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**WORK INTEGRATION SOCIAL ENTERPRISES
IN ITALY: VIRTUOUS SAVINGS
FROM PUBLIC-PRIVATE INTERACTIONS**

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Percorsi di secondo welfare is a research project started in April 2011. It is structured as a partnership, led by Franca Maino as director and Maurizio Ferrera as scientific supervisor (University of Milan), and hosted by Centro Einaudi in Turin. The venture has been funded and actively supported by our partners: CISL Lombardia, CISL Piemonte, Compagnia di San Paolo, Fondazione Cariplo, Fondazione Cassa di Risparmio di Cuneo, Fondazione Cassa di Risparmio di Padova e Rovigo, Fondazione con il Sud, Forum ANIA Consumatori, KME Group, Luxottica, and Corriere della Sera, SPS (Scienze Politiche e Sociali, Università di Milano), Città di Torino.

Percorsi di secondo welfare is committed to enhancing the common understanding of what has recently come to be known as "second welfare". The term refers to a mix of social protection and social investment programmes which are not funded by the State, but provided instead by a wide range of economic and social actors, linked to territories and local communities. Through the collection and evaluation of new initiatives and best practices, the Observatory seeks to promote a "virtuous nesting" between first and second welfare, that will ultimately be able to tackle the challenges posed by the emergence of new social needs, and worsened by the present financial situation. The website www.secondowelfare.it collects the most significant "second welfare" experiences at mostly national but to some extent international levels, and attempts to spread them for purposes of evaluation and, hopefully, dissemination. Our research also seeks to build a strong conceptual framework for future reference.

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* The paper was presented during the conference "Towards Inclusive Employment and Welfare Systems: Challenges for a Social Europe", held in October 2014 in Berlin, at the Workshop no. 1: *The changing role of non-public actors in active inclusion policies*. For information: <http://ec.europa.eu/research/social-sciences/index.cfm?pg=events&eventcode=4472FEE2-DDDA-6957-08BB15C88746B2D4>.

KEYWORDS

inclusion, work integration, social enterprises, social impact, evaluation

ABSTRACT

**WORK INTEGRATION SOCIAL ENTERPRISES IN ITALY:
VIRTUOUS SAVINGS FROM PUBLIC-PRIVATE INTERACTIONS**

The aim of the paper is twofold: to describe the interactions between public and private organizations involved in the implementation of active inclusion policies in Italy, and to evaluate the savings for the public budget originated by activities of the Work Integration Social Enterprises (WISE).

We illustrate the features of the Italian active inclusion policies in terms of target population, cash benefits and economic incentives aimed at supporting the marginal labour force. These policies require coordinated actions by local governments, public health agencies and the no-profit organizations, typically social cooperatives, which directly deal with the vulnerable individuals. We provide a discussion of the legal framework, the alternative governance arrangements for the policy implementation and how these affect the behaviour of the institutional actors involved.

Within this framework we take a mere accounting approach and empirically investigate whether and to what extent the choice made by the Italian government of subsidising jobs for vulnerable individuals is generating savings for the public budgets. We consider a sample of 30 WISEs, employing about 1,200 disadvantaged workers during the years 2010-2012, for each subsidized position we carefully assess the economic value created by the job and the related tax revenue, we contrast them with the actual cost of the subsidies and the (counterfactual) cost of public assistance the worker would be entitled should s/he not been employed. We use a multivariate analysis to determine the cost effectiveness of the alternative types of job contract adopted and study heterogeneity of the outcomes as function of the type of occupation and the disadvantage and occupation and gender of the beneficiaries.

Our preliminary results document that net contribution to the public budget of the subsidized jobs policy is positive and that supporting the activity of no-profit WISEs is a cost effective strategy.

