

## Chapter 10

# *Foundations in Italy*

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### INTRODUCTION

From an American perspective, charitable foundations are a very rare type of institution in the Italian landscape. While foundations in the United States, such as the Ford Foundation, the Rockefeller Foundation, or the Carnegie Corporation, usually distribute grants to nonprofit organizations, only a few grantmaking foundations operate in Italy; their endowments and grants are generally very small, especially compared to their American counterparts, while their activities (generally disbursement of fellowships or subsidies) are very traditional.

Many factors explain the different attitudes of the two countries toward grantmaking institutions: religious and social beliefs; the role of the State and the Church in the provision of social services; the political and legal mistrust of any body that intermediates between the individual and the State—a legacy of the Enlightenment period; public concern about unproductive use of wealth; a fiscal system that makes it easy to get around inheritance laws and tax laws that allow only limited tax incentives for donations.

The lack of grantmaking institutions does not mean that foundations do not exist at all in Italy. Indeed, the legal form of the foundation is growing more common and gaining wider acceptance in Italy after many years of distrust by government and the public. Nearly all Italian foundations provide

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goods or services directly to the public, making them operating rather than grantmaking foundations.

One could therefore say that, in Italy, many foundations do not differ very much from other nonprofit organizations as far as activities and funding are concerned. In fact, a foundation is just one of the possible legal forms that can be adopted by Italian nonprofit organizations, in addition to associations (recognized or unrecognized), voluntary organizations, and social cooperatives.<sup>1</sup> With a few exceptions, Italian foundations (both operating and grantmaking) are small and their endowments are modest. Most foundations rely upon yearly contributions from the private or public sector for funding. In summary, the Italian nonprofit sector has not yet produced a larger set of specialized grantmaking organizations.

This situation is changing as a result of Law 218 of 1990, known as the Amato Law after the Treasury Minister who promoted it. This law and subsequent decrees started the transformation of Italian banks, part of the semi-public sector, into stock companies. So far, most of these banks had been registered under the unusual legal status of association or foundation. The process of transformation, now almost complete, created two different sets of organizations: about ninety banks with the new legal status of joint-stock companies, and some ninety well-endowed foundations that should act much like their American counterparts. Consequently, the law paved the way for the creation of a new sector of grantmaking foundations.

The creation of a sector of grantmaking institutions that is currently taking place in Italy will thus presumably be the result of government intervention and not of private benevolence. This remarkable characteristic differentiates Italian philanthropic foundations from those of the United States and many other countries. This is no surprise in a country that shaped its legal system after the French Napoleonic code, and then created a universal, though highly debated, welfare state.

## FOUNDATIONS IN ITALY: LEGAL DEFINITION AND FISCAL TREATMENT

### Legal Definition

According to Articles 12 to 35 of the Italian Civil Code of 1942, a foundation is a private nonprofit organization with an endowment that must be used to pursue the aims stated in its charter. The endowment is the defining characteristic of a foundation and differentiates it from other nonprofit organizations, such as associations or social cooperatives. While an association is a group of people pursuing common interests, a foundation is an "endowment dedicated to a goal" (Ristuccia, 1996, p. 35).



The Italian Civil Code does not specify any minimum endowment for the creation of a foundation. All that is required is that the endowment be “adequate” to pursue the aims stated in the foundation’s charter. The law assigns the assessment of the adequacy of an endowment to administrative authorities, as described later in this chapter. The Civil Code does not prescribe any specific aims, although it is generally intended that a foundation should pursue the “public interest” and not the benefit of private individuals (Sanfilippo & Maniaci, 1990, p. 59; Guzzi, 1996, p. 49).<sup>2</sup>

In addition to the general definition provided by the Civil Code, many different laws<sup>3</sup> regulate particular types of foundations with specific aims (Ciriec, 1979, p. 35; Guzzi, 1996, p. 52; Sanfilippo & Maniaci, 1990, p. 54), such as the following:

- *Family foundations*, regulated by Royal Decree 99/1891, whose aim is to provide social and educational services to the members or offspring of one or more families.
- *Educational foundations*, regulated by Royal Decree 1297/1928 and by Presidential Decree 3/1972, whose aim is to provide economic support to deserving students in financial difficulty.
- *University foundations*, regulated by Royal Decrees 1592/1933 and 1269/1938, whose aim is to increase attendance of universities and to support deserving students with loans and subsidies.
- *Military foundations*, whose aim is to support members of the army and their families in case of economic hardship.
- *Religious foundations*, regulated by the Concordat of 1929 and the laws—approved in 1985—amending the Concordat, including many different type of organizations with religious or social welfare aims.
- *Banking foundations*, created in 1990, which will be discussed in greater detail later.

