FIT4SE

Financial tools for Social enterprises

Executive summary

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Project objectives

FIT4SE – Financial Tools for Social Enterprise, co-financed by the European Union Programme for Employment and Social Innovation (EaSI) 2014-2020, is a project promoted by Legacoop Romagna, in consortium with AICCON and Demetra Formazione. The project is aimed at identifying the financial needs of social enterprises in an attempt to meet them at the local level (Romagna: provinces of Forlì-Cesena, Ravenna and Rimini). This is to be achieved by involving social cooperatives present in the territories in a training course that will develop starting from the results of the project research Work Package (WP1) carried out by AICCON.

The WP1 consists of:

a *desk research*, aimed at making the theme meaningful, both on the European and national level;

an *empirical research*, aimed at identifying the financial management methods currently in place in the sample cooperatives built by Legacoop Romagna and their gap in terms of financial needs.

This *report* is the executive summary of the activities described above.

Fig. 1 – Structure of WP1 of the FIT4SE project

Social enterprises in Europe and Italy

The social enterprises sector occupies a very significant portion within the European economy. Within the Union, jobs generated by this sector account for 6.5% of the total, with Sweden at the top of the list (11.2%), followed by Belgium, the Netherlands, Italy (9.7%) and France[1]. Social enterprises exceed 3 million, with the United Kingdom and Germany alone holding about 1.4 million, while Italy is eighth with almost 100 thousand enterprises[2].

At the Italian level, the European mapping[3] takes up the distinction between social enterprises recognised by the law, or *ex lege*, and social enterprises that are only "de facto" (Table 1), sharing with the first group similar features at the organisational and performance level. The latter typology represents the most challenging element for policy makers, also considering the recently approved reform of the Third sector and of the social enterprises (law n. 106/2016). The reform, in fact, sees the social enterprise as a sort of "privileged legal form" for Third sector institutions who want to carry out business activities. The contents of the implementing decrees, that will give substance to the law, will be elaborated to encourage its adoption.

Tab. 1. Social enterprises and potential for social entrepreneurship in Italy.

	SOCIAL ENTERPRISES	PAID WORKERS	VOLUNTEERS	ANNUAL REVENUE (MILLION €)
Social co-ops (2011)	11,264	365,006	42,368	11,157
Social enterprises ex lege (2013)	535*	29,000*	2,700*	314*
Associations and foundations (2011)	82,231	451,642	1,640,000	25,866
Total	**94,030**	**845,648**	**1,685,068**	**37,337**

Source: Italy Country report (2016)[4] based on Istat data (2011) and IRIS Network data (2014)*

[1] Tiziana Lang, "Imprenditoria ed economia sociale in Europa. Quali prospettive?", Microfinanza, 2015, No. 9, pp 49-52; source: Ciriec International (2012) "The social Economy in the European Union".
[2] Ibidem
[3] European Commission (2016). Social enterprises and their eco-systems: a European mapping report-Updated Italy Country Report.
[4] Ibidem

The concept of "social enterprise" mainly refers to two categories of subjects in Italy:

1. on the one hand, those who have complied with current legislation, adopting the status or civil qualification of "social enterprise" (Legislative Decree no. 155/2006);
2. on the other, social cooperatives that, in fact, have the same characteristics as the constitutive social enterprises *ex lege* (l. n. 381/1991)[5].

According to the most recent data (October 2016, source: Unioncamere), the social enterprises *ex lege* are 997, while the social cooperatives listed in the Business Register consist of 22.744 units. However, the Register of Social Cooperatives of the Ministry of Economic Development comprises 23,097 units (January 2017).

In order to complete the contextual analysis of social enterprises, it is useful to carry out a review of the variables influencing their financial health. The ecosystem, and the "environmental" variables, have an influence on the conduct of social enterprises. Gross domestic product has a direct relationship with social enterprises. However, it should be noted that social enterprises have an anti-cyclical characteristic: during the crisis, while general employment fell (-500 thousand employees between 2008 and 2014), social enterprises hired more, passing altogether from 340 thousand to 407 thousand employees with a growth of 20.1% (European Commission, 2016)[6]. On the contrary, the budget variables may sometimes be superfluous in judging the financial health of a non-profit organisation (and, therefore, within certain limits of a social enterprise): this may be related to the fact that these indicators can provide help in understanding the past performance of the company's management, but not much the future stability.

Financing social enterprises

Five years after the Social Business Initiative[7], the European institutions still consider the world of social enterprises underdeveloped compared to its potential. In particular, the European Union regards the problem of accessing the financial market as "critical", since this could provide a great boost to the growth of SEs. Yet, this possibility remains largely ignored or, even if considered, other problems of access to finance arise.

[5] Rago, S., Venturi. P. (2016), "Imprese sociali e welfare di comunità", AICCON Short Paper, 10.
[6] European Commission (2016), "Social Enterprises and their Eco-systems: Developments in Europe".
[7] European Commission (2011), "Social Business InitiativeCreating a favourable climate for social enterprises, key stakeholders in the social economy and innovation", COM(2011) 0682 final.

