Mr. Desario looks at the financial system and the non-profit sector with respect to ethics and solidarity in finance Address by the Director General of the Bank of Italy, Dott. Vincenzo Desario, before the conference on "Italian society at the turn of the millennium: opportunities and prospects of the non-profit and voluntary sector" held in Milan on 17/3/97.

The importance of the non-profit and voluntary sector is now appreciable not only ethically and culturally, as a tendency whose expansion bears witness to the human and civic development of Italian society, but also on the economic plane.

Everywhere, substantial budget deficits are forcing a retrenchment of public spending and more generally an attenuation of direct government involvement in the economy. It follows that non-profit and voluntary organizations may play an ever-larger role in reducing social disparities, devising modes of intervention appropriate to the continually changing forms in which inequality arises.

In Italy the need for a larger and stronger non-profit and voluntary sector is especially great, owing to the necessity of fiscal adjustment and the inefficiency afflicting public services.

My remarks today begin with some preliminary considerations on the relationships between ethics, solidarity and finance. I shall follow this with a description of the non-profit sector and some observations on banking foundations. Finally I shall examine the funding of the non-profit sector and its relations with the banking system.

1. Ethics, solidarity and finance

The changes in Italy's credit and financial system in recent years reflect the concern of law-makers and supervisors to foster market values and competition. The principles of transparency and fairness in relations between banks and customers not only are embedded in rules of conduct but have now been given the status of purposes of supervisory activity by Legislative Decree 415 of 23 July 1996 transposing the EU Investment Services Directive into Italian law.

Reference to these principles is not merely ritual. It bids us to recognize that the operating environment has been radically transformed and now, even more than in the past, demands the firm commitment of intermediaries to comply with the letter and the spirit of the rules of good faith and fairness.

These values are inextricably bound up with the relationship between bank and customer, which is based on trust. They make it easier to face the challenges of competition. They promote customer loyalty and enhance the bank's reputation in the market.

Trust is essential to the operation and growth of the economy. As the Nobel Laureate Kenneth Arrow has observed "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence." [1]

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[1] K.J. Arrow, "Gifts and Exchanges", *Philosophy and Public Affairs* (1972).

The risk of a self-serving breach of trust by economic agents is one of the main sources of transaction costs, in that it necessitates performance bonds and monitoring the counterparty's behaviour.

The most effective way of reducing transaction costs is for market participants to adhere to the precept that it is one's moral duty to respect others and not to betray their trust. Widely shared ethical precepts and moral conduct strengthen agents' credibility and reliability, make it easier to reach new business agreements and ultimately increase the likelihood of success.

In a market economy the credit system has the important function of selecting creditworthy projects, economic initiatives that can produce new benefits and increase overall social welfare. It is essential for every bank to screen borrowers by strictly professional standards based on technical assessment of projects' risks and returns.

Inefficient assessment of creditworthiness results in significant losses. In markets where there is little competition, poor asset quality is reflected in higher interest rates, with adverse repercussions on the economy as a whole. In more competitive markets, with their narrower spreads, loan losses can lead to bank failures. And this affects other outstanding loans, causes jobs to be lost and wipes out uninsured depositors' savings, with the risk that the failure may spread.

Customer confidence is the banking enterprise's most valuable intangible asset. It is the prerequisite for building stronger and more durable customer relations that can be broadened from simple loan disbursement to the entire range of firms' financial needs.

With trust, there is a better likelihood that the relationship between bank and customer will be consolidated as a "repeated game" in which, as game theory teaches, the problems of opportunistic behaviour are overcome.[2]

This approach can be successful if the bank does not act in conflict of interest; if, that is, it safeguards the interests of the customer together with its own, recommending financing plans and instruments that are compatible with the customer's projects, the state of the firm and the prospects of its market.

In finance, solidarity can be expressed by paying more attention to the customer's needs, viewed comprehensively, and assisting the customer in making financial choices that best serve the realization of corporate goals. Any short-term earnings loss will be offset by the future income the bank will obtain as a result of the continuity of the relationship and from additional corporate financial services.

The principle of overcoming conflict of interest also informs proper and transparent relations with savers who entrust the bank with making an investment or managing their financial assets. The intermediary that reconciles its own interest with the customer's, that makes customer assistance a conscious value of its corporate culture, perceiving it as a tool of competition, has a better chance of success in the financial markets.