## Legal Treatment

To acquire legal or juridical standing (so-called *personalità giuridica*) and commence activity, a foundation must apply for incorporation. Incorporation protects the founders from losses or damages by providing the foundation with limited liability. Incorporation is obtained by public decree enacted by the President of the Italian Republic, when a foundation acts nationwide, or by the President of the Region when activities are limited to local level.<sup>4</sup> The process of incorporation at the national level is quite difficult and can take several years. There is a wide degree of latitude and discretion on part of the the administration in terms of assessing the adequacy of a foundation’s endow-



ments and the merits of its aims. Incorporation at regional level is generally faster.

Incorporation, however, is not the only time when public authorities influence the life of a foundation. Indeed, local representatives of the government (known as prefects) maintain significant control over foundations. According to Article 25 of the Civil Code, they can control the board of a foundation; appoint or substitute board members if those proposed were not nominated in accordance with its charter; dissolve the board if its actions and decisions do not pursue the aims of the foundation or do not follow the will of the founders; force one or more foundations to coordinate their activities and to merge their boards and administrations to avoid any waste of resources (Art. 26); change the aims of a foundation (complying as much as possible with the founder's will) when they (1) become impossible to pursue, (2) are not beneficial to the community, or (3) when depreciation makes it impossible to pursue the original goals with the current endowment.

Due to these powers granted by law, the government maintains a very high degree of control over the activities of Italian foundations. This control is quite often more hypothetical than concrete, however, as the government has insufficient resources and usually does not place a high priority on actively participating in the policies of individual foundations. Nevertheless, this power is a clear sign of the legal suspicion and distrust of foundations, nonprofit organizations, and any body or institution located between the State and its citizens.

This body of laws and regulations was highly influenced by the French legal, economic, and philosophical traditions of the Enlightenment that developed in the seventeenth and eighteenth centuries. At that time, a new economic and political elite was emerging within a society still dominated by the aristocracy and the clergy. To affirm its primacy, the emerging bourgeoisie had to fight established powers and the ancient order. Foundations were considered part of this order, as most were Catholic and run by religious personnel. They often had large endowments, a legacy of the medieval period, but little income. To a certain extent, they were used by the Church as an instrument to affirm its power and pursue its mission (Ristuccia, 1996).

Early critics of foundations concentrated on a few aspects they interpreted as crucial shortcomings of the foundation form. From an economic point of view, French political philosophy held that welfare increases when savings directly finance investments, implying that foundations were "unproductive" accumulations of capital. Moreover, private benevolence toward the needy was seen to encourage laziness and dependency and could not solve the poverty problem. Furthermore, it was widely held that many foundations dissipated their resources and wasted their income in useless expenses. From a political perspective, this philosophy tried to affirm the primacy of the new



democratic and lay State over the church, the aristocracy, and medieval corporations and guilds. As a result, any organization between the State and its citizens, including foundations and associations, were strongly opposed.

This tradition has strongly shaped the Italian legal system and its influence is still apparent, although the Republican Constitution, approved in 1948, guarantees freedom of association to individuals and freedom to pursue any goals (if not against the law) to organizations. Nevertheless, many legal provisions testify to a very recent past characterized by a deep aversion toward collective organizations and State control over their goals and activities (Onida, 1992, p. 24).

### Fiscal Treatment

Nonprofit organizations as such are not tax-exempt in Italy and foundations are no exception to this general rule. Cartabia and Rigano (1997, p. 63) note that "the absence of the profit motive has never been a reason for tax exemption and thus we might say that nonprofit organizations do not enjoy a privileged position as far as liability to taxation is concerned." More generally, Italian fiscal law does not distinguish between nonprofit and for-profit organizations, but rather between commercial and noncommercial bodies and commercial and noncommercial activities.

Commercial bodies include organizations regulated by the fifth book of the Civil Code, such as public stock companies, limited liability companies and cooperatives, whose purpose is to carry out business, and organizations regulated by the first book of the Civil Code, such as associations and foundations that pursue business objectives on a permanent basis. Noncommercial bodies include both public and private sector organizations whose objects do not include pursuing a commercial activity.

According to the Civil Code, the following activities should be considered "commercial": (1) industrial activities aimed at the production of goods or services; (2) brokering for the circulation of goods; (3) land, sea, and air transport; (4) banking and insurance; and (5) activities that are auxiliary to the former. Activities other than those listed are considered noncommercial. While income generated from commercial activities is subject to corporate income tax (IRPEG), income produced from noncommercial activity is not taxed when two conditions are met: the activity is directly related to the aim of the organization, and services are supplied "at cost" and without a dedicated organizational structure.