The social investment markets are currently *underdeveloped*[8] and, although social finance and traditional finance for social enterprise have been available for some years now, many social enterprises ignore the tools that are available, or do not consider them fit to their needs. In surveys undertaken by the *Charities Aid Foundation* in 2014[9], only 3% of respondents have had loan experience and only 7% plan to use it. Likewise, Lyon and Baldock (2014)[10] analysed data from *Social Enterprise UK* and concluded that 65% of social enterprises are not interested in repayable financial instruments, and only 15% are seeking financial loans, of which the most borrow from *mainstream* banks. Only 3.6% of all social enterprises interface with social investors[11].

All the needs and problems related to accessing finance that social enterprises face "from the cradle to maturity" are summarised in Table 2. The first identified needs are those of capacity building, therefore related to managerial skills. In the pre-start up and start-up phases, entrepreneurial skills and mentality are essential to attract resources and make networks to access the funds needed to start up. In the growth phase, assistance is necessary for professionalising functions and for the investment readiness of the social enterprise, as well as for planning possible exit strategies.

[8] European Commission (2015), op. cit.

[9] Charities Aid Foundation (2014), In Demand: The Changing Need for Repayable Finance in the Charity Sector,
CAF Venturesome, www.cafonline.org/about-us/publications/2014-publications/in-demand.

[10] Lyon, F., Baldock, R. (2014), "Financing Social Ventures and Demand for Social Investment", in Third Sector Research Centre, Working Paper, 124, www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper124.pdf.

[11] European Commission, "A recipe book for social finance – A practical guide on designing and implementing initiatives to develop social finance instruments and markets", 2016.

Tab. 2 – Main needs/shortcomings in terms of access to financing of social enterprises

	STAGE OF DEVELOPMENT OF SOCIAL ENTERPRISE			
Needs	PRE-START UP	START-UP/PILOT STAGE	EARLY-STAGE GROWTH	LATER-STAGE GROWTH
CAPACITY BUILDING (management needs)	Entrepreneurial mind-set and skills	Relevant business skills, and networks / resources to access those and the funding community	Assistance to professionalise processes and functions	Investment readiness support, business and people skills, support in creating exit scenarios
FUNDING (deficiencies in funding community)	Understanding of social enterprise. Patient donors, business angels and support networks	Availability of risk capital and first-loss capital. Mismatch between legal form and appropriate financing tools.	Funders dedicated to this stage, longer-term funding (grants, debt, equity) to enable social enterprise to become financially self-sustainable	Appropriate legal forms and incentives, allowing social donors and impact investors to invest significant capital in social businesses
INFRASTRUCTURE (structural needs)	Alignment of public policy and private donors'/investors' priorities	Public support of private sector participation - using state/municipality contracts as collateral. Create/Support SE in market access offering their services/products	Role for public sector in providing guarantees, co-investment, matching SE and donors or investors	Procurement and hurdles to access to public sector contracts. Lack of dedicated social economy financial institutions.

Source: GECES Working Group 1: "Improving access to funding" Subject Paper 2017

As reported in the European mapping of social enterprises[12], the creation of a sustainable *business* model and strategy is constantly among the five greatest needs of social enterprises. A further obstacle to good administrative development lies in the fact that social enterprises are not able to offer the salaries granted to managers in other sectors of the economy, so that it is not possible to attract highly skilled workers.

[12] European Commission (2016), *op. cit*

The second block of needs and problems concerns financing resources. Consumers and investors are unaware of the diversity of the operational nuances of social enterprises in respect of the persecution of the social mission. Furthermore, problems also arise with regard to the supply of financial instruments. Data from the last UBI Banca Observatory[13] showed that the percentage of rejected requests for funding in full is equal to the percentage of funds not granted due to lack of experience and to difficulties in providing plans, among the Italian social cooperatives interviewed. On the contrary, the level of satisfaction with regard to the relationship with banks increased by more than 20 percentage points from 2011 to 2016, while the level of dissatisfaction decreased by 15%. In particular, the level of satisfaction goes hand in hand with the perception of the personalisation of the assessment methods for the non-profit sector: the higher the level of satisfaction, the higher the percentage that considers the methods personalised; whereas, higher negative perceptions are associated with lower satisfaction levels. Finally, another major difficulty is the provision of adequate reports on the generated impact.

Financial approaches and problems

The main distinction between financing instruments is the difference between internal and external sources.

	SOURCE	NATURE OF FINANCING	INSTRUMENT
INTERNAL SOURCES	Social base	Payments of capital/social loan	Payments by ordinary members/ capital increase Social loan
	Management	Surplus of management/capital	Active balance Untaxed profits
	Internal financial instruments	*Private*	Minibond

[13] UBI Banca (edited by) (2017), Observatory on Finance and the Third Sector, VI ed.

