
ITALY'S THIRD SECTOR ON CONSOLIDATION COURSE

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Abstract

Until a few years ago, the organizations belonging to the third sector were relatively unknown to a large share of the population, to the media and probably also to the legislator. This is not the case anymore; in fact, nonprofit organizations have gained wider public attention; they are playing a more significant and increasingly autonomous role in the Italian welfare state.

Introduction

Over the last decade, the Italian society devoted a great amount of attention to the so called Third Sector. Until a few years ago, the organizations belonging to this sector were relatively unknown to a large share of the population, to the media and probably to the legislator himself. This is not the case anymore; in fact, nonprofit organizations have gained wider public attention and now play a more significant (and increasingly autonomous) role in the Italian welfare state. Although statistical data are still missing, a common feeling is that nonprofit organizations are growing in number and strength, therefore gaining a more significant role in the Italian economic and social landscape.

Several factors explain this new attitude toward nonprofit organizations: first of all, changes in the demographic, social, economic and legal environment have to be mentioned. Thanks to a significant increase in the average life expectancy and because of a rapidly declining birth rate, the Italian population is growing older. Moreover, while the country is still confronted with a very high unemployment rate, the number of women with a full-time job is now significantly higher than just a few years ago, especially in northern

higher than just a few years ago, especially in northern Italy. These changes in the age structure of the population and in women's access to the labor market generated a whole set of new needs (from children's care to care of the elderly) that the public welfare system has not been able to tackle rapidly. These needs are now generating (although to a quite limited level) demand for new services that are provided neither by the 'state' nor the 'market'. Moreover, private (and public) demand for services is also growing in areas not closely related to the traditional welfare sector, such as the cultural and the recreational areas.

Furthermore, the traditional structure of the Italian welfare state has been under attack because of its failure in providing services of good quality and because of its high costs; while criticism concentrated particularly on the pension and the health systems, public provision in the fields of social and educational services has not been immune against difficulties. These challenges to the Italian system of welfare service provision generated two different trends. The first one is a reduction of direct public expenditure in the welfare area (more relevant in the pension system, but quite evident in health and social services as well) and a tendency to decentralize service provision by transferring it onto the local authorities. The second one can be seen in a heavier reliance on private provision of services as a cost-effective way of serving social needs.

These are some of the reasons why quite a lot of people, as well as many public authorities, started looking at nonprofit organizations as a possible cost-effective answer to new needs emerging in the sector of social and health services. Therefore quite a few new organizations (associations and especially social cooperatives) have been created to answer this new demand coming from local public authorities and, although to a far more limited extent, from private citizens. Scholars agree that the number of Italian nonprofit organizations is growing, that older organizations learn to deal with new markets and behave more and more as economic entities rather than as missionary's clubs.

This attention has been accompanied by new legislation that deals with the Third Sector. A law passed in 1997 (d.lgs 460/1997) reorganized the many fiscal provisions that regulate the so-called *enti*

non commerciali (non commercial bodies); likewise, this law reduced the discretionary power of the fiscal authorities when dealing with those entities. Moreover, the law introduced and regulated a new fiscal entity, the so-called ONLUS or *Organizzazione Non Lucrativa di Utilità Sociale* (nonprofit organization pursuing goals of social utility). This has been in fact the very first attempt by the Italian legislator to introduce a clear definition of nonprofit organizations, to allow for tax exemptions to Third Sector entities as well as to acknowledge extensive tax deductions on donations to nonprofit bodies.

The result is a blend of the American and the Italian tradition: ONLUS are banned from distributing profits (under any form) to members and associates, must act in specific fields and should pursue goals of 'social solidarity'. They receive advantages such as exemption from some taxes and other payments to public bodies, while donors (both individuals and firms) can deduct their donations to ONLUS.

Meanwhile, new developments have to be reported from the field of foundations. Italy has a relatively limited number of foundations; most of them are 'operating institutions' with only a few grant-making organizations. Moreover, the endowment of most Italian foundations is very limited, so that they have been considered as 'sleepy institutions'.

Over the last years, foundations have been re-discovered as a means for running nonprofit activities and as philanthropic intermediaries. New foundations have been established at an increasing rate and foundations now act in fields as diverse as 'lyric theatres' and hospitals; some 'community foundations' are also being established in northern Italy.