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2 See, for example, K.G. Binmore, *Game Theory and the Social Contract,* II *Just Playing* (Cambridge, Mass., 1994).

The rule that one who acts on behalf of another must protect the latter's interest and not make undisclosed profits from this management activity is clearly ethical in origin. It was first stated, as regards the law of trusts, in the Middle Ages in sentences handed down by the Chancellor of the King of England; that is, by a judge, ordinarily also a bishop, who decided lawsuits mainly on the basis of ethical and religious canons.

Effective, correct customer assistance is premised upon thorough knowledge of the customer. The "know your customer" rule has been reaffirmed recently by Italian financial legislation. Law 1/1991, as well as the more recent legislative decree transposing the EU Investment Services Directive, lays down that in carrying on securities activities the investment firm must "acquire prior information about the financial situation of customers that is relevant to the conduct of the activity."

This principle was made applicable to the entire banking and financial industry with the publication of the Bank of Italy's anti-money-laundering "Decalogue", which stresses that familiarity with the customer is essential not only for detecting suspect transactions but also for maintaining stable customer relations.

Intermediaries have increasingly recognized the importance and the positive implications of this rule. Appreciable steps towards self-regulation have been taken, such as the code of conduct for banks, adopted in 1996, which sets standards of fairness in dealings with customers. When they enjoy real consensus, such initiatives are an especially effective tool for reinforcing and extending the rules of professional ethics, because they are not imposed from above but reflect the shared feelings of those involved.

In the public interest and in conformity with the law, the supervisory authorities lay down prudential standards and rules of conduct covering all intermediaries. The authorities are careful not to impose costs that are not justified by greater benefits to the community as a whole. They are guided by the best practices of the market. They check that intermediaries act consistently with the principle of sound and prudent management.

Management that is sound - i.e. in accordance with the rules derived from experience and the theory of enterprise (profitability), not subject to improper influences (independence) and based on correct business relations - and prudent - i.e. sensitive to risk - will have beneficial results in terms of the orderly and efficient operation of the economic and financial system.

Sound and prudent management is an overarching criterion for supervisory activity. It sums up the values of stability, efficiency, integrity and proper functioning of the financial system. It is where systemic objectives and microeconomic goals meet. As a norm, it requires that intermediaries' dealings with firms and households be constantly inspired by the canons of business and professional ethics, transparency, legality, fair competition. Sound and prudent management is at once a technical rule and an ethical canon.

Safeguarding competition also carries a deep ethical significance. Abuse of a dominant position, price fixing, or collusive agreement on practices to the detriment of consumers allows intermediaries to reap unjustified profits and excludes those who cannot pay the fixed prices from enjoying the relevant services. Such practices generate both inefficiency and inequity.

2. The non-profit and voluntary sector

An abiding school of thought embracing analysts of differing backgrounds holds that a democratic political system, if it is to be deeply rooted in the social fabric, must be articulated in a tightknit web of organizations positioned between the individual and the state: collective actors that enable citizens themselves to "become the state" by directly administering and providing socially useful services.

As the French sociologist Emile Durkheim stressed, a nation can be said to exist only if between the state and private citizens there is a whole series of secondary groups close enough to individuals to draw them forcefully into their field of action and so involve them in the mainstream of social life.[3]

The grass-roots presence of associations, mutual societies, communities and clubs, networks of civic commitment, is seen by some scholars as a decisive factor in establishing a climate of reciprocal confidence and social cooperation, which is necessary to launch a virtuous circle of economic development.[4]

The non-profit sector is defined essentially by two traits: private ownership and control and a ban on distributing profits. The latter feature does not imply that a non-profit body cannot ever generate profits; what counts is that any net profits must be reinvested in the pursuit and expansion of the organization's activity, to finance its mandated purposes.

It may seem surprising that in a market economy one finds associations, clubs, mutual societies, leagues and private cooperatives providing services without distributing profits and almost always operating alongside other institutions, such as the family, the state, and business corporations. Yet historical experience teaches that the state-market dichotomy does not exhaust all the ramifications of a modern economic and social system. In economic theory the most widely accepted explanations for the existence of non-profit enterprises bear on market "failures", which are generally related to information asymmetries, i.e. cases in which the independent contracting power of agents does not ensure sufficient transparency or comparability of services and products.

