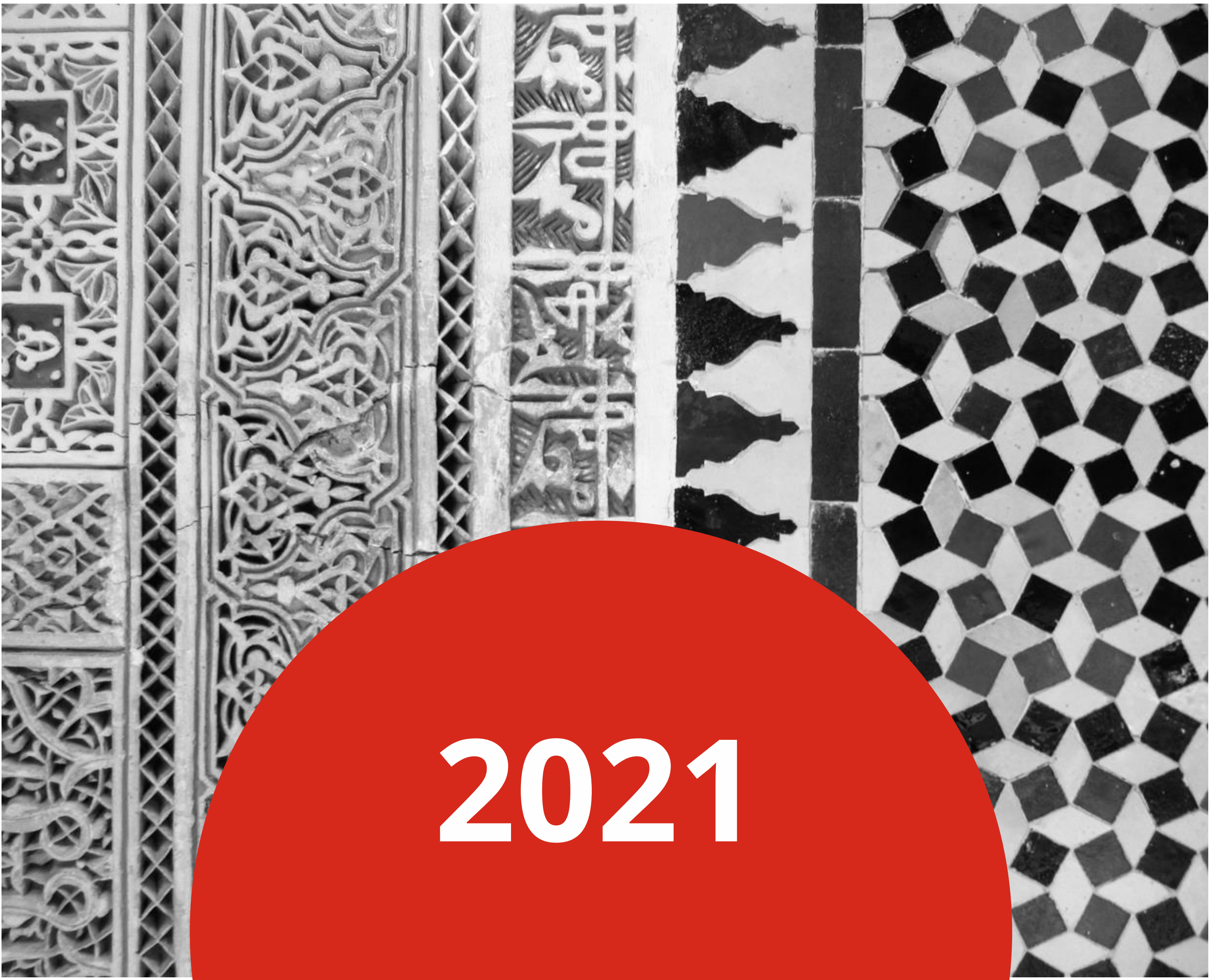
microfinanza

Social Finance in Italy: market analysis and outline of assessment methodology

"Empowering Small Social Enterprises in Italy"

NOVEMBER 2022



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List of acronyms

BDS	Business Development Service
EaSI	Employment and Social Innovation
EC	European Commission
EU	European Union
MSME	Micro, Small and Medium Enterprise
NPO	Non-Profit Organization
OECD	Organization for Economic Co-operation and Development
SBI	Social Business Initiative
SE	Social Enterprise
SME	Small and Medium Enterprise

La presente guida è stata prodotta nell'ambito del progetto “Empowering Small Social Enterprises in Italy" (ESSEI), risultato vincitore del bando “Actions to stimulate the development of the social finance market” finanziato dalla Commissione Europea attraverso il programma EaSI (Employment and Social Innovation).

1. Background

The current research is the first step of the project "Empowering Small Social Enterprises in Italy", an initiative financed under the European Programme for Employment and Social Innovation (EaSI) 2014-2020. It consists of a European-level financing instrument managed directly by the European Commission (EC), to contribute to the implementation of the Europe 2020 strategy, by providing financial support for the Union's objectives in terms of promoting a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions.

The programme aims at strengthening Europe's social market economy and delivering social fairness and prosperity, also through small businesses and social enterprises.

One of the objectives of the EaSI programme is to promote employment and social inclusion by improving access to finance for social enterprises and supporting the development of the social enterprise finance market, designing and launching financial instruments for social enterprises and, at the same time, generating effective demand for social finance among social enterprises by developing their "investment readiness". It also encourages learning from different models and good practices in developing and enhancing social finance across the Union, through organized sharing and disseminating of expertise and experience.

The project is managed and coordinated by Phitrust, a French social impact investing company, with the support of Microfinanza Srl, an Italian independent consulting firm specialized in the microfinance sector, MicroLab, an Italian NGO helping people with social and economic difficulties, and Impact Hub Siracusa, with the objective to answer unsatisfied needs of the social impact investing market in Italy both on the demand and supply sides.

The project focuses on Italy, a Country with a rich and diverse ecosystem for social enterprises. In general, almost 50% of the funds and resources made available to kick-start social businesses are provided as equity capital and own funds, also for what concerns ordinary operations. There's a steadily growing competition by for-profit companies in markets traditionally served by social enterprises. This aspect, together with the difficulties in attracting effective managers to further develop social businesses, affects the development of sustainable and performant social enterprises. Furthermore, the availability of public resources in key sectors for the expansion of the social market has been reduced in the last decade. For this reasons, it is necessary to identify new market niches, develope innovative financial instruments, and promote a blended finance approach in which tools and potential can be matched according to needs and opportunities in place. In this sense, the consortium aims at designing a new investment instrument, aiming to make sustainable social initiatives become viable through values, knowledge and innovative finance tools. The blended approach will bring together a great knowledge gathered over the years on the Italian, French and European impact investing market, and pave the way for a broad cooperation between different types of private and public investors, able to provide different financing sources. All actions forecasted ground on the consciousness that finance must be aware and responsible of the impact it generates, aiming to boost positive social outcomes and not only focusing financial risk-return paradigms.

As mentioned, the first part of the initiative is dedicated to conducting a market analysis and assessment of the social finance market in target territories in Italy (already deployed by some project partners). The hereby presented market research will ground a deeper assessment and data collection towards a sample of social entrepreneurship actors.

A set of social enterprises will be identified, involved and analyzed, through questionnaires, interviews, and focus groups. Selected entities will be provided with specialized training, coaching and mentoring services to bridge the gap on financial literacy and transparency, and providing tools to access the viability of business plans, and designing/revamp their investment strategies, with the ultimate target to foster the development of the social finance market in Italy, and the establishment of a specific social finance instrument (or blended scheme).