Moreover, new and large grant-making foundations have been created as a result of the transformation (and the respective privatization) of a large part of the Italian banking system. These new grant-making institutions (about 100 foundations) rely on endowments of about 30 billion Euro and their annual spending capacity should not be far from 1 billion Euro. These organizations represent a real opportunity for further development of the Italian nonprofit sector.

1. Definition, Size and Role of the Italian Non-profit Sector

Until a few years ago, not many Italian citizens could provide a clear definition of 'nonprofit organization'. While many knew about the 'voluntary movement' and the large number of persons volunteering their time for deserving causes, most people were not conscious of the existence of the array of private organizations providing social, cultural and health services to the population.

This, of course, didn't mean that nonprofit organizations did not exist in Italy, but rather that they were mixed up with other organizations and that they were not recognized as part of a specific sector of the economy. The wide extension of the public sector, together with the existence of a blurred border between public and private organizations, explains this confusion and, at the same time, accounts for the limited role played by nonprofit organizations in the provision of welfare and cultural services. The unclear distinction between private nonprofit and public organizations is deeply rooted into the Italian history and legislation, as the next paragraph will show; it has only been throughout the last decade that a clearer differentiation between the two sectors has emerged.

Nowadays, most people understand that the nonprofit sector is the vast and variegated sector including associations, foundations, social cooperatives and other kinds of organizations that redistribute wealth or produce goods and services that benefit the population at large without distributing any profits to their members and employees.

Although most people now understand the words 'nonprofit sector', the Italian legislation is far from being clear as far as the definition of 'nonprofit' is concerned. Moreover, the emergence of the nonprofit sector as a distinct entity, separate from the public and the private forprofit sector, has not yet produced a reliable set of statistical information. The only attempt to estimate the size and dimensions of the Italian nonprofit sector was undertaken by the Italian part of the Johns Hopkins project in the first half of the nineties,

with data relating to 1991. Beside that, only minor sectoral estimates have been produced, so that a up-to-date picture of the whole sector is not yet available. A new effort in this direction has recently been undertaken by the Italian team of the Johns Hopkins Project together with Istat, the national statistical office. Results should be available in a couple of years.

Therefore, my description of the Italian nonprofit sector will rely on data relating to 1991. Moreover, I will try to describe - in a sketchy and often non-quantitative way - the most relevant changes that took place in the last eight and nine years; these changes should justify the thesis that the Italian nonprofit sector is 'on a consolidation course'.

Employees and Volunteers

Although much smaller than those of other countries, the Italian nonprofit sector is by no means of trivial dimensions. In fact, in 1991, it employed approximately 418,000 full-time-equivalent persons, representing 1.8 % of total employment for the country and 2.9 % of the employment of the sector of services. Moreover, the sector made use of a large number of volunteers: about 273,000 'full time equivalent' (with more than 2 million people involved) and about 15,000 conscientious objectors. When volunteers are added to the number of paid workers, the size of the nonprofit sector increases to about 3% of total national employment (table 1).

Table 1:
Employees and volunteer workers in the nonprofit sector (1991)

	EMPLOYEE S (1)	VOLUNTEER S (2)	(1) + (2)
Absolute figures (standard employment units)			
	418,128	302,950 (*)	721,078
Percentage of employment (standard employment units)			
of total economy	1.8 %	1.3 %	3 %

of the sector of services	2.9 %	2.1 %	4.9 %
(*) Of which 14,529 conscientious objectors and 15,560 seconded personnel.			

Source: Barbetta, 1997

The Italian nonprofit sector creates about 1.1 % of GDP and about 1.7 % of the value added of the sector of services, a lower share than the employment one. This mainly (but not exclusively) results from the fact that the wage level in the nonprofit sector is about 10-15 % lower than the national average. It is worth noting that - notwithstanding great variations in wages among the various types of organizations that make up the nonprofit sector - most nonprofit organizations show 'credible' wage levels. Variation in wages is a first hint to the varied nature of entities that make up this sector; moreover, a wage level not so far from the national average witnesses to the high level of stability and 'professionalism' reached by many Italian nonprofit organizations.