Especially where service quality is difficult to ascertain, there is room for the rise and growth of non-profit enterprises. For the consumer, the ban on distributing profits is a signal that the provider will not raise the price of the service without just cause or reduce its quality. Similar assurance is offered to those who wish to make donations to non-profit agencies that assist the weak and the needy.

The ban on distributing profits fosters and strengthens the bonds of trust between users, private donors and the service organization. It is a deterrent to the involvement of workers and managers who would be inclined to pursue their own individual interests, those who are less socially committed.

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[3] E. Durkheim, *The Division of Labour in Society* (1893).

[4] R.D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, N.J., Princeton University Press, 1993).

The private non-profit organization has comparative advantages not only as against business corporations but also with respect to public provision of goods and services, especially those earmarked for particular segments of society. By virtue of more efficient collection and processing of “local” information, i.e. within circumscribed territories, non-profit agencies cater more effectively to the particular needs of specific social groups or sectors.

These are services that require more of a grass-roots presence and a greater capacity to target action to non-standardized needs. The state retains a comparative advantage in the provision of undifferentiated public services, such as compulsory schooling, basic health care, and social security.

The non-profit and voluntary sector can play a major role in supplementing public programmes and in broadening the area of social protection. It must become a mechanism for soliciting and raising additional private resources, over and above government appropriations for these purposes, in order to meet those needs that state action is inefficient in facing.

Italy’s unbalanced economic development has been accompanied by phenomena of social distress and has not succeeded, to date, in narrowing regional disparities. The growth and spread of social solidarity, volunteer service and the entire non-profit sector is highly desirable to reinforce the pact of mutual support binding the national community at the institutional level and to make for fruitful, complementary relations between private and public social welfare activities.

Delay in the development of the non-profit sector and excessive reduction of the social role of the state, albeit for budgetary reasons, could place the whole burden of assisting society’s most vulnerable members on the family. Owing to the changes in society, the family is no longer capable, unaided, of dealing with the complicated problems posed by the modern world.

3. The fight against usury: a case of complementarity between government and voluntary action

Solidarity means disinterested assistance to those in need. The traditional ethical condemnation of lending at interest, found in the Old Testament and in Aristotle, can be traced back to the ethical principle of solidarity whereby one must help the needy person, not take advantage of his need. Leviticus reads: “And if thy brother be waxen poor, and fallen in decay with thee; then thou shalt relieve him; yea, though he be a stranger, or a sojourner; that he may live with thee. Take thou no usury of him, or increase.... Thou shalt not give him thy money upon usury, nor lend him thy victuals for increase.”[5]

The passage from condemnation of charging of interest to the needy to the outright condemnation of interest as such, found in other books of the Old Testament,[6] is logical in the historical context of a static, agrarian economy in which recourse to credit is not a normal event for anyone engaging in economic activity but the last resort of victims of exceptional adversity.

Even today, the exploitation of the weakness of those in need is an element in

5 *Leviticus* 25, 35-37. See also *Exodus* 22, 25.

6 For example, *Ezekiel* 18, 13.

usury, an odious and socially destructive practice that has taken on alarming dimensions in recent years.

The problem is delicate, complicated, and because of its emotional impact proper analysis of the issue requires an effort of intellectual lucidity to avoid the sort of crude judgments that surface from time to time in the discussion.

The alleged inflexibility of legal intermediaries in granting loans is often cited as a contributing cause of usury. But banks operate with the funds of their depositors, which it is their duty to safeguard; accordingly they lend to those customers who are in a position to honour their obligations. By using the savings it has collected in the most efficient manner and protecting their value through sound and prudent management, the banking enterprise performs its important economic function, combining private profit-seeking with the general interest.

It may be that some high-risk borrowers, at the margins of the credit market, find it hard to obtain "legal" credit. These borrowers, who tend to be small businesses even more commonly than households, may fall prey to usurers, through no fault of the legitimate intermediaries subject to supervision.

Italy's 1996 anti-usury law accords official recognition to the role played by the voluntary sector in sparing enterprises and households the risk of having to turn to usurers. The main instrument for combating usury is government grants to non-profit foundations and associations that already administer resources deriving from private donations, to be used as security for bank loans at moderate rates of interest to persons in financial difficulty.

Italy counts a good number of associations engaged in the battle against usury. There are eight officially recognized foundations active in prevention and assistance to victims. Six operate in the central and southern regions, where usury is most widespread and perilous, owing to its links with organized crime.