The research aims to emphasize issues related to the suitability of financial instruments in place and the possible dearth of investors in this sector. Particular attention will be put on the main bottlenecks preventing social enterprises to access finance (possibly being cultural, financial or governance issues), and on the physical barriers which might be related to lacking infrastructures (IT and others). Investment readiness of social entrepreneurship actors will also be investigated. This phase will be completed examining potential issues related to ineffective narratives of social impacts to the public.

All the activities will be carried out with the aim to test innovative elements of impact assessment and non-financial statements for social enterprises, as a further form of transparency and attractiveness to different financial investors or blended finance schemes.

2. Contextualization

Social finance is a global approach that manages money by delivering a social dividend and an economic return, involving three different elements: i) investees, ii) investors and iii) instruments. The characteristics of these stakeholders mark the difference between social and traditional finance[1]:

1) **Goals** are different as social finance focuses on social goals whereas traditional finance focus on a risk-reward approach; by social goals we mean solving or addressing a social problem or need within the local community and society in general;
2) **Return expectations** are different as social finance focuses on the positive return on society, with investors expecting a social benefit generated by meeting or addressing the above-mentioned social goals; on the other side, traditional finance focuses on economic returns.

Hence, focus will be put on social entrepreneurhip and its development, underlying the potential of Italian SEs as an emerging and promising market for (social) impact investing. The research will try to enlight financing gaps and to identify existing actors are, their needs (both on demand and supply sides) and to find missing elements reinforce and expand the market. The search for a social entrepreneurial mindset will be crucial for identifying the successful cases that can profit of technical assistance (both financial and non-financial) within the project itself.

The scope of work does not include the mere 'traditional' Third Sector, which has a long history and tradition in Italy. The initiative aims to identify other profit and non profit entities that can become hydrid structures. Profit organisations could be "benefit corporations" (B-Corp), social innovative start-ups and traditional enterprises that have a social mission as core strategy; on ther other side non profit organisations to be involved can be social enterprises, associations looking to develop an hybrid structure, and social and traditional incubators.

Concerning the financial offer side, the research will focus on traditional players, already active in the impact investment and social entrepreneuship market, while also including other entities and suppliers. As a way of example, capital and private equity funds, foundations (possibly bank related), public institutions will be assessed.

[1] *Glänzel, Gunnar & Schmitz, Björn & Mildenberger, Georg. (2012). Social finance investment instruments, markets and cultures in the EU.*

3. Research methodology

The research methodology presented here was developed to ground the collection of data related to the Italian Social Market, starting with an initial market analysis and preparing a strategy and tools for a deeper assessment of the supply and demand of financial services. The research methodology section will present the target identification, the definition of research tools and data sources and the SEs categorization.

3.1 Target identification

According to the last available Census on Non-Profit Organizations (NPOs) (ISTAT, 2020)[2], in 2018 in Italy there were 359,574 NPOs comprehending associations, social cooperatives, foundations and other legal forms[3]; among the latter we can find social enterprises. The category 'Other forms' represents 30.042 institutions (i.e. 8.4%). Non-traditonal forms are therefore a minority in the Italian landscape, though the number includes only NPOs and not protifable social actors. Since 2001 the number of Italian NPOs has been increasing, shifting from 235,232 to 359,574 institutions, and marking a constant increase of 2%, especially in Southern Italy. As a matter of fact, comparing data from 2017 and 2018, the number of NPOs every 10,000 inhabitants passed from 48.3 to 50.7 for Islands (Sicily and Sardinia) and from 43.7 to 45.7 in the Southern regions.

Almost half of identified social enterprises (45.1%) works in the 'Social Assistance and civil protection' sector, traditional intervention sector of social cooperatives. 32.4% carries out activities in 'Economic development and social cohesion'. A minority intervenes in 'Education and Research' (9.5%). Concerning employees, Italian social enterprises have either no employee (19.2%), 1 to 9 employees (43.4%) or more than 10 employees (37.4%).

Focusing on SEs, we can look at the research conducted by the IRIS Network (2018)[4] which represents the first study entirely dedicated to innovative Social Enterprises, members of the Network. 'Innovation' is defined under two levels: the first level is typical of the nature of SE, for being an independent and hybrid entity between the State (public sector), the private sector and Third Sector. The second level is the population of 105 SEs involved in the research: for eight years these SEs have participated to the Workshops on Social Enterprises, an annual event highly focused on innovation in this sector at different levels, promoting good practices, initiatives and projects discussed and presented by these entities. According to this research, 77.1% of interviewed entities are classified as 'social cooperative', of which 30.5% has gained the qualification of 'social enterprise'. Concerning the main activity sector, 41.9% of interviewed SEs execute activities related to 'welfare', 21% related to 'local development', 19% related to 'active inclusion', and 18.1% related to 'education and culture' (*Ibidem*). Therefore, innovation is to be found in organizational processes, procedures and activities, trying to bridge the gap possibly arising between public and private sector in the delivery of services of highly public interest.

Seen the differences with traditional ventures, social enterprises require a new segment of impact oriented financial suppliers, tailored to their mission and needs. According to GSG[5], "*impact economy is a*

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[2] *Retrieved from https://www.istat.it/it/files//2020/10/REPORT_ISTITUZIONI_NONPROFIT_2018.pdf (Accessed on December 10th, 2020)*

3 *Other legal forms are ecclesiastical institutions, amateur sports associations, committees, mutual aid societies and social enterprises.*

[4] *Zandonai F. (2018). L'impresa sociale che cambia. Indagine sulla community IRIS Network.*

5 *GSG. Country Profile. Italy*

just and equitable economic system in which positive impact is produced in an environment of risk and return". We can say in an impact economy all stakeholders try (and are motivated) to financially and socially include those society sections that are usually marginalized and underserved, taking into consideration the triple bottom line, i.e. economic, environmental and social spheres.

With regard to impact economy, there are about 1,000 social enterprises and cooperatives ready to scale their entrepreneurial models and receive investment, as assessed by GSG[6]. It is important to mention that in the last years there was a shift towards social impact investing and economy, evolving in a bottom-up approach thanks to the direct engagement of private stakeholders as foundations (take as an example Fondazione CRT in Piedmont Region, Fondazione Cariplo in Lombardy) or banks (UniCredit and UbiBanca), as well as investment funds (Oltre Venture). Furthermore, public initiatives at national level developed as well, e.g. the "*Social Impact Agenda per l'Italia"* created in 2016 to monitor and contribute to the implementation of recommendations for reinforcing the Italian social impact investment ecosystem for funding social entreprenurship.

The market assessment on SEs will focus on the below-listed five regions, aiming to take into consideration their territorial peculiarities, to be highlighted through an as much as possible homogenous assessment. The regions include:

- Piemonte (local presence of MicroLab)
- Emilia-Romagna (local presence of Microfinanza)
- Veneto (local presence of Microfinanza)
- Campania (local presence of MicroLab)
- Sicilia (local presence of Impact Hub Siracusa)

In fact, NPOs and Social Enterprises differ from region to region as they do have different social, cultural and economic backgrounds that influenced their development, their sectors of intervention, their legal form and their organizational structure.

3.2 Definition of data sources and research tools

In this section, primary and secondary data sources are outlined, as well as tools that will be furtherly used in the market assessment.

3.2.1 Data sources

Available data on Italian social enterprises is limited, as there is no national Bureau Register for Social Enterprises yet, even though a register for Third Sector Entities, among which Social Enterprises are to be found, is foreseen in the Legislative Decree No. 112/2017 (*Registro Unico degli Enti del Terzo Settore*).