Fields of Activity

The bulk of the Italian nonprofit sector is concentrated in the field of welfare activities, but also the areas of culture and recreation reach a significant economic dimension. Most of the work force of the sector operate, in order, in the fields of social services (33 % of persons employed in the nonprofit sector), education and research (28 %) and health (14 %). Its capacity to mobilize volunteers puts social services at the top of the league, with 30 % of volunteers, followed by culture and recreation, which - with only 6 % of salaried personnel - mobilizes 30 % of all Italian volunteers, and by health (13 % of volunteers) (table 2).

These differences testify the great variance existing among nonprofit organizations: entities with a solid base of paid employees work side by side with others that rely mainly on volunteers. The amount of paid employees heavily depends on the sector and the activity chosen by the organizations: Therefore, for example, nonprofit organizations providing services tend to hire more staff than those

concentrating on advocacy; meanwhile, nonprofit organizations running hospitals and schools rely on paid staff more than entities supplying sport training to young people.

Table 2:
Employment and volunteers for each major activity group of the nonprofit sector (1991)

		Employees	Volun- teers
Group	Percentage of total nonprofit sector		
1	Culture and Recreation	6.3	30.3
2	Education and Research	28.5	9.2
3	Health	14.1	12.8
4	Social Services	33.4	35.3
5	Environment	0.2	1.6
6	Development and Housing	4.5	2.9
7	Law, Advocacy and Politics	2.1	1.7
8	Philanthropic Intermediaries	0.5	0.1
9	International	1.4	1.5
10	Business and Professional As- sociations, Unions	8.8	4.5
Nonprofit Sector		100	100

Source: Barbetta, 1997

Financial Resources

Nonprofit organizations are financed by a mix of public and private funding, the first being the most relevant source of funding – if business and professional associations and unions are excluded from the analysis (table 3). But the prevalence of public funding is by no means the most significant feature of the Italian way of funding the Third Sector. On the contrary, one should stress two other characteristics.

First of all, donations - the distinctive element of the nonprofit sector according to the vast majority of people - only account for a negligible amount of the revenues of the Italian nonprofit organizations (around 5 % of the whole). This depends on several factors, including a fiscal legislation not encouraging gifts to nonprofit bodies and a tradition of giving to churches.

Moreover, revenues coming from the sale of goods and services, either to private or to public purchasers, represent almost 70 % of total revenues of the Italian nonprofit organizations (35.8 % in the form of grants and contracts from public bodies and 32.7 % in the form of fees and sale of services to private buyers). This testifies to the level of professionalism reached by many nonprofit bodies that can produce goods and services that someone is willing to buy.

Table 3:
Percentage breakdown of nonprofit sector revenues

	Nonprofit Sector (without group 10)
% OF TOTAL REVENUES	
Grants and Contracts	35.8
Statutory Transfers	10
Third Party Payments	5.7
TOTAL PUBLIC REVENUES	51.6
Donations	5
Fees and Sales of Product	32.7
Dues	2.4
Investment Income	3.5
Other Income	4.9
TOTAL PRIVATE REVENUES	48.4
TOTAL REVENUES (million Lire)	
	22,260

Source: Barbetta, 1997

Public funding – especially in the areas of health and social services – generally takes the form of contracts (payments for specific activities performed by the contractees), while statutory transfers - provided without any requirement for the specific provision of services or goods - are not important anymore even though they were quite relevant in the past.

The large use of ‘contracting out’ testifies to a new strategy for the organization of the Italian welfare system. In fact ‘contractual relationship’ with nonprofit organizations became more frequent in recent years, when many local governments decided to rely on nonprofit providers for supplying social and health services to the population; this movement toward ‘subsidiarity’ has reverted a century-old tradition of public provision and financing of services. The amount of government funding varies greatly from field to field. Some organizations depend almost entirely on this source of income for their existence (especially advocacy and civil rights groups), while for others public finance represents only a marginal source of income

(business and professional associations and unions, philanthropic intermediaries, culture and recreation, environmentalists).

Role of the Sector

In general, at the beginning of the nineties, the Italian nonprofit sector played a secondary but not irrelevant role in the country's economic and welfare systems. In some areas (such as the health and the training sectors) nonprofit organizations were closely connected to large public systems of service provision, such as the national health service and the national school system. Therefore, they heavily depended on public funds for their providing services to the population, while the services they were providing were not very different from those provided by public bodies.