The law assumes that commercial bodies carry out commercial activities and therefore taxes their whole income, whatever its origin. Noncommercial bodies can carry out either commercial or noncommercial activities. Income generated by noncommercial activities is not liable to be taxed, under the



conditions described earlier, although income derived from commercial activities is subject to taxation, even if noncommercial bodies carry out the activities.<sup>5</sup> In addition, there are five special provisions within fiscal law that particularly concern foundations:

1. While nonprofit organizations have to pay taxes on all commercial income, foundations enjoy several special fiscal advantages in this respect. According to Article 6 of Presidential Decree 601/1973 (amended by Art. 66 of Decree 331/1993) some organizations (including foundations) that carry out activities in the areas of social services, hospitals, education, research, and culture enjoy a 50 percent reduction in their tax on commercial income (IRPEG). Moreover, income generated from parks and gardens open to the public free of charge, as well as income generated by buildings used as museums, libraries, art galleries or archives, are tax exempt. As a further incentive, foundations can deduct costs incurred for "maintenance and restoration of the artistic and cultural heritage" from their income.

2. The fiscal regulation of the most important indirect tax (value added tax—VAT) does not differ significantly from that of direct taxation, although there are no special exceptions for foundations. Commercial activities generate revenue subject to VAT, while noncommercial activities do not. Likewise, nonprofit organizations pay VAT when they engage in commercial operations.

3. Incentives for foundations and nonprofit organizations are found in the fiscal laws of INVIM, a tax on property appreciation. Organizations, business, and, to some degree, individuals are subject to this tax when they sell real estate or after each ten-year period of ownership. Although abolished in 1993, this tax is still applicable to capital gains before 1993 that are still taxable when estates are sold or inherited. Donations of buildings to foundations and nonprofit organizations are exempt from INVIM when the buildings are used for social, educational, study, or research purposes. Foundations enjoy the advantage of being exempt from INVIM on buildings for institutional use that are owned by foundations recognized as noncommercial bodies. Moreover, regardless of the nature of the activities performed by foundations, all buildings used for social, health, educational, cultural, recreational, and sporting purposes are tax exempt. Noncommercial bodies also receive a 50 percent discount on INVIM on buildings not used for institutional purposes.

4. Donations and bequests to foundations with welfare, research, education, or other public interest purposes are exempt from taxes on inheritance and donations.

5. Some fiscal incentives are also available to individuals and companies donating money to foundations and nonprofit organizations. Tax concessions are available for donations to:



- a. Legally recognized associations operating on a non-for-profit basis that are involved in study and research to promote cultural or artistic endeavors.
- b. Nonprofit organizations that specialize in the promotion of cultural activities, such as theaters.
- c. Programs aimed at improving conditions in underdeveloped areas as well as to recognized nongovernmental organizations working on projects in developing countries.
- d. All three of the above deductions can be set against income tax (for both individuals and businesses) to a maximum of 2 percent of net income.

Business firms can also deduct donations to:

- a. Registered organizations with educational, recreational, research, or religious aims, or those providing social or health services.
- b. Organizations running programs in underdeveloped areas.
- c. Registered organizations based in Southern Italy pursuing research.
- d. Private foundations, associations, or cooperatives running community radio stations.

A total of two percent of declared income may be set against the tax, except for the last case where the limit is one percent (Cartabia & Rigano, 1997, pp. 67–68).

## ITALIAN FOUNDATIONS: THE NONSPECIALIZED WORLD

The description of the legal environment by itself, however, does not provide a full picture of Italian foundations and their activities. Although the law emphasizes the differences between foundations and other nonprofit organizations, these organizations are very similar when their activities, size, and sources of income are considered. Some characteristics of Italian foundations, as well as features common to foundations and other nonprofit organizations, suggest that the Italian nonprofit sector has not yet produced organizations with specialized capabilities.