- Primary data sources

For carrying out the Market Assessment, the following primary sources will be employed:

  - Phone interviews;
  - Focus Group Discussion (in accordance with COVID-19 sanitary measures and national travel restrictions);
  - Questionnaires (structured/non-structured interviews).
- Secondary data sources

[6] *GSG. Country Profile. Italy*

Main secondary sources and databases for assessing and evaluating the Social Finance market from the 'investee' point of view are:

Source	Description
National Institute of Statistics (*Istituto Nazionale di Statistica*, ISTAT)	Since 2001 ISTAT has published three national censuses on Non-Profit Organizations which give an overview of the Third Sector composition by legal and organizational form, main activities, and employees
National Institute for Social Security (*Istituto Nazionale di Previdenza Sociale*, INPS)	INPS publishes reports and data concerning employees in public and private sector
National network of Research Institutes on Social Enterprise (*Istituti di Ricerca sull'Impresa Sociale,* IRIS Network[7]	IRIS regularly publishes reports on the Italian social enterprises' panorama
The European Research Institute on Cooperatives and Social Enterprises (EURICSE)[8]	EURICSE promotes knowledge and development and innovation in the field of cooperatives, social enterprises and other NPOs engaged in the production of good and services, and since 2010 it has been developing a database on Italian cooperatives based on different sources
The Italian Association for the Promotion of Cooperative and Non-Profit Culture (Associazione Italiana per la Promozione della Cultura della Cooperazione e del Non Profit, AICCON)	AICCON promotes research on different topics of social and civil economy
National Bureau Register (*Registro delle Imprese*)	A public register required by Italian Civil Code that gathers all enterprises and has a specific section for SEs (*sezione Imprese sociali*).

3.2.2 Research Tools

The Market Assessment will rely on different tools to be developed to investigate and analyze the SE market in Italy. The set of tools includes:

• Semi-structured interviews: qualitative phone or one-to-one questionnaires provided to SEs and/or relevant stakeholders in the SE ecosystem;

• Focus Group Discussions: semi-structured group interviews with SEs and/or relevant stakeholders;

• Structured Questionnaires: qualitative online or in-person set of queries on identification, main activities, financing (sources, difficulties, etc.), sustainability (social + environmental, monitoring and management, etc.)

3.3 SEs Categorization

The identification of data sources and research tools grounds the collection of information on the ecosystem. Specific criteria were furtherly identified for data analysis, and particularly for a categorization of SEs and for a deeper assessment of different clusters of SEs.

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[7] http://workshop.irisnetwork.it/wp-content/uploads/2018/10/indagine-community-iris-network.pdf

[8] https://www.euricse.eu/it/projects/banca-dati-sulla-cooperazione-in-italia/

First criterion is the **outcome vision** (also related to Italian regulatory framework), and for the sake of this research, two different outcomes are considered:

- **Purely social outcome**, which is typical of the traditional Italian non-profit sector;
- **Social-economic outcome** (Sustainable social solutions), where both economic and social dimensions are balanced for reaching sustainability in the longer term.

Second criterion highlights three different intervention **sectors**. The categorization proposed distinguishes SEs that operate under the following categories:

Environment and Energy	Agri-business and tourism	Welfare and culture
SEs that focus their operations on promoting environmental sustainability, ecosystem protection and restoration, energy efficiency and renewable energy production	SEs that promote local development through productive activities and services related to agriculture and processing, territorial productions, touristic offer	SEs focused on the provision of social services, inclusive development and well-being, cultural initiatives design and promotion, culture preservation,

As a cross-cutting issue, digital and technological innovation will be assessed, as transversal to all sectors identified and possibly differently perceived and implemented by each cluster. Digital and technological innovation are defined and presented in the following paragraphs.

Third criterion is the **maturity stage** of SEs:

Startup stage	• Limited company in form of cooperative or society • Residency in Italy or in another EU country, but production facility in Italy • Young enterprise (less than 5 years) • Annual turnover less than 5 mln euros • Not publicly traded • No profit distribution • Business objective must be exclusively or mainly development, production or commercialization of a product or service of high-tech value • Not the result of merger, division nor sale of the company
Innovative startup	In addition to criteria for start-ups, to be classified as 'innovative', the entity should have **at least 1 out of 3 of the following criteria**: • 15% of the highest value between annual turnover or production cost should be spent on research and development • Employs high-qualified personnel (at least one third PhD or research doctorate, or at least two third with a master's degree) • Holder, depositary or licensee of a patent or of a registered software
Developing stage	• Mid-term enterprise (between 5-10 years)
Establishing stage	• Long-term enterprise (over 10 years)

Once SEs are identified and classified according to these criteria, the following classification parameters will be investigated to have a deeper understanding of the demand side:

- Number of employees (0, 1-9, 10+);
- Number of employed vulnerable workers, i.e. all those vulnerable categories that are employed within social enterprises (people with special needs, youth under 35 yo, people over 50 yo, unemployed, people with no diploma – *other categories can be included*);
- Economic and financial indicators/data (Revenues, Turnover, Net assets, Debt, Liquidity);
- Innovation, i.e. at which level is innovation to be found (process/organization/product/financial);
- Current sources of funding (private/public, sources);
- Types of (main) activity;
- Targeted beneficiaries;
- Impact from economic, social and environmental point of view, and how/if it is measured;
- What kind of financial and non-financial support they do need;
- COVID-19 pandemic and how it has changed needs and wants of NPOs.

4. Demand side analysis

When conducting a market assessment, it is important to focus on both the demand and supply side. Therefore, this section focuses on the 'investee' side, i.e. the social enterprises in Italy.

4.1 Industry overview: Social Enterprises in Italy

Recent years have brought an increasing interest in social enterprises across Europe thanks to the important role that entities with a social mission cover and can play in tackling issues affecting the community and their ecosystems. For these reasons, aligned with other EU countries and over the course of the last decades, the Italian social enterprise panorama has evolved, changed and transformed, adapting with new definitions, forms and legal statuses, as well as new goals and missions to reinforce this sector. Nowadays we can say that social enterprises in Italy can be classified as follow[9]:

i) Social cooperatives (A-type and B-type[10]);
ii) Entrepreneurial associations and foundations;
iii) Limited liabilities companies;
iv) Traditional cooperatives and mutual aid societies.

The development of this sector is connected to Italian history and its old tradition of civic engagement, mutual association and cooperative and welfare system. According to Borzaga, Poledrini and Galera (2017)[11], the origin of social enterprises in Italy can be traced back in the **1970s**, where Italy went through different economic, cultural and social evolutions and transformations which led to an arising necessity of new public and private interventions. In the **1990s** a first recognition of social enterprises was formalized: Law No. 266/1991 and Law No. 381/1991 were approved recognizing voluntary works and social cooperatives, defining the activities that these organizations were allowed to perform. Since **2000,** additional important regulations and laws concerned the social enterprise sector.

The first was Law No. 328/2000, "Framework law for the realization of the integrated system of welfare policies", whose aim is to promote welfare, social and health services for people in need. This Law marks a turning point in the history of social enterprises as it recognizes "non-profit organizations and social enterprises as actors of welfare social policies, in partnership with public authorities" (*Ibidem.*, p. 8)[12]. The second important regulation was Legislative Decree No.155/2006, which recognizes and regulates other forms of social enterprises other than social cooperatives, extending forms as well as types of goods and services provided by these organizations.

Since 2016, a new reform process was launched for reforming the so-called Third Sector (Law 106/2016), and it is important as among others it gives a new definition of social enterprise (Legislative Decree 112/2017).

