



Social co-operatives in Italy:

Lessons for the UK





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Preface

In February 2002, Social Enterprise London led a study tour of co-operatives in Milan that were involved in delivering social care services. The visit was hosted by the social co-operative consortium in Milan, Sistema Imprese Sociali (SIS).

The aim of the visit was to witness the results of the impressive growth of social co-operatives that has taken place in Italy over the last decade, to find out why it has happened and to consider what measures taken in Italy might be adapted in the UK to stimulate further growth here in the social enterprise sector.

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1. Executive summary

Italy has created a healthy social enterprise sector, through which co-operatives perform a central role in the country's economy.

In particular, social co-operatives undertake many essential activities in social services.

Social co-operatives are such key players in Italy because of the structure of support for them. This includes:

- Preferential public procurement;
- Legal recognition;
- Beneficial tax arrangements;
- Legal duties of businesses to support disadvantaged people;
- Consortia which assist social co-operatives;
- Availability of finance on good terms.

It would be desirable for the United Kingdom to have its own strong social enterprise sector providing social services, because:

- Social enterprises achieve social objectives - such as integrating marginalized people into the labour market - which coincide with government policy and which mainstream businesses are less likely to focus on;
- Social enterprises may undertake important activities which are not worthwhile for mainstream businesses to provide, because of the latter's need to achieve an adequate rate of return;
- Social enterprises offer higher quality and more responsive social services, because of the greater involvement of individual users;
- Social enterprises are more likely to be based in marginalized areas than are traditional businesses;
- Economies in which social enterprises form an important sector tend to have higher productivity;
- Social enterprises fulfil an important function in society by helping to repair the loss of 'social capital'.

The UK could benefit from more of these positive outcomes if its economic environment was more sympathetic to social enterprises. This report will argue for:

- A consortia structure for the support and promotion of social enterprises;
- Preferential tendering arrangements for social enterprises to perform public contracts;
- The use of Best Value reviews by local authorities' social services departments to institute 'partnership arrangements' with social enterprises for the delivery and planning of services;
- Tax breaks for social enterprises in return for a proportion of profits going to a central fund to support new social enterprises;
- Additional financial resources to be allocated to support social enterprises;
- A clearer legal framework defining social enterprises;
- Reform of charitable and company law to support social enterprises which combine charitable objectives, while obtaining income from trade and enabling members to be paid workers;
- Consideration of the establishment of a public enterprise agency.



2. Co-operatives in Italy: *the background*

Social co-operatives are a distinct, important and rapidly growing sector of the Italian economy. The creation and expansion of these enterprises offer lessons that may be applied in many other parts of Europe, including in the UK.

Co-operatives and other forms of social enterprise have a long and valued tradition in Italy. This has been backed by specific legislation recognising and favouring co-operatives in general terms and more recently social co-operatives in particular.

Social co-operative societies (or social solidarity co-operatives, as they were generally called at the time) initially took off towards the end of the 1970s, a period of poor economic performance and high unemployment. They grew steadily in the 1980s, as unemployment - particularly youth unemployment - remained high. A further spur in the growth of Italian social co-operatives came in 1991 when a new law (381/91) was approved which recognised and defined social co-operatives.

Since then social co-operatives have formed a core element of the delivery of social services by arrangement with municipalities. Many of these co-operatives provide social services, while a very fast growing sector of co-operatives promote labour integration, supporting people with learning disabilities and others previously excluded from the labour market.

The expansion in numbers of these two kinds of social co-ops has been phenomenal over the last three decades. Their quantity has increased from 650 in 1985 to between 4,000 and 5,000 today. They particularly expanded in number with the crisis in the Italian Welfare State in the late 1980s. Subsequently, in the 1990s, reform of social services along with the introduction of Law 381/91 favouring social co-operatives, saw a second surge in numbers. There were 650 social co-ops in 1985, rising six-fold to 3,857 by 1996. (However, part of the growth in recorded numbers of social co-operatives in the early 1990s reflects the sudden registration of co-ops that pre-existed the legislation which approved their operation.) [Table 1]

Separate research puts their total number today at about 4,400.

Analysis by Mattioni and Tranquilli shows that individual social co-operatives have increased turnover at a comparable rate of growth. Co-ops assessed by the researchers grew by an average of 60% in the six year period, 1990 to 1996.

While the growth of the sector, the provision of services and the achievement of labour integration are important, it is equally impressive that wage rates in the social co-operatives are often very good. More than 40% of disadvantaged people employed in work integration social co-operatives receive wage rates that are only just below average wages - significantly more than the employees might otherwise expect to earn. Some of the workers, though, receive work grants from their local authority instead of wages.

Table 1:
Growth of social co-operative sector

1985	650	social co-operatives
1990	1,800	
1995	2,834	
1996	3,857	

Source: Social Entrepreneurs: The Italian Case, Mattioni, Tranquilli, 1998

In one study (conducted by Agenzia del Lavoro in the Trento county), more than half of people employed by work integration co-operatives went onto permanent employment - mostly outside their co-operative. This study also found that the cost of the training and subsidies provided to work integration co-operatives were more than repaid to the state through higher taxes and other contributions.

It should be noted that these labour integration co-operatives - 'B' co-operatives as they are termed in Italy (see below) - are not directly comparable to any co-operative sector in the UK. The nearest comparison in the UK are what are called 'social firms'. Differences include the greater support available in Italy; the higher proportion of users who are members of the organisation in Italy and the larger size of the sector in Italy. (However, several social firms in the UK are both large and highly regarded.)

But social co-operatives are only a small proportion of Italy's co-operative family. They are about 4% of total numbers, employing about 10% of those working in the sector (60,000 people). It is estimated that 20,000 disabled people are working in social co-ops.

The number of people employed by social co-operatives in Italy constitutes about 80% of people working in similar organisations across the European Union (report from Marienthal, 1999), indicating the leading and unique position that Italy holds in Europe as a whole. That same report also indicated that turnover in Italy had reached €590 million (£370m) by 1997 (it can be assumed to be significantly more, today). [Table 2]

The very large co-operatives that are a feature of Spain are less common in Italy. Most Italian co-ops have between 40 and 50 members, with an average of 25 employed members. Only a few co-operatives have more than 100 workers or members.

Italian social enterprise development is intimately linked to the country's history, the way its welfare system has been shaped and operated, and the traditional function of not-for-profit organisations (see legal structures, below). While local authorities had an important role in the delivery of a welfare state following the Second World War, this concentrated more on the distribution of financial support rather than the delivery of social services.

The traditional view in Italy is that it is a role of the family to support relatives in trouble. The state's function has therefore been secondary. This view has altered in Northern Italy in recent years, as it has moved closer to the attitudes of much of the rest of Europe while its economy has similarly moved more to the mainstream, as reliance on agriculture has declined to be replaced by the adoption of a modern industrial and post-industrial economy.

However, Southern Italy still adopts a much more socially conservative and traditional approach, in which the family is expected to support its own members. The role of municipalities and social co-operatives in delivering care and other social services is accordingly much less in the South of the country than in the North.

The only social services generally provided post-war by Italian local authorities were education and healthcare. But the non-profit sector has increasingly acted on behalf of the individual to demand the provision of better social services. In many instances from the 1970s on, municipalities responded by contracting with social enterprises - either co-operatives or volunteer associations - to provide social services on their behalf. This was seen by local authorities as an affordable means of delivering better social care, and one which did not involve the politically contentious move of employing more civil servants.

Many of the social co-operatives that emerged from this process had their roots in the voluntary sector. In many cases, the motivation for these voluntary groups was strongly religious.

Italy's Catholicism must be recognised as a key factor in the creation and growth of the country's co-operative infrastructure. Many founding members are inspired by their religion; many see their faith in left-wing terms, and associate it with the social objectives held by many co-ops; and some Christian orders are practical supporters of individual co-ops, for example by renting premises to them at very low cost.

Social co-operatives were initially associated much more with Northern Italy than the South, and remain much more common in the North. As well as the cultural factors referred to above, the enterprise dynamic is stronger in the North, as is social capital - in a wider non-family sense.

Research ('The Psychology of Sharing' by David Erdal) has shown a strong association between high proportions of membership of co-operatives in Northern Italian villages with above average health and satisfaction outcomes.

Table 2:
Numbers of co-operative employees

Total numbers employed in co-operatives
(1996/97 - the latest figures compiled)

Italy	483,876
United Kingdom	183,827

Source: 'Field of Study and Quantitative Importance of the Third System', CIRIEC (International Centre for Research and Information on the Collective Economy)

3. Italy's social and health care system

Italy has a national health system funded through central taxation (part hypothecated, part from general tax), responsibility for which currently lies with central government. It is in the process of decentralising the management of the service. ('Funding health care in Europe', Dixon and Mossialos, Health Care UK 2001.)



A national health service was established only in 1974 and 1975. This replaced a large number of health insurance funds which had moved into crisis because of large deficits. In the early 1990s, the health service introduced an internal market (similar to that adopted in the UK) which was softened in 1999 with measures taken to promote greater competition between various providers of health and social care services.

Social services that are health-related are provided by the health service, co-ordinated by the Italian government's Ministry of Social Affairs. (Health services are co-ordinated by the Ministry of Health.) Municipalities are responsible for the delivery of non-health social care, such as support for the family and to assist people with severe social problems (including those resulting from psychiatric conditions).