In some other areas (such as the social services) nonprofit organizations have replaced public service provision that had been proved to be insufficient, and they played a pioneering role in some areas of need (such as drug addiction, aids, etc.). Today these organizations also depend quite heavily on public funding, but they still rely on volunteers and private donations, their most relevant source of funds in a quite recent past.

In some areas, such as advocacy or the environment, nonprofit organizations are the only player on the field whereas in areas where public intervention is much weaker, such as in sport and recreation, nonprofit organizations act together with forprofit firms, but serve quite different shares of the market. Nevertheless, it is quite easy to see that competition between the two sectors will increase in the near future, in so far as nonprofit will look for new sources of revenues to cross-subsidize the provision of services to poor people.

2. Recent Trends and Perspectives

While up-to-date data on the size of the Italian nonprofit sector are not available, several factors suggest that the sector may be growing in size and that it is consolidating.

2.1 The Rise of the Entrepreneurial Nonprofit Sector

The very first factor is represented by the rapid development of the most entrepreneurial side of the nonprofit sector, the area of the so called *cooperative sociali* (social cooperatives).

The social cooperatives are regulated by law 381/1991. The law states that social cooperatives have a solidarity aim rather than the mutual aim typical of ordinary cooperatives; social cooperatives, in other words, tend to benefit people in need rather than members. They provide two kinds of services; the so-called 'type A' cooperatives provide social, health and educational services to the population, while the 'type B' cooperatives provide job opportunities to disadvantaged people; in fact, at least 30 % of their employees should be disadvantaged workers (such as drug addicts, the handicapped, former criminals, long term unemployed, etc.).

While 'type A' cooperatives generally sell their social, health or educational services to the public administration (and to a certain extent to the population at large), 'type B' cooperatives behave as 'real enterprises' - they hire disadvantaged individuals that have not be able to enter the job market, produce goods and services and sell them on the market.

The social cooperatives were relatively uncommon at the beginning of this decade, with just a few experiences in place. It has really only been over the last 10 years that they have spread all over the country and have started playing a more significant role in providing services and creating job opportunities. While in 1993 only about 2,000 social cooperatives were active, in 1996 (latest figure available) their number had almost doubled to 4,000 organizations (CGM, 1997). In the northern region of Lombardy, about 100 new social cooperatives have been created each year since 1995 (Ronchi, 1999).

Nowadays, the Italian social cooperatives generate about 70,000 employees, up from the about 50,000 at the beginning of the decade. In Lombardy, probably the most lively area of the country as far as social cooperatives are concerned, their employment grew from

16,800 employees in 1997 to 19,600 in 1998. The outburst of new initiatives will most likely create several new jobs over the next years, when the new initiatives consolidate and grow.

The growth, in numbers and in strength, of the sector of social cooperatives is very important because it signals a 'radical change' in the structure of the Italian nonprofit sector. In fact, until a few years ago, the Italian nonprofit sector was characterized by a sort of 'dualism'.

On one side one could find large and solid organizations, often decades or centuries old, and characterized by a large degree of bureaucratization and conservatism. Examples are the large, often church-related organizations providing services to the youth or the elderly; most of them were organized as large institutes serving tens and sometimes hundreds of people in large, segregated facilities. On the other side, many smaller organizations, mostly based on volunteers (and with no employees) were providing innovative (and more controversial) services that greatly improved the quality of care to the citizens. Given heavy reliance on volunteers and limited public support, many of these organizations survived only a few seasons and could not serve a rapidly growing demand.

Therefore, social cooperatives represent a sort of half-way between these two polar types of organizations, they tend to be quite innovative in service production and are supported by a good number of volunteers, but nonetheless make large use of paid staff and have been able to develop good managerial skills and attention towards economic issues. Quite many social cooperatives evolved out of the cultural, motivational and religious background of the 'voluntary movement' of the eighties.

2.2 The Rediscovery of Foundations

The second factor that testifies to the consolidation of the Italian nonprofit sector, is the growth in the number of foundations. Foundations are not very common in Italy; in fact, their number is quite limited compared to that of associations (by far the most widespread legal provision in the Italian nonprofit sector) and social cooperatives.

Moreover, as opposite to the American and the German situation, most Italian foundations are 'operating foundations' rather than grant-making ones. In fact, most Italian foundations run some kind of activity: they do research, provide educational, social or health services, run a museum, and so on (table 4).