In general terms, we may say that the market is still relatively small in the country, and needs great means to reach a more mature phase. The projects aims at identifying the gaps, understand who the existing actors are and what are their needs, in order to find the missing elements to reach a more mature phase of the market.

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[9] *European Commission (2020) Social enterprises and their ecosystems in Europe. Updated country report: Italy. Author: Carlo Borzaga. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny*

[10] *Social cooperatives A-type are cooperatives providing with social, health and educational services whereas B-type defines cooperatives integrating disadvantaged groups into the labor market.*

[11] *Borzaga, C., Poledrini, S. & Galera, G. (2017), Social Enterprise in Italy: Typology, Diffusion and Characteristics, Euricse Working Papers, 96 |17*

[12] *Ibidem.*

As said, the research does not focus only on cooperatives, associations and foundations, but considers also those entities with a clear social entrepreneurial mindset and a social mission, such as for profit organizations (B-Corps; Social Innovative Start-ups; and Traditional Enterprises with a social mission at the core of their strategy); Not-for-profit organisations, part of the *Terzo* Settore (Imprese sociali; Cooperatives with an entrepreneurial mindset; Associations looking to develop into a hybrid structure); and finally, Social and Traditional incubators.

4.1.1 European and Italian definitions

When dealing with social enterprises, we face unique and specific economic, social, cultural and environmental challenges for each EU country, in different legal settings. However, the European Commission agrees and defines the social enterprise as

"*an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities*"[13].

In addition to this definition, the Social Business Initiative (SBI) has latest refined the definition adding other aspects as:

- Being engaged in an economic activity (products/services) in a continuous manner
- Having an explicit and primary social aim
- Having limits on distribution of profits and/or assets
- Being independent
- Having an inclusive governance characterized by a participatory and/or democratic decision-making process.

Moreover, it is important to mention an EU Initiative, i.e. Social Economy Europe which is the EU-level representative organization for Social Economy for cooperatives, mutual societies, associations and foundations in the EU-Countries[14].

Likewise, the new Italian definition is in line with the European one: in fact, the Legislative Decree No. 112/2017 defines as social enterprises:

"all those private entities that in a stable and principal manner exert a non-profit making business activity of public interest, for civic, solidarity and social utility, adopting responsible and transparent management, and involving as much as possible workers, users and other stakeholders concerned by its activities"[15].

4.2 Target market benchmarks

Given the objectives of the hereby presented research and of the project, the following chapter aims at identifying the main aspects concerning SEs in terms of financial needs, innovation and environmental sustainability.

[13] *Definition retrieved from https://ec.europa.eu/growth/sectors/social-economy/enterprises_en (Accessed on November 27th, 2020)*

[14] *More information on the website: https://www.socialeconomy.eu.org/about/*

[15] *Definition retrieved from https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2017-07-03;112!vig= (Accessed on November 27th, 2020)*

4.2.1 Financial needs and barriers of SEs

Financial resources are one of the central elements in SEs business model for ensuring their sustainability in the long run. According to Zandonai (2018)[16], the financial sustainability of the SE relies on two main elements. The first element is the financial sustainability generated by the main activity (which refers to those activities that generate at least 70% of income): 60% of interviewed SEs can rely on incomes generated by their main activite and they do not encounter any difficulty in executing their main activity in their intervention sector. The second central element for the business model is the 'paying client': for 54.3% of SEs it is represented by the Public Administration as backer or co-backer; for 22.9% it is represented by individuals and families, whereas for the remaining part (22.8%) it is represented by other enterprises, both profit and social.

According to Borzaga (2020, p. 75)[17], Italian social cooperatives, which represent the majority of SEs, "*have increased the amount of their investments over the past decade. [...] They have also increased their demand for finance*". However, the increasing demand was met by relying on own financial resources, as almost 70% of these entities are self-financed through contributions provided by members and surpluses deriving from business activities which are accumulated as indivisible reserves and constitute the equity of these enterprises.

When asking for credit, SEs turn to the traditional banking system and lack of financing is not listed among the main obstacles by social enterprises. In fact, according to the research on financial needs for the Third Sector (2017)[18], in 2016 39.2% of social cooperatives had a relationship with two credit institutes, and 30.4% with one; moreover, almost half of interviewed entities retain that the credit institutes apply personalized NPOs evaluation methods and are satisfied (48%) or highly satisfied (13.6%) of their relationship with these institutes.

On the other hand, SEs declare that one of the main obstacles is "delays in public authority payments," which prevent from investing, trying to find alternative ways of financing. Other stakeholders to which SEs turn when in need for financing are specialist financial intermediaries, foundations and public grants (both at regional, national and European level).

According to Borzaga (2020, p. 79)[19], "*social enterprises face similar problems to those of small and medium-sized enterprises*", and one of the main gaps is the need for guarantee funds which would aim at incentivizing capitalization and creating new tools for attracting private savings. This latter issue is addressed by the new regulations (Decree 107/2017 and Decree 112/2017), which introduce new fiscal benefits for attracting dedicated resources such as social bonus, microcredit platform and social lending, introducing private individuals into risk capital.

4.2.2 Social Enterprises and COVID-19: impact and mitigation measures

As global event, the pandemic COVID-19 has hit social enterprises, too. As a matter of fact, according to the national observatory *Osservatorio Nazionale Isnet* (2020), the increase of workplaces was lower than the one expected without the pandemic (+0.3% vs. +4.2%), but it depends on the intervention sector as

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[16] *Zandonai F. (2018). L'impresa sociale che cambia. Indagine sulla community IRIS Network.*

[17] *European Commission (2020) Social enterprises and their ecosystems in Europe. Updated country report: Italy. Author: Carlo Borzaga. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny*

[18] *Ubi Banca (2017). Osservatorio Ubi Banca su Finanza e Terzo Settore. Indagine sui fabbisogni finanziari. Cooperazione sociale e associazionismo (Retrieved from https://mk0wwwaicconitmky98w.kinstacdn.com/wp-content/uploads/2017/05/Osservatorio-UBI-Banca-VI-edizione.pdf, Accessed on December 15th, 2020)*

[19] *European Commission (2020) Social enterprises and their ecosystems in Europe. Updated country report: Italy. Author: Carlo Borzaga. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny*

'social assistance and health' activities have recorded a positive trend, whereas 'retail' and 'manufacturing' sectors have been hardly hit by lockdowns and economic slowdowns.

One of the first consequences was the **decrease of the innovation degree**: in fact in 2020 52.2% of interviewed SEs declared they have not invested in new products, new clients, new market areas, processes nor organization – in 2019 the percentage was equal to 86.2%. The main reasons include insufficient funds (48%) and bureaucratic issues and difficulties (49.6%), which forced SEs to revise their mid/long-term plans.

However, even though the innovation degree has slowed down, the same investigation underscored that SEs acted as 'community accelerator' as they have active community processes that significantly contributed to the response to COVID-19 and its socio-economic consequences. We can thus conclude by saying that thanks to their social inclination and their resilience, SEs played an important role of safety net for those vulnerable categories, confirming the need of consolidating and increasing this new culture and economic model.