The delivery mechanisms of social services have, in practice, been confusing. To resolve this, municipalities have often delegated the delivery of their social care responsibilities to local health units. This has underlined the lack of co-ordination existing in many areas between local health units and municipalities. Major reform of social care was agreed by the Italian parliament in 2000, which attempted to give a higher priority to it and tackling the sectors historic underfunding. (European Observatory on Health Care Systems.)

Many people with mental illness lived in psychiatric hospitals until 1978. Policy changes led to the closure of many hospitals, the release of patients and an

attempt to destigmatize psychiatric illness. Former psychiatric patients were to be accommodated in the wider community and integrated socially and in working life. ('Community Psychiatry in Italy', di Giordano Invernizzi.)

However, as the legal definition of 'disadvantaged people' for the purposes of employment rights does not include the mentally ill, most of these patients had great difficulty in finding work once released into the community. This process was a further factor in the creation and development of social co-operatives as a means of meeting social needs which the state was failing to resolve. (Italy: The Impressive Development of Social Co-operatives, Carlo Barzaga.)

Italy is an increasingly prosperous country, having moved from an essentially agricultural economy to an industrial one since the Second World War. It is now the sixth largest world economy with a population size (57.7 million in 2000) similar to that of the UK. But Italy has specific social and economic problems. It is much richer in the North than in the South, causing population drift and related social problems and demands on social services. One third of all unemployed people are under 25 - one of the highest proportions in the EU. Overall unemployment is about 2% higher than the EU average (11.4% against 9.2%). It is estimated that the informal economy is responsible for about 14% to 20% of gross domestic product.

Despite these factors, welfare spending by Italy is slightly lower than the EU average. It has the EU's highest per capita expenditure on retirement pensions and survivorship annuities and above average subsidies to families with children, for housing, unemployment and for the socially disadvantaged. It has below average expenditure on health care. (Report on Italy from the European Observatory on Health Care Systems.)

4. Key factors in the growth of Italian social co-operatives

4.1 Finance

Success for social enterprises anywhere in the world often relies not only on individual and collective commitment, but also on an infrastructure of support including financial support. In Italy, the framework of financing co-operatives including social co-operatives is a key element in determining their success.

Social co-ops have special arrangements open to them for finance. Local agreements arranged through co-operative consortia enable social co-ops to borrow at low rates of interest. This is very important as social co-ops are typically highly dependent on public contracts - and public bodies typically pay 60 to 90 days in arrears. A co-op will have to make payments - mostly as wages - without waiting for its bills to be paid.

There are several grant schemes supporting social enterprises. Some are available specifically to promote job creation amongst disadvantaged groups. These are backed by long-term investment in co-operatives, mainly in fixed assets.

The 'Marconi Fund' has been a key element in the creation and sustenance of Italy's co-operative sector. In return for helpful tax exemptions (see page 10), co-ops in Italy must invest 3% of their annual income in the Marconi Fund to finance new co-ops.

In Italy the legislation for social enterprises allows for the creation of 'capital' or 'financing' members with limited voting rights. In practice this opportunity is little used. Where it has been taken up the financing members have mostly been municipalities.

A recently enacted law provides tax exemptions for private donations to not-for-profit organisations, including social co-ops. There are further tax benefits available to people buying 'solidarity bonds' issued to finance not-for profit activities.

Co-operative federations and consortia (see below) can arrange special loan facilities at low rates of interest, through regional agreements with banks. Every member co-op has a privileged relationship with that bank through its membership of the consortium or federation.

No assets can be distributed if a co-op is wound up. This operates, practically, as a bar to demutualisation. By contrast, there was little to prevent a co-operative from demutualising in the UK until new laws were introduced early in 2002.

There are also various ethical loan funds that are available for co-ops to borrow from. These include:

- CGM Finance Consortium. The national consortium of co-operatives provides short and medium term funding for co-ops that belong to it. Loans are at advantageous rates.
- Company for the Development of Social Enterprises. This is a merchant bank which contains many private sector clients and a wide range of third sector organisations. It provides short and medium term finance. It offers better terms to co-ops than do more market-based financial institutions, and makes quicker decisions.
- Bank Etica (Ethical Bank). This is a national bank, operating as an ordinary clearing bank, but specialising in supporting co-ops and co-op consortia. It tells its depositors how their money is used.
- Italy has a particularly large sector of socially responsible investment funds. At present there are 13, with expectations that this will increase to between 20 and 26 in coming months. Growth has been driven by pressure from socially committed consumers and church-based organisations seeking socially acceptable uses for their deposits.



4.2 Preferential relationships

Preferential purchasing has been a key element in the growth of social co-operatives and enabled them to play a central role in the delivery of social services. This is clearly better than the services being taken over by profit-oriented businesses, with marginal levels of user involvement.

Law 381/91 (see page 13) laid the foundations for the preferential relationships. These were initially contested by the European Community (as it then was) as a breach of competition policy. However, further legislation in 1996 clarified the situation by implementing EC law, but allowing municipalities to only accept tenders for some contracts from organisations meeting a minimum requirement on the employment of disadvantaged people - a condition which only social co-operatives will normally meet. As a result, the revised preferential system has been specifically approved by the European Union provided that each contract falls under a €200,000 (£125,000) threshold.

The role of social co-operatives, and their relationships with municipalities, is evolving. Until recently social co-ops were seen as well-meaning organisations which probably had a limited role in the provision of municipal services. Now they are seen much more as a potentially major force in the delivery of social services on behalf of local authorities.

The spur to the growth of social co-operatives as providers of social services on contract to municipalities was driven by a combination of factors. There was growing dissatisfaction by citizens with the quality of some key services. It was perceived that greater user involvement could overcome that dissatisfaction. Secondly, services provided by the national or local state were being provided at a high financial cost. Social co-operatives were expected to deliver services at lower cost than was possible by the local or national state. Further, growth in service provision was more politically acceptable if additional workers were employed outside the state sector.

Benefits of the new arrangements were that resources were more effectively allocated, while the partnership between user and provider was not constrained by local government bureaucracy. Where services are now provided by social co-ops, there is a much improved, closer and stronger connection between citizens and their services.

These new arrangements are in accordance with what has become a political consensus in governance. Italy is now committed to 'subsidiarity' - that services should be provided and controlled by the body lying as close as possible to the citizen. What this means for social co-operatives - after several years of discussion and negotiation - is that local government determines social policy in its area, while the social co-ops plan and manage innovative services.

Practical applications of this partnership continue to develop. In particular, they are changing as public policy develops to enable regeneration, job creation and the environment to be tackled in a co-ordinated manner. There is also notable growth in particular sectors where social co-ops are emerging to take on more service provision: children's nurseries are one example.

Currently, some 60% of social services are still delivered by local authorities. But there is a clear trend towards delivery by social co-ops. In Milan - where the study group visited - there are 60 social co-operatives, with 1,200 working members, delivering services to 10,000 individuals. However, it should be noted that many municipalities have chosen not to use their powers to implement preferential purchasing arrangements with social co-operatives.

One of the implications of the close relationship between municipalities and social co-operatives is the obligation on the co-ops to operate in a financially transparent manner.

It is widely expected that the use of social co-ops by municipalities will grow substantially in coming years. Policy development has included tax exemption for the provision of social services and service users are increasingly being given vouchers to 'spend' which could boost the use of social co-operatives.

Political support for social co-ops is widespread and increasing. Moreover, there is little competition against the social co-op sector - though often quite strong competition between co-ops for specific contracts - and little attempt by other not-for-profit organisations to win contracts from municipalities.

4.3 Taxation

Social enterprises operate in the space between the public and private sectors: the third sector as it is referred to by the European Union. It is recognised in Italy that their social objectives make them very different from profit-orientated, dividend-distributing companies and they should therefore be treated differently both legally and fiscally.

The added value of social enterprises is recognised in Italy in both its laws and constitution. These provide social enterprises with specific tax breaks and benefits:

- reserves are not taxed
- their annual contribution to the Marconi mutual fund (see below) is not taxed
- social enterprises charge nil rate or 4% VAT, compared with the 20% standard rate VAT to be charged by profit-orientated businesses (see Appendix Three)

- co-operatives pay a lower rate of corporation tax (company income tax) than do companies
- disadvantaged members of the labour market are exempted from payment of national insurance contributions, thereby providing real practical assistance to type 'B' co-operatives (see below)
- a recently enacted law provides tax exemptions for private donations to not-for profit organisations, including social co-ops
- tax benefits are provided for those who buy 'solidarity bonds' which are issued to finance not-for profit activities.

Most of the income from public authorities is obtained by participation in competitive tenders, or is assigned according to the quantity of services provided. Social co-ops derive their capital almost entirely from private sources. These consist mainly of members' shares and the regular call on reserves.

The Marconi Fund

In Italy social enterprises have their own 'mutual' self-financing mechanisms. This is referred to as the Marconi Law, which states that co-ops must dedicate 3% of their annual income to a mutual fund, the aim of which is to finance new co-operatives.

4.4 Co-operative federation

Co-operative consortia - or federations - occupy a pivotal position in supporting new, developing and established co-ops.

