

SEVENTH EDITION OF THE “UBI BANCA OBSERVATORY ON FINANCE AND THE THIRD SECTOR”

The 2017 report focuses on financial requirements and future developments of the two groups of which the Italian social enterprise sector is composed: on the one hand the survey explores revenue forecasts for 2018, relationships with banks and the outlook in terms of the financial requirements of **social co-operatives**, a long-standing part of this world, and, as a result of the reform of the third sector and of social enterprises (Law No. 106/2016), also legally authorised social enterprises; on the other hand the same analysis has been conducted on “*startup innovative a vocazione sociale*” (SIAVS – innovative social vocation enterprise start-ups), those innovative start-ups (Law No. 221/2012), which operate in social enterprise sectors by law and pursue aims designed to produce a social impact.

The principal findings for social co-operatives:

1. **growth prospects** for social co-operatives are **linked mainly to** sales of goods and services on the market (+10.0%). **Relations with public administrations** remained very significant even if the expectations showed **stable relationships (+7.6%)**
2. the **use of digital services grew again (96.0%, +4.4% on 2016)**, as did demand to develop stakeholder fidelity services (+1.1%)
3. **the use of loans from financial institutions** to cover investments rose (+3.0%) and 1 co-operative out of 2 plans to make **new investments (54%)**
4. the traditional mix of funds to cover investments was confirmed consisting of **self-financing**, which continues to grow (45.4%; +4.5%), and recourse to **banks (35.3%; +4.3%)**. Public sector financing fell (-10.7%) to leave room for private sector funding (6.6%);
5. 1 co-operative out 3 **knew of social impact finance** and 72.4% of these declared that they were willing to use these instruments.

The principal findings for innovative social vocation start-ups:

1. the survey confirmed the diversity of motives and entrepreneurial choices of the SIAVS compared with social co-operatives. The survey sample showed that the **exchange of goods and services** is the **core market** in which they operate (+51.2% compared with social co-operatives)
2. the **use of digital services is high (86.0%)** and the **demand for financing for investments is also significant (+13.6% compared with social co-operatives)**
3. at the start-up stage, SIAVS mainly resort to **grants** for funds (34.0%), compared with finance and equity (18.0% for both types of funding). Within the sample, SIAVS with the legal form of an Srl (limited liability company) mainly make use of grants (39.5%), while those with the legal form of a corporate mostly used finance instruments (28.6%)
4. SIAVS indicate **capacity building** (managerial support) as the main instrument for their growth (36.0%), followed by seed and preseed financing (30.0%). The indication of networking as a scaling up lever is very significant (28.0%).

Milan, June 19th 2018 - With technical assistance from **AICCON** (Italian Association for the promotion of a co-operation and nonprofit culture) UBI Banca presents the **seventh edition of the UBI Banca Observatory on “Finance and the Third Sector”** formed with the objective of continuously monitoring the state of progress and development of the **financial requirements of the various organisations** that make up **Italian social enterprise** and the third sector in general.

For the seventh consecutive year, observation of the main legal forms of nonprofit organisations is continuing, commenced in 2011 with an annual analysis of **social co-operatives** and added to over the years

with a focus on **associations** (2012), **foundations** (2013), **social enterprises** with the legal form of a limited liability company (2014), **hybrid organisations with co-operative origins** (2015) and large size **associations** (2016).

The seventh edition of the survey, which covers 2017, involved the **analysis of a sample** conducted by administering a survey questionnaire to the managers of **250 social co-operatives** and of consortia of social co-operatives and **50 innovative social vocation start-ups (SIAVS)**.

According to recent data released by ISTAT (Italian office for national statistics) in December 2017 (data relating to 2015), social co-operatives in Italy numbered 16,125 and had 416,097 employees and 43,781 volunteers.

Innovative social vocation start-ups, on the other hand, numbered 173, of which 92.0% had the legal form of a limited liability company and 7.5% that of a co-operative (Unioncamere data, 2018).

Focus on social co-operatives

The seventh edition of the UBI Banca Observatory on “Finance and the Third Sector” gives us a snapshot of Italian social co-operatives which, compared with the Observatory’s previous edition, shows growth for 2018 in **forecasts of revenues from relationships with the public** (+7.6%) and on the other hand a further **improvement in growth forecasts** (+10.0% compared with the previous year) **in revenues from sales of products and services on the market**, which confirms the growing orientation by Italian social co-operatives towards paying demand with the aim of reaching economic sustainability, a strategy which has been strengthening over the years observed.

