

The History of Social Enterprises in Italy

SOCIAL ENTERPRISE IN ITALY

The history of social enterprise in Italy is closely linked to the evolution of its welfare system and spans nearly forty years, encompassing diverse trends across the various organizational types that make up the social enterprise spectrum. These are: (i) social cooperatives; (ii) associations and foundations, (iii) mutual aid societies; (iii) joint stock and limited liability companies; and (iv) traditional cooperatives. Building upon a rather undersized non-profit sector that was traditionally focused on advocacy activities, social enterprise has developed in different stages. In the first stage, social cooperatives were the crucial actors, and then associations and voluntary organizations shifting towards a stronger entrepreneurial stance, and finally joint stock and limited liability companies that decided both to pursue explicit social aims and to adopt inclusive governance.

Social enterprise initiatives were initially boosted by the strong tradition of civic engagement dating back to the pre-war period and the Catholic tradition. In the 1960s–1970s, several activists inspired by either their civic or religious engagement became the promoters of new bottom-up initiatives aimed at advocating the rights of vulnerable social groups against the profound transformations affecting Italian society. They set up new organizations relying heavily on volunteers with the aim of supplying welfare services and integrating disadvantaged people into work. The progressive recognition of social enterprises and the growth and diversification of needs arising in society have increasingly attracted public resources. As a result, over the years, such initiatives have grown dramatically in number, stimulating collective debate as to the most suitable organizational arrangement for best exploiting the contribution from civil society¹.

The impressive development of social cooperatives did not prevent the emergence of other types of non-profit organisations or the transformation of pre-existing organisations into social enterprises (e.g., associations). In response, a more general legal framework was introduced in 2005-06, creating the legal category of 'social enterprise', which provides a wider definition of the organizations entitled to perform social enterprise activities and the admissible fields of engagement. While social cooperatives, associations and foundations increasingly involved in the continuous provision of services have carried on growing in terms of numbers, turnover, and people employed, the number of organizations registered as social enterprises has shown a disproportionately small increase compared to the number of organizations that could potentially qualify as social enterprises. In effect, the law seems to have met with some resistance from eligible organizations due to prevailing cultural prejudices, the costs involved for associations and voluntary organizations wishing to qualify as social enterprises and the lack of fiscal advantages, including those already awarded to social cooperatives.

On the other hand, for the first time, the social enterprise has explicitly separated the link between the concept of business and the concept of profit, for which the company's activity is aimed at generating a profit that will go to the entrepreneur or will be divided between the members. In Italy, never as today, companies that produce goods and services of social utility in view of "general interest" objectives are at the center of a field of interests and expectations characterized by accentuated ambivalences and mismatches. On the one hand, social enterprises are recognized as an important actor of social innovation,

¹ Font: *Social Enterprises and their Eco-systems: Developments in Europe*. EUROPEAN COMMISSION Directorate-General for Employment, Social Affairs and Inclusion. 2016.

while on the other, they are considered a long-standing public administration². Furthermore, the reputation of social enterprises in Italy has been damaged by service procurement scandals targeting applicants for international protection and migrants. A part of public opinion therefore expresses skepticism about the decision of public bodies to outsource services more and more often. The challenge of social cooperatives is now also to reassert itself against the public opinion.

With the aim of re-launching social enterprise, new legislation enacted in 2016 and 2017 introduces some key changes with a view to providing a common framework for the sector. At the same time, while safeguarding the non-lucrative mission of social enterprise, the law is targeted at rendering the social enterprise qualification more attractive both to potentially eligible organizations and to investors (see Annex I).

SOCIAL ENTERPRISE

Using the definition of the European Commission, a social enterprise is³:

Social enterprises are those that have a Social aim prioritized, specific restrictions in terms of distribution of profits and governance. Wide focus on the community, including protection of disadvantaged groups/persons. They Have a general interest / social connotation of the services or goods supplied.