4. The banking foundations

As I mentioned, non-profit enterprises develop in sectors where pronounced informational asymmetries between customers and service providers lead the public to prefer services supplied by undertakings that do not distribute profits.

Informational asymmetries are a distinguishing feature of the banking and financial sector.

These two points may help to shed light on the creation of banks in the form of associations or foundations (savings banks first and foremost), which reached its peak during the nineteenth century. These institutions served to counter usury and to overcome the aversion of "first-generation" savers towards the banking system.

The great banking crises of the thirties fortified the role of the public banks, which served to restore savers' confidence in the banking system and allowed an orderly flow of financing to the economy.

The development of the Italian economy and decades of financial stability safeguarded by an effective system of public supervision brought a considerable part of the population into contact with the banking system. The evolution of markets and their increasing

openness brought the public banks' entrepreneurial features increasingly to the fore, with a corresponding de-emphasis of their original social functions.

The reform of the public banks that Parliament enacted at the beginning of the nineties in response to these tendencies sanctioned the passing of the public law model of banking; the law separated the institutions' original social-welfare and charitable purposes from banking activity, assigning the former to the foundations and the latter to companies limited by shares

The most compelling reason for the reform, at the urging of the supervisory authorities, was to allow the introduction of organizational and operational models able to ensure higher standards of competitiveness and efficiency. An important factor was the central role assigned to banks' capital by the supervisory system then being forged at Community level; the limited scope for Italian public banks to raise funds directly in the equity market hindered their growth and ability to compete.

The legislative solution adopted - the original institutions to remain in existence after transferring their banking activity to companies limited by shares - also sought to exploit the valuable social and civic function that most of the public credit institutions had historically performed.

Initially, the reform legislation was basically neutral concerning the practical options for the banking foundations; it defined the spectrum of activities open to them, clearly drew the border between banks and foundations, and laid down what the latter could not do, namely manage banks.

The remodeled foundations' sizable endowments fueled expectations that they might satisfy the growing financial needs of the voluntary and non-profit sector. The banking foundations, it was felt, could fill the gap left by the shrinking of the welfare state; but in order to occupy a central position in the nonprofit sector, it was argued, they had to dispose of their equity interests in banks at once.

However, realizing the full potential of the banking foundations requires that they cease being regarded as a pool of resources to be dipped into indiscriminately or as a body of assets whose composition can be altered in order to pursue the most diverse purposes.

The foundations are non-profit operators themselves and can actively contribute to the non-profit sector's development by identifying areas for intervention and nurturing socially useful initiatives. In deciding how to go about pursuing their objectives, the foundations can adopt a directly operational setup and manage one or more socially useful activities themselves, under arrangements already adopted elsewhere and not new to Italy.

If they should decide instead to continue in the role of grant-making institutions, in order to make a truly effective contribution they must develop sufficient skills in selecting initiatives, monitoring the use of funds and assessing results.

Grant-making plainly entails a degree of specialization, not only geographic but also by sector of socially useful activity. In effect, the data assembled by the Association of Italian Savings Banks (ACRI) via reclassification of the banking foundations' annual accounts and a survey of the grants made by the 81 ex-savings bank foundations offers evidence of growing specialization. Sorting the foundations by sectoral concentration of grants shows that

60.5 per cent allocated over half of their funding to a single sector or more than sixth tenths to just two sectors in 1995.

There is some tendency away from small grants, although these are still very common among the smaller foundations, and considerable growth in multi-year grants, whose share in total disbursements rose from 7.7 per cent in 1994 to 11.6 per cent in 1995. According to the ACRI report, disbursements amounted to 211 billion lire in 1995, equal to a little less than one third of the foundations' net operating results and 7.8 per cent up on the 1994 figure of 196 billion.

The banking foundations' activities are hampered by their low return on assets. ACRI calculates that the ex-saving bank foundations' overall ratio of net operating results to assets was 2 per cent in the 1994-95 financial year. This poor performance, though an improvement on 1.43 per cent in the previous financial year, reflects the modest return on holdings of bank shares, dividends from which account for 80 per cent of the result. Thus, the ability of the foundations to fulfil their institutional purposes depends largely on cyclical conditions in the banking industry.

It is incumbent on the foundations to seek an optimal return on their capital, in order to preserve its real value and ensure the continuity of their activities. This will require greater asset diversification, a necessary condition for the foundations' assuming a more fertile, autonomous role in the social sphere.