In terms of the use of banking services, what emerges is above all demand for services **based on digital IT technologies** (internet banking, POS terminals, digital signatures) and support in terms of the development of fundraising services. As concerns the use of services and tools* provided by banks with which they hold accounts, 96.0% of social co-operatives say they have used digital services, while with regard to the demand for the development of new tools and services by banks, the main request (almost 7 co-operatives out of 10) regards support for fundraising (-6.0% compared with the previous year), which more generally can be seen as a request for support in terms of financial expertise, which at times third sector organisations are unable to fully master. The request for support in terms of **stakeholder fidelity** services recorded growth (+1.1%). **Requests for financing both to support operations and for investments** fell (-3.6% compared with 2016). The figure for the use of **insurance services from banks** and also for digital services remained almost unchanged (+0.4%).

The figure for knowledge by social co-operatives of **social impact finance** recorded growth: almost 1 co-operative out of 3 declared that they **knew** of these instruments, with the knowledge obtained by word-of-mouth within the third sector community rather than through direct study of how these tools function. Over 7 out of 10 of those who declared they knew of social impact finance instruments declared an interest in using these instruments. Two components were found on this matter within the social co-operative

* Finance for working capital⁽¹⁾ = advances on receivables/public administration contributions, advances on “5 per 1,000” tax donations, unsecured guarantees on contribution advances; bancassurance services⁽²⁾ = damages policies, access to health funds for employees-collaborators-volunteers; digital services⁽³⁾ = internet banking, apps, POS terminals, digital signatures. In 2015 only the web was found for fundraising; in 2011 POS terminals, both physical and virtual, the web fundraising and the web for sales of products and services. Automated payment/collection instruments⁽⁴⁾ = Ri.BA. (Payment by advice), receipts via R.I.D. (old direct debit)/SDD (SEPA direct debit). Receipts via R.I.D. /SSD were not recorded in 2012.

community. On the one hand there are those who said they were ready to use social impact finance tools and on the other there are social co-operatives who said they would only approach this type of finance if they knew more about how it functions, which confirmed the sentiment found in the Observatory's last edition.

Furthermore, social co-operatives predicted a contraction in **investments** for the current year (-6.4% compared with the previous year, a reversal of the positive trend for growth recorded in the three-year period 2014-2016). For those that plan investments (54.0% of the sample), self-financing was again the main source of funding (45.4%, up 4.5% on the previous year) to meet demands for growth and investment followed by bank loans (35.3%; +4.3%).

Over 7 out of 10 of those interviewed considered that normal instruments used by the co-operative sector (e.g. *fondo mutualistico* – a special type of mutualistic fund, funded with risk capital, the grant of subsidised mortgage loans, arrangements with financing bodies designed to increase the value of funds, microcredit – *Cooperazione Finanza Impresa* – CFI a co-operative institutional investor, etc.) could be the best solution for social co-operatives to **increase investments**.

Focus on innovative social vocation start-ups

The second half of the seventh edition of the Observatory reports its findings on the sample of innovative social vocation start-ups (SIAVS), by examining differences and similarities existing between start-ups with the legal form of a **limited liability company** (SRL) and those with the legal form of a **co-operative** as well as by comparing them with the social co-operative sector.

Almost 6 SIAVS out of 10 forecast growth for 2018 in revenues generated by contributions, standing arrangements, relations with public authorities, donations and generally from revenue not derived from market transactions (+43.2% compared with the same figure for social co-operatives). Observation of the data on the legal forms of SIAVS, both for co-operatives and limited liability companies, shows mainly forecasts of growth for revenues from contributions, standing arrangements, donations and relations with public administrations, although the percentages are different: almost 86% for co-operatives and almost 54% for limited liability companies. Almost 9 SIAVS out of 10 forecast an increase for 2018 in **revenue from market transactions** (+51.2% compared with the same figure for social co-operatives), which depicts that type of enterprise as one with a strong commercial nature, confirmed also by the fact that none of these types of enterprise do no business on the market. Furthermore, the SIAVS that declared the best growth forecasts were those with the legal form of a co-operative (100.0%).

The degree to which **services provided by banks are used by SIAVS** and their interest in them in terms of **developing new instruments** is very different from what was found for social co-operatives. Even if in this case too the services used most were **digital services** (86.0%; -10.0% compared with the social co-operative sample), the use of the remaining instruments distinguishes SIAVS in the comparison with social co-operatives. In fact the former showed a higher intensity of **applications for financing** compared with the latter both for **investments** (+13.6%) and for **operations** (+2.4%), and also for the use of **insurance services provided by banks** (+5.6%). As concerns the development of new instruments by banks, the main orientation is in the direction of developing instruments to **support fundraising** (34.0%; -34.6% compared with social co-operatives).

Over 2 SIAVS out of 5 (+10.4% compared with social co-operatives) declared that they **knew of social impact finance instruments**. This good percentage of SIAVS that know of **social impact finance** is confirmed by the number of enterprises that say they are **interested** in the use of these instruments, which was 7 out of 10 (-2.4% compared with social co-operatives).