Table 4:
Activities of the Italian foundations (1996)

Sector of activity	%
Preservation of the cultural heritage	9.1 %
Education and training	28.8 %
Artistic, scientific and medical research	32.1 %
Social services and health	25.1 %
Environment	1.2 %
International co-operation	0.8 %
Religion	2.9 %

Source: Adapted from Demarie (1997)

Only about 5 to 25 % of the Italian foundations make grants of any sort (see table 5). Moreover, the endowments of Italian foundations are very limited in size; in fact, about 90 % of the Italian foundations have assets of less than 10 billion lire (or about 5 million Euro). With an average gross market return of about 5 % (not easy to obtain in Italy right now), these foundations could get 500 million lire (about 250,000 Euro) for running their activities or making grants. But about 50 % of the Italian foundations - given their assets of less than 1 billion lire - could get, at the most, 25,000 Euro each year (table 6).

Table 5:
Grant-making versus operating foundation in Italy (1996)

Activity	%
Grant-making foundations	5.3 %
Fellowship and scholarship grant awarding foundations	10. %
Operating foundations	38.8 %
Mixed foundations	43.1 %
of which:	
- mostly operating	33.3 %
- mostly grant-making	9.8 %
Unspecified	2.8 %
Total (absolute value)	536

Source: Demarie (1997)

Table 6:
Assets of Italian foundations (1996)

Foundations with endowments of	%
less than 1 billion lire	58.5 %
1 to 10 billion lire	30.1 %
10 to 50 billion lire	8.5 %
more than 50 billion lire	2.9 %

Source: Adapted from Demarie (1997)

Furthermore, most foundations employ a very limited number of people, and 50 % do not employ anyone; this is particularly surprising given their operating rather than grant-making attitude. It is quite clear, therefore, that Italian foundations are not really in good shape.

This scenario may change in the near future. In fact, foundations, a neglected form of organization for a very long time, are now being set up at a quite high rate; moreover, the legal framework of the private foundation is being used for the privatization of public institutions in areas such as the provision of social services and the

performing arts; furthermore, new and very powerful actors are now entering the grant-making stage thanks to the privatization of the so called 'banking foundations'.

New Foundations Established

In Italy, according to a recent estimate produced by the 'Centro di documentazione sulle fondazioni', foundations are now being established at the quite high rate of 5 new organizations each month (Centro di documentazione sulle fondazioni, 1999). This is quite interesting after a very long period characterized by little interest in these organizations.

This outburst of new organizations could be the result of easier legal conditions for starting a foundation. In fact, before 1977, in order to get legal personality (and limited liability), foundations had to be formally recognized by an official decree of the President of the Italian republic - this meant a great deal of bureaucracy and long delays (often several years). Since 1977, foundations acting at limited local level can obtain legal personality through a much faster regional decree. Moreover, since 1991, foundations acting at the national level can get their legal recognition through to a decree issued by a ministry.

Foundations in Social, Educational and Health Services

At the beginning of the 19th century, when Italy was still a collection of regional states, nonprofit institutions – mostly foundations - played an important role in providing social and health services to the population.

The situation changed at the end of the century, when Italy became a unified country and the industrialization process was started. At that time, a new national political élite (with a lay and liberal cultural background) fought the power and influence of the church and, at the same time, tried to integrate the socialist movement, still taking its first steps, into the political structure of a capitalist economy. Given the conflicts existing between the new lay na-

tional elite, the Catholic Church, and the working classes, the Italian state took direct responsibility for the provision of welfare services; the role of private nonprofit organizations was limited (as they represented a danger for the new ruling class) and they were integrated, if possible, into the public system of service provision.

In 1861, when the Italian state was first established, almost 18,000 so called *Opere Pie* provided the bulk of social, educational and health services to the population: in fact, public expenditure amounted to only 60 % of *Opere Pie* expenditure in the same fields (Ranci Ortigosa, 1990, p. 384). The *Opere Pie* were, in essence, private charitable foundations whose endowments consisted of legacies and donations acquired over the centuries. Almost all of them were controlled and governed by the Catholic Church.

With different laws, passed between 1866 and 1890, the Italian State confiscated the estates of various religious orders and congregations; moreover, a law approved in 1890 - the *Crispi* law, named after the Prime Minister in charge - exposed the *Opere Pie* that provided health, welfare, educational and vocational training services to governmental control and obliged any welfare institution to assume the status of 'organization belonging to the public sector' and the name of IPAB (*Istituzione Pubblica di Assistenza e Beneficenza* or public institution for assistance and benevolence).