Furthermore, in May 2020 the Italian government launched Law Decree 34/2020, the so-called *Decreto Rilancio*, foreseeing mitigation measures for individuals and enterprises, including social ones (Third Sector) and innovative start-ups[20]. The identified measures are listed below:

Innovative start-up	Smart&Smart Italia	• Additional 100 mln EUR • Non-refundable aid equal to 30% for mortgage for Center Italy start-ups hit by the earthquake 2016-2017
	Non-refundable aids	• Additional 10 mln EUR for purchasing services provided by incubators, accelerators, innovation hubs, business angels and other public and private entities
	Venture capital aid	• Additional 200 mln EUR for supporting investments in equity (also thanks to participative financing instruments)
	Microcredit Guarantee Fund	• Additional 200 mln EUR to the Fund for innovative start-ups and SMEs
	Reduced tax treatment	• Dedicated to individuals that invest in innovative start-ups and SMEs
	First Playable Fund	• Additional 4 mln EUR aiming at supporting the conception and pre-production phases of videogames start-ups
Third Sector	Contributions to security and enhancement of health care services	• Contributions provided by Invitalia to buy equipment and other tools to protect Third Sector workers from COVID-19
	Liquidity support	• Additional funds for supporting Third Sector activities
	Support to Third Sector in Southern regions	• Aiming at reinforcing and enhancing the support to Third Sector entities that work with vulnerable categories hit by COVID-19 pandemic

[20] For the sake of completeness measures for commercial enterprises are listed as well. Additional measures for each economic sector are to be found at http://www.governo.it/it/dl-rilancio

Enterprises (*main measures*)	Non-refundable aid	• Financial aid for enterprises whose turnover is less than 5M EUR in the last tax period
	Layoff	• Social safety net whose aim is to support financially employees' salary that can be asked when enterprises are in difficult situations
	Prohibition of dismissal	• Prohibition of dismissing employees
	Smart working	• Possibility to work from home for private sector employees having a child younger than 14 yo, even though there was no previous agreement between employer and employee
	Renewal of fixed-term contract	• Possibility of renewing fixed-term contract even though preconditions foreseen by the law are not in place
	Technological transfer fund	• Fund for supporting initiatives of public-private partnerships that promote R&D innovative projects
	Other measures	• Suspension of Productive Activity Tax (*IRAP*) • Tax credit and capital strengthening • SME asset fund • Support for paying rent • Support for paying bills

The above-mentioned table represents an example of mitigation and support measures that the Italian Government has put in place to tackle the economic crisis triggered by the pandemic COVID-19. Other measures will be conceived and realized in the next months following the evolution of the health situation.

4.2.3 Technological and digital innovation

According to the OECD[21], innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. It can be therefore classified in four categories:

- **Product innovation:** A good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user friendliness or other functional characteristics;
- **Process innovation:** A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software;
- **Marketing innovation:** A new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing;
- **Organisational innovation:** A new organisational method in business practices, workplace organization or external relations.

As mentioned in previous paragraphs, SEs can be considered innovative from many points of view, as they are an alternative and hybrid way of organizing human, physical and financial resources, other than the public sector and traditional enterprises. In this research, we focus on **technological and digital innovation,** investigating it at different levels, such as product/service and process.

[21] *Retrieved from http://www.oecd.org/site/innovationstrategy/defininginnovation.htm (Accessed on December 1st, 2020)*

Technological innovation refers to the implementation of new ways of converting resources into outputs, while digital innovation refers to access and usage of information and communication technologies for products, processes, marketing, organization.

At the Italian national level, the **innovation strategy adopted by the Italian Government** is grounded on three challenges[22]: i) digitalizing society, ii) developing an innovative environment at country level, iii) Promote inclusive sustainable development. The Italian Ministry for Technological Innovation and Digitalization is aiming to develop a **favorable ecosystem for enterprises that propose innovative products and services** as well as for those who are working on the **digitalization and improvement of operation and production systems**. Though the definition of social enterprise is not linked to innovative solutions, the national innovation strategy highlights the need to ensure "ethical, inclusive, transparent and sustainable"[22] improvements, paving the way for collaborations within social and other enterprises as well as pushing for the expansion of the sector.

The main intervention sectors for SEs promoting innovation can be derived from the above-mentioned definition, assessing the implementation and offer of:

- Technological and digital products and services;
- Technological and digital innovative processes;
- Digital marketing;
- Digital operation and performance

As there is not sufficient data to investigate the level of digital and technological innovation for SEs, for the sake of the research, the analysis will refer to the entire Italian entrepreneurship sector to create a baseline for comparisons.

Generally speaking, Italian MSMEs that invest in innovation and technologies are not well spread, nor Research and Development (R&D) activities at national and regional level are supported as in other EU nations, such as Germany and Scandinavian countries. By way of example, between 2008 and 2016 the budget dedicated to R&D has decreased of 19%. Furthermore, according to a survey conducted by OECD[23] over 2014-2016, Italy ranks 19th out of 36 examined countries; however, starting from 2016, the Italian government, and more specifically the Ministry of Economic Development, have launched the Innovation National Plan 4.0 which proposes measures and financial aid to enterprises for innovation. Following the OCED Survey, only half of Italian SMEs (52%) did innovate in the considered years: 31% has applied product innovation and 31% process innovation, 29% has introduced organizational innovation and 26% marketing innovation.

4.2.4 Environmental sustainability

Environmental sustainability is defined by the United Nations Environmental Programme as the "Protection and sustainable management of ecosystems and resources that allows equitable access and governance of ecological goods and services"[24]. It is considered as the underpinning of all development, ensuring social sustainability and economic growth as well as resilience[25]

The definition of SE in Italy does not bound NPOs or profit entities to specific environmental standards, as forecasted for any other enterprise, therefore the reference regulation remains the Italian legal

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[22] *Retrieved from https://innovazione.gov.it/it/cosa-facciamo/ / (Accessed on December 1st, 2020)*

[23] *OECD, based on the 2019 OECD survey of national innovation statistics and the Eurostat's Community Innovation Survey (CIS-2016), http://oe.cd/inno-stats, January 2020*

[24] *UNEP Ecosystem Management Programme, 10th Global Meeting of the Regional Seas Conventions and Action Plants, Guayaquil, Ecuador, 25th – 27th November 2008*

[25] *Scott Cato, M. (2009). Green Economics. London: Earthscan, pp. 36–37. ISBN 978-1-84407-571-3.*

framework on environmental sustainability, as expression of the European regulatory framework. The reference legislation defining environmental boundaries for public and private institutions is Decree 152/2006, "Norme in Materia Ambientale", defining processes and limits related to soils, water, air, biodiversity, pollution, waste management[26].

With Decree 112/2017, the Italian Ministry of Labour and Social Polices published the guidelines for drafting the social assessment of Third Sector entities, paving the way for a social and environmental evaluation framework of organizations with a social mission[27]. Decree 112/2007 specifically highlights SEs as institutions that must respect strict standards on information and transparency, related to finance, governance and - in an upcoming future – to impact. The Decree builds the ground for a public Social Statement of Third Sector entities, aiming to reinforce socio-economic and environmental outcomes of entities of the sector, as well as reinforcing the cooperation with local stakeholders. The Social Statement will be mandatory for organizations having a cash-flow over 1 million euros starting January 1st, 2021.

In terms of environmental sustainability, the Social Statement will have to include relevant information referred to the activities conducted, specifying:

- Typologies of environmental impacts which are relevant depending on the activities;
- Impact management policies and practices;
- Environmental indicators adopted (energy consumption, raw materials and resources usage, waste production, etc.)
- Variations of the indicators adopted.

For SEs working in the health, agricultural sector or in general more related to environmental risks and impacts, specific assessments are requested. The Social Statement will represent a useful baseline to assess the environmental sustainability of SEs, providing clear and useful data which are currently unavailable.

For the purpose of this research, the aim is to evaluate the state of SEs in comparison with the traditional profit sector, to assess if SEs are already adopting restrictive environmentally sound practices and processes, and to evaluate the need for providing financial and non-financial services related to their environmental performance.