SIS (Sistema Imprese Sociali) - the hosts for the study group's visit to Milan - is a consortium of social enterprises in the city and province of Milan. It was established in 1995 by the merger of two pre-existing organisations, Milano Solidarietà and Citta Essenziale. The function of SIS, like other consortia, is to support the establishment of new co-ops, and to support those already established. It has 58 co-op members, 32 of them type 'A' social co-ops and 26 which are type 'B' (see page 13).

SIS is a member of Conf-Cooperative, an Italy-wide confederation of 74 co-operative federations, representing 18,000 co-operatives and 340,000 working members. SIS is also a partner member of the Consorzio Gino Mattarelli (CGM), a national consortium for social co-operation consisting of 70 provincial consortia, which in turn consist of 850 co-operatives with 21,000 active members. There is a separate national federation of social co-operatives - Federsolidarietà - specifically linked to Catholicism.

Membership of SIS consists of both 'A' and 'B' co-operatives (see page 13), focusing on specific social objectives. These aims include promoting initiatives supporting

marginalized groups: these include children who are socially excluded, or at risk of exclusion, such as those not attending school; disabled people; prisoners and former prisoners; addicts; women returning to work; and immigrants.

One of the principles of membership of SIS is solidarity. Membership extends beyond co-operatives to some not-for-profit associations. But co-operatives that are not primarily established for social objectives (for example, trading workers' co-operatives) are not eligible for membership.

SIS operates training programmes for local authorities, the Italian Ministry of Labour and through schemes financed by the European Social Fund. Staff include a team of consultants who provide financial, tax, administrative and legal advice to members and new-start co-ops.

One of SIS's projects is the Citizenship Agency, supporting the creation of social entrepreneurship. This aims to create a more integrated approach to the establishment of social enterprises and support for social inclusion.

Consortia provide for members a range of common services including payroll, accountancy, training, management consultancy, marketing, preparing joint tenders and fundraising for bigger projects. One of their most important functions is to act as strategic advisor and agent in supporting social co-ops taking on contracts from municipalities. Indeed, in many instances the consortia themselves act as contractors - sub-contracting operations to consortia members.

The consortia fulfil a strategically useful role in enabling the sector to grow, without individual co-ops expanding beyond their capabilities. Rather than co-ops constantly taking on new contracts, broadening out further their core competencies, a consortium can assist with the creation of spin-off co-ops. In this way, co-ops remain at a size at which members continue to identify and are properly involved in management and policy direction. Consortia have been characterised as an enterprise network for the social enterprise sector, respecting the independence of member bodies and their member organisations.

Provincial consortia exist across most of Italy, with the first consortium of social co-ops established in 1983. There are about 70 consortia, mostly situated in Northern Italy. Lombardy alone has 17 consortia.

Above the provincial consortia is a national consortium CGM (Conorzio Gino Mattarelli). The primary role of CGM is to perform long-term strategic functions, such as research and training of local consortia managers. In some circumstances, CGM will act as a national level contractor for the provision of services to be provided jointly by various consortia and co-ops.

Local, provincial and national consortia fulfil two important functions on behalf of member co-operatives. First, they enable the co-operatives to gain and take

advantage of skills which they cannot afford internally. Secondly, they provide co-ops with economies of scale without requiring them to operate at a size which is inconsistent with objectives of internal democracy and member identification.

CGM was established in 1986. It now consists of about 70 provincial and local consortia, representing about 850 co-operatives, of which about 450 provide social services. CGM has 15 full-time staff, who bring in various trainers, consultants, researchers and social entrepreneurs from constituent consortia for specific projects.

Consortia can provide preferential lending arrangements for co-ops through agreements with local banks (see above). On occasion, this will necessitate a consortium to intervene in the business affairs of a member to support it through a difficult period. The consortium may guarantee both a bank loan and a contract with a public body. This means that each consortium must monitor the activities of its members through a social audit process - evaluating financial results and their success in meeting social objectives.

4.5 Legal framework for co-ops in Italy

There is a long standing statutory legal and regulatory framework for co-operatives, providing them with recognition and support. This was augmented in 1991 by legal recognition of social co-operatives, backed by support measures.

However, this should be seen in the context of widespread and traditional hostility in Italy - as in much of continental Europe - against the role of any organisation as intermediary between state and individual. Until the period of the French Revolution, social services and schooling were mostly provided by the Church and charities. The political ideas underpinning the French Revolution and the Enlightenment saw associations and other intermediary bodies (potentially including co-operatives) as a threat to the primary relationship of state and individual. ('Italy: From traditional co-operatives to innovative social enterprises', Carlo Borzaga and Alceste Santuari, contained in 'The Emergence of Social Enterprise', edited by Carlo Borzaga and Jacques Defourny, Routledge.)

Intermediary bodies and associations were permitted to operate, but only to provide services to their own members - not for the benefit of the wider public. This outlook was reinforced by the fascist and communist dictatorships established in much of continental Europe in the first half of the 20th Century. The fall of the Mussolini fascist government in the Second World War led to a change of approach.

The Civil Code of 1942 provided recognition for associations - other than voluntary ones - to supply services exclusively or mainly for members. An Act of 1947 provided the basis for co-operatives to operate for the collective interest of their members.

Ailing private sector firms have been allowed for some years to convert into co-ops. Charitable and social care private institutions were integrated into public bodies under an Act of 1890, but another Act in 1988 enabled them to convert back into private not-for-profit foundations. Many of these operate now as social enterprises, delivering social care by contract to municipalities.

The basis of these legal provisions is the recognition that co-operatives and mutual associations operate for the benefit of their members. This notion was radically extended in 1991 by Law 381/91, which recognised and supported the role of social co-operatives in providing services for the wider public or collective good.

In effect, Law 381/91 recognised the reality of what had been happening since the late 1970s as a movement of 'social solidarity co-operatives' became established to provide services to the public, rather than for their own members. Previously, social co-operatives had operated in conflict with Civil Code's First and Fifth Book which did not recognise or authorise the provision of social services by a co-operative or other not-for-profit organisation. ('Italy: From traditional co-operatives to innovative social enterprises', Carlo Borzaga and Alceste Santuari, contained in 'The Emergence of Social Enterprise', edited by Carlo Borzaga and Jacques Defourny, Routledge.) However, the Italian constitution - post-dating the Civil Code - recognised in a vague sense that co-operatives might fulfil a social function.

This was not a satisfactory situation, as it provided legal uncertainty and inconsistency in the treatment of co-operatives. Some courts approved co-operatives providing social services as an extension of their collective or mutual purpose: others did not. The 1991 Act resolved this uncertainty.

Such a resolution was important. Not only did it enable co-operatives to operate in ways they wished, it also clarified their right to the various tax exemptions available to co-operatives (see above).

In 1998, a law was established to resolve another disputed issue, that of taxation for non-profit organisations - ONLUS (Organizzazioni Non Lucrative ad Utilita Sociale, or Socially Useful Non-Profit Organisations). The definition includes social co-operatives, but one effect was to equalise the treatment of preferential tendering between social co-operatives and not-for-profit associations.

The disadvantage of this approach - compared with the looser legal framework for social enterprises which applies in the UK - is that it provides little flexibility. It also ensures that the co-operative form of social enterprise dominates over other forms which do not have legal recognition, nor state support via tax concessions. A similar situation applies in Spain, combined also with a stronger regulatory bureaucracy.

4.6 Law 381/91

Social co-operatives were legally recognised throughout Italy in 1991 through the passing of Law 381.

This law recognised social co-operatives on the basis that the primary beneficiary is the community, or groups of disadvantaged people. Unlike the previous legal situation, they no longer had to be members of the co-operative. Indeed, social co-operatives were required to fulfil their activities 'for the general benefit of the community and for the social integration of citizens'.

Members may be:

- people who work, manage or are paid volunteers in the co-operative
- people who directly benefit from its services, such as a disadvantaged or marginalized community
- people who are unpaid volunteers in the co-operative - but they must not account for more than 50% of the total workforce
- funders of the co-operatives - in practice mostly municipalities
- public institutions.

Social co-operatives are permitted to distribute profits, subject to the following conditions:

- * Distributed profits are restricted to 80% of total profits
- * Profit per share must be no higher than 2% of the rate of that available on bonds issued by the Italian Post Office
- * No profits - or other assets - can be distributed if the co-operative is dissolved. This effectively prevents demutualisation.

Co-operatives can choose not to distribute profits and instead invest them in the co-operative.

The impact of Law 381/91 has been enormous. It has led to an important momentum in favour of co-operatives, providing a blueprint for not-for-profit organisations to provide services on a commercial basis that were previously supplied by voluntary bodies. Many of these predecessor organisations were called 'solidarity social co-ops' which operated in a similar manner, but without legal backing.

A & B co-ops: how they differ

Under Law 381/91, there are two categories of social co-operatives: 'A' co-ops and 'B' co-ops.

'A' co-operatives

'A' co-ops can deliver health, social or educational services. They operate as commercially orientated businesses, with workers and volunteers being members of the co-op. Many 'A' co-operatives have established 'privileged' relationships with municipalities (see above).

These privileged relationships - which are specifically approved under Law 381/91 - enable 'A' co-operatives to be what be also termed preferential bidders for work. They are often governed by special agreements.