Nevertheless, the religious institutions providing welfare services preserved a considerable degree of autonomy, especially since 1929, when the signing of the Concordat marked the end of hostilities between the Italian state and the Roman Catholic Church as well as the abandoning of the liberal principle of separation of the church from the state. Thanks to their hybrid status, the *Opere Pie* changed into IPABs enjoyed many advantages. In fact, they got money from the public purse in the form of subsidies for capital expenditure (such as for medical equipment or the repair and renovation of buildings) and benefited of easy access to public contracts for the provision of health and welfare services.

This wide autonomy was endangered in 1977, when a new law placed IPABs under the control of local authorities, raising a great degree of concern in the traditional administrators. But in 1988

the Constitutional Court declared that part of the *Crispi* law was unconstitutional. As a result of this ruling, those IPABs that had been 'nationalized' by the *Crispi* law were allowed to get back to their original legal status of private charitable foundations.

Nevertheless, it has been only in the second half of the nineties that the 'privatization process' of the IPABs gained momentum. This process is now transforming a large number of public institutions into private foundations providing social and health services to the population. According to a recent estimate, in the years from 1993 to 1998, about 1200 IPABs changed their legal status and were transformed into private foundations (Ranci and Costa, 1999); most of these transformed institutions - as well as IPABs - concentrate in the northern part of the country (table 7).

Table 7:
Existing IPABs and IPABs transformed into private foundations

Area	Existing IPABs (1998)	'privatized' IPABs (1993-1998)
North-West Italy	1.772	727
North-East Italy	791	176
Central Italy	872	168
Southern Italy and Islands	788	85
Italy	4.223	1.156

Source: Ranci and Costa, 1999

Foundations as a Tool for Privatizing Public Bodies

Over the last years, thanks to law decree 367, passed in 1996, the Italian 'lyric theatres' and other 'concert institutions' that were part of the public administration have been transformed into private nonprofit foundations.

This legal transformation aims at reducing, in the long term, the burden placed on the public purse for the funding of these cultural institutions that boast an excellent reputation (such as the 'La Scala' theatre in Milan) but experience bad economic performance. The law states that the production of public events in the field of lyric music should be considered as an economic activity and should be run accordingly; furthermore, the legal transformation is an attempt to involve private entrepreneurs and institutions in the funding of the most important Italian lyric theatres. To be transformed into private nonprofit bodies, the lyric theatres must prove that they can balance their budget, at least in the long run, and must start building their endowment, with the state contributing in the form of 'matching grants'.

The new private foundations are subject to much public control but, on the other side, they also enjoy many advantages; in fact, they are entitled to annual public funding (coming from the national Fund for the Arts), while donations aimed at endowment building are exempt from taxes and donors benefit of deductions much larger than usual.

It is really too early to say whether this transformation will be successful and the new foundations will be able to survive, to keep up the high level of their artistic productions with reduced public funding. Nonetheless, it is quite likely that the model of the 'lyric theatres' will be followed in the future for the privatization of public bodies in the fields of culture, education health and social services.

2.3. The New 'Banking Foundations'

'Banking foundations' are the outcome of the process (still to be completed) of transformation and privatization of many public banks, started by law 218/1990. At the end of the eighties, most of these banks (about one hundred Casse di Risparmio - savings banks - and a few Istituti di Credito di Diritto Pubblico or public law banks) were incorporated as foundations or associations. This legal status is nowadays very unusual for organizations acting in the banking industry and its origin goes back into history.

Most of the Italian savings banks were set up in the first half of the nineteenth century. Quite often, the start-up capital was provided by rich and enlightened personalities, sometimes (especially in Northern Italy) supported by the more farsighted government authorities.

The main aim of these banks - and their founders - was to stimulate savings of the middle and working classes. Contrary to banking tradition, saving was not considered as a requisite for the accumulation of capital or as a means for starting the process of industrialization, but as a 'provident' project. The savings banks were therefore 'private institutions pursuing collective aims' or, so to say, 'welfare institutions' as far as their aim was to help and encourage individual to save for the bad days to come. These banks were subject to a nonprofit distribution constraint, so that a large part of their profits was distributed in grants and what was left was accumulated in reserve funds.