In addition, the definition of a social enterprise includes three dimensions⁴:

The entrepreneurial dimension:

- The stable and continuous production of goods and services
- Revenues are generated from both the direct sale of goods and services to private users or members and public contracts. The (at least partial) use of production factors functioning in the monetary economy (paid labour, capital, assets).
- Although relying on both volunteers (especially in the start-up phase) and non-commercial resources, in order to become sustainable social enterprises normally also use production factors typically functioning in the monetary economy.

The social dimension:

- Explicit social aim (6): the products supplied/activities run have a social/public interest connotation
- The type of services produced, or activities run can vary significantly from place to place, depending on unmet needs arising at the local level, or in some cases even in a global context.

2 Carlo Daveri. Impresa sociale in Italia: un quadro in costante evoluzione. 09, 2016.

3 Font: Social Enterprises and their Eco-systems: Developments in Europe. EUROPEAN COMMISSION Directorate-General for Employment, Social Affairs and Inclusion. 2016.

4 Source: Mapping Study, 2014. European Commission.

The governance dimension:

- Inclusive and participatory governance model
- Social enterprises may be created as single or multi-stakeholder organizations.
- The profit distribution constraint (especially on assets) guarantees that the enterprise’s social purpose is safeguarded.

Under the basis of this approach, the EC makes a clear-cut distinction of social enterprises from mainstream enterprises, traditional non-profits, and traditional social economy organizations:

Type of organisation	The entrepreneurial dimension	The social dimension	The inclusive dimension	Evolution towards a social enterprise model
Traditional non-profit organisations (e.g., voluntary organisations, charities, associations, foundations)	They normally run economic activities only marginally: they mainly perform advocacy or redistributive functions. They mostly rely on volunteers, and sometimes on paid staff. Non-profits used to rely mainly on grants and were not distinguished by an entrepreneurial dimension.	Non-profits providing general interest services to the community and serving disadvantaged groups pursue explicit social aims. Non-profits aiming mainly to promote the economic interests of their members do not fulfil this criterion.	The fulfilment of the inclusive dimension depends upon the type of legal form. While associations, voluntary organisations and charities have a democratic and often inclusive dimension, the governance of foundations is not democratic, but can ensure some degree of inclusion.	Provided that there is a shift towards an entrepreneurial stance, traditional non-profits are naturally structured so that they can evolve into social enterprises.
Traditional social economy organisations (cooperatives, mutuals, associations)	Cooperatives and mutuals conduct economic activities. Associations traditionally display an entrepreneurial dimension only in a few countries.	While associations can pursue either mutual or general-interest aims, traditional cooperatives are conceived to promote the interest of their members (consumers, workers, farmers, savers). Therefore, only cooperatives which explicitly pursuit social aims fulfil this criterion.	Associations, cooperatives and mutuals are distinguished by an inclusive and democratic governance. However, they normally include one homogeneous type of members in their governing bodies (single-stakeholder).	Provided that the mutual orientation is overcome by opening the membership to a plurality of stakeholders, social economy organisations are conceived to evolve into social enterprises.

Mainstream enterprises	They regularly conduct economic activities.	They are not conceived to pursue explicit social aims: their ultimate goal is normally to distribute profits to the owners of the enterprise in proportion to their shareholding. However, mainstream enterprises can voluntarily decide to pursue also social and/or environmental aims (e.g., address the needs of recipients at the bottom of the wealth pyramid).	Mainstream enterprises are not distinguished by an inclusive dimension.	Mainstream enterprises are intrinsically not conceived to evolve into social enterprises. In order to qualify, they must prioritise the pursuit of social aims to the detriment of their shareholders' interests. This presupposes that enterprises incorporate the social dimension in their by-laws.
-------------------------------	---	---	---	--