About 70% of social co-operatives are 'A' co-ops.

'B' co-operatives

These are agencies for integrating disadvantaged people into the labour market. These are similar in terms of objectives to what in the UK are termed 'social firms'. The form of incorporation of social firms means that it is highly unusual for disadvantaged workers to become members: in Italy this is common, giving them greater involvement in the operation of their enterprise.

While B co-operatives seek to be financially self-sustaining, they are not essentially commercial businesses. Their core function is to provide working environments for marginalized people to become integrated into a wider community. At least 30% of workers in a B co-operative must be disadvantaged in some way.

Those groups benefiting from B co-operatives include people with physical or learning disabilities; people with sensory difficulties; people released from psychiatric hospitals or otherwise treated for mental illness; drug and alcohol addicts; people who have been given an alternative to custodial sentences.

In practice, many 'B' co-op workers are disadvantaged in ways that are not recognised by the law as counting towards the 30% threshold. These are people with other social needs that the co-ops wish to support - such as the homeless, long-term unemployed, unmarried mothers and refugees. The ultimate objective of the 'B' co-operatives is to provide people working in them with the extra skills and confidence needed for them to work permanently.

Research dating from 1994 provided a detailed insight into the organisation of 'B' social co-ops. Almost half provided services to more than one group of disadvantaged people and a similar proportion provided more than one type

Table 3:
Clients of Type 'A' co-operatives

Public authorities	77%
Other non-profit organisations	5.9%
Private individuals	4.7%
Companies	3.1%

Table 4:
Clients of Type 'B' co-operatives

Private sector	60%
Municipalities	35%
Other public bodies	5%

of service. The survey results suggested that one impact of the 1991 legislation was to dramatically increase the amount of support provided by social co-ops to the elderly and to significantly increase it to the disabled.

Table 5:
Composition of disadvantaged members in 'B' co-operatives

Mental health problems	41%
Physically disabled	20%
Drug addicts	20%
Alcoholics	6%
Prisoners	4%
Others	9%

Source: Social Entrepreneurs: The Italian Case

The primary principle behind 'B' co-operatives is participation by service users, where this is possible. Where this is not practicable, the participation is by users' families - such as parents of people with severe learning disabilities. The impact of the creation of the 'B' co-operatives - according to SIS - is that passive consumers of social services become active participants in the providing bodies. It is an exercise in positive democracy.

SIS says that there are four principles behind the operation of the 'B' co-operatives:

- Participation
- Limited growth - they remain between 15 and 100 members in size to maintain social ties within the organisation
- Close identity between members and co-operative - which requires managerial transparency
- Territoriality, so that there is a clear notion behind the 'community enterprise'.

Activities in which 'B' co-ops are involved include many that are traditional sheltered working opportunities for people with various forms of disability. These include cleaning, landscape gardening, parks maintenance, packing and assembly work and laundry. Other favoured activities include bar service, call centres and book-binding.

Some 'B' co-ops are orientated towards the particular disabilities or disadvantages of their workers: others are based on service sectors. So, particular 'B' co-ops may concentrate on book-binding, recruiting workers from a variety of disadvantages to undertake

Table 6:
Main activities of type 'B' co-operatives (by turnover)

Handicraft and manufacturing	29%
Cleaning	22%
Parks and gardens maintenance	19%
Other services	17%
Commercial activities	6%
Building	4%
Agricultural	3%

Source: Social Entrepreneurs: The Italian Case

that work. Others will focus on the needs of former addicts, specialising in placing their workers in the most appropriate locations by operating a variety of activities.

Half the income of 'B' co-ops comes from undertaking contracts on behalf of private sector clients. A slightly smaller proportion comes from the public sector. Probably the most important factor for the private sector in awarding contracts to 'B' co-ops is their legal obligation to employ a minimum percentage of disadvantaged people, which they fulfil through contractual arrangements with 'B' co-ops. (Businesses employing more than 50 people must employ at least 7% disabled staff: each company with more than 15 staff must employ at least one disabled person. See Appendix Two.)

All people supported by a 'B' co-op are referred by their local authority's social services department. Their personal history is known by the co-op. The co-op and the social services department jointly agree objectives for each referred person. The allocation of the individual to the co-op represents a match of needs for the two organisations, taking into account the productive and inter-personal needs and capabilities of the individual and the co-operative. It is recognised that it is essential to ensure that people remain integrated in their existing communities, while also integrating into their new working communities.

4.7 Membership

A key element of the strength of Italian co-ops is their mix of members. It is not compulsory to have members who represent the interests of service users, workers and volunteers, but it is common. And where it happens there is evidence that it contributes to the success of the co-op.

The legal requirement is that the volunteers do not make up more than half the total membership. The level of volunteer involvement in the running of social co-ops has decreased alongside the actual level of volunteering in the co-ops and the proportional increase in involvement by employed members.

Many co-ops continue to have members who were volunteers, but who are no longer involved in the running of their co-ops. Members of co-ops who are not directly involved in service provision are referred to as supporting members. However, supporting members are regarded as fulfilling an important role in linking between the co-op and the local community. They can also be very useful by participating in executive boards, or helping co-ops in special tasks.

Involvement by volunteers has declined heavily in recent years. In the 1980s, many people avoided what was then compulsory military duty by opting for conscientious objection, instead doing voluntary community work. Social co-ops were major beneficiaries from this trend. With the decision in 1999 to gradually end

compulsory military service, volunteer levels in social co-operatives is falling further. Law 381/91 also led to a reduction in the significance of volunteer participation. As demand for social services from the new generation of co-ops grew, so new co-ops were established and more employees taken on. Volunteers' importance therefore decreased, as the focus moved instead to worker involvement.

Moreover, the recruitment, involvement and integration of volunteers in a co-operative is the result of long-term processes. The very fast expansion of co-ops and the social co-op sector was incompatible with maintaining such a central role for volunteers. To put it another way, the social capital element of social co-operatives may have declined as a result of Law 381/91 - at least in terms of its proportional importance.

Law 381/91 may have simultaneously have stimulated a more entrepreneurial attitude amongst the social co-ops. It is clear that the unintended effects of Law 381/91 have significantly changed the dynamics of social co-ops - in terms of internal relationships, the relationships between providers and users and relationships between service provider and commissioning body.

4.8 A public enterprise agency

Italia Lavoro is a government founded and financed public body, established in 1997, using public capital, but run privately. It describes itself as a body with a private sector approach, operating for a public purpose. Its overall objective is to promote the creation of employment.

The activities of Italia Lavoro are diverse, arranged around its core objective. First, it intervenes in the labour market in a proactive and entrepreneurial manner to assist with the creation of jobs specifically for people disadvantaged in the labour market. Secondly, it intervenes to encourage public bodies to act in a more entrepreneurial way, to move into the private sector, increase income and create jobs. Thirdly, it provides training schemes which assist unemployed people to enter the labour market. One of its wider objectives is to assist in the reorganisation of the Italian labour market, to achieve an increase in jobs and cushion the impact of redundancies during the process of industrial change.

Italia Lavoro is involved in other activities. These include interventions to promote self-employment. It provides a range of services to assist the unemployed to find work. In support of this it provides free services for individuals and companies. Lavoro is also expected to intervene in the labour market to assist with the matching of supply and demand. It has an additional specific remit to assist immigrants to adjust to their new environment and gain the skills necessary to obtain work, assisting with the social inclusion and integration of immigrants.

It assists with the implementation of the 'compulsory job placement' law - requiring companies to employ a minimum percentage of disadvantaged people - by providing aids and technical support for organisations to employ disabled people. It is grant aided by national and provincial governments and the European Union.

As part of its strategy, Italia Lavoro targets specific markets, supported by the promotion of consortia and joint ventures with the public sector. These markets include cultural heritage, the environment, personal services, training and multimedia. Lavoro also has a responsibility to encourage the creation and support of co-operatives.

Italia Lavoro works with the co-operative movement in Italy on a variety of specific projects. In particular, it works with social co-ops to find out how they can provide more services to those people who are long-term unemployed and finding the greatest difficulty in obtaining work.

Part of Lavoro's programme has been to establish a service company to help create co-ops to take over work previously performed by the public sector. In some instances, Lavoro has created joint companies with co-ops where particular opportunities are recognised. These are publicly financed to employ people from disadvantaged groups. Lavoro operates as a venture capitalist for social enterprises.

After three years, Lavoro will normally sell its stake in a joint venture. Preferably this is done by the co-op returning Lavoro's venture capital, buying the balance of the enterprise. This process has been taking place for the last five years or so. In some instances the joint venture stakes have been sold-off to the co-op partners: in others, Lavoro has stayed involved beyond the three year period.

One example of Lavoro's work has been the dispersal of assets confiscated from the Mafia in Sicily, which have been allocated to co-ops. Another project provided IT training to 60,000 young adults in Southern Italy in association with co-operatives.

4.9 Partnerships with the private sector

Sodalitas, the Association for the Social Development of Entrepreneurship, is a not-for-profit organisation established in 1995 by Italy's largest employers' federation, Assolombarda. Corporate members include large multinationals.

It also contains 80 voluntary consultants who are individual members, such as retired executives, who work free of charge, part-time, for not-for-profit organisations - including co-operatives. Sodalitas works as a bridge between the for-profit and not-for-profit sectors. It has supported more than 80 not-for-profit bodies.