Over the years, the savings banks were submitted to public control and became part of the public sector; this 'nationalization' was enforced because of the public purpose pursued by the savings banks and because banking was considered as an activity of public interest. In 1990, the savings banks controlled by the government still represented a strange hybrid of profit (banking) and nonprofit (charitable) activity. Several events made the nonprofit status of public banks seem both anachronistic and restrictive: the competitive conditions resulting from the ratification of European Union directives on banking, the recognition of the entrepreneurial nature of banking, and the conviction that economic development can be better pursued through efficient banking rather than charitable activity undertaken by financial institutions.

Law 218/1990 allowed the savings banks (incorporated as foundations or associations) to change their legal status. Thanks to substantial fiscal incentives, they were allowed to break up their banking activities and contribute them to new joint stock companies; this allowed the creation of banks able to compete on an equal footing with ordinary private banks: they can, for example, raise capital on the market, while their stockholder can reap profits. The foundations, still the majority shareholders of the new banks, should then

concentrate on their charitable, social and welfare activities: the shares of the new banks represent their endowment and the dividends received constitute the income used to pursue the philanthropic goals.

At first, the law did not allow these foundations to give up control of their banks, unless control remained within the public sector. This decision was subsequently reversed, in spite of strong opposition from interested parties: in 1993 the government declared it illegal for one person to hold appointments as both administrators of a foundation and the bank it owned; in 1994, a new law freed the foundations from the burden of maintaining a majority share in the banks, while a law recently passed (May 1999) forces the foundations to sell their shares of the banks, although over a 6 years period, and puts them back into the private sector.

The legislator is therefore moving towards a permanent separation of banking and charitable activities: the new banks should maximize their profits in a competitive market, while the foundations should concentrate on their charitable business, diversify their portfolios and behave like true nonprofit organizations and not like financial holding companies.

This recent change in law has probably been determined by the desire to put the public banks in private hands rather than by any clear plan to create a strong sector of philanthropic foundations: foundations are therefore a sort of by-product of banking privatization. It is also quite interesting and comical that a large sector of private philanthropic institutions will be created as a result of public regulation rather than private benevolence.

The 'banking foundations' are very well-endowed institutions compared to the 'average' Italian foundations. In fact, the total net assets of the about 90 banking foundations amount to about 60,000 billion lire (about 30 million Euro). They are concentrated in the northern part of the country (table 8), while foundations in central Italy are relatively limited in number and small in size, and they are almost absent in southern Italy. This geographic concentration is quite important given the habit of these foundations to fund organizations

and causes located in their areas, and given the great amount of needs in Southern Italy.

The assets are not only concentrated in northern Italy, but also in just a few foundations: three of them (3.5 % of total foundations), with individual assets greater than 5,000 billion lire (about 2.5 billion Euro), account for about 45 % of total net assets while, a large number of small institutions (49 foundations, about 57 % of the total number), with individual endowments of less than 200 billion lire (about 100 million Euro), account for only 9% of total net assets.

Table 8:
Geographical concentration of foundations and assets

Area	Number of foundations	%	Assets (billion lire)	%
North-West	18	21.0	23,774	46.8
North-East	28	32.5	9,781	19.2
Centre	29	33.7	10,524	20.7
South-Isles	11	12.8	6,738	13.3
Total	86	100	50,817	100

Source: Ranci and Barbetta, 1996, p. 100

The endowments of the banking foundations could generate large incomes to be spent on charitable activities: a rough estimate is that about 1.5 billion Euro could be devoted every year to nonprofit and public organizations acting in the fields of culture, health, social services, the arts, etc.

It is therefore quite interesting to understand who gets the grants of the banking foundations. The single largest sector of contribution is 'art and culture', followed by 'social services', 'education' and 'health' (table 9).

Table 9:
Distribution of Banking Foundation Grants by Field

Sector	1993	1994	1995	1996
Art, culture and Recreation	30%	31%	31%	35%
Education and Research	20%	19%	20%	20%
Health	16%	17%	10%	10%
Social Services	26%	26%	26%	26%
Environment	1%	--	--	1%
Development and Housing	4%	3%	8%	5%
Other	3%	4%	5%	3%

Source: A.C.R.I., 1996, p. 153-154; 1997, p. 108 and 1998, p.100

The Italian banking foundations show a strong preference for financing the purchase of capital goods, the construction and restoration of buildings and the conservation or restoration of art works. In fact, the funds granted for buying or restoring these infrastructures account for more than 50% of the total. Moreover, a good 22 % of the funds is spent on the 'running costs' of some organizations (table 10).