As already mentioned, philanthropic grantmaking foundations are rare in Italy. Analyzing 536 foundations of a total foundation universe that might comprise as many as 1,500 foundations, Demarie (1997) found that only 5 percent of these organizations are exclusively grantmaking foundations, while 39 percent are exclusively operating foundations. Of the 42 percent of foundations that are mixed in nature, most consider themselves as “mostly operating institutions” in which grantmaking plays a minor role (Table 10.1). With the



Table 10.1. Italian Foundation by Type  
of Activity (n = 529)

Type of activity	Percentage
Fellowship/scholarship foundation	10.0
Other grantmaking foundations	5.3
Operating foundations	38.8
Mixed foundations	43.1
Mostly operating	33.3
Mostly grantmaking	9.8
Unspecified	2.8
TOTAL	100.0

SOURCE: Demarie (1997, p. 55).

disbursement of fellowships or scholarship grants, another 10 percent of Italian foundations perform only one, fairly narrow kind of activity. Strictly speaking, they should be classified as grantmaking organizations, but of a special type. They are generally small organizations<sup>6</sup> specializing in just one routine activity, unlike larger, more complex, multipurpose grantmaking foundations, common in the United States and other European countries.

This lack of grantmaking institutions indicates the nonspecialized nature of the Italian nonprofit sector. Most organizations—regardless of their legal form—provide services to the public, while only a few organizations provide (financial) services to other nonprofits. The wide range of activities performed by Italian foundations is indicative of this national characteristic. Italian foundations, most of which do not make grants, act in almost every field of the nonprofit sector. Some foundations are research institutions, such as the *Fondazione Giovanni Agnelli* in Turin, the *Fondazione Censis* or the much smaller *Fondazione Adriano Olivetti* in Rome, and constitute Italian versions of the American-style think tanks. A few foundations run hospitals, such as the large *Ospedale San Raffaele* in Milan, owned by the *Fondazione San Romanello del Monte Tabor*, or the many hospitals owned and run by Catholic organizations with endowments. Other foundations are active in the area of culture, such as the *Fondazione Cini* in Venice or the *Fondazione Poldi Pezzoli* in Milan, which runs a museum. Others are large and internationally well-known medical research institutions, such as the *Istituto Mario Negri* in Milan, or combine medical research and social service provision for particular categories of individuals, such as the *Fondazione Don Carlo Gnocchi* in Milan, which serves the disabled. According to Demarie (1997), most foundations are active in the field of “research” (with a slight prevalence of humanities over biomedical and artistic research), “education and training,” and



Table 10.2. Field of Activity of Italian Foundations ( $n = 514$ )

Field of activity	Percentage
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 cooperation	0.8
Religion	2.9
TOTAL	100.0

SOURCE: Adapted from Demarie (1997, p. 33).

“social services and health.” More than 85 percent of the foundations analyzed in this study operate in these areas (Table 10.2).

A third characteristic of Italian foundations concerns their size. Apart from a few, probably internationally known examples, foundations are relatively small in Italy, both in the size of endowment and number of employees. As Table 10.3 shows, 60 percent of Italian foundations rely on endowments of one billion lire or less (about \$600,000 at 1997 exchange rates), and another 30 percent on endowments in the one to ten billion lire range (\$600,000 to six million dollars). Less than 3 percent of Italian foundations have endowments of more than 50 billion lire (\$30 million), or large enough to enable an operating foundation to act on a significant scale (Demarie, 1997). This feature is particularly remarkable since it is the endowment that should distinguish a foundation from other nonprofit organizations and serves as further evidence of the great similarities between foundations and other nonprofit organizations in Italy.

Because of their size, many foundations cannot rely exclusively on their endowments and must raise operating funds each year to balance their budgets

Table 10.3. Endowment Size of Italian Foundations ( $n = 515$ )

Foundation endowment	Percentage
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, p. 27).



Table 10.4. Italian Foundations  
by Employment Categories ( $n = 536$ )

Foundation with	Percentage
No employees	51.5
1 to 5 employees	30.6
6 to 20 employees	12.3
21 to 100 employees	3.1
More than 100 employees	2.4

SOURCE: Adapted from Demarie (1997, p. 51).

and run their activities. It appears that foundations are not very successful fund-raisers, given that most are quite small in financial terms: 74.3 percent of foundations spend less than 500 million lire (\$300,000) per year, and almost 45 percent spend less than 100 million lire (\$60,000) per year.

The 536 foundations studied by Demarie (1997) have a total of about 10,000 employees, with eighteen employees on average. However, this figure is somewhat deceiving since more than 50 percent of those foundations have no employees at all, 82 percent have less than five employees and about 94 percent have less than twenty employees (Table 10.4). Large foundations with more than twenty-five employees (representing less than 5 percent of this sample) account for almost 90 percent of total employment.