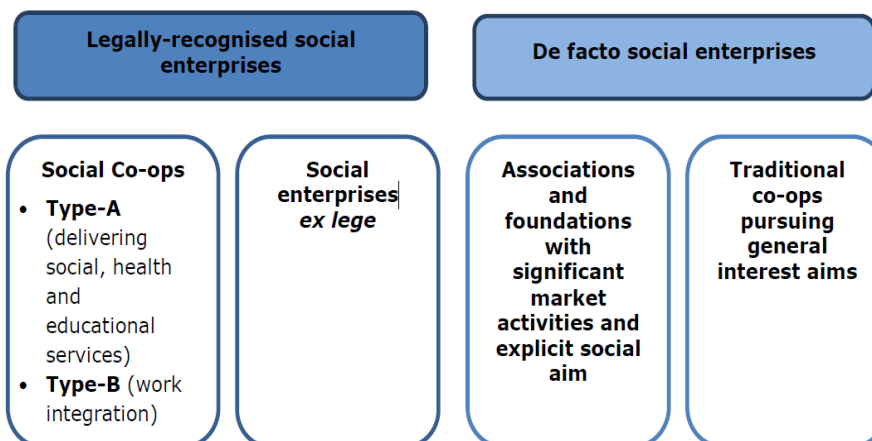
Drawing on the organisational definition of the Commission, social enterprises are present in all EU Member States, regardless of the type of welfare system and whether or not there is a well-developed non-profit sector, a cooperative tradition, or specific legislation.

In Europe there are over 3 million active businesses, capable of generating 6.5% of total jobs. A model in continuous growth, both in absolute values and in terms of employees: from 2011 to 2015 social cooperatives have increased by 30%⁵

Mapping

The universe of Italian social enterprise comprehends both officially-recognized social enterprises (social cooperatives and social enterprises *ex lege*, including shareholder companies fulfilling the legal criteria set by the social enterprise law) and organisations complying with the operational definitions but falling outside the legal frameworks specifically designed for social enterprises. These include associations and foundations pursuing social aims and oriented towards productive activities, religious institutions engaged in the provision of educational, health and social services, and traditional cooperatives with explicit social aims. Although assessing the size of the entire social enterprise universe and its evolution over time is a rather difficult task, an almost complete estimation can be made⁶:

Figure 1. Spectrum of social enterprise in Italy



5 "Valore"
6 "Social"

When looking across the entire range of social enterprises operating in Italy, regardless of their legal form, the phenomenon turns out to be significant in terms of numbers. Based on the available data on social cooperatives, ex lege social enterprises, and associations and foundations with market activity, the overall number of social enterprises amounts to nearly 100 000, accounting for more than 850 000 paid workers and around 1.7 million volunteers⁷.

Estimated number of Social Enterprises in Italy

Il numero stimato delle imprese sociali in Italia

	Social enterprises	Paid workers	Volunteers	Annual turnover (mln EUR)
Social co-ops (2011)	11,264	365,006	42,368	11,157
Ex lege social enterprises (2013)	535*	29,000*	2,700*	0,314*
Associations & Foundations (2011)	82,231	451,642	1,640,000	25,866
Total	94,030	845,648	1,685,068	37,337

Fonte: ISTAT Census (2011), *IRIS network (2014)

In Italy, traditional businesses lost almost 500,000 jobs between 2008 and 2014, while the total number of social cooperative workers rose from 340,000 to 407,000, registering a growth of 20.1%.

Social cooperatives (now recognized as social enterprises by law) remain the main protagonists of the world of social enterprises in Italy. Among the organizational forms that most meet the requirements of the European definition of social enterprise, there are also social enterprises ex lege and associations and foundations. These organizations provide citizens with social and socio-health services, but they also work in the fields of training and work placement, culture, sport, the environment, and research and are constantly expanding in other areas of general interest.

Between 2011 and 2015 social cooperatives increased by 30%, significantly increasing the number of employees⁸.

To date, in Italy (2016), just under 1% of social cooperatives concentrate almost 30% of the value of production (10 billion euro) and about 27% of invested capital (8 billion euro)⁹.

7 “Social enterprises and their eco-systems: A European mapping report”. EC. 2016

8 “Valore potenziale dell’impresa sociale”, Paolo Venturi 2016.