WORK INTEGRATION SOCIAL ENTERPRISES IN ITALY: VIRTUOUS SAVINGS FROM PUBLIC-PRIVATE INTERACTIONS

INTRODUCTION

There is a lively debate on the effectiveness of various alternative work integration policies, on the appropriate mix of incentives and on the possible interactions between public and private organizations in the implementation of these active inclusion interventions. The discussion is instead scanty on the financial sustainability of such programs. The aim of this paper is to contribute to the assessment of this aspect of the work integration policies.

The present study illustrates the features of the Italian active inclusion policies in terms of target population, cash benefits and economic incentives aimed at supporting the marginal labour force. These policies require coordinated actions by local governments, public health agencies and the no-profit organizations, typically social cooperatives, which directly deal with the vulnerable individuals. We provide a discussion of the legal framework, the alternative governance arrangements for the policy implementation and how these affect the behaviour of the institutional actors involved.

Within this framework we take a mere accounting approach and empirically investigate whether and to what extent the choice made by the Italian government of subsidising jobs for vulnerable individuals is generating savings for the public budgets. We consider a sample of 34 WISEs, employing about 1,200 disadvantaged workers during the years 2010-2012, for each subsidized position we carefully assess the economic value created by the job and the related tax revenue, we contrast them with the actual cost of the subsidies and the (counterfactual) cost of public assistance the worker would be entitled should s/he not been employed. We use a multivariate analysis to determine the cost effectiveness of the alternative types of job contract adopted and study heterogeneity of the outcomes as function of the type of occupation and the disadvantage and occupation and gender of the beneficiaries.

The preliminary results document that net contribution to the public budget of the subsidized jobs policy is positive and that supporting the activity of no-profit WISEs is a cost effective strategy. Which implies that any cut of the public money

earmarked to work integration programs may be beneficial for the balance sheets in very short period, but detrimental in the long run.

1. ACTIVE INCLUSION POLICIES IN ITALY: FROM DIRECT PUBLIC INTERVENTION TO THE WORK INTEGRATION SOCIAL ENTERPRISES

Job placement policies for disadvantaged people include different strategies. Generally speaking, a worker is considered to be disadvantaged as to labour market when s/he has any characteristic that reduces his/her productivity. The main causes of disadvantage are physic and psychic disabilities, but other factors of social exclusions (e.g. drug addiction, imprisonment and immigration) can greatly reduce individuals' employability (Stern 1996). In this paper we focus on Active Labour Market Programmes (ALMPs, EIM Business and Policy Research 2002), that is, public interventions aimed at achieving an efficient functioning of the labour market by inducing active behaviours of the job seekers and improving their integration into the active labour force.

Specific ALMPs target vulnerable people, i.e. disabled, drug addicts, convicts, low skilled and long term unemployed and more in general marginal labour force. The governments have reacted to the presence of a vast and growing group of disadvantaged people excluded from the labour market mainly in terms of social welfare policies. Within this context, Borzaga (2012) identifies five types of ALMPs in favour of disadvantaged persons:

- ❶ Regulatory policies: they intend to influence the behaviour of employers through the imposition of obligations, prohibitions and constraints. Western European legislatures often require companies to hire a quota of disadvantaged workers (Emerson et al. 2000). In Italy the Law 68/1999 states that private and public employers with more than 15 employees must employ a minimum amount of workers registered with the public job placement agency as certified disadvantaged persons.
- ❷ Improvement policies: they compensate the hiring companies for the lower productivity of the disadvantaged workers, or they reduce the costs of their placement. *Ad hoc* incentives for recruitment and training are the most common interventions in this class of policies.
- ❸ Wage policies: they encourage the employers to hire disadvantaged workers by outweighing their initial low productivity and higher training costs. As with all "reward" policies, these interventions can be remarkably expensive for the public administrations whenever the subsidies are the only monetary incentive to the work integration. The use of these subsidies is justified only when it is possible to verify and quantify the lack of working ability of the disadvantaged individual.

