

THE THIRD SECTOR REFORM

ITALY**LEGISLATION**

In June 2016, the Third Sector Reform Law (*Law No. 106*) was issued and subsequently published in the official Italian journal *Gazzetta Ufficiale*. The reform provides general principles to reorganise and harmonise the third sector in Italy. In particular, it delegates the power to the government to design and implement decrees under the Third Sector Reform Law, in order to issue secondary laws which define and shape the Italian social sector.

By August 2017, most of the subsequent decrees were enacted and marked pivotal steps towards a simplified legal and regulatory environment for the Italian third sector.

In this new framework, the third sector in Italy is defined as a space of private non-profit entities pursuing civic, social or solidarity goals. While some of the decrees are still under development and more regulation is expected to be implemented, Italian stakeholders welcomed the new legislation. As of today, four significant changes have modified the legal and regulatory environment for actors operating in the Italian social sector:

1. CODE OF THE THIRD SECTOR

The Code of the Third Sector (*Legislative Decree No. 117 of 3 July 2017*) aims at reducing the normative fragmentation affecting the various third sector players by introducing a common definition for associations, foundations, social enterprises, philanthropic entities, and voluntary organisations, which are now all considered as “*Entities of the Third Sector*”.

The Decree in question changed the landscape of the previous regulation, where third sector entities were almost exclusively regulated in fiscal terms. Now, thanks to the reform, third sector entities will operate under unified rules – a change that is expected to boost certainty in the social sector and decrease frictions among stakeholders.

2. SOCIAL ENTERPRISES

The Third Sector Reform targets social enterprises as a subset of third sector entities. Social enterprises are now defined as private entities whose main activities aim at creating civic, solidarity and social benefits, and are managed in an accountable and transparent way.

Moreover, the *Legislative Decree no. 112/2017* grants further flexibility to social enterprises. First, the decree expands the areas of engagement and the categories of intervention in which social enterprises can operate. Importantly, the categories in question now include the protection of cultural heritage, microcredit interventions and sustainable tourism. This change is relevant as it will allow more organizations to operate as social enterprises and benefit from the Third Sector Reform.

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Second, social enterprises, if incorporated in for-profit companies, are now entitled to share profits and distribute dividends within certain limits. This amendment allows social enterprises to tap into new forms of funding, and move from grants to more complex social investment instruments, such as debt and equity instruments. Furthermore, fiscal incentives for both donors and investors engaging in social enterprises were included in order to attract more capital into the sector.

3. ACCOUNTABILITY AND REPORTING

The Legislative Decree 117/2017 includes guidelines for accountability and reporting for third sector entities. Under this decree, every third sector entity with revenues above one million Euro is obliged to adopt social reporting guidelines and periodically publish detailed information on the institution itself, the activities carried out and the outputs achieved. The general requirement for third sector entities to adopt social reporting and evaluation guidelines are currently under development and subject to approval by the [National Council of the Third Sector](#).

4. PUBLIC-PRIVATE FOUNDATION

The Third Sector Reform Law also launched a foundation in a public-private partnership with the aim of establishing a market champion for social innovation in Italy: [Fondazione Italia Sociale](#). The foundation is funded through both public and private funds, and has a twofold mission. First, by acting as a market champion and building confidence in the sector, the foundation aims at attracting more resources to the third sector. Second, the foundation is triggering a shift in the procurement processes of government units by developing and funding outcomes based payment-by-results schemes.

IMPLICATIONS

The implications of the Third Sector Reform are far-reaching. As the process of reforming the sector is still ongoing and more decrees to implement the reform are underway, the full impact of the legislation will only be clear in the future.

Yet, it is already evident that the overarching approach of the reform, which includes all relevant stakeholders and establishes a legal status for all third sector entities, as well its capacity to attract investments for social enterprises will undoubtedly make the Italian third sector grow quicker and more sustainably.

MORE INFORMATION

All articles of Law 106 can be found on the website of the Italian [Ministry Labour and Social Affairs](#), as well as on the [Gazetta Ufficiale's](#) online website (in Italian). For more information, please do not hesitate to contact the EVPA Policy Team.

✉ policy@evpa.eu.com
🌐 evpa.eu.com/policy

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