	SOURCE	NATURE OF FINANCING	INSTRUMENT
EXTERNAL SOURCES	*Grant*	*Community*	Gifts 5x1000 Mutual funds *Donation crowdfunding*
		Private	Foundations Venture Philanthropy *Social Bond*
		Public	Funding contributions/ co-financing by public entities
	Equity	*Community*	Financing members Investing members Mutual funds *Equity crowdfunding*
		Private	Social Venture Capital
	Finance	Community	Cooperative finance Lending crowdfunding
		Private	Bank loans Social Impact Finance
		Public	Public Social Impact Investing Assisted finance
		Hybrid	Public- Private Social Impact Investing Social Impact Contracts Social Impact Bond
	Mixed	Private	Mezzanine capital
		Hybrid	Hybrid capital
	Asset	Private	Concession in respect of use of unused private buildings for the achievement of social purposes
		Public	Availability of unused buildings or areas for the achievement of social purposes Free allocation of seized or confiscated assets

Internal financing sources

Internal sources may include those deriving from the social base, the management base and internal financial instruments. The instruments deriving from the social base are represented by the payments of capital by ordinary members from the social loan, consisting of self-financing at competitive rates (3-5%). Management sources are activity revenues, which include the active balance and the untaxed profits. The presence of internal finance instruments has a major interest: classified according to a private nature, these consist of the so-called minibonds, which are medium to long-term debt securities issued to qualified investors for self-financing development projects. Given the qualification request, this kind of instrument is granted to large cooperatives only, demonstrating financial soundness and a sales volume of at least 2 million euros.

External financing sources

External sources include grants, debts, equities and investments in real estate (assets). Table 4 briefly summarise the risk characteristics of some types of instruments illustrated.

Tab. 4 - Characteristics of the financing solutions for social enterprises

	GRANT	PATIENT CAPITAL	EQUITY	EQUITY-LIKE	LOANS
Expected loss %	100%	20-50%	10-20%	10-20%	1-8%
Return on Investment	0	-50%-10%	Unlimited	Variable up to 30%	Fixed 5-18%
Investment Timeframe	Usually for a short term	Repayment Holidays	Undefined (depends on the enterprise success)	5-7 years	Set
Involvement in management	Low	Discreet	High	High	Low
Exit	Not applicable	Repayment of capital	Listing, Sale to another enterprise, Buyout	Royalty, Repayment or listing	Repayment
Liquidation rights	None	None / Subordinated	Remaining	Subordinated	Priority
Voting rights	None	None	Yes	Defined by the conditions	None

Source: ISEDE-NET (2012)

It is possible to notice the flexibility of hybrid capital, which does not require interest payments or dilution of ownership (except in case of the *convertible grant*), and which is available both to investors pressing for the achievement of the objective (the incentive to obtain the grant after the achievement of the objective) and to all those allowing the loss of the investment and obtaining a gain in case of achievement of the results.

Going back to the "plain" financing solutions, the instruments can be divided according to their different nature: private, community (non-European) or public.

The most widespread **grants** are public ones, derived from (co) financing by public entities. Good examples of these financing forms are European funds. The tools showing a community nature include other classic examples such as donations, 5x1000 (devoting mandatory 0.05% income tax contribution destined for charitable organisations), free issues from mutual funds and new tools such as the donation crowdfunding. Among private instruments, foundations notoriously provide donations (sometimes through venture philanthropy), but the novelty of the category is represented by social bonds. These bonds are different from the social impact bonds, which have an Anglo-Saxon matrix and are not yet widespread in Italy. They are debentures issued by banks with a reliable return to the investor. By purchasing the bond, the investor signs a contract whose amount provided to the institute is partly donated free of charge by the bank to specific projects of social significance; alternatively, part of the amount is destined to Third sector loan funds, both specific and generic.

Equity financial instruments include various innovations. To the community instruments belong the traditional investments of financing and investment members, as well as mutual funds' investments. The distinction between the two types of member resides in the fact that, among the company shares, the investment, in both cases made for "lucrative" purposes (unlike ordinary members), is limited for the financing members in relation to contribution raising aimed at the implementation of the technological development or corporate restructuring/strengthening. The equity crowdfunding represents the innovative financing tool, recently regulated by the Italian public authority responsible for regulating the Italian financial markets (CONSOB). As far as private are concerned, it is possible to identify the social venture capital as a parallel instrument to the classic venture capital solution. In this case, it is more appropriate to social enterprises, since the primary objective is not profit maximising as it happens in the traditional case; on the contrary, the focus is once again on blended value and on investments strongly characterised by social and environmental value.

Assets usually are not considered among the financial resources, although we included them inasmuch most of the Italian regional laws dedicated to social cooperatives prescribe their support through the provision of buildings or unused areas, in addition to seized or confiscated properties.