The Italian National Institute of Statistics ISTAT conducts permanent censuses in different sectors. The Permanent Enterprise Sustainability Census focused on social and environmental aspects of Italian Enterprises was last updated in June 2020[28]. This Census aims to provide the first empirical evidences on sustainable behaviors adopted by enterprises, depending on their dimension, sector and history.

The statistical survey covered a sample of 280 thousand enterprises with 3 or more employees, representing a panorama of more than a million units, corresponding to 24% of Italian enterprises. Data presented refer to 2018.

Around 700 thousand enterprises (68.9% of enterprises with 3 or more employees) declare to be engaged in actions directed at improving the livability and working quality for their workers, 688 thousand (66.6%)

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[26] *D.lgs 3 aprile 2006, n. 152 - Norme in materia ambientale. (GU Serie Generale n.88 del 14-04-2006 - Suppl. Ordinario n. 96) (Retrieved from: https://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario? atto.dataPubblicazioneGazzetta=2006-04-14&atto.codiceRedazionale=006G0171)*

[27] *Linee Guida Per La Redazione Del Bilancio Sociale Degli Enti Del Terzo Settore Ai Sensi Dell'art. 14 Comma 1, Decreto Legislativo N. 117/2017 E, Con Riferimento Alle Imprese Sociali, Dell'art. 9 Comma 2 DECRETO LEGISLATIVO N. 112/2017.*

[28] *Istat 2020, Comportamenti d'impresa e sviluppo sostenibile, Statistiche Sperimentali – nuovi indicatori; Istat 2020, Rapporto annuale sulla situazione del Paese (Retrieved from: linkhttp://dati-censimentipermanenti.istat.it)*

conduct actions to mitigate the environmental impact of their activities; 670 thousand (64.8%) are active to improve the safety level within their enterprise or in the land they operate in. Referring to their relations with local stakeholders and territories, almost a third (31.3% or 323 thousand enterprises in total) supports or directly conducts external initiatives benefitting the community, a similar number of enterprises supports or conducts initiatives to support the local productive system in which they operate (303 thousand enterprises, 29.4%).

Environmental sustainability actions have been adopted by 75.8% of enterprises, though analyzing the detail of actions implemented, 50.4% initiated only one environmental action to mitigate their impact, 10.3% introduced 10 actions to improve their sustainability and only 2.7% introduced more than 10. This data highlights the need to diversify environmental actions, seen the different environmental matrixes which can be affected by production and service provision.

Sustainable behaviors improve with the dimension of the enterprise. Productive units with more than 250 employees show 18 extra points in the implementation of initiatives aiming to mitigate the environmental footprint. Combining enterprises size and geographical location, ISTAT shows that mostly SMEs in Southern Italy adopted sustainable behaviors related to environmental impact mitigation and to the welfare of their land. Improving the reputation towards clients and providers represents the main factor to mitigate the environmental footprint (32.1% of enterprises, though it is important to underline the fact that environmental goals are aligned to business models for a significant portion of enterprises (reaching 27.8%).

In conclusion, the assessment to be conducted must identify priorities of intervention for SEs, according to the guidelines on Social and Environmental Standards posed by the growing regulation, to evaluate eventual misalignments with the tradition profit sector, as well as intervention sectors for the provision of financial and non-financial services, possibly including the acquisition of new technologies, the introduction of new processes, the adoption of specific quality and sustainability labels.

5. Supply side analysis

The other side of the analysis concerns the supply side, i.e. the investors' side, and in this section main stakeholders are presented.

5.1 Panorama of the Italian financial market

The Italian financial market is regulated by the National Central Bank (*Banca d'Italia*) which controls and monitors financial intermediaries, such as traditional banks, banks with social orientation, specialized banks and innovative instruments for social finance which are the most relevant entities when dealing with the supply side of social finance market[29]. Additionally, other important stakeholders are policymakers as the Ministry of Labour and Social Policies, the National Council for the Third Sector (chaired by the Ministry of Labour and Social Policies) as well as regional and local authorities.

- **Traditional banks**

As previously mentioned, credit needs are mainly met by the traditional banking sector, and some of these institutes (such as Unicredit and UBI Banca) created specialized sections dedicated to NPOs.

- **Bank with social orientation**

This category comprehends cooperative credit banks that traditionally focus on social goals, such as Banca Etica and Banche di Credito Cooperativo. Banca Etica is the first ethical credit institution in Italy, created back in 1999 originating from self-funding. Other to individual lending, it offers credits to organizations that operate in social oriented projects in welfare and education, with special access conditions for Social Enterprises.

- **Specialized banks**

Created in 2007 by Intesa San Paolo group and since 2019 part of Banca Intesa, Banca Prossima is a specialized credit institute and is the first European bank that provides financial support to NPOs, including SEs, and has created a specific credit ranking system for NPOs. It introduced innovative instruments for social finance such special bonds that can be transformed into low-interest loans, guarantee funds in support of activities in regions less-served, or a service called '*Terzo Valore*' (Third Value) that provides individuals and organizations with the possibility of funding projects promoted by NPOs with a guarantee of repayment of the invested capital.

- **Innovative instruments for social finance**

Recently appeared innovative instruments include impact investing, social impact bonds (e.g. promoted by UBI Banca) and social venture capital (e.g. Oltre Venture).

As mentioned, the main goal project is to foster the market of impact investing and accelerate the development of social entrepreneurship where the market is nascent. For this purposes, the objective is not just analysing the social economy sector, the *Terzo Settore* as a whole, and the traditional "supply", but also the emerging market of impact investing and social entrepreneurship as well as the access to finance and the general conditions that social enterprises and social economy organisations are facing in identifying and accessing other kind of financial resources.

[29] *European Commission (2020) Social enterprises and their ecosystems in Europe. Updated country report: Italy. Author: Carlo Borzaga. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny*

Hence, it is key to identify new markets niches, developing innovative financial instruments, and promoting a blended finance approach in which tools and opportunities can be matched according to the needs and opportunities in place. A new investment instrument or methodology needs to be identified, in order to make sustainable social initiatives become viable through values, knowledge and innovative finance tools according to a blended approach, and pave the way for a broad cooperation between different types of private and public investors, which can provide different sources of finance.

The study will target some key players active on the impact investment/social entrepreneurship market in Italy, such as venture capital and impact investing funds like:

- Oltre Venture;
- SEFEA;
- OPES;
- A|Impact.

Foundations and Banking Foundations, especially those which are responsive to venture philanthropy, will be identified and investigated, such as:

- Fondazione CRT;
- Fondazione Cariplo;
- Fondazione Con il Sud.

And finally, public institutions, which are developing specific impact strategies, and have already invested in Impact Funds. These funds could represent a set of resources to provide matching funds and create capacity building at a broader level. Institutions include:

- Cassa Depositi e Prestiti (CDP);
- Invitalia.

Investigating in depth the nascent market and the new types of actors involved in it, will also mean to not only consider the financial aspects of support that social enterprises need for their development, but all the ancillary and parallel auxiliary non-financial services, such as training, coaching, and mentoring services, together with other typical incubators' and accelerators' services.

5.2 Panorama of financial instruments with a focus on innovative ways of funding for SEs

Main obstacles in the financial panorama for social entrepreneurship actors are a lack of guarantee funds in this developing sector as well as the difficulties related to working with public authoritiescommonly associated to delays and bureaucracy. Previous experiences and projects conducted by Microfinanza (ENISIE, 2019-2020) highlighted the to shift towards blended approaches, introducing mixed financial approaches as an innovation in the market at different levels, such as product or service level, or financing public and private capacity and needs. These needs possibly depend on different dimensions and actors such as i) social and support networks in which SEs find themselves; ii) the existence of non-financial services provided by local stakeholders; iii) regulations; iv) impact assessment system; and v) social operators and investors.