Sodalitas aims to raise standards in the not-for-profit sector and to promote links between civil society and corporations, promoting sustainability and

social responsibility and arguing the business case for pursuing these goals. It also encourages corporate investment in social goals and communicates corporate best practice. It promotes the sale of goods and services to corporate members which are supplied by social co-ops.

Sodalitas may act as a broker to bring partners together across sectors. This has involved forming a partnership between a multinational chemicals company, a transport operator and a social co-op to remove graffiti defacing public transport terminals, as part of a wider regeneration scheme. In this instance, Sodalitas also worked with the SIS consortium to bring together the range of organisations.

In another case, Sodalitas worked with the major banking group Unicredito and the Charity Fondazione San Carlo to launch the first pilot micro-credit program in Italy.



5.0 Challenges facing Italian social co-operatives

There are two main difficulties which social co-ops are having to face. One is the lack of sufficient managers and the challenges in recruiting managers. The co-ops are perceived to offer their managers insufficient status and clearly offer insufficient salaries. It is very difficult to find people who are capable of good business management who also understand and are committed to the social objectives.

There is a further irritation for the co-ops and their managers. Although they are able to plan their own services, they have little influence on the broader policy framework decided upon by the municipalities and the national state. The co-ops would like more influence on the setting of rules, such as the quality framework.

The problem with recruitment is becoming increasingly critical. More profit-oriented businesses now see the potential in winning social services contracts. In order

to raise their skill levels to win contracts and deliver services they are seeking to recruit from the limited pool of experienced talent. This means that growing numbers of social co-ops' managers have been poached by the private sector, with greater competition for skilled people during the recruitment process.

At less senior levels, wages offered by social co-operatives are competitive with those available in the wider labour market.

Social co-operatives also face specific difficulties with their business planning. Many are heavily dependent on their public sector contracts, but they may have to re-tender on an annual basis. The impact of this is both to drive down the value of contracts - prices are depressed by the frequent bidding process - it leads to high transaction costs and social co-ops are restricted in their ability to forward plan.

There is also growing concern that while the legal framework for co-operatives is welcomed as having a positive impact, it can also act as a restrictive factor. It does, for instance, discourage the development of social co-operatives with only worker members. It could also deter diversity in the forms of social enterprise, further reducing flexibility.

It has been observed that the dramatic increase in numbers of social co-operatives following Law 381/91 has had effects that are negative as well as positive. In order to respond to the vast rise in demand for their services, co-operatives have become more entrepreneurial and better businesses. It can be argued, though, that the decreased involvement by volunteers in the co-operatives reflects a lessening in importance of their social relationships, reducing their potential role as providers of 'social capital'. This is an area of political contention as many politicians are opposed to the involvement of volunteers as members of social co-operatives.

The sector has a major concern that its dependence on preferential relationships with local authorities could cause problems in the future. At present, a satisfactory arrangement has been established within the European Union's competition policy. However, future reviews of policy might conceivably lead to the end of these preferential arrangements.

6.0 Case studies

6.1 La Cordata Hostel

This co-operative provides accommodation in Milan and Rome, with facilities somewhere between what might be considered a hostel and that of a very small hall of residence in the UK. There are two hostels in Milan - one for young women and one for young men. The female hostel is situated in the same building as the Lombardy consortium of co-operatives, SIS, and has 16 residents at any time.

Residents consist of 12 private payers, who are studying at university, plus four who are referred by the Milan municipality's social services department as being at risk of social marginalization. Although their backgrounds are difficult, they will not be drug addicts, reformed drug addicts or alcoholics. They typically have come from dysfunctional families and may have been living in children's homes. Some were abused within their families. Others were put on probation for non-drug-related offences by the tribunal for children.

The project was established in 1994, as part of a widespread response to the Italian state's Law 381/91. The aim of the co-op is to integrate youths from difficult backgrounds into mainstream society. Both the youths from problem backgrounds and the private payers are assisted to deal with diversity through the hostel and given the benefits of group life. Another aim of the hostel is promote autonomous lifestyles. The project is regarded as highly successful.

Private tenants pay a rent which is much lower than that charged on the open market. Social services referrals have their rents paid for by the municipalities. Mostly, the private payers are students from the South who have come to Milan to study and are keen to enter a supportive group environment. All the private payers are aware that a minority of tenants have problem backgrounds and the private payers are only accepted as tenants if they are comfortable and supportive of this. Difficulties typically come from parents who are worried about the social setting, not from the students themselves. However, it is a protected environment for all residents, with social workers present on site.

Tenants often stay in the hostel for many years. The average length of stay is perhaps four or five years, but the co-op is aware that staying too long in the hostel can be negative and counter-productive. The hostel does not need to market itself, as the university recommends its use, and it constantly has a very long waiting list of potential private payers.

Tenancies last nine months or longer, because the basis of the hostel is personal relationships - which are of limited value with shorter tenancies. Each year, all tenants who wish to stay are interviewed to decide whether to renew the arrangement. Tenants have their own joint meetings monthly and it is a requirement for all



residents to attend. Another requirement is for all tenants to be involved in joint activities, such as going together to the theatre, films or parties.

The co-op has two paid members of staff, who carry out 35 hours work a week between them. A low rent of €2,000 (£1,250) a year is paid by the co-op to the landlord - the SIS consortium of co-ops - which reflects the fact that SIS itself pays a very small rent to a Catholic order.

The co-op receives €40 (£25) a day from social services for its referrals, while private payers are charged €270 (£169) a month. It is theoretically closed for the month of August, as the municipality of Milan is keen to minimise costs, but the workers will in practice allow the tenants to stay in the hostel during this period to avoid them being put at risk.

6.2 Spazio Aperto Servizi - children in trauma

This organisation is part of the SIS consortium and a tenant of SIS. Its service is a centre for the care of trauma in youth and family. It operates two centres, each of which hosts eight children at a time aged between two and 12, boys and girls. These children have all suffered severe trauma for a variety of reasons - including physical and sexual abuse, incest, serial abandonment and the impacts of a lack of parental skills. Many have lost parents or others close to them because of violence or accidents.

Some of the children have ceased all contact with their parents, perhaps after giving evidence against them. Some see their parents on an agreed basis, as decided by the tribunal for children.

The co-op has eight paid carers across the two centres, plus a co-ordinator and several volunteers. The carers work closely with psychologists. One of the core elements of the work of the co-op is to enable the children to operate daily lives that have meaning to them. Some of the difficulties and crises are tackled by working with parents, raising parenting skills.

At present, the co-op is working closely with a university about the language of trauma, the memory of trauma and traumatised feelings. The objective is to assist children progress from a frozen traumatic state to an expressive state.

SAS is highly regarded by public bodies, which make many referrals to it. Even more children need assessments than are given places. The success of the centres is dependent not just on the high level of competence within the co-op, but also on very close and effective co-operation between it and the municipality and the health service. The co-op has separate contracts with the Milan municipality and the health service and it operates in schools. It also runs training courses for the police on how to interview children, paid for by the Interior Ministry.

The co-op provides sheltered accommodation, with children and carers staying in the centres overnight. Its job is to tackle acute trauma, rather than chronic conditions: the co-op describes this as akin to psychological intensive care. Children are normally on placement with the centre for short periods only.

About one third of children go back to their parents; some are adopted; others go for long-term fostering; while some are placed with community groups. Children who are still being treated by the centre as they move towards the age of 12 have to go to other treatment centres.

SAS has been open since 1999 and was developed because of the perceived need for this service and the absence of it prior to the creation of the co-op. The co-op is not required to tender to obtain contracts, in accordance with Article five of Law 381/91.

6.3 Spazio Aperto - labour insertion project

This is a 'B co-operative'. It was founded in 1994 by parents and friends of disabled people to create job opportunities. The co-op believes that this is one of the most important tools for providing self-respect for disabled people.

There are several elements to the co-op's work. As well as directly employing dozens of people to undertake contracts the co-op has won, it has also placed more than 20 people in various work sectors in private companies. These companies are required, by law, to employ a minimum number of disabled people.

The co-op's main activities are to train disabled people and to employ them in key sectors: cleaning, assembly, and landscape gardening. It also employs some people in data entry, disabled transport, waste disposal and recycling. Currently there are 92 people working for the co-op, compared with 15 when it began trading. It has a turnover of €1.6m (£1m).

Of the 92 workers, all but 10 are members of the co-op. Most members (65%) are men. Less than half, 45%, have disabilities, though the figure has been as high as 60%. Before people work for the co-op they must be properly assessed to determine what tasks they can undertake: this will also include an evaluation on how their abilities fit with the needs and capabilities of the co-op. Workers' salaries are subsidised by the state, and the co-op is prepared to cross-subsidise less profitable work from its more profitable activities.

The inspiration for the co-op emerged from Law 381/91, with the co-op focusing initially on mentally disabled people. But the co-op recognised that the law offered other possibilities and it expanded to assist people with various types of mental illness and physical disabilities and former drug addicts. The co-op continues to specialise in supporting people with mental disabilities. People

recovering from drug addictions are on placement with the co-op as court-imposed alternatives to imprisonment, brokered by social workers. Some of the workers are on day release from prison, sleeping in the jail at night.