- ④ Replacement policies: the State directly intervene in the labour market, by hiring disabled people in State subsidized or controlled businesses, public institutions or *ad hoc* companies (e.g. in sheltered workshops. This creates a “off-market” labour demand or a “replacement labour market” (Schmid and Semlinger 1984; Seyfried and Lambert 1989).
- ⑤ Promotional policies: they escort the disadvantaged worker before and during his/her placement in the new job, trying to identify and develop skills consistent with the assigned tasks. Public and/or private nonprofit operators provide services of customized, targeted and supported job placement.

These different policies have been used individually or jointly during the years but with limited success, especially in Italy. Each single intervention responds to a specific limit of the labour market functioning and to the increasing participation of disadvantaged people to the labour market, but their limit has been the lack of confidence in the ability of private innovative initiatives in support of disadvantaged workers.

The Work Integration Social Enterprises (WISEs) are probably the most important form of private intervention in favour of the marginal labour force. They initially sprang out as volunteers’ bottom-up informal initiatives and benefited of public support and subsidies. Afterward, they have reached a formal, legal, definition in several countries, with national peculiarities and different development patterns. WISEs nowadays operate in different industries, mainly without a profit goal and with the social aim to employ disadvantaged people together with not-disadvantaged workers. The activities carried out by WISEs cannot be listed as regulatory or improvement policies. In fact, WISEs do not try to create job positions for disadvantaged people in traditional enterprises, they rather create new *ad hoc* firms to train and employ disadvantaged workers, either temporarily or permanently. Moreover, WISEs’ interventions differ from substitutive policies because of their entrepreneurial nature and their aim to lead disadvantaged workers to be fully productive (Borzaga 1999).

There are three main categories of WISEs in Europe (Nyssens 2006):

- ① Initiatives whose main aim is to facilitate work socialization of disadvantaged people and use productive activities in an instrumental way. In these WISEs, the production goals are of secondary relevance with respect to those of socialization; disadvantaged workers receive no or limited salary, but they are entitled of public subsidies due to their disability status. The percentage of disadvantaged workers in these enterprises is usually very high.
- ② Companies that provide goods and services to the public administration which either directly bears the higher costs due to the lower productivity of disadvantaged workers employed, or it pays subsidised prices higher than market prices. These firms typically adopt production processes and deliver products and ser-

vices of higher complexity than those adopted by WISEs falling the previous category, they usually hire disadvantaged workers on a permanent basis job positions and pay them regular wages.

- ③ Companies supplying goods and services to both private and public clients at market prices. They act in the output markets as for-profit companies, but keeping their aim of promoting the employment of disadvantaged people. The survival of such enterprises is ensured by their ability to cover the production costs with revenues or a sufficient level of subsidies. In these companies the percentage of disadvantaged workers is usually lower than in the two previous types of WISEs because they mainly rely on market revenues and their productivity need to be “on the market”. The goal of these WISEs is not to create similar-sheltered workshops, but rather to enable disadvantaged workers to find a suitable position in the open labour market.

The last type represents the form of WISEs most adopted in Italy, where they mainly take the form of cooperatives (Work Integration Social Cooperatives), and as such they operate in accordance of the founding principles of democracy, solidarity and participation.

Italian WISEs are key partners for the development of an integrated and inclusive national welfare system. Public administration recognizes the role played by these companies, providing them tax benefits, government grants and reserving them special procedures for the award of public contracts (Law 381/1991)¹. As counterpart, WISEs cannot pursue economic profits, their workforce must include at least 30% of disadvantaged individuals and they have to implement specific programs supporting the social integration of the disadvantaged. WISEs can claim subsidies and/or tax exemption only for workers belonging to five categories: disabled, mentally impaired, drug/alcohol addicts, prisoners and minors in working age. WISEs compete with for-profit companies in the input and output markets, they need to supply high quality services and products in order to survive. By placing side-by-side disadvantaged and not-disadvantaged workers, WISEs are effective in reducing inequality and disparity between people. By operating on the market, WISEs nourish the entrepreneurship capability of people excluded from the world of labour and, often, from the society.