Such small staff is particularly surprising given the nature of Italian foundations. While grantmaking requires few employees, the provision of services should imply larger numbers of staff. This suggests that most Italian foundations act on a very limited scale and provide services to only a few beneficiaries. In this respect, they are no different from the large majority of other nonprofit organizations. Thus, in Italy, as opposed to other countries, a foundation is not necessarily a grantmaking organization but one of the many legal arrangements available to any persons wishing to undertake a "not-for-profit" activity. Consequently, Italian foundations provide services directly, raise funds to augment the annual income generated by endowments, and enter into contractual relationships with government bodies for the provision of services to the public, just as many associations or social cooperatives do. Yet, they do so on a small scale. It is only when "governance" and its characteristics are considered that clear differences between foundations and other nonprofit organizations emerge. Associations and social cooperatives have a democratic form of governance under which members make decisions by majority vote. A foundation, however, has no members and its rules on decision-making procedures, board membership, and so on, are established by the founders and written in to the charter of the foundation itself.



In conclusion, it bears repeating that an important characteristic of foundations, and also of the rest of the nonprofit sector, is its very low level of specialization. Due to its small size and limited development, the Italian nonprofit sector has thus far not been able to create organizations that specialize in particular kinds of operations or develop specific skills and capabilities. Italy lacks organizations whose main aim is to provide financial support to other nonprofit organizations and to provide seed money for deserving causes or projects neglected by both government and the private sector. However, with the so-called "banking foundations," a new type of organization is emerging in the world of Italian grantmaking institutions. They are the outcome of the transformation of many semipublic sector banks, set in motion by Law 218/1990, known as the Amato law.

## THE NEW "BANKING FOUNDATIONS"

### Origins

Until the end of the 1980s, most of the semipublic banks<sup>7</sup> were incorporated as foundations nor associations. This legal status is very unusual for organizations in the banking industry. To understand the origins of this startling situation, it is necessary to look at the history and role played by government controlled banks in Italy. Each *Istituto di Credito di Diritto Pubblico* has a long and individual institutional history. More general comments could be made about the wider world of the *Casse di Risparmio*. Most of these Italian "savings banks" (they are in fact ordinary checking banks) were set up in the first half of the nineteenth century. Quite often, the start-up capital was provided by rich and enlightened individuals, sometimes (especially in Northern Italy) supported by farsighted government authorities. The main aim of the banks—and their founders—was to stimulate savings of the middle and working classes. Contrary to banking tradition, savings were not considered a requisite for the accumulation of capital or as a means for starting the process of industrialization, but as a "provident" project. The purpose of the savings banks was therefore to help and encourage individuals to save for future economic contingencies.

At first, these banks were therefore more concerned with encouraging deposits than with granting loans. Their lending activity was quite limited, managed with great caution, and aimed at guaranteeing the security of deposits rather than obtaining maximum yields (Clarich, 1984). Sometimes these banks gave credit to particularly deserving (and sound) organizations such as the *Opere Pie*, private charitable institutions generally under direct control of the Church, with estates consisting mainly of legacies and donations acquired over the centuries. Besides interpreting their lending activities as philanthrop-



ic, many savings banks expressed their charitable leanings further: their charters contained clauses that compelled the boards to donate large percentages of their profits to charity (keeping the remaining profits as reserves).<sup>8</sup>

## Recent Changes

In 1990, public banks were still a hybrid of commercial banking and charitable activity. Several events and developments 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 wider recognition of the entrepreneurial nature of banking, and the conviction that economic development could be better pursued through efficient banking rather than charitable activity undertaken by financial institutions. Having no shareholders, the *Casse di Risparmio*, for instance, found it difficult to raise the capital necessary to comply with the banking directives of the European Union and to engage in mergers and acquisitions necessary to increase their size. Law 218/1990 allowed these banks incorporated as foundations or associations to change their legal status. Thanks to substantial fiscal incentives, they were allowed to reorganize their banking activities into new joint stock companies, allowing the creation of financial institutions able to compete on an equal footing with ordinary private banks. The foundations, still the majority shareholders of the new banks, could now fully concentrate on charitable, social, and welfare activities. The share holdings of the new banks represent the foundations' endowments and the dividends received constitute the income used for philanthropic purposes.

The original version of this law did not allow such foundations to give up control of the 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 simultaneous appointments as administrator of a foundation and in the bank it owned. In 1994, a new law freed foundations from the burden of maintaining a majority share in the banks and, later that year, new government regulation forced foundations to sell their majority holdings, although over a lengthy period of time and with some loopholes. The legislature is therefore moving toward a permanent separation of banking and charitable activities. The new banks are supposed to maximize profits in an increasingly competitive market, while the banking foundations should concentrate on their charitable business, hold their endowments in risk free assets (or in charitable activities), and behave like true nonprofit organizations and not like financial holding companies.