Table 10:
Purpose of Banking Foundation Grants

Purpose of grants	1993	1994	1995	1996
Purchase of capital goods	23%	24%	15%	15%
Construction and restoration of buildings	22%	15%	19%	16%
Conservation and restoration of works of art	15%	16%	14%	16%
General operating support	21%	22%	31%	23%
Cultural, scientific and sporting events	11%	9%	9%	9%
Research projects	5%	5%	3%	3%
Other	3%	9%	9%	18%

Source: A.C.R.I., 1996, p. 156 and 1998, p. 107.

These figures reflect the great Italian need of funds for restoration (works of art and ancient buildings and also buildings belonging to organizations operating in the social services field) and the purchase of capital goods (advanced technical instruments in the health field, such as CAT scan machines for example). They also reflect the conservative approach of the Italian banking foundations to the grant-making. The picture shown by putting together the data from the various sources seemingly confirms the traditional - although sketchy - belief about the charitable behaviour of foundations: foundations give many small grants to country parish priests for restoring church bells. There is no definitive evidence to support this image, but the need to rethink the role of banking foundations is quite evident while the possibilities raised by this large amount of money are huge for a nonprofit sector as weak as the Italian one.

2.4 New legislation

The birth of new institutions and the re-discovery of old ones has been accompanied by new legislation that deals with the Third Sector. A law passed in 1997 (d.lgs 460/1997) re-organized the many fiscal provisions that regulate the so-called *enti non commerciali* (non commercial bodies); likewise, this law reduced the discretionary power of the fiscal authorities when dealing with those entities. Moreover, it introduced and regulated a new fiscal entity, the so-called ONLUS or *Organizzazione Non Lucrativa di Utilità Sociale* (nonprofit organization pursuing goals of social utility). This has been in fact the very first attempt of the Italian legislator to introduce a clear definition of nonprofit organization, to allow for tax exemptions to Third Sector entities as well as to acknowledge extensive tax deductions on donations to nonprofit bodies.

The result is a blend of the American and the Italian traditions: ONLUS are banned from distributing profits (under any form) to members and associates, must act in specific fields and should pursue goals of 'social solidarity'. They receive advantages such as exemptions from some taxes and other payments to public bodies, while donors (both individuals and firms) can deduct their donations to ONLUS.

Conclusions

Several factors explain the new Italian attitude toward nonprofit organizations. First of all, changes in the demographic, social, economic and legal environment have to be mentioned. Thanks to a significant increase in the average life expectancy and because of a rapidly declining birth rate, the Italian population is growing older. Moreover, while the country is still being confronted with a very high unemployment rate, the number of women holding a full-time job is now significantly higher than just a few years ago, especially in northern Italy. These changes in the age structure of the population and in women's access to the labour market generated a whole set of new needs (from children's care to care of the elderly) that the public welfare system has not been able to tackle rapidly. These needs are

now generating (although at a quite limited level) demand for new services that are not provided by the 'state' or the 'market'. Moreover, private (and public) demand for services is also growing in areas not closely connected to the traditional welfare sectors, as for example cultural and recreational services.

Furthermore, the traditional structure of the Italian welfare state has been under attack because of its failure in providing services of good quality and because of its high costs; while criticism concentrated particularly on the pension and the health systems, public provision in the fields of social and educational services has not been immune against difficulties. These challenges to the Italian system of welfare service provision has generated two different trends. The first one is a reduction of direct public expenditure in the welfare area (more relevant in the pension system, but quite evident in health and social services as well) and a tendency to decentralize provision by transferring it onto local authorities. The second one is heavier reliance on private provision of services as a cost-effective way of serving social needs.

These are some of the reasons why many people, as well as many public authorities, started looking at nonprofit organizations as a possible cost-effective answer to new needs emerging in the sector of cultural, social and health services; at the same time, these are the reasons why the Italian nonprofit sector will most probably play a more relevant role in the future.

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