The current economic crisis has remarkably damaged also the WISEs. They not only suffered from the general deterioration of the market conditions, but also from the cuts to the public budgets put in practice by most of the European countries. In fact, local governmental bodies and public service agencies have historically been the main clients for most of the Italian WISEs. The (unselective) cuts imposed to their budgets by the central government have had a dramatic impact on WISEs' operations. Furthermore, their intervention has been questioned

¹ Law 8 November 1991, no. 381. *Disciplina delle cooperative sociali*. Gazzetta Ufficiale of 3 December 1991, no. 283.

in terms of sustainability for the public budget. To assess the overall financial sustainability of the work integration actions implemented via the WISEs, is not straightforward. The accounting costs and benefits of such policies often appear in the balance sheets of different public administrations, going from the municipalities and province councils, to the public health system (funded by regional authorities) and the national social security system. So, for instance, the cuts in public garden maintenance contracts awarded to the WISEs immediately improve the budget of the municipalities but, at the same time, the increase of unemployment among vulnerable individuals may rise the demand for assistance faced by the public health agencies and boost social security spending if the disabled are entitled to mean-tested benefits.

2. WHY AND HOW TO MEASURE WISES' IMPACT

The European Commission recognises that “[t]he development of rigorous and systematic measurements of social enterprises’ impact on the community ... is essential to demonstrate that the money invested in social enterprises yields high savings and income” (COM 2012). Nowadays, there is no agreed standard on impact measurement. With regard to social impact, in June 2014 the Groupe d’Experts de la Commission sur l’Entrepreneuriat Social (GECES) Sub-group on Impact Measurement delivered guidelines for the measurement of the social impact of an enterprise (GECES 2014), defined as “the social effect (change), both long-term and short-term achieved for its target population as a result of its activity undertaken – taking into account both positive and negative changes, and adjusting for alternative attribution, deadweight, displacement and drop-off”, where social is meant as “[r]elating to individuals and communities, and the interaction between them; contrasted with economic and environmental.” Within this framework, the measurement of social impact is essential to evaluate the effectiveness of WISEs’ activities, but it provides little information on their cost-effectiveness and their financial sustainability. In order to “demonstrate that the money invested in social enterprises yields high savings”, a monetary assessment of the social outcome of the WISEs’ is necessary. From the point of view of a public decision maker, such an assessment needs to take into consideration the legal, fiscal and social security contexts within which the social enterprises operate, the pool of public stakeholders directly or indirectly funding the job placement of vulnerable people as well as those whose budgets may benefit by their placement, and – last but not least – the various accounting procedures. Therefore, if on the one hand the evaluation procedures are inherently country specific, on the other hand they should share a set of fundamental principles. The Social Return on Investment network (SROI, www.thesroinetwork.org) has elaborated guidelines which combine the items typically considered in impact evaluation based on outcomes (i.e. identification and measurement of inputs, activities, outputs, outcomes, and impacts as well as the presence of deadweight, the possibility of alternative attribution and drop-off), together with the invitation to use financial proxies to attach a monetary value to

the outcomes, to include only what is material, and to adhere to a transparency code in the determination of the values.

Inspired by these principles, Chiaf (2009) contributes to the development of the Social Return on Investment approach by proposing VALORIS, a model to evaluate Italian WISEs' impact, which takes a comprehensive perspective and considers accounting costs and benefits of all the public stakeholders involved, regardless of the budgets these costs and benefits are recorded into. The WISEs social outcome – the job placement of vulnerable individuals – comes to the cost of reduced social security contributions, subsidies and fiscal benefits to the employers, but it positively impacts public budgets by generating savings due to the reduction of interventions from the social security and health care systems. The model precautionary adopts a short period horizon, minimizing the role of drop-off effects and it regards an outcome, which is in fact exclusively attributable to WISEs' intervention (and therefore is not affected by deadweight or alternative attribution issues). VALORIS provides a useful complement to WISEs' and public sector's accounting systems, a step forward in the direction indicated by the European Commission.