A new bill is now under discussion by the Italian Parliament. When passed, the law will give fiscal incentives to those banking foundations that



will lose control of their banks and, moreover, will definitely consider those foundations as private bodies rather than public ones. Moreover, in 1997 and the beginning of 1998, some banking foundations—such as the two largest ones (Compagnia di San Paolo and Fondazione Cassa di Risparmio delle Provincie Lombarde, both with assets in the range of \$7 billion)—lost control of their banks (the Gruppo bancario S. Paolo di Torino and the Cariplo bank) by selling the majority of their shares to other private banks or financial investors.

This policy change seems to have been influenced by general economic objectives and did not explicitly aim at creating a strong sector of philanthropic foundations. The sale of the banks owned by foundations has been interpreted as a prerequisite for the privatization of other branches of public sector controlled industries. Nonetheless, this process represents a unique chance for the Italian nonprofit sector, as, for the first time, private foundations are created with considerable assets that are motivated to serve the public interest.

### The Banking Foundations: An Overview

By the end of 1997, almost all of the former *Casse di Risparmio* and *Istituti di Credito di Diritto Pubblico* used the opportunity offered by the Amato law to change their legal status. Currently, about ninety banking foundations are struggling to find their way between the banking and charity business, but the link between the two activities is still very strong: more than 95 percent of the net assets of the foundations still consist of their holdings in the joint-stock company banks created as a result of the Amato law.

Banking foundations, as compared to most other Italian foundations, are well-endowed institutions. At the end of 1993, the total net assets of eighty-six of such foundations, analyzed in Ranci and Barbetta (1996), amounted to about 51 trillion lire (about \$30 billion), and average assets amounted to 590 billion lire (\$350 million). By comparison, only about 3 percent of other nonprofit foundations analyzed by Demarie (1997) could boast assets greater than 50 billion lire (\$30 million), while 90 percent of the endowments were smaller than 10 billion lire (\$6 million). As shown in Table 10.5, banking foundations in the Northern region of the country represent the bulk of this subsector, with 53 percent of all banking foundations and approximately 66 percent of the net assets. Foundations in Central Italy are relatively few, and smaller, with 34 percent of the foundations but only 21 percent of the assets, and these institutions are comparatively scarce in Southern Italy, with no more than 13 percent of foundations and assets.

The assets are not only concentrated in Northern Italy, but also in just a few foundations: three foundations, or 3.5 percent of foundations analyzed, with individual assets greater than 5,000 billion lire (about \$3 billion), ac-

Table 10.5. Geographical Concentration of Foundations and Assets

Area	Number of foundations	Percent	Assets (billions of lire)	Percent
Northwest	18	21	23,774	46.8
Northeast	28	32.5	9,781	19.2
Center	29	33.7	10,524	20.7
South	11	12.8	6,738	13.3
TOTAL	86	100	50,817	100

SOURCE: Ranci &amp; Barbetta (1996, p. 100).

count for about 45 percent of total net assets, while a large number of small institutions (forty-nine foundations, or about 57 percent of the total number), with individual endowments of less than 200 billion lire (about \$123 million), account for only 9 percent of total net assets (Table 10.6). These substantial endowments generate very little income, however: the ratio of interest and dividends to net assets was 1.2 percent in 1993, 1.6 percent in 1994, 1.7 percent in 1995, and 1.8 percent in 1996 [for the slightly different sample analyzed by the Association of Italian Savings Banks (ACRI; 1996, p. 130; 1997, p. 176; 1998, p. 76)]. These strikingly low earnings can be explained by two factors: first, the profitability of the Italian banks is quite low compared to international standards and, in addition, some institutions suffered under the economic recession of the early 1990s; second, the book value of many assets is probably overstated in order to take advantage of the fiscal incentives granted by the Amato law. By implica-

Table 10.6. Concentration of Banking Foundation Assets

Asset range (in billions of lire)	Number of foundations	Percent	Assets (billions of lire)	Percent
More than 5000	3	3.5	23,038	45.3
Between 600 and 5000	12	13.9	15,754	31.0
Between 200 and 600	22	25.6	7,245	14.3
Between 60 and 200	35	40.7	4,287	8.4
Less than 60	14	16.3	493	1.0
TOTAL	86	100	50,817	100

SOURCE: Ranci &amp; Barbetta (1996, p. 100).



tion, the diversification of these foundations' assets is likely to have beneficial effects on their annual revenues, both in terms of stability and level of income.