Contracts performed by the co-op are a mix between work for the private and public sectors: about 40% of turnover is for the public sector. Many commercial businesses are driven by their need to either employ people with disabilities, or to finance work for them. But public bodies often flout these requirements, which is why contracting levels for the public sector are lower. Quite a lot of contracts are approved without the need for tendering, under the preferential agreements enabled by Law 381/91.

One of the problems with the tendering arrangements is that contracts are mostly annual. This tends to keep prices down, undermining the co-op's ability to increase income. The short-term contracts also undermine the labour relations within the co-op: it is more difficult to persuade people of the benefit of working for and belonging to the co-op when contracts and work are apparently short-term.

Where contracts are lost on re-tendering, the co-op tries to absorb the affected workers elsewhere. TUPE (Transfer of Undertakings [Protection of Employment]) regulations apply, so the co-operative discusses with the winning contractor about whether existing staff should transfer with the contract.

The co-op has an active social support element, workers often take their personal problems to the co-op for a solution. There are two flats owned by the co-op to assist members' accommodation problems.

6.4 Tempo per la Famiglie Grado 16 - *Officine dell'Autopromozione*

This co-op was founded in 1994. It has just 12 workers and another 12 people are its members. The central aim is capacity building, particularly for young parents. The project started by dealing with the young in general: now it focuses on toddlers and families with children aged from one to three.

A key element of its work is training, using European Social Funds and money from the National Initiative for Co-operation. The funds are used to train managers and for training for trainers.

Initially, 15 years ago, the service - one of four in the city - was provided by the municipality of Milan. The aim was to support the mother/child relationship in the first three years. This can be a particularly difficult time, especially in a metropolitan area where a young family may be isolated from the extended family and from long-standing friends. Women who are new mothers may have

problems, feel isolated and be over-affected by common problems because of the impact of isolation. The centre aims to put problems into perspective. However, parents do not normally attend until a baby is at least five months old, so the centre is not involved in supporting mothers with post-natal depression.

Services include crechès for children from five months to three years, with the parent or child carer also attending the centre. Children can socialise with others of the same age, and parents also socialise with others in similar situations. The function is to support the well-being of the child and parent, and to develop parenting skills.

The centre is attended by 20 parents and children at a time: some 120 of parents and children during the course of a week. People attend either a morning (9 to 12) or an afternoon (3 to 6) session. Snacks are available at the centre. Children can develop with the confidence of being near parents, while not constantly being with parents. There are six members of staff: two teachers and one co-ordinator attend each shift. There are weekly planning meetings and occasional meetings with a psychologist to discuss cases.

Parents pay a modest fee to use the service: €50 (£31) a year. The balance of costs is met by the Milan municipality. Overheads are artificially low because the project pays a very low rent to the landlord, which is a Catholic order. The project is to expand into the next floor in the near future, to help meet the high level of demand for its services.

There is no system in Italy for referring children considered at risk, but this is not an obvious problem for the co-op. None of the children who attends is regarded as neglected, or abused. It is presumed by the co-op that parents of neglected or abused children are unlikely to attend a project which is working with parents to improve parenting skills.

6.5 Il Fontanile and Viridalia co-operatives

Cascina Biblioteca is an old farmhouse with a smallholding that belongs to the local authority of Milan and lies within one of Milan's green areas. The Commune (council) rented Cascina to the Il Fontanile Co-op (for those with learning difficulties) and the Viridalia Co-op (a work integration co-operative). Viridalia is a 'B' co-operative offering landscaping services. It has tendered contracts with the Commune using Law 381/91 and has private customers for maintenance of gardens and balconies. Viridalia started as a spin-off from Spazio Aperto and has a turnover of €16m (£10m), 40% of which comes from public contracts.

These co-ops have 20 workers, of whom 18 are members. Il Fontanile is an 'A' co-operative offering care. It is relatively new and still establishing itself. Its turnover is €100,000 (£63,000), 30% from contracts with the Commune

of Milan. It has three staff responsible for the care of eight young people who look after animals on the smallholding. Working with horses is therapeutic, especially for people with learning disabilities, or with relationship difficulties.

Free time at weekends is given up to support for visitors with disabilities - activities with the animals. There is also a centre for training disabled people in catering and landscape gardening. Restoration work is underway at the Cascina to create new stables, to provide more horses for more visitors and increasing work integration capacity.

ANFFAS is the national training organisation relating to people with disabilities in all the major Italian cities. It started as a group of families who wanted to look after family members and protect the rights of those with disabilities. It was eventually decided that the best way of promoting and implementing this aim would be to set up co-operatives (seven in total) to take over some of the delivery of services.

Il Fontanile is one of these and has a paid business relationship with ANFFAS. The eight youths who had been looked after by ANFFAS are now cared for by Il Fontanile. Of these, six are paid for by the Commune of Milan, one by another district and one privately. In addition, 50 people are involved as users of horse therapy: most paying privately.

The Cascina belongs to SIS and to other consortia including Consorzio Cascina Sofia in north-west Milan. It is considered beneficial to join more than one consortium to enhance networking and other co-operatives or consortia are mostly seen as partners rather than competitors. Consorzio Cascina Sofia has an activity-based role, whilst SIS has more of an institutional role.



7. How Italy compares with the UK

The comparison between Italy and the UK is more one of contrast than of similarity. Social enterprises are providers of social services at the very heart of the system in Italy. They are not merely important players in the delivery of social services on behalf of municipalities, but many have won themselves the right to be consulted at the planning stage of services. Their political strength - assisted by their consortia - has given them an influential voice in arguing for an even more central role in the planning of municipalities' social services.

In the UK, the situation is completely different. Social enterprises are far more marginal in the provision of social care services. There are examples of social enterprises delivering social care, but these are the exception rather than the rule:

- There is a growing tide of co-operatives providing domiciliary care to the infirm elderly at home. These mostly augment social services in-house teams, but it is expected that there will be a growing trend towards the externalisation of domiciliary care to workers' co-operatives.
- Some residential care homes are owned by social enterprises. The West Midlands Co-operative Society operates three care homes, one of which includes some nursing care. The largest provider of residential care is BUPA, a provident association which operates as a not-for-profit organisation run for the benefit of its members. While this might be regarded as a form of social enterprise, it is hardly comparable to Italy's social co-operatives. Some friendly societies also operate residential care homes for their members.
- Several housing co-operatives provide sheltered accommodation for elderly residents.
- Several charities - including local branches of the major charity Age Concern - operate trading arms providing day centres and other facilities for the elderly and other groups in need of social services.
- Many social firms operate subsidised businesses in which the disabled obtain training and permanent employment.

While these examples all demonstrate the commitment of social enterprises to objectives that match those of local authorities' social services and housing departments, their role is not as strategically important as that of social co-operatives in Italy.

What is more, despite the efforts of central government there remain major problems in the integration in the planning of health and social services. This causes serious difficulties for independent providers which attempt to offer services meeting both the health and social services needs of their users. Independent providers - including social enterprises - tend to have greater opportunities in supplying services to local authorities than to NHS trusts.

This situation may change with the creation of primary care trusts, but it is too early to say. Until now, the market for the supply of social services to local authorities has tended to work better than it has with the NHS - which still tends to commission internally rather than from external providers. Yet, external providers (particularly social enterprises) may have the clearest and most accurate view of what service users want, through the involvement in them of service users themselves.

Secretary of State for Health, Alan Milburn, has made a strong statement in support of social enterprises delivering health care services, but again it is too early to determine what impact this will have.

It should be noted that in general terms the creation of a market in social services provision, contracting with local authorities, has tended to drive down prices rather than drive up quality. This is unfortunate, with staff in the sector historically underpaid. It is important that in future the focus of greater diversity and user choice in social services should be accompanied by increased focus on service standards, moving away from cost reduction. It would be unacceptable and counter-productive for social enterprises to be seen as a means for cutting costs in social services provision.

Indeed, it should be recognised that social enterprises offer an opportunity to greatly improve the quality of social care in the UK:

- They can better involve users in the planning and quality control of services, than can local authorities;
- They are better at income generation - and have more opportunities for it - than are local authorities;
- They can better ensure that any commercially generated income is used for the benefit of service users;
- They can better integrate complementary objectives - for example, labour integration and diverse service provision.

7.1 Comparison of legal and support structures

The infrastructure of support and development for social enterprises is much stronger, more coherent and more effective in Italy than it is in the UK. This is particularly true for social enterprises involved in the delivery of social care. Where there is a separate and additional support infrastructure in Italy, there is nothing comparable in the UK.

Consortia and financial support are two key elements in this, which will be discussed below. But the legal situation has also proved to be absolutely pivotal in Italy in the development of social co-operatives.

Law 381/91 has been a spur to the creation and expansion of social co-operatives. It has:

- Enabled users to be more involved in deciding how their services should be delivered;
- Enabled municipalities to contract-out services to sympathetic organisations, while raising service standards;
- Enabled associations and other voluntary organisations to evolve into trading organisations which give them greater independence and confidence;
- Enabled very many people who were disadvantaged in the labour market not only to obtain regular employment, but in many cases to take key leadership and management roles in social co-operatives.