9 Carlo Daveri. Impresa sociale in Italia: un quadro in costante evoluzione. 09, 2016.

Eco-system

The phenomenon of social enterprise in Italy is among the most advanced European level. Its ecosystem is rich, well developed and diversified and can count on support from local and national public institutions as well as effective systems of mutual support (consortia). The eco-system for social enterprises in Italy is shaped by the interplay among different key actors that have contributed to acknowledging the specificity of social enterprises, have developed support policies and measures encouraging their replication and scaling up and have had a role in rendering the social enterprise phenomenon visible. Key actors include national and local policy-makers; research and education institutions; social enterprise networks and financial intermediaries. It is important to highlight in particular the self-promoting role played by networks, which have often compensated for the fluctuating strategy pursued by other actors, particularly policy-makers.

Perspectives

Social enterprises are an important and growing sector of the Italian economy. While the integration of social enterprises into the welfare system has been key in boosting their replication, the strong dependence of social enterprises on public policies, coupled with the growing use of competitive tenders based on the lowest price, has contextually contributed to a constraint on their future development. Spending reviews implemented by the Italian Government in response to the economic crisis have reduced the availability of public resources in sectors that are fundamental for social enterprises, such as the welfare domain. This has, on the one hand, reduced the expansion opportunities of social enterprises. On the other hand, it creates the impetus for social enterprises to diversify into new markets, including the new demand from private users, capturing the large volume of resources spent in the informal market.

A key challenge for social enterprises delivering general interest services is to experiment with new cycles of innovation in the health and educational domains and increase the delivery of corporate welfare services addressed to enterprises' employees, families and clients. As for WISEs (work integration social enterprises), a key challenge is to switch from domains with a low added value towards operations that can foster higher professional profiles to the benefit of disadvantaged workers who are already employed. Another strategy, which should be exploited further, is the establishment of partnerships with conventional enterprises. As demonstrated by good practices in this area, such a strategy can enable the continuing integration of employment rates of disadvantaged workers.

MAIN PROBLEMS

To curb the take-off of the social enterprise in recent years have been above all the prohibition to distribute profits and the absence of tax breaks. It means that a Spa social enterprise (which perhaps employs disadvantaged staff) today has the same tax burden as a company operating in a completely different field. These problems should remedy the reform of the social enterprise that the Government has developed to implement the law delegation 106/2016 on the third sector. The key points of this law are the possibility of distributing dividends to shareholders - even if with a ceiling of 50% of annual profits and surpluses - and strong tax incentives for individuals and companies that invest in the capital of social enterprises born for less than three years (30% deduction from IRPEF on sums invested by private individuals up to a million euros per year and 30% of Ires deduction for companies, up to 1.8 million euros per year).

Moreover, in order to avoid that the resources produced leave the circuit of the social enterprise, it is envisaged the detaxation of profits and operating surpluses destined to the indivisible reserve or to the free increase of the capital subscribed and paid by the shareholders. The reform of the law also allows a good enlargement of the sectors of activity of the social enterprise, sectors of activity that include the protection of the environment and the rational use of natural resources (See Annex I).

CONCLUSIONS

An important conclusion concerning both the social economy and the social enterprise is the resilience and ability of these companies to maintain and create jobs in spite of the crisis. Social enterprises respond to the specific needs of people and are strongly rooted in communities and this protects them from speculative risks and redundancies due to the reallocation of production. It would therefore be necessary to return to investing heavily in non-profit, strengthening SMEs and sector startups, with a purely social vocation.

The development of the social enterprise is linked not only to the availability of economic resources, but also to the simultaneous strengthening of a specialized support system (training, consultancy) which until now has been largely self-produced by the social enterprises themselves, through their networks of representation and coordination, but which today can be enriched by actors attracted by the progressive diffusion and consolidation of this phenomenon.

The social enterprise in Italy sees as protagonist the social cooperation and, in more general terms, a culture that leverages the public-private welfare mix which corresponds to an equally cultural mix that combines the non-profit corporate culture with the state. Yet, even if often in a still embryonic form, the same needs arise in different contexts, producing, through entrepreneurial action, a multidimensional value (economic, social, environmental) that is shared by a plurality of subjects. Also sharing platforms (eg sharing economy) are increasingly in vogue, in various sectors, in Italy. This makes us understand even more that we are facing evolutionary phenomena that are transforming not only many sectors of the economy, but above all the daily life of people¹⁰.