The debt financing solution includes the most complex tools that investors and social entrepreneurs can resort to. With reference to community instruments, they include instruments related to co-operative finance, which are flanked by new tools such as lending crowdfunding (or peer-to-peer crowdfunding). Cooperative finance includes numerous institutions, such as the Consorzio Cooperativo Finanziario per lo Sviluppo (CCFS)[14], which employs liquidity raised by cooperatives during deserving business ventures; or the Cooperazione Finanza Impresa (CFI)[15], which supports employment in

[14] www.ccfs.it
[15] www.cfi.it/public/wp-content/uploads/2017/11/CFI-english-version-rev-10-20171.pdf

production, labour and social cooperatives through financial advantages for business projects or by participating in cooperative capital (in this case with specific quantitative and temporal restrictions). Other entities such as Cooperfidi Italia[16] support social capitalisation by anticipating resources or by granting credit guarantees in order to facilitate the granting of other external financing. Among the private financial instruments are included both traditional instruments, such as bank loans and innovative instruments, such as social impact finance. Among the public instruments, we highlight the subsidised loan instruments, such as soft loans, also covering the 90.0% of investments, as in the case of the "JEREMIE" fund initiative (Joint European Resources for Micro to Medium Enterprises[17]). However, the pioneering tools are those of public social impact investing, like the S.I.I. (Social Impact Investing) managed by the regional holding company Sfirs Spa in Sardinia. Starting with 8 million Euros to 2016, allocated for economic initiatives with social repercussions[18], it supports social impact projects by providing loans, venture capital or bond issue, and subjecting the loans to a verification of transparency and accountability in the management of the financial instrument.

Finally, there are some **mixed forms**, such as mezzanine capital and hybrid capital. The former combine debt and equity by providing interest payments linked to the company's profits, while the capital is repaid after a set period or is converted into shares of the company. This instrument category is applicable where there are predictable and constant cash flows, in order to afford the payment of the mandatory interests. On the other hand, the hybrid capital combines the grants category in various forms, in addition to debt and equity[19]:

- Recoverable Grant: a loan that must be repaid only if the project financed reaches a determined threshold. Otherwise it becomes a simple grant;
- Forgivable Loan: a loan converted into a grant in the event of success. It is the opposite of the recoverable grant;
- Convertible Grant: a concession which, in case of success, is converted into company shares;
- Revenue Share Agreements: the investor who finances a project receives part of the future revenues that the project will generate.

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[16] www.cooperfidiitalia.it/it-it/cooperfidi-italia.aspx?idC=61642&LN=it-IT
[17] www.eif.europa.eu/what_we_do/resources/jeremie/index.htm
[18] 6 from Axes II "Inclusione Sociale" of PO FSE 2014-20 and 2 from Axes III "Competitività del sistema produttivo" of PO FESR 2014-20.
[19] Social Investment Manual, An introduction for social entrepreneurs, by the Social Investment Task Force, 2011, http://ssrn.com/abstract=1884338.

Empirical research

The **empirical research** aimed to identify the financial management attitudes carried out by the social co-operatives operating in the Romagna area and their gaps in terms of financial needs. The research partner of FIT4SE project, AICCON, used three main tools to achieve the objective:

- **Analysis of the financial statements** of the social co-operatives involved in the project (sample of 59 organisations), examination and remark of a cross-section of budget headings and indicators;
- **Realisation of an online questionnaire** (sample of 50 organisations);
- **Realisation of a focus group** with a limited sample of 15 organisations.

Fig. 2 – Structure of the empirical research

Synthesis of the results of the analysis of the balance sheets

The project analysed the last three financial statements (2013-2014-2015) of 59 organisations (social co-operatives and consortia of social co-operatives) based in the Romagna area (provinces of Forlì-Cesena, Ravenna and Rimini) of the Emilia-Romagna Region (Table 5).

Tab. 5 – Type of organisations involved in the analysis

PROVINCE	CONSORTIUM (N.)	CO-OPERATIVE/SOCIAL CO-OPERATIVE (N.)	TOTAL (N.)
FORLÌ-CESENA	1	22	23
RAVENNA	2	15	17
RIMINI	2	17	19
TOTAL	**5**	**54**	**59**

Table 6 summarise the major results of the analysis.

LEGAL FORM	BUDGET ITEMS - STATEMENT OF THE FINANCIAL POSITION	BUDGET ITEMS - PROFIT AND LOSS ACCOUNT	FINANCIAL INDICATORS	PROFITABILITY INDICATORS
CO-OPERATIVES	Moderate balance. Positive trend of receivables over the three-year period, after a decrease between 2013 and 2014; exception for co-operatives of Forlì-Cesena, which constantly increases. Positive trend also of the owners' equity over the period; we highlight the strong increase for the co-operatives of the Province of Rimini (+55.5%) from 2014 and 2015. The shareholders capital as well increased in the period in all the provinces analysed.	Moderate balance. The sales revenues of the co-operatives follow the same positive trend in the 3 provinces; Rimini is the territory where the co-operatives increased more (+52.7% between 2014 and 2015), but it is also the province with the smaller absolute value. The total employee benefit expenses are between ½ and 2/3 of the value of revenues; only in the co-operatives of the Province of Rimini: they increase more than revenues (+60.6% vs +52.7% of revenues). The profits decreased in all the co-operative; in the Province of Forlì-Cesena, the co-operatives registered loss in 2014 and 2015.	Good financial autonomy. The leverage follows the trend of profits over the period; after a decrease in 2014, it increases again a t the level of 2013. Although the absolute values are not considered highly risk (between 5.3 and 4.3).	Good return on investments. The ROI calculated on co-operatives are higher than those registered in the consortia are. The co-operatives of the Province of Rimini are the best performers, achieving 11.2% in 2014, followed by Forlì-Cesena (10.2%).
CONSORTIA OF SOCIAL CO-OPERATIVES	Moderate balance. The receivables slightly decrease over the three-year period; exception for the consortia of the Province of Rimini that, after a decrease between 2013 and 2014, increase in 2015. There is a lightly increase (+4.36%) of the owners' equity between 2013 and 2015, more evident in the consortia of the Province of Forlì-Cesena (+18.5%). The shareholders capital follows the trend of the owners' one.	Positive trend. The sales revenues of the consortia slightly increase over the period. The total employee benefit expenses are paltry compared to the revenues in the consortia of the Provinces of Rimini (5.2% of revenues) and Ravenna (0.3% of revenues); Forlì-Cesena is an exception, because they represent the 31.3% of the revenues. The profits are low for the consortia of Rimini and Ravenna, but they increased over the period; Forlì-Cesena has the higher absolute values but registered a strong decrease between 2014 and 2015.	Sufficient level of financial autonomy. The leverage of the consortia is high on average. Although the value of the indicators is quite constant over the period; an exception for the consortia of the Province of Ravenna where the leverage decreased of 3 points per year (from 12.9 in 2013 to 6 in 2015).	Moderate return on investments. The ROI of the consortia are positive but they decreased over the period. The best performers are the consortia of the Province of Ravenna, which registered a ROI of 11% in 2015.