The law recognises that social co-operatives:

- are not-for-profit organisations which should be treated differently from profit orientated businesses
- have social objectives which are in harmony with their commissioning local authorities
- enable greater service planning, through preferential tendering arrangements, than would otherwise be possible
- and can bring service users into the planning process via these partnership arrangements.

It seems clear that achieving similar policy benefits in the UK is desirable. The most important element of Law 381/91 appears to have been the approval of preferential tendering arrangements, which were approved by the European Union. If the Government implemented similar measures it might achieve the twin objectives of improving the delivery of social care while supporting the development of social enterprises.

Local authorities' social services departments might already use Best Value reviews to implement purchasing regimes that are more favourable to social enterprises, enabling them to provide services in ways that involve users. It is disappointing that most councils have failed to do this. In some instances, social services departments have asked for indicators that social enterprises can produce added value: this study provides evidence of the added value achieved by the delivery of social services by social enterprises in Italy, which could potentially be replicated in the UK.

The tax status of co-operatives in Italy is also highly beneficial and is directly and indirectly another significant factor in generating a healthy social enterprise sector in Italy. Company income tax rates for co-operatives are reduced, in

recognition of their role in tackling labour market weaknesses. Co-operative reserves are not taxed, nor are the annual contributions to the Marconi Fund for the assistance of other co-operatives and co-op support organisations. Annual contributions of 3% of turnover to the Marconi Fund are obligatory for co-operatives.

A similar situation in the UK would be highly desirable. This would not be unprecedented - industrial and provident societies paid lower rates of capital gains tax than companies until the mid-1980s. The European Commission confirms that it is entirely permissible for any member country to vary corporate taxation levels to discriminate in favour of businesses structured in a particular manner - for example, as social enterprises.

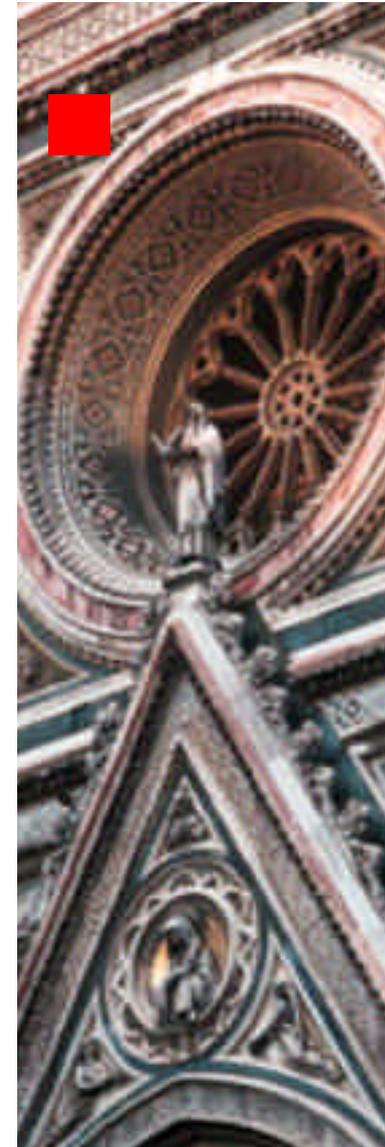
It makes no more sense to levy corporation tax on the profits of a social enterprise than it would to tax a trading surplus achieved by a local authority. Organisations which are created specifically to fulfil social objectives should be supported by the state, not taxed by it.

At present, the situation regarding charities which trade is widely regarded as anomalous. Those organisations which earn income for social objectives through trade are disadvantaged compared with those which are dependent on grants and donations.

Organisations with charitable objects - or objectives similar to those of a charity's - and achieve those objectives through trading should be given the same tax benefits as a charity. The current review of charitable law, and the resulting change in law, is an opportunity to rectify this situation.

Italian law gives greater clarity to the legal position of co-operatives than is the case in the UK. This is necessary, given the greater support available to co-ops in Italy (tax, preferential tendering, national insurance rebates, etc). It does, however, not give other forms of social enterprise (community businesses and development trusts, for example) similar recognition. This has the perverse effect of encouraging one particular form of social enterprise over others.

But, in general terms, the greater legal certainty and governmental support is to be welcomed and clearly has a major impact on the success of Italian co-ops. The current reviews of incorporation (the charity law review and consideration about legal forms for public interest companies) might consider what lessons can be learnt from this Italian experience.



8. Policy initiatives that could be copied in the UK

8.1 Law review

A reconsideration of the legal structure of many organisations that trade with social objectives is currently taking place as a matter of urgency. This is because:

- 1) The failure of Railtrack has suggested that profit-distributing companies are the wrong mechanism for vital public infrastructure to be managed and improved. They may also be considered to be the wrong form for the delivery of other vital public services. Legislation to approve the creation of 'public interest companies' is therefore likely to be a priority.
- 2) Charities are being impeded from fulfilling aspects of their work, including areas where their objectives coincide with government objectives, because of restrictions placed by charitable law.

It would be very unfortunate if social enterprises - trading bodies which may have the same social objectives as charities or public interest companies - were not assisted by the priority legislation. In a philosophical sense, the issues are closely related. This has been recognised by the Cabinet Office which will soon report on proposals relating to reforming legal structures for social enterprise. Meanwhile, the Treasury cross-cutting review of the voluntary sector and public service delivery includes social enterprise.

The legal reviews will hopefully conclude:

- 1) That the legal and tax structures should reflect the major social contributions achieved by social enterprises;
- 2) That it does not make sense for an organisation with charitable-type social objectives to pay tax in the same way as a profit-orientated company;
- 3) That trading organisations which are also charities should be permitted to involve their users to ensure that services are properly geared to users' needs.

8.2 Finance

Creating a UK-equivalent of Italy's Marconi Fund through some form of 'solidarity bond' for the social enterprise sector could provide a major stimulus for social enterprise development in the UK. This would also be a low-cost means for the Government to assist social enterprises.

The Marconi Fund has been a key element in sustaining social enterprises in Italy over the longer term and assisting social enterprises to see that they operate with common interests. Further, one of the most important elements of the success of social enterprises in Italy has been the role of consortia (see below). The solidarity

bond could be a means by which consortia are established and supported in the UK.

Creating solidarity bonds in the UK would provide social enterprises with greater independence and sustainability. They would have a higher degree of protection from political and economic 'fashions' and make it much more likely that more social enterprises would survive over a longer period of time.

It is also possible that the newly formed 'Co-operative Action' foundation could be the basis for the UK-equivalent of the Marconi Fund. Proposals for a solidarity bond could be developed through consultation with Co-operative Action as well as SEL.

The solidarity bond initiative would be complementary with the Government's advanced steps towards creating community development tax credits, to support community development finance institutions (CDFIs). These will assist with the regeneration of deprived areas and, it is hoped, be a means of additional funding for social enterprises in those areas. It is likely they will be especially helpful with those social enterprises with a very strong focus on social objectives.

However, it must be recognised that key potential CDFIs - the London Rebuilding Society and Industrial Common Ownership Finance - have reservations about the opportunities for using the tax credits to support social enterprises. These concerns must be recognised by the Treasury and overcome for the initiative to have the hoped for impact on social enterprise development.

While it is important for social enterprises to recognise and accept that they are businesses with a social objective, and therefore not dependent on ongoing public sector revenue support, this does not mean that it is a bad thing for them to receive capital or start-up support from public funds. This support recognises their social objectives and the reality that an organisation which is not share-based has difficulties in raising capital and especially initially cheap capital, as they are otherwise dependent on loans which they will find unaffordable to service in early years of trading.

8.3 Consortia

The consortium, or federated, structure of co-operative representation and support achieves several highly desirable outcomes in Italy:

- There is an integrated structure of support for new and established co-operatives (and other member bodies), which they are unlikely otherwise to find affordable;
- Co-operatives can achieve economies of scale through their membership of a consortium, without growing to a size where their democratic structures or sense of member identity are threatened;
- It provides brand identity for co-ops in a region;

- It enables a structural body to lead in initiatives, without undermining democratic principles through top-down measures;
- Consortia arrange lower cost loans for members, through preferential arrangements with banks;
- Consortia can act as intermediaries for municipalities to enable large contracts to be fulfilled by several member bodies operating together;
- They provide a democratic forum for co-operatives to promote their interests;
- They can assist member bodies to increase their influence in the planning and organisation of social care contracts.

Britain lies behind other major European nations - Italy, France and Spain - in not having effective consortia promoting the interests of social enterprises. It is unlikely to be coincidental that our social enterprise sector is also weaker than in these other countries. The social enterprise sector itself in the UK does not have the strength to create effective consortia, underlying the need for the Government to take a lead in supporting their creation. This could most helpfully be done by the provision of an equivalent to the Marconi Fund - to finance consortia - in the UK.

8.4 A public enterprise agency

Italia Lavoro is a particularly interesting agency. Its overall remit is job creation, but part of this role is to promote an enterprising attitude within public bodies with a view to spin-off free-standing entrepreneurial organisations. It also enters into joint ventures with social enterprises, to enable them to expand and take over activities from the public sector where this is desirable.

There are many aspects of the work of Italia Lavoro which are very attractive. Having an agency which is specifically tasked with the role of promoting enterprise within the public sector and spinning-off businesses - which themselves may be structured as social enterprises - is a model which might be considered for adoption in the UK.