An increasing interest in financial needs of SEs marked recent years, with initiatives trying to combine different approaches with a special focus on social return/impact. A common thought about SE is that usually these enterprises do not have access to sufficient financial instruments/tools, because of several reasons such as:

- Non-distribution of profits, typical of NPOs;
- Insufficient capitalization;
- General unreadiness in preparing and presenting investment projects;
- Untraditional Business models that credit institutes, specifically banks, may not understand and evaluate correctly.

However, no empirical evidence has confirmed the lack of credit access and according to Legislative Decree 112/2017 two additional measures for social enterprises are foreseen:

- **Fund for the promotion and development of SEs (Article 16)**: SEs can allocate a part of annual net profits (up to 3%) to funds created by previously identified entities and associations, and by *Fondazione Italia Sociale* (Social Italy Foundation) that aims to promote and develop SEs through actions and initiatives of different type, as study and research projects, employees training, or the promotion of the start-up of an SE.
- **Crowdfunding**: a relatively new measure to raise funds through platforms that operate by collecting risk-capital, extended to SEs .

Moreover, other opportunities include:

- ***Italia Economia Sociale (Social Economy Italy) by Invitalia***

In the recent years, following the Third Sector reform, new regulations and decrees were introduced for supporting social enterprises. More specifically, in 2017 the Ministry of Economic Development, together with Cassa Depositi e Prestiti and Invitalia, introduced a measure for facilitating enterprises in the spreading and reinforcement of social economy, dedicating an extra budget for this tool. It addresses social enterprises, social cooperatives and social cooperatives with ONLUS qualification (*Organizzazione Non Lucrativa di Utilità Sociale*, a specific tag for social cooperative that marks and underlines the non-profit aspect).

This funding opportunity finances investment programs in the field of social economy, whose aims are to increase employment for vulnerable workers, to socially include vulnerable categories, to protect and enhance ecosystems, territory, and historical and cultural heritage, and to meet needs of the community in which the organization operates by increasing the availability of products and services.

The budgeted resources for this program amounts to EUR 223 million, of which EUR 200 million from the Rotative Fund for the support to enterprises and research investment (FRI) of Cassa Depositi e Prestiti (CDP)e and EUR 23 million from the Fund for sustainable growth.

The financing scheme foresees a subsidized loan up to 15 years, with a grace period up to 4 years at 0.5% interest rate, to which it is mandatory to associate financing at market interest rate of the same duration, disbursed by one of the credit institutes in agreement with the Ministry of Economic Development. The program aims at financing investment projects from EUR 200,000 to EUR 10 million, up to 80% of the eligible expenses (of which 70% from CDP and 30% from the bank).

- ***5 per mille***

It is a quota of Personal Income Tax (*IRPEF*) that the Government distributes to previously registered NPOs, according to the taxpayers' wants when fulfilling the income tax declaration. According to the

Census on Non-Profit Organizations (ISTAT, 2020)[30], in 2018 NPOs that were registered were 60,425 (i.e. 16.8% of total NPOs), and globally the sector has received EUR 439,837,192, mainly devoted to organizations working in the 'Education and Research', 'Social assistance and civil protection' and 'Health' sectors.

- ***Work for equity***

This is an innovative way of funding and it was introduced prior to the introduction of innovative start-ups concept (Decree Law 179/2012, 'Decree Growth 2.0'). It deals with the remuneration of work through quotas, shares, participative financial instruments or rights to be owner of these instruments/tools.

To conclude, we can state that main financial intermediaries can be classified as follow:

- Public sector: incentives and subsidized finance, microcredit programs
- Private sector: donations, investments (equity funding, equity crowdfunding), foundations
- Public and private sector: Public-Private Partnerships (PPPs) aiming at shifting from public to private management.

The following table is elaborated by Microfinanza and Impact Hub Sicilia in the frame of INTERREG Italia-Malta ENISIE (2020), a project that aimed at investigating the financial needs and instruments of social enterprises in Sicily and Malta in different intervention sectors. It is based on gathering of primary and secondary data, elaborated by the team of Microfinanza, and consequently presented in March 2020:

Type of instrument	Source	Internal to SE	External to SE	Public	Private
Capital and social loan	Shareholder structure	X			X
Net result	Net result	X			X
Donation	Multiple	X	X	X	X
Equity investment	Multiple		X	X	X
Credit/Debit	Credit/financial institutions		X	X	X
Crowdfunding	Dedicated platforms		X	X	X
Work for equity	Operators and collaborators	X	X		X
Social Impact Bond	Dedicated operators		X	X	X
Equity	Multiple		X	X	X

5.2.1 Financial instruments for different maturity stages

In the previous paragraph main financial instruments available for SEs were outlined, and it is important to underline that each SE needs different tools according to the maturity stage it is to be found in.

[30] *Retrieved from https://www.istat.it/it/files//2020/10/REPORT_ISTITUZIONI_NONPROFIT_2018.pdf (Accessed on December 10th, 2020)*

Three main phases have been identified: start-up phase, development phase and established phase, and in the hereby presented paragraph financial instruments for each of them are presented.

- Start-up phase

In this phase the (innovative) start-up requires a higher amount of financial resources, especially equity and venture capital (proportionally to the type of enterprise and main activities). According to the research conducted by Microfinanza (2020), SEs in their start-up phase prefer using personal savings and money collected from their 'social circle'; in few cases SEs apply for a loan disbursed by financial institutions/intermediaries. In fact, at this stage, SEs find it difficult to have access to loans dedicated to their maturity stage, as they are perceived as 'too risky' by credit institutions for their initial development status but also because of lacking guarantees. The start-up phase continues to be a fragile momentum in SEs life, and it is hard to find dedicated financial products to be accompanied by non-financial services as well. Furthermore, social investors are concerned by the lack of capacity in promoting adequately SEs projects. According to Lyons and Kickul (2013)[31], launching a social enterprise creates "*unique challenges for both the social entrepreneurs and the investor. Inefficiencies in raising capital due to a lack of commonly defined performance metrics measuring the capital and social return of investment along with ensuring adequate information flows between the investor and the entrepreneur are often cited as being the key challenges*". So, at this maturity stage, it could be useful to use savings and own-funds, as well as public subsidized schemes (i.e. grants or subsidized interest rates both at national and European level), and alternative ways of funding, such as microcredit.

Furthermore, the necessity of combining financial and non-financial services, and performance indicators to monitor social and economic impact, seems to be a relevant topic for SEs at this stage, that need to be accountable towards (potential) investors.

- Developing phase

In this phase, SEs are out of the start-up phase and are in their development process, therefore having different financial needs . Grants are a limited option, credit and debit products should be better targeted and identified (microcredit and traditional banking), or an increase of social capital/equity by using other forms of funding and instruments (social investment funds, work for equity). Concerning microcredit, it is important to focus on limited maximum amounts[32]. Concerning *work for equity*, it enables the payment of Business Development Service (BDS) providers through parts or rights of participation to the society. *Work for equity* could be used as a way to award external collaborators, as well as employees and internal collaborators, representing an innovative way of funding and remunerating as it requires 'open-mindedness' of the owner(s) by giving to other stakeholders' part of the governance; it is therefore fundamental to have a common ground in terms of values and practices between business promotes and BDS providers.