10 Carlo Daveri. *Impresa sociale in Italia: un quadro in costante evoluzione*. 09, 2016.

ANEX I

SOCIAL ENTERPRISE – ITALY

New general rules for the Social Enterprises

Decreto legislativo, 03/07/2017 n° 112, G.U. 19/07/2017

The sectors of socially useful activities in which social enterprises can operate have been expanded, with the introduction of the possibility of producing goods and services in the following further areas: fair trade, services to work aimed at the insertion of disadvantaged workers, social housing, social farming and micro credit.

The activities of general interest of the Social Enterprise do not coincide with those of the ETS (Third sector organizations) reported by art. 5 of the Third Sector Code. Following the reform, profits and operating surpluses must be allocated to the performance of the statutory activities or to the increase of assets.

In order to encourage the collection of risk capital, however, the new regulation allows forms of remuneration of contributions, albeit to a limited extent and not speculative.

In fact, all the social enterprises set up in the form of a company can allocate part of the profits (up to a maximum of 50%) to increase the share capital for free or distribute dividends to shareholders, within established limits and procedures. Moreover, always within the limit of 50%, social enterprises can deliberate free donations aimed at the promotion of specific projects of social utility, in favor of Third sector entities other than social enterprises, which are not founders, associates, members of the social enterprise or subsidiaries.

DEFINITION

The qualification of Social Enterprise private entities including companies that exercise in a stable and main form one or more of the activities of general interest in the form of a business, non-profit, for civic purposes, solidarity, and social utility. Social cooperatives and their consortia acquire the status of social enterprises by right.

DIGITAL

The Social Enterprise must deposit its social balance sheet at the register of companies and publish it online on its website, drawn up according to the guidelines of the Ministry of Labour, also considering the assessment of the social impact of the activities carried out.

OBLIGATIONS AND PROHIBITIONS

The social report must be:

- deposited with the Business Register
- published on its website - prepared in accordance with the Ministry's guidelines

The already established Social Enterprises must adapt within 12 months from the entry into force of the legislative decree

- Ban on exceeding the 1: 8 ratio of the difference in pay between employees (RAL: Gross Annual Remuneration)
- Prohibited the payment to subordinate or self-employed workers of salaries or fees of more than forty percent compared to those provided for by the National Collective Bargaining Agreement, subject to proven needs related to the need to acquire specific skills for the performance of activities of general interest in the field of interventions and health services, in university and post-graduate education, in scientific research of particular social interest
- The number of volunteers cannot exceed that of workers
- Destination up to 50% of profits within the limits of ISTAT indices (relative to the free share capital increase), of the maximum interest of interest-bearing postal bonds increased by 2.5% (in relation to the distribution of dividends) and disbursements to favor of ETS (Third sector organizations) provided that these are not shareholders of the Social Enterprise.

The new regulations also strengthen the bonds to the benefit of the stakeholders, increasing the minimum level of involvement, including, among other things, for large social enterprises, the right of workers and possibly also users to appoint at least one member of the administrative and control body.

HUMAN RESOURCES

- Definition of very disadvantaged workers and disadvantaged people whose employment allows the social enterprise to carry out activities other than typical ones
- Direct involvement of workers (as well as users) with the power to influence decisions relating mainly to working conditions and the quality of goods or services
- The workers of the Social Enterprise are entitled to an economic and regulatory treatment no lower than that provided for by the National Collective Labor Agreements

FINANCIAL STATEMENTS AND REPORTING

The Company must keep the journal and the book of inventories in compliance with the provisions of the applicable Civil Code, deposit in the Company Register and publish on its website the social report drawn up according to ministerial guidelines.

TAX PROVISIONS

There is provision for tax exemption of profits fully reinvested in the activity of the Social Enterprise. Fiscal benefits are introduced for those who invest in the share capital:

- IRPEF deduction of 30% on the amounts invested by private individuals (up to 1 million euros) and maintained for at least three years
- 30% IRES deduction on the amounts invested by companies (up to € 1.8 million) and maintained