Almost all SIAVS respondents (+42.0% compared with social co-operatives) declared that they **planned to make investments** for 2018, consistent with their life cycle. Of those that plan to make investments in the next 12 months (96% of the sample), over one third of the enterprises interviewed (-11.0% compared with social co-operatives) will fund them by means of **self-financing**. Recourse to the **private sector** was the second source of funding for the SIAVS surveyed (28.1% compared to 6.6% for social co-operatives), followed by public sector financing (24.0% +11.3% compared with social co-operatives) and recourse to banks (13.5%; -21.8% compared with social co-operatives).

According to **Vincenzo Algeri, head of UBI Banca's UBI Comunità Area** *"The Observatory confirms that the quality, customisation and specialist diversification of our range of banking services are indispensable for building long-term relations with the world of social enterprises and non-profit organisations in general. It is a sector that is again both resilient and one that displays growing innovation. The importance and value of networks in promoting community goods and services is increasing and social enterprise is becoming a characteristic factor in traditional supply chains producing a new generation of services (social farming, social housing, cultural welfare, social tourism, etc.). Technology and new skills are having an appreciable impact on organisational models and the life cycles of new enterprises and finally social objects are measured increasingly more in terms of impact.*

Within this scenario of profound change, UBI Comunità has set itself the goal of being the "go to" partner for the various players in the social and civil economy, able to support and to create synergies and form partnerships between public, private and private social sectors. In fact we believe that the role of the Bank is decisive in supporting the entrepreneurial and operational decisions of a sector that is key as much to our well-being as it is to our economic development. That is why from 2016 onwards, UBI Comunità's range of action, as considered both under the Business plan and the Single Bank Project, has been extended to also comprise public authorities and associations in addition to the third sector".

As underlined by **Guido Cisternino, Head of Authorities, Associations and the Third Sector at UBI Banca**, *"The Observatory has once again confirmed the importance and value of social co-operatives and at the same time it clearly shows the potential of this new generation of social enterprises established under social paradigms and with competencies that are different from in the past. The reform of the third sector has given them recognition and we believe that although the number and percentage of the social start-ups is still limited, it is the beginning of a process destined to grow under the impetus of technology (which is increasingly less expensive) and a new generation of young entrepreneurs. In this context UBI Comunità sees its role not so much as a mere service provider, but as a fellow protagonist in a broader process that builds networks, supports choices and investment projects, shares skills and acts as an intermediary in relationships between economic operators and the community. UBI Comunità offers itself as a partner in the whole universe of social enterprise which it sees as a source of value among the various forms of enterprises and its aim is to support social impact oriented investments and social enterprise projects linked to local development, community and new supply chains".*

"Research and observation in the field tell us that social enterprises are born and develop within networks of trust and collaboration", said Paolo Venturi, Director of AICCON. "What is therefore needed is newly generated networks to accompany and scale up new social projects. Banks must act increasingly more as partners to build networks and act as an intermediary in community relations".

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UBI Banca

UBI Banca is the third largest commercial banking group by stock market capitalisation in Italy, with a market share of 7%, approximately 1,838 branches and over 21,400 employees, which provide it with a presence in the most important economic areas in the country. UBI Banca is a banking Group listed on the Milan stock exchange and included in the FTSE-MIB index. In 2013 UBI Banca was awarded a prize for innovation in banking services in the "Charitable bank" category by the Italian Banking Association and the National Prize for Innovation awarded by the President of the Republic.

UBI Comunità

Through its Third Sector and Civil Economy Service, UBI Comunità is the commercial division of the UBI Banca Group specifically dedicated to the third sector and the civil economy. Composed of a commercial team of specialist customer relationship managers, it has an innovative and customised approach to this sector in terms, amongst other things, of providing banking and credit support for the management of daily activities, projects and investments. With UBI Comunità, UBI Banca adds to a range of services designed for simplified banking operations that are secure and economical, with diversified credit solutions to pay advances on contributions and revenues, together with a range of flexible and customisable financing solutions to support the pursuit of institutional aims and to launch or accelerate economically sustainable paths to growth and social innovation. The drivers of UBI Comunità's actions are its closeness to communities, its multi-stakeholder approach, the importance it gives to networks and relationships and sharing its skills and internal expertise and it is through these that it is able to act as a strategic partner in the world of the third sector.

AICCON

AICCON – Italian Association for the promotion of a co-operation and nonprofit culture – is a think tank created by the University of Bologna, the Alliance of Italian Co-operatives and numerous public and private sector organisations operating within the sphere of the social economy. It is located in the School of Economics, Management and Statistics at Forlì, in the University of Bologna. The association has succeeded in recent years in becoming a point of reference academically, as a result of the importance of its initiatives and its continuous education and research efforts on salient issues in the co-operation and nonprofit worlds and in the civil economy, conducted in constant contact with the academic community and third sector organisations.