Fostering such a role is the basic objective of the provisions for the revision of the civil-law and tax treatment of the banking foundations in the Government's recent enabling bill, which are meant to encourage them to dispose of their bank shares. The proposed legislation would provide tax incentives for the operations connected with privatization; unlike earlier proposals, it sets no deadline for the sale of bank shares.

The decision to encourage rather than order such disposals and to allow them to be spread out over time appears appropriate. It is compatible with the objective of respecting the decision-making autonomy of the parties involved and improving the profitability of banks so as to enhance the attractiveness of their shares. And it creates scope for the stock market to be able to absorb the shares of the banks, without excess supply depressing the placement price. The foundations will have a better chance to dispose of their bank equity with the necessary gradualness. The incentives for the sale of bank shares will facilitate the reorganization of the banking system and foster an increase in bank size, especially if the sales bring in authentic fresh capital.

However, the breadth of the delegation of powers contemplated by the enabling bill and, above all, the diversity of its objectives are such that a well-defined legislative framework is not yet discernible. The parliamentary debate will have to fill in gaps and resolve uncertainties. The proposed establishment of a regulatory authority for non-profit institutions, including the banking foundations. deserves some comment. This authority would be assigned to oversee the legitimacy of the actions of the foundations' governing bodies, their sound and prudent management, the return on assets, and their effective pursuit of the aims specified in the bylaws. Its powers would also include authorizing transformations and combinations, passing on amendments to bylaws, removing the governing bodies and dissolving foundations in the event of repeated management irregularities, setting a minimum proportion of income (not less than one half) that must be allocated to institutional purposes, and acting in lieu of the governing bodies for individual acts.

Beyond a certain point, it is not easy to reconcile the intensity of the planned administrative controls with the degree of autonomy that recognition of the institutions' private nature would imply. Nonetheless, the experience of foreign jurisdictions with longer traditions in this field shows that some form of supervision on the foundations and non-profit sector in general remains appropriate, especially as regards entitlement to favourable tax treatment. However, supervision should be calibrated so as to avoid stifling the initiative of the non-profit institutions, draining their capacity to act and ultimately reducing the benefits to civil society.

5. Financing the non-profit and voluntary sector

There are four possible sources of funds for the non-profit sector: private donations, government transfers, debt capital and self-financing.

Government contributions bulk large in Italy, whereas private donations are marginal. The relationship between the two is specular, and in fact in countries where private donations play a larger role they are encouraged by favourable tax treatment.

Banks can help to increase the flow of private donations to non-profit enterprises by offering their customers specially designed financial instruments; for example, the so-called "ethical" funds and accounts that some financial intermediaries have promoted, whose rules require subscribers or depositors to assign all or part of their income from the investment to non-profit institutions.

These products can involve financing as well as donations; alongside the assignment of customer earnings or capital gains, there is often an obligation for the intermediary to invest the monies received only in undertakings that conform to certain ethical standards or pursue specific objectives.

The organizational and opportunity costs of launching such initiatives are compensated for by the enhanced reputation and standing that the intermediary enjoys among socially aware customers.

The specific advantage of banks' interposition with regard to charitable donations stems from their placement power: branch networks, which give banks an edge in supplying their own financial products and those of others, also put them in a strong position to sell "ethical" products to their customers.

Where profit-seeking intermediaries offer customers financial products earmarked to fund the non-profit sector, organizational and accounting controls are necessary to ensure transparency.

Other conditions being equal, two factors may handicap non-profit undertakings in raising debt capital. First, the rule prohibiting distribution of profits may strike the prospective lender as likely to erode operating efficiency in the long run. Whereas for commercial enterprises the profit motive is the mainspring of survival and growth, for non-profit institutions there is a problem of ensuring that the altruistic drive does not flag over time. On the other hand, the ban on distributing profits is also a point of strength, since it allows non-profit enterprises to screen and select collaborators, workers and managers who share their altruistic objectives of service.

The second adverse factor is linked to the eventuality of the non-profit undertaking failing to repay the loan. In this event, a bank bringing action for forced recovery would run the risk of appearing to put its own interests before the social, humanitarian or charitable purposes of the distressed undertaking.

Financial support can be provided to the non-profit and voluntary sector by intermediaries that exclusively, prevalently or even only occasionally engage in such lending (so-called "ethical" intermediation). The record shows a variety of such experiences in many countries.

