and their income questioned, decide to take over the firm, replacing the entrepreneur. Today this company is an institutional investor working in support of cooperatives, on the basis of financially sustainable projects.

CFI currently is present with risk capital and/or debt capital, depending on the type of project and on the cooperatives' economic-patrimonial profile. This institutional investor finances the growth of cooperative enterprises through a combination of intervention lines: from one it intervenes on the social capital, subscribing to a temporary (no more than 10 years) minority participation, and for a maximum value equal to the cooperative's social capital; from the other it works on the debt capital, integrating its intervention and financing the investments in the cooperatives' capital assets with loans, participation certificates and/or bonds.

CFI, during the phases of the investment, recovers gradually its financial contribution through a repayment calibrated in function of the cooperative's economic capabilities, and of the kind of investment. In the three-year period of 2011-2014 the company financed some 100 projects, of which 40/45 relative to *workers buy out*. The investments made in the social cooperatives consist of about 350 thousand Euros; however they also concerned small financial aids of 100-150 thousand Euros; there have never been anyway operations with amounts above one million Euros.

In 2015 CFI activated a new line of facilitated intervention thanks to the decree of the Ministry of Economic Development of 4 December 2014; this rule is meant to support the creation and the strengthening of cooperative companies of small and medium size made up mostly by workers coming from firms in crisis, social cooperatives and cooperatives which run firms confiscated by organized crime. In this case, the financial aids relative also to investments in intangible assets last at

the most 10 years, and they are regulated at an interest rate equal to 20% of the reference rate prevailing at the date of grant of incentives. The incentives can cover up to 100% of the amount of the programme of the financed investment. This amount cannot be above 4 times the value of the holding detained by CFI in the cooperative and, in any case, cannot be more than one million Euros. Viola and De Berardinis remember how CFI has also decided to support cooperatives not only financially but also improving the managerial competences of their members: the project, financed through the Fondo Formativo di Gruppo established with Fon.Coop, in fact has the objective to strengthen the managerial competences and the entrepreneurial spirit of the management, board members and members of the cooperatives participated by CFI. The main obstacle found by CFI in financing the social cooperatives is relative to the modest size of the investment made: the CFI's intervention turns out to be so limited and often it can't solve the problem of the cooperative companies' financial fragility.

Interview: Marco Zucchini (CGM Finance CEO)

The CGM Finance Consortium starts in 1998 from the need to have a consortium financial system which, in the full respect of financial and banking regulations, should be able to be an effective support to the development of cooperation. The three areas of intervention are:

- infragroup financial activity, representing the consortium's core business and consisting of the operations of the financing activity addressed exclusively to the members;
- real estate activity, aimed at the purchase, sale, remodeling and location of buildings meant for social cooperatives and consortiums of social cooperatives;
- consulting activity, aimed at offering personalized consulting services for the members.

The CGM Finance Consortium collects savings both through members' loans, and through credit lines and financing obtained by nonprofit financial bodies and banks. The consortium therefore disburses loans to its own members, following several technical methods: cash loan, credit line for advance invoices, advance loans to public bodies, municipal utilities and other equivalent bodies and finally pure funding given for the purchase of capital goods or to implement specific projects.

Zucchini points out a series of relevant credit institutes relevant in Italy in terms of financial offer for the nonprofit world, such as: Banca Prossima, Banca Etica especially in terms of lending and circulating capital, UBI Comunità with the social bonds, Banco Popolare and BNL-Paribas. Among the subjects that don't enter into the traditional credit systems are instead spotted Oltre Venture and the OPES Foundation. In the current context of crisis there is also a generalized erosion of margins and profitability especially of the social cooperatives.

The main obstacles limiting the meeting of demand and supply of financial products and services for the third sector are identified in the financial and patrimonial structure of the cooperatives. They should also have a better financial competence, so as to get to a better understanding and negotiation skills in the relationship with banks. However, according to the interviewed man, also the banks should take a step forward to approach the nonprofit world and so manage to propose adequate

products that take into account the peculiarities – not only in monetary terms – of these organizations. Another field of potential intervention to try to reduce the information asymmetry between financier and receiver, concerns the systems of social impact measurement, often lacking. If the Italian third sector will be able to develop an efficient activity of measurement and reporting of the social impact, then the quantity and the quality of the reached and reachable results may emerge more easily in terms of social objectives. Zucchini then traces a brief identikit of the characteristics required by the investors in the social impact financial market: for the B-type social cooperatives usually they look for an expanding organization working in the environmental sector, maybe in a field which hasn't yet been enhanced, such as for instance the biomass power plants; instead, for the A-type social cooperatives large organizations are more sought.

The CGM Finance CEO concludes identifying three examples of nonprofit organizations that can be considered as examples to follow: for the youth sector the Fraternità Giovani cooperative of the Fraternità di Ospitaletto group, for social housing the Immobiliare Sociale Bresciana, while for the elderly sector the Spes social cooperative of Trento.