In 1994, banking foundations transferred about 47 percent of their income into reserve funds in order to increase the capital of the banks they owned without losing control over them; this behavior was the consequence of the law enforcing public sector (or semipublic sector) control of the banks. About 6 percent of income was used for administration, while 7 percent was paid in taxes. As a result, only 40 percent of income was paid out in grants and charitable activities. This figure will increase, however, as foundations are no longer obliged to maintain control of their banks.

Tables 10.7 and 10.8 show the distribution of banking foundation grants (Table 10.7) and the types of activities supported (Table 10.8). The single largest grantmaking domain is "art and culture," followed by "social services," "education," and "health." The foundations show a strong preference for financing the purchase of capital goods, the construction and restoration of buildings, and the conservation or restoration of artworks. The funds granted for buying or restoring architecture and art account for about 50 percent of the total. By contrast, only about 20 percent of the funds support general operating costs.

The figures reflect the great need for funds for restoration (works of art, ancient buildings, and also buildings owned by social services organizations) and the purchase of capital goods, such as advanced technical instruments in the health field. They also reflect the conservative approach of Italian banking foundations to grantmaking. Italy's huge public deficit has forced many organizations (even in the public sector) to seek private funders willing and able to finance expensive projects or the purchase of new equipment. It should not, however, be forgotten that the purchase of new equipment rarely solves the problems addressed by foundations and that the money could sometimes be

Table 10.7. Distribution of Banking Foundation Grants  
by Field, 1993–1996

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: ACRI (1996, pp. 153–154; 1997, p. 108; 1998, p. 100).

Table 10.8. Purpose of Banking Foundation Grants, 1993–1996

Purpose	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: ACRI (1996, pp. 156).

spent more effectively by helping public or nonprofit bodies solving their organizational problems.

Data published by ACRI (1996) do not allow a precise calculation of average grant expenditures. Nonetheless, it is clear that a large proportion of grants are relatively small. In 1994, grants of less than 50 million lire (\$30,000) accounted for 32 percent of all grants made by banking foundations, 43 percent of those made by large foundations, 52 percent for medium foundations, and 65 percent for small foundations. This is striking, considering that more than 50 percent of the grants are given for the purchase of capital goods or construction, restoration, and conservation of buildings. Putting together the data from various different sources seems to confirm conventional wisdom about the charitable behavior of foundations. As many believe, foundations make 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 and the foundation sector at large is quite evident.

### A Changing Sector

The new laws and regulations have not yet been able to clarify the future of the Italian banking foundations. Some issues are still open. Are banking foundations part of the public or private sector? The law has not yet decided this crucial question. As public sector institutions, foundations would be subject to considerable legal constraints on their activities, such as hiring personnel and purchasing property, that do not apply to private sector employers. In this case, their operations could be strictly directed and controlled by government authorities.

While some legal experts consider foundations public sector bodies (see Rescigno, 1992, p. 399), board members and representatives of foundations



oppose this interpretation and emphasize the private nature of banking foundations. The latter view is mostly based on historical evidence: while most of the *Istituti di Credito di Diritto Pubblico* have received quite a lot of money from the public purse during the course of their history (often as start-up capital), the *Casse di risparmio* almost never required public funds. Requests to recognize the private nature of the banking foundations became more pressing when the Minister of the Treasury issued a directive ordering these foundations to sell most of their bank shares (Merusi, 1995). A quite reasonable suspicion may lie behind these requests: if foundations are considered part of the public sector, then their assets may be expropriated or rigid regulations imposed on their use by the Ministry of the Treasury. Only recognition of their private status would make the assets of these foundations safe.

Should banking foundations thus be forced to sell the stocks of their banks and diversify their assets or should they be allowed to behave as holding companies concentrating their assets in one or just a few companies? Foundations with diversified assets could concentrate on their charitable business, while holding companies would be more interested in managing assets, increasing their size, and acquiring control of new companies, relegating charitable activity to an ancillary role. The outcome of this issue is not yet clear, although the legislature does seem inclined to move banking foundations in the direction of charitable activities. The bill under discussion considers the two issues together, while it is not forcing any foundation to sell the majority of the banks' shares, it will grant private legal status only to those institutions that will lose control.

Should banking foundations become grantmaking or operating foundations, or perhaps play both roles, as the law seems to imply? This is probably the most difficult question that banking foundations will have to answer in the future. The laws and regulations have not yet suggested any clear direction. Events may induce many administrators not to choose any model and to become both grantmaking and operating foundations. Government will probably push in the direction of operating foundations in their desire to get rid of deficit-prone institutions (such as hospitals, nursing homes, or universities) and "sell" them to rich nonprofit organizations, such as a foundation with significant liquid assets from the sale of a bank.