Synthesis of the results of the survey to social co-operatives

The questionnaire was distributed to 50 social co-operatives and consortia of social co-operatives, out of which 21 returned it completed: 20 social co-operatives and 1 consortium.

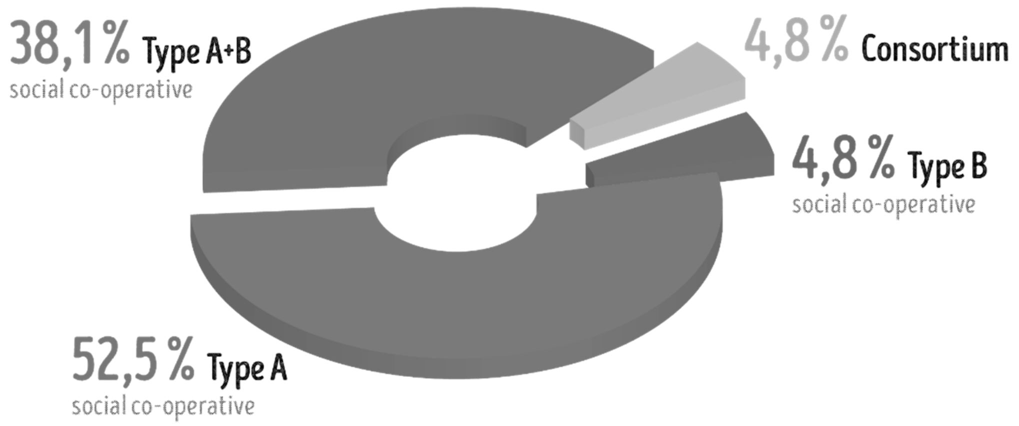

Fig. 3 – Respondents by legal form

Relationship with banks

The participating organisations felt that their banks have not an appropriate offer dedicated to co-operative enterprises (45.5%) and the waiting time for procedures are too long (27.3%).

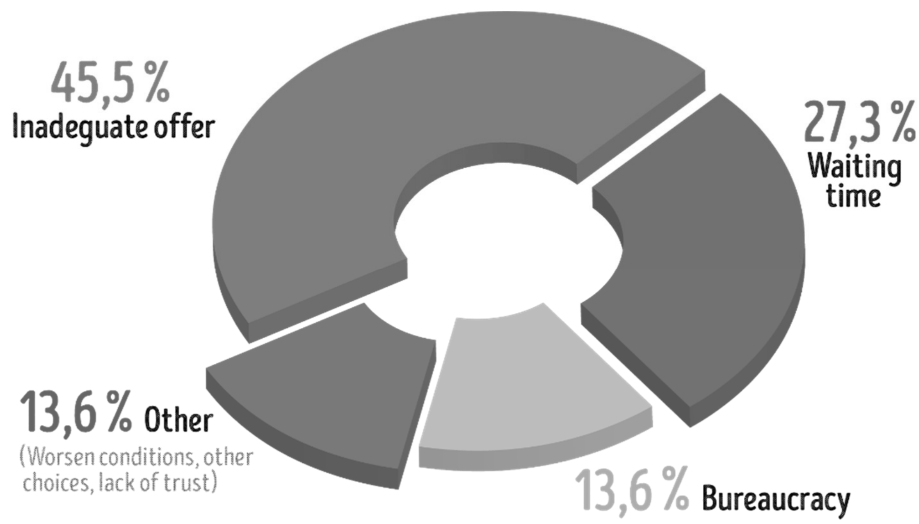

Fig. 4 – Main difficulties in the relationship between banks and social co-operatives

In particular, the type A social co-operatives underline a lack of adequate offer as main problem (54.5%) in the relationship with credit institutions. This was a critical point also for 4 out 10 mixed co-operatives (type A+B). Meanwhile, working integration social enterprises (WISEs) and consortia identified several obstacles on banks relationship, such as worsen conditions of credit compared to other organisations (for profit enterprises).