To cite a few significant examples, Ökobank in Germany, which focuses on environmental and peace issues, had 63,000 customers and 170 billion lire of deposits in 1993; in the Netherlands, Triodos Bank, of the eponymous association for social development and environmental protection, accounts for 2.5 per cent of the country's total bank deposits; in Switzerland, the banner experience is that of Alternative Bank ABS, which in 1992 had around 106 billion lire of loans outstanding to local non-profit enterprises and associations for third-world development.

Other intermediaries concentrate on fostering small business in the third world or in economically depressed areas of the industrialized countries.

The best-known example is Grameen Bank of Bangladesh, which lends to farmers in the poorest rural areas. The key to its success is its technique of forming small groups of customers who take part in training workshops that also serve to select the creditworthy. The small loans disbursed to them are gradually scaled up if each member of the group meets the repayment terms. The bank's high credit quality testifies to the efficacy both of the method used for assessing creditworthiness and of the system of cross-monitoring among members of a group. The high risk that nonetheless characterizes the bank's activity made it advisable for it to fund its loans primarily with public contributions and the bank's own resources, part of which was paid in by the beneficiaries of its lending.

In the United States, a very interesting case is that of the Illinois Neighborhood Development Corporation, created by non-profit shareholders and licensed to engage in banking since the seventies. The bank initially operated in one of the worst slums of Chicago, the South Shore, and endeavoured to redevelop the area particularly by giving minority groups more access to credit. The programme's success allowed it to be extended to other rundown, outlying neighbourhoods. Thanks to its skilled and highly-motivated staff, this bank has combined rigorous lending standards with a variety of assistance and promotional services, operating in compliance with the normal banking supervisory requirements.

A complete review of the experiences in various countries would also have to include the cases of failure and those demonstrating the difficulty of transplanting successful initiatives to different social and institutional settings.

For an "ethical" intermediary actually to achieve comparative advantages in financing the non-profit and voluntary sector, various conditions, not always easily satisfied, have to be met: a highly motivated staff, for one, and savers receptive to the ethical aims pursued and willing to support them over time with deposits.

The affinity of ideals between the bank and the borrower must not tempt the former to relax its technical standards of customer selection or neglect to heed the principle of

operating profitability. Specialization in the non-profit and voluntary sector must be compatible with the key principle of the banking system. Operating losses could not only cause the bank to fail but also have adverse repercussions on similar initiatives.

The success of such projects essentially depends on devising techniques to limit the credit risk while simultaneously upholding both the "mission" of funding the non-profit sector and the banking industry's standards of competence and prudence.

When a bank is to be established that intends to finance the non-profit sector by taking deposits from the public, the above prudential recommendations become especially cogent. History shows how high the social costs of bank failures can be, and how complex is recourse to the instruments that make up the system's crisis "safety net".

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Modern economic theory accepts the principle that a solid ethical commitment is also economically rational. The propagation of virtuous conduct is a value in and of itself, in that it lends strength and security to economic agents, averting costs and formalities that would otherwise be necessary. This reinforces the ties between ethics and finance, between ethics and business.

Ethical and moral principles are increasingly taking root among economic agents, producing closer links between the social dimension and the markets.

Modern society is very attentive and sensitive to these values. The demand for ethical conduct is ever broader and stronger.

Establishing relations of trust with customers invigorates financial activity. The intermediary must adopt the principle of proper assistance to the customer, of serving the latter's best interest. In a framework of competition between financial operators, this must be effected in conformity with the intrinsically ethical standard of sound and prudent management.

When non-profit institutions are formally organized as enterprises, i.e. when they are based on the principle that revenues must cover costs, they can turn to the banking system and the capital markets for financing to supplement their endowments, private donations and public contributions.

In countries where the non-profit sector has grown to significant dimensions, its enterprises compete with commercial firms in the product markets and in the market for financial resources. They obtain funds from commercial intermediaries on the basis of proven solvency and established reputation.

In Italian law the formation and the range of business of an intermediary whose vocation is to finance the non-profit sector cannot deviate from the rules governing financial activities in general. These rules respond to needs and interests, including ethical interests, of the first order, which are expressed in the canon of sound and prudent management and the values of stability and efficiency.

Only within this framework can financial institutions dedicated to lending to the non-profit sector succeed, enhancing the contribution of finance to the growth of solidarity and voluntary agencies.