The wide availability of funds resulting from the sale of banks will probably drive the boards of the foundations in the same direction. Without any model of grantmaking organization that they might follow, most administrators will naturally do as most foundations do in Italy: start up—or buy—and manage large operating nonprofit organizations. The widespread notion that grantmaking is not an important and challenging task but, at most, an activity best suited for retired executives, will also encourage foundations to become operating bodies.



On the other hand, demands of local organizations, grassroots groups, and probably of local authorities will drive foundations toward grantmaking activity, as these groups depend heavily on grants from these institutions. The most likely outcome is that the banking foundations will combine the two types of activities. Different skills are required for running grantmaking and operating foundations, and international experience suggests that it is extremely difficult to do both effectively within one organizational entity. Moreover, the needs of the Italian nonprofit sector—with few grantmaking organizations—suggest a high demand for the creation of potent grantmaking institutions.

## CONCLUSION

The Italian foundation sector is showing some peculiarities in the international context. Most foundations do not make grants to other organizations but provide goods and services to the public. Their endowments are generally very modest and they have to actively raise funds. Moreover, many of them do not undertake activities on a large scale but concentrate on the local level, performing a limited range of activities. Foundations, at least in this respect, do not differ much from other nonprofit organizations, such as associations or social cooperatives. In contrast to the specialized financial intermediaries that constitute the American or the British foundation sectors, foundation status is still but one of the many possible options for general nonprofit service activities. The limited degree of functional specialization is one of the most striking peculiarities of the Italian foundation field. However, it is not entirely surprising considering the relative underdevelopment of the nonprofit sector at large in Italy.

Several reasons explain the modest role of foundations in Italy and their generally small size. A legal system that until recently has been hostile to any institution that intermediates between citizens and the state is probably the most important reason. Fiscal provisions that do not provide sufficient incentives to donate and make bequests are part of this traditional legal attitude toward foundations. Moreover, one should not forget that, in Italy, it remains easy to avoid taxation on inheritance and bequests, so that fiscal incentives would be quite ineffective unless the enforcement of tax collection would be improved.

The social role of the Catholic Church provides another explanation for the limited role of foundations in Italy, especially grantmaking foundations. In the past and to a lesser degree even today, it was quite common for the wealthy of Catholic background to donate part of their wealth to the Church or church-run institutions. Quite frequently, donations and bequests became part of the



wealth of local parishes or dioceses and, although used for charitable purposes, did not give rise to independent organizations.

Nevertheless, foundations are experiencing a new growth period. In fact, more than 70 percent of the foundations studied by Demarie (1997) were founded over the last twenty years, a clear sign that this ancient institutional form is undergoing a revival. The relative absence of grantmaking organizations remains the most substantial and pronounced deficiency of the Italian nonprofit sector. The whole institutional life of the country seems negatively influenced by this circumstance. The problem could be solved by the future evolution of the banking foundations, which are on the verge of transformation into genuine grantmaking organizations. Quite significantly, a country dominated by the French Jacobin tradition of centralization may get a sector of grantmaking institutions as a result of government policies and not from private benevolence.

## NOTES

1. For a description of the legal treatment of these organizations, see, for example, Barbetta, 1997a, or, in greater detail, Cartabia and Rigano, 1997.
2. Some legal scholars dispute this principle, however, and believe that a foundation can legally serve the benefit of its founder (for references, see Sanfilippo & Maniaci, 1990, p. 59, 4). This would be the case of family foundations, for example.
3. Many of these laws predate the Civil Code.
4. This option has been available since 1977, after the creation of regional authorities by Presidential Decree 616/1976.
5. For a detailed discussion of the financial treatment of nonprofit organizations, see Cartabia and Rigano, 1997; Sanfilippo and Maniaci, 1990; and Propersi and Rossi, 1995.
6. About 80 percent have endowments of one billion lire or less (approximately \$600,000) compared to 43 percent of other grantmaking foundations of that size.
7. Including about eighty *Casse di Risparmio*, or savings banks, and a limited number of credit institutions, or *Istituti di Credito di Diritto Pubblico*.
8. It should be noted that banking itself has long been considered as a public interest activity in Italy. The banking industry played—and still plays—a crucial role in sustaining the process of economic growth; State control of the banks was therefore considered a prerequisite for economic development.

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