Grant request

The majority of the organisations (57.1%) declared that their loan applications to banks had been successful with the full amount of the loan applied for granted (Fig.5). The main reason (42.9%) for the rejection of loan applications or partially pay out of the grant applied for lie in the size of the sums requested, which had an insufficient cash flow .

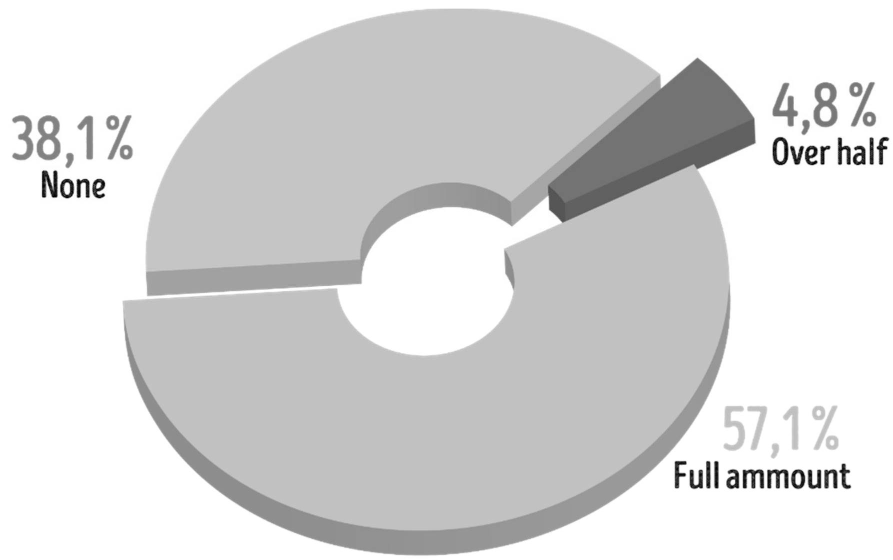

Fig. 5 – Results of grant financing over the last 3 years

Consortia (100%) and mixed social co-operatives (75%) obtained the full amount of the grant financing. Moreover, a successful result depends on the longevity of the organisation and on its capacity to properly organise towards the grant requested to the bank.

Co-operative and mutual financial instruments

The overall sentiment of the social co-operatives of the Romagna Area on the co-operative financial instruments is that they are not really appropriated to satisfy their financial needs.

Tab. 7 – Adequacy of co-operative and mutual financial instruments

LEVEL OF ADEQUACY	MUTUAL FUND - VENTURE CAPITAL	MUTUAL FUND - SUBSIDISED LOANS	MUTUAL FUND - NON-REPAYABLE GRANT	MUTUAL FUND - AGREEMENT WITH FINANCIAL INSTITUTIONS AIMED TO MULTIPLY THE	MUTUAL FUND - MICROCREDIT	COOPERAZIONE FINANZA IMPRESA (CFI)
INADEQUATE	38.9%	16.7%	22.2%	22.2%	22.2%	22.2%
INSUFFICIENT	16.7%	16.7%	22.2%	22.2%	33.3%	22.2%
NEITHER INADEQUATE, NOR ADEQUATE	38.9%	44.4%	22.2%	33.4%	33.3%	38.9%
SUFFICIENT	0.0%	11.1%	16.7%	22.2%	11.2%	11.2%
ADEQUATE	5.5%	11.1%	16.7%	0.0%	0.0%	5.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Meanwhile, the sample illustrates a low application of specific co-operative instruments to achieve the financial needs through mutual tools: 38.1% used the social loan (62.5% are type A social co-operatives), only 15% had financial members (66.7% are mixed social co-operatives) and 28.6% had investor members (83.3% are type A+B social co-operative) (Tab. 11). Also in this case, long-running organisation had a wider use of these financial tools (Tab.12)

Loan applications

The co-operatives used over half of obtained grants (63.4%) to cover medium-long term investments (more than 18 months, 46.7%) and short-term investments (less than 18 months, 16.7%). These loans (both short and medium-long term) over the last 3 years were used mainly for physical infrastructure (44.4%), then for ICT (18.5%) (Fig. 6). The latter is a key component for the management of social enterprises and for their development.