Such an organisation might look at opportunities across the widest range of public sector activity, including executive agencies, quangos, local authorities and within the NHS.

8.5 Delivery of social services

One of the obvious lessons of Italy is the importance of partnership between local authorities and social enterprises in achieving councils' policy goals. A specific expectation from national government of local government in Italy is that of

market-making in the field of social services. This has a resonance with the role laid out (in the Department of Health's policy statement last year on care homes) that social services authorities in Britain have a role in market management in regard to care homes.

It would make sense for this expectation of British local authorities to be broadened to encompass all of social services, with the additional expectation that this should involve partnership with social enterprises as delivery agents. It is clear that the market can offer greater involvement and choice for consumers in the right circumstances. It is equally clear that there are widespread concerns that excessive involvement by commercial businesses in delivering social care runs risks for the consumer - those of exploitation, lack of involvement, cost cutting. The use of social enterprises can be a bridge between the potentially conflicting objectives of providing choice, while affirming social values. Local authorities are the mechanism by which that combination of positive outcomes can be achieved.

Appendix One

Law 381/91

Approved 3rd November, 1991

Extracts from the regulations governing social co-operative societies

Article One - Definition

1. Social co-operative societies shall pursue the general interests of the community in human promotion and in the citizens' social integration by:
 - (a) Managing social, health and educational services;
 - (b) Carrying out diverse activities - agricultural, industrial, commercial or service activities - whose purpose is the employment of disadvantaged people.

Article Two - Voluntary members

1. In addition to the members provided for by the laws in force, the Articles of Association of social co-operative societies can provide for voluntary members who can work without payment.
2. The number of voluntary members cannot exceed half of all the members.
3. Voluntary members can only be reimbursed the expenses which they actually bear...

Article Four - Disadvantaged people

1. [In type B social co-operatives] disadvantaged people are people with physical, mental and sensory disabilities, former patients of psychiatric hospitals, people undergoing psychiatric treatments, drug addicts, alcoholics, young people under 18 but of working age with family difficulties and prisoners admitted to sentences which are alternatives to imprisonment.
2. At least 30% of the workers in the social co-operative society shall be disadvantaged people. Disadvantaged people shall be members, their subjective conditions permitting. The disadvantage shall be certified by public bodies, save as provided for by privacy rights.
3. Social co-operative societies shall pay no mandatory contributions for old age pension and health coverage with reference to the wages and salaries of disadvantaged people.

Article Five - Public works contracts

1. Notwithstanding the regulations relative to public administration contracts, public bodies - including public economic institutions and public companies with share capital - can enter into public works contracts with Type B social co-operative societies, provided that the supply of goods or services is worth less than €200,000 and that these contracts aim at creating job opportunities for disadvantaged people.

Article Eight

1. The provisions in this Act shall apply to consortia set up as co-operative societies, provided that they are formed by at least 70% of social co-operative societies.

Article Nine

1. Regions shall issue rules for implementation within a year from the coming into force of this Act. For this purpose they establish a regional 'Albo' of social co-operative societies.

Article 11 - Corporate bodies

1. Public or private corporate bodies - whose Articles of Association specifically provide for the financing and development of the activities of social co-operative societies - can be admitted as members of social co-operative societies.

Appendix Two

Law 482/68

This law was approved to assist people who were disadvantaged in obtaining employment. The original definition was aimed at the disabled, widows and war orphans.

Quotas were established for businesses and public bodies to employ a minimum proportion of disadvantaged people. Organisations employing more than 35 people had to ensure that at least 15% of their staff were disadvantaged.

Difficulties in implementing the law meant that it was widely ignored and generally unenforced. It was amended in 1999 as Law 68/1999. Under the reformed law, organisations with more than 50 staff must ensure that at least 7% of their workers are disadvantaged. Organisations with between 35 and 50 employees must employ at least two disadvantaged workers. Those with 15 to 35 staff must employ one disadvantaged worker.

There is still widespread flouting of the law and the government encourages rather than enforces it, providing incentives and grants to companies which obey it. Organisations can opt to comply with the law by guaranteeing to enter into a minimum number of contracts with other bodies which employ large numbers of disadvantaged people. Several companies enter into these agreements with Type 'B' social co-operatives. These arrangements have been approved with the Ministry of Labour, although they were not contained in Law 381/91, 482/68 or 68/99.

Appendix Three: VAT regime for co-operatives in Italy

The main legal instrument governing VAT in Italy is DL 633/72, a ruling by the Italian government issued in 1972. This has been amended on several occasions.

The most current version reads as follows:

Table A, Part II:

"Goods and services are subject to 4% VAT [where] the provision of health, social and educational services, including domiciliary, residential and other type of care [are] provided for the elderly, the disabled, the drug dependent, ... by co-operatives and their consortia directly or within the framework of specific or general contracts."

This was confirmed by Law 381/91, which states in Article 7.3 that the provision of health, social and educational services by social co-operatives will be subject to 4% VAT.

Under Article 10 (Business activities exempt from taxation) of regulation DL 633/72,

"the provision of educational services for children and young people ... by institutes and schools recognised by the public administration and by the ONLUS [not-for-profit organisations with social aims] ... the provision of health and social services, domiciliary, residential and other type of care provided for the elderly, the disabled, the drug dependent, ... by public bodies, ... entities with the aim of providing social care and by the ONLUS [are exempted from charging VAT]."

Section II, article 10 of regulation DL 460/97 provides a thorough definition of what can be considered for taxation purposes an ONLUS. In the Italian context there are several authorised documents which define them as voluntary organisations, social co-operatives and non-governmental organisations.

Services provided by social co-operatives have been exempt from paying VAT since the regulation about ONLUS was passed in 1997.

To clarify the confusion caused by two sets of supportive laws, an official document was released by the Italian Ministry of Finance (Circolare Ministeriale - Ministero delle Finanze Dipartimento Entrate) on 26th June 1998 (n.168/E), which states that social co-operatives can choose the most advantageous of those regulations. But to comply with the principles of fiscal prudence, clarity and coherence, all the activities carried out by the organisation should follow the same regime and the organisation will not be able to change the VAT regime during a fiscal year.

Appendix Four: European Union rules on public procurement

European Commission directives on public procurement are in the process of amendment. This will resolve the issue of how far public bodies can use procurement policy to pursue social and political objectives.

In the context of existing EC Procurement Directives, there are restrictions on what can be done at the award stage. Two different award criteria are permitted, namely the lowest price, or the "most economically advantageous tender." If the latter is chosen by the contracting authority, the contract documents or the contract notice must include the award criteria it will apply in that context, where possible in descending order of importance. Criteria involving social considerations in the choice of the most economically advantageous tender are permitted, provided they are connected with the subject matter of the contract and that they provide an economic advantage for the contracting authority.

In addition, in *Commission v France (Nord-Pas-de-Calais)*, judgment of the ECJ, 26 September 2000, the ECJ held that the "most economically advantageous" provision "does not preclude all possibility for the contracting authorities to use as a criterion [for award] a condition linked to the campaign against unemployment provided that the condition is consistent with all the fundamental principles of Community law" (paragraph 50). The Court has therefore recognised the possibility that award criteria might include social elements, provided they are non-discriminatory and transparent, although the precise significance of the case is subject to some dispute.

It would appear at least that, after tenders have been evaluated on the basis of economic criteria, a contracting authority can decide between tenders considered equivalent on the basis of economic considerations by awarding the contract to the undertaking which satisfies certain social policy goals, thus permitting the approach discussed above. We understand that this is the interpretation of the case by the relevant Directorate General of the European Commission, although this area is one where discussions within the EC are continuing at a high level.

(Extracted from the Northern Ireland Executive's Review of Public Procurement)

Appendix Five: Glossary

Associations. For the sake of this publication, associations are regarded as non-profit making organisations providing services for their members. They are not legally registered as co-operatives.

Community businesses. A community business is a trading enterprise which is controlled by a specific community - usually geographic, but which might also be ethnic or otherwise bringing together a clearly defined group of people. Its services may be geared to the needs of that particular community, which is likely to be its main customer. Trading income may be supplemented by public sector grant.

Co-operatives. Co-operatives are trading enterprises, which are owned and controlled by their members. In the UK, members of co-ops will usually be either workers (in workers' co-operatives), consumers (in retail co-operatives) or tenants (in housing co-operatives). In Italy, social co-operatives may consist of volunteers, service users and workers.

Development trusts. These are not-for-profit organisations which lead in the regeneration of deprived or environmentally damaged areas. They are regarded as one form of social enterprise.

Social capital. The social glue that binds society together: human networks, clubs, groups, trade unions, etc.

Social co-operatives. This is a term widely used in Italy, which is not commonly used in the UK. These are co-operatives which deliver social services on behalf of municipalities.

Social solidarity co-operatives. This is the term used to describe co-operatives providing social services before 1991, when legislation was introduced to recognise and define what became known as social co-operatives.

Social enterprises. This is a term used in both the UK and Italy to describe a range of enterprises which trade to achieve social objectives.

Type 'A' co-operatives. These are Italian social co-operatives which are run by their members to provide social services on behalf of municipalities.

Type 'B' co-operatives. These are Italian social co-operatives which integrate disadvantaged people into the labour market. Many of these workers will become members of the co-operative.

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