3. THE EVALUATION MODEL: VALORIS

VALORIS assesses if and to what extent the Italian subsidies to job placement of vulnerable individuals in WISEs are generating savings for the public budgets. VALORIS is based on the cost-benefit analysis, in order to assess the economic impact on public budgets of WISEs operations, considering the greater revenues and the lower public spending due to the job placement of disadvantaged workers.

This is not the first attempt to evaluate the economic impact of WISEs. Jadoul (2000), Marée (2005), and Marocchi (1999) are examples of evaluation exercises that adopt a medium-term time horizon, use external imputations of economic values, and are aimed at evaluate the impact at an aggregate level (e.g. a country or sub-national area). In contrast with previous works, VALORIS takes a micro-founded approach, evaluating costs and benefits for every single job placement of disadvantaged workers, taking into account the characteristics of the vulnerable individuals and of the WISEs hiring them. The data used by the model are originated by the information and accounting systems of the WISEs, the standard costs for public administrations and consider professional evaluations of the needs for assistance of the disadvantaged workers.

In order to identify the most relevant dimensions to consider, a pool of social entrepreneurs, social workers and representatives of public health care agencies operating in the province of Brescia (Lombardy, Italy) has been previously consulted. A first release of the model has been presented to the stakeholders to

receive comments, which have been included into the revised version. The final model is then the agreed result of an extensive process of consultation between the public and private agents involved, and can usefully contribute to the evaluation of their activities in the disadvantaged workers job placement system.

3.1. The model variables

Following the literature (see Chiaf and Giacomini 2009), VALORIS considers the following costs and benefits for the public budget related to the job placement of vulnerable individuals in WISEs:

Benefits for public budget:

- increased labour income tax revenues, paid on disadvantaged workers' wages;
- higher VAT revenues, levied on products and services produced by disadvantaged workers;
- savings due to the reduced demand for health care and social assistance, reduced custody costs, as well as loss of cash benefits eligibility.

Costs for public budget:

- reduced social security contribution for disadvantaged employees;
- tax exemptions granted to WISEs;
- training grants for vulnerable workers;
- other public subsidies or financial support to the WISEs.

The overall costs and benefits of a generic WISE j employing the pool \mathfrak{S}_j of disadvantaged workers can be separated in two components: the first one is the sum of the Individual Costs and Benefits attached to every single placement, ICB_j , the second component gather all the costs (and benefits) borne by the public administration because of the special status recognized to WISEs ($WISECB_j$). While the first component depends on the type of disadvantaged workers employed and on the productivity of the company, the latter is not related to the characteristics of the workforce. More specifically, VALORIS defines the two components according to the following equations:

$$ICB_j = \sum_{i \in \mathfrak{S}_j} ICB_{ij} = \sum_{i \in \mathfrak{S}_j} \underbrace{PIT_{ij} + DisVAT_{ij}}_{\text{Higher revenues}} + \underbrace{(AP_i + MI_i + DB_i + WE_{ij})}_{\text{Saved services \& cash benefits}} - \underbrace{(WC_i + SW_i)}_{\text{Policy costs}} \quad (1)$$

$$WISECB_j = \underbrace{(Trans_j + TaxExemp_j)}_{\text{Policy costs}} \quad (2)$$

where:

PIT_{ij} = personal income tax of the disadvantaged individual i employed by WISE j ,

$DisVAT_{ij}$ = VAT levied on products and services produced by i in WISE j ,

AP_i = monetary value of additional health care services, social support or custody costs that the individual i would require if s/he were unemployed,

MI_i = mean-tested cash transfer the individual i may receive if unemployed,
 DB_i = mean-tested disability benefit the individual i may receive if unemployed,
 WE_{ij} = *ad hoc* costs borne by WISE j , for the placement of the individual i (e.g. daily canteen food, medicines, rents for accommodation),
 WC_i = *ad hoc* contribution received by