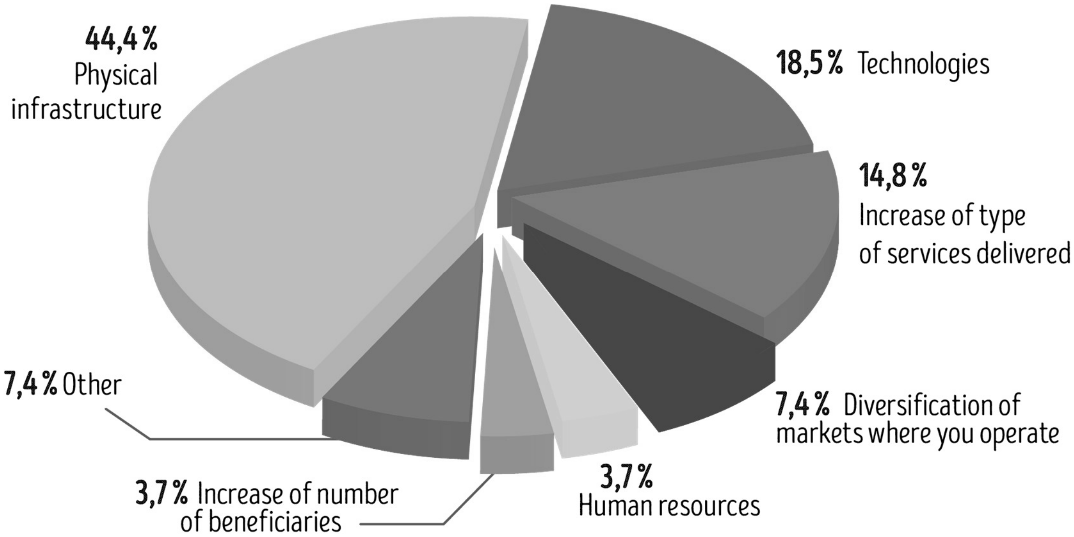

Fig. 6 – Loan applications

Investment forecast

More than half of the respondents expressed their intention to invest in 2017 (Fig. 7).

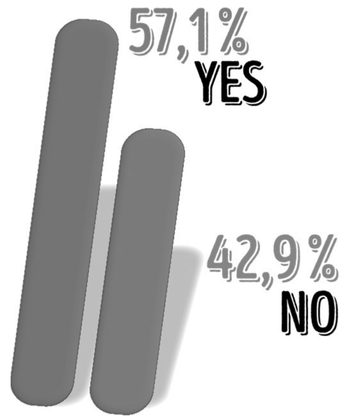

Fig. 7 – Investment forecast in 2017

More than one organisation out of two intends to go to banks to meet their financial requirements resulting from their investment decisions, follows self-financing (around 32%).

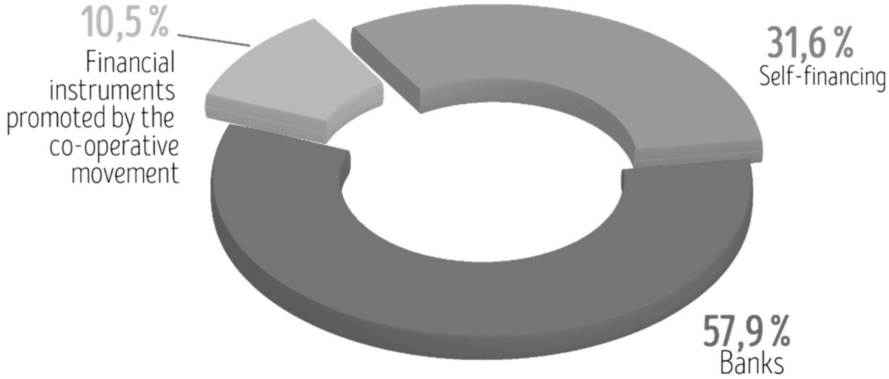

Fig. 8 – Means of meeting financial requirements for possible investments in 2017

In order to improve the social co-operatives' investment capacity, the respondents propose to set-up of a new guarantee fund ad hoc for their needs (35%) (Fig. 9).

It is also relevant the opportunity of a wider range of financial instruments dedicated to social co-operatives (24.3%). Such evidence leads to a dual interpretation. On the one hand, there is an inadequate awareness about the supply of specialised finance for the Third sector, which nowadays is more and more widespread within the Italian banking system. On the other hand, despite the increasing range of supply, there is a persistent perception of inappropriate tools for specialised finance or difficulties related to tie up relationship with banks.

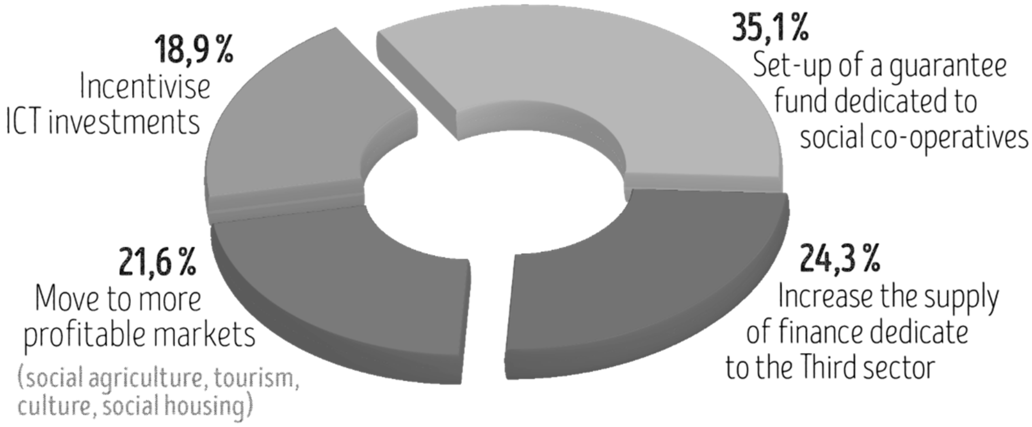

Fig. 9 –Proposed instruments aimed to increase the investment capacity of social co-operatives

New investments tools for social enterprises

Finance is one of the elements of the eco-system of social enterprises, among which new instruments are emerging aimed to support social entrepreneurship in different step of the life cycle.