- Establishing phase

We refer to SEs that were established for over a decade, and thanks to the provision of products/services and their positive impact, they have gained recognition at local/regional level, conquering a market share. At this stage, SEs are well-established and possible aiming to broaden their level of action/intervention

[31] *Lyons, Thomas & Kickul, Jill. (2013). The Social Enterprise Financing Landscape: The Lay of the Land and New Research on the Horizon. Entrepreneurship Research Journal. 3. 147-159. 10.1515/erj-2013-0045.*

[32] *According to the Decree 18/2020 ('Cura Italia') the maximum amount for business microcredit has shifted from EUR 25,000 to EUR 40,000 with possible additional EUR 10,000 during the period of principal reimbursement.*

through investments. More mature SEs possibly look for new (social) investors for increasing capital. Another option would be associating private investments through an investment fund which would take part of the leadership within the SE.

Furthermore, establishing SEs can use 'quasi-equity or mezzanine finance' and 'hybrid financing'. The former refers to a hybrid financing method used especially when an enterprise has a high amount of short-term debts/liabilities not adequately compensated by short-term assets. It is a long-term financing issued by the SE composed of two parts: the interest rate gained by the investor, and a variable remuneration which depends on net results (equity kicker). On the other hand, hybrid financing combines grants, debt, quasi-equity and equity.

The choice of the financial instrument needs to be taken considering stakeholders' interests and expectations, especially focusing on social and economic return, balancing financial (necessary in the shorter term) and social sustainability (in the long run).

The following table summarizes the main financial needs identified by SEs according to their maturity stage. This analysis is based on the experience of Microfinanza within ENISIE INTERREG Italia-Malta project, and reflects the reality of Sicilian and Maltese SEs in different sectors.

<table>
<tr><th>Timeframe</th><th>1-6 months</th><th>7-12 months</th><th>1-5 years</th><th>5-10 years</th><th>10+ years</th></tr>
<tr><td>Maturity stage</td><td>Start-up</td><td>Developing</td><td>Establishing</td><td>Maturity stage</td><td>Start-up</td></tr>
<tr><td rowspan="5">Financial instruments</td><td colspan="2">Own-funds</td><td>Debt</td><td>Equity crowdfunding</td><td>Social venture capital</td></tr>
<tr><td>Informal lending</td><td>Work for equity</td><td>Microcredit / microfinance</td><td>Equity investment</td><td>Social Impact Bond</td></tr>
<tr><td colspan="2" rowspan="3">Donation</td><td>Credit</td><td rowspan="3">Work for equity</td><td>Hybrid financing</td></tr>
<tr><td>Social finance</td><td rowspan="2">Quasi-equity or Mezzanine finance</td></tr>
<tr><td>Crowdfunding</td></tr>
<tr><td>Financial needs</td><td colspan="3">Need for reinforcing and consolidating financial data</td><td>Balancing economic and social return</td><td>Social impact</td></tr>
</table>

5.2.2 Overview of sustainable Investment Taxonomy

From 2018 European Commission has started to work on the action plan for a **financing sustainable growth** by establishing an EU classification system for sustainable activities, the so-called EU Taxonomy. It aims at integrating sustainability into financial policies for stimulating sustainable growth, and it was developed by the Technical Expert Group (TEG) on sustainable finance, and it is "*a tool to help investors, companies, issues and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy*", that sets performance threshold for economic activities contributing to one of the environmental objectives, not harming the other five where relevant, and meeting the minimum safeguards[33].

[33] *Minimum safeguards are defined in alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, such as ILO declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights*

The environmental objectives are the following:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystem.

The final report was published in March 2020 and contains recommendations relating to the global design of the EU Taxonomy, and an extensive implementation guidance on how companies and financial institutions can use the taxonomy itself. Sustainable finance should be considered in the panorama of supply side within the social finance market, and enterprises should comply to these financing in the next years.

6. Conclusion

Overall, the analysis of the Social Finance Market in Italy highlighted some common findings, issues, obstacles and opportunities.

Key Findings

1. **Stage of maturity**: most of the SE are relatively young and in a start-up stage. Most of those are in the process of testing and validating the product/services prototype on the market, and adjust their business model accordingly to the market feedback.

2. **Size**: usually SE in Italy have a small size: form micro to small enterprises. This is mainly due to the above point (stage of maturity). There are larger SE, but usually are those who operate from 10+ years in the market as cooperatives, NPOs, and associations are experiencing (or have already experienced) a transiction phase as SE.

3. **Awarness**: Young SE have usually a strong motivation and mission. Founders start-up projects and companies in which they strongly identify and believe. Their motivation is more based on vocation than market opportunities and trends, usually. However, often strong motivation and dedication is not always combined with business, marketing and impact measurement skills; this is one of the main reasons most projects struggle to survive the start-up phase.

4. **Low turnover**: Through the data collected from interviews with SE, the overall turnover is relatively low, compared to traditional enterprise in the same sector and same size. This can be related to the lack of hard skills on business management and development mentioned above. Also, low turnover usually lead to low profit (if not loss), which can lead to some issues while reaching out for risk or debt capital.

5. **Turnover composition**: usually SE turnover is composed mainly by grants and projects funding (especially in southern regions of Italy), while the income for product/service is rarely the main source of income. This is of particular concern because the continuity of the social impact generated by these organizations is often directly dependent on their ability to intercept grant contributions on the market, not being able to sustain themselves with sells from products and services.

6. **Cooperative is the most common legal form**: most SE legal entity is cooperative. This is mainly due to historic reasons and how the third sector culture developed in Italy in the last 30 years[34]. Although cooperatives in italy have been shown to be better able to support periods of financial

[34] *https://www.secondowelfare.it/terzo-settore/impresa-sociale/a-trentanni-dalla-381/*

crisis than other companies, their legal structure is often not the most appropriate for raising capital in the market[35].

7. **Non-financial services**: All interviews shown that SEs are keen to receive non financial services that can help them designing a better business model, value proposition, marketing and sells, financial planning support and training on impact measurement. SEs are aware that those services can help them to have a better performance, but usually are not able to afford those services with their own capital.

8. **Survivability**: Most of SEs manage to survive during the start-up stage (especially in the first 3-5 years) thanks to the financial support from associates and funders, using their own saves for covering start-up costs and operational costs in the first years.

9. **HR**: SEs interviewed share the issue related to finding adequately trained human resources to carry out their key activities.

Suggested actions

To foster the development of the Social Finance and Impact Investing Market in Italy, based on the market analysis and interviews conducted, below are some suggested recommendations for public and private policy actions.

While the supply side of social finance in Italy is not as developed as in other EU countries, however it is easier to find main problems and issues on the demand side. It is of relevant importance to guide the transition of NPOs, socially oriented start-ups and already established companies that want to deal with social issues with **non-financial instruments**: incubation services, training, acceleration and innovation vouchers.

It is necessary to strengthen the social enterprise sector so that SEs are able to compete in the market with products and services, guiding the transition, from companies that are strongly tied to grants to companies that are able to generate economic, social and environmental impact with their products and services.

From the **financial** point of view, although there is already an offer of impact investing and social financing - albeit limited compared to other EU countries -, it is necessary to design and implement instruments that can effectively respond to market needs: seed capital instruments, public finance to support the start-up of social enterprises and advantageous taxation.

In conclusion, a **blended approach** is suggested: a mix of financial and non-financial services that can accompany social enterprises in the transitions from early stage to established companies.

[35] *https://www.rivistaimpresasociale.it/rivista/articolo/le-cooperative-sociali-prima-e-durante-il-covid19*

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