Some of these instruments are included in the recent Italian reform of the Third sector, of the social enterprise and of the universal civil service (law n. 106/2016): social impact finance; tax benefits for private investments on owners' equity of social enterprises; crowdfunding. More than 7 out 10 respondents (mainly consortia and WISEs) considers the crowdfunding as a useful instrument for the future development of Italian social enterprises (Fig. 10). Meanwhile, the social co-operatives are uncertain on the effectiveness of impact finance; maybe it is due to a lack of knowledge of this type of finance in Italy.

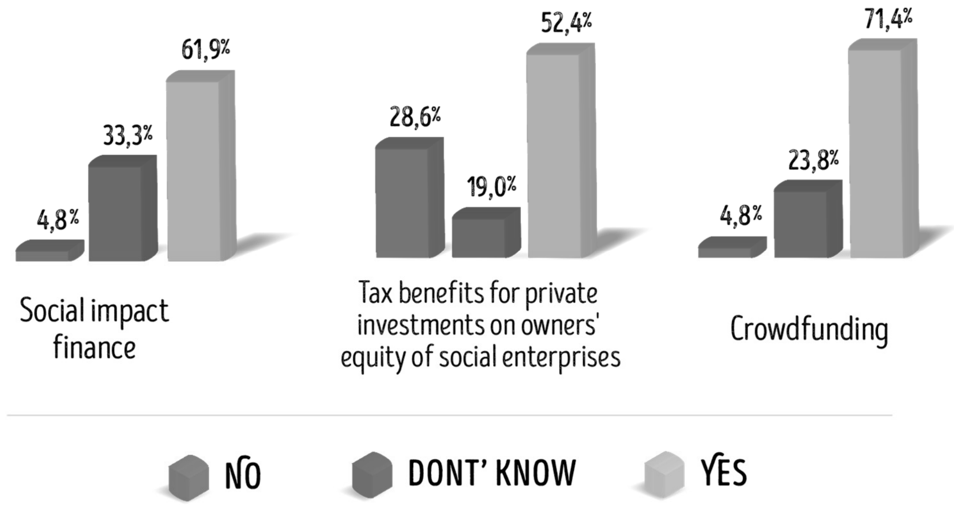

Fig. 10 – New investment tools for social enterprises

Synthesis of the results of the focus group

The focus group realised within the WP1 of the project FIT4SE aimed to highlight the existing gaps between the demand and the supply side of finance for social enterprises and proposals to cover them. In particular, the focus group analysed the following topics:

3. Relationship with banks;
4. Assessment of the effectiveness of cooperative financial instruments;
5. Loan applications;
6. Investments: obstacles and incentives.

Although the survey demonstrates that the supply of financial instruments is perceived as inadequate by social co-operatives, the majority of the participants of the focus group declares a good relationship with them. This result is related with the main characteristics of the organisations participating at the event: medium/large enterprises, long-lived, well capitalised, owners of the buildings where they implement the activities, organisations investing for the long-term development of the organisation. Thus, they are classified as large enterprises and, rather than SMEs, they are not allowed to access to the financial services of CFI.

The participating organisations have strategies oriented to the market and they are not dependent by the public funds. Furthermore, the discussion emphasised the mismatch between the timing of the decision-making processes of the social co-operatives and those of the banks. The high level of bureaucratisation and the long time for an answer by the banks are also considered inadequate.

Regarding the applications of loans, the main use is buying properties for the implementation of the institutional activities. Although, some food for thoughts emerged:

a) investments in human capital and ICT and, consequently, the attention to the recruitment and training processes;
b) the importance of the relationship with the community where (and for which) they operate, in particular for the planning and management of the financial instruments of the Third sector (such as the 5x1000 campaign) or for the promotion of community-based initiatives;
c) equity as an instrument not strictly aimed to the capitalisation of the firm, but also to allow new markets.

Finally, the co-operatives made some proposals, among which:

- to establish a fund exclusively dedicated to small co-operatives and another one to large enterprises. More in general, the focus group highlight the need to create a supply of financial instruments that distinguishes between small and medium, and big social enterprises.
- To bond the financing system with indicators of the specific characteristics of social co-operatives.
- To create financial instruments to cover the costs of services delivered in accreditation with the public authorities, partially replacing the public authorities.
- To facilitate access to financing instruments (co-operative and not).
- A more personalised approach dedicates to the social co-operatives for the access to credit.
- More support from co-operative representing associations on finance, through informal networks between co-operatives in order to overcome the problems and to facilitate the identification of innovation processes.
- To find financial partner for post-financing counselling.
- The necessity for social enterprises to identify long-term strategies more market oriented.
- To foster the internal measurement and assessment of social enterprises' financial needs, able to emphasise the strengths and weaknesses and to support the identification of the most adequate financial instruments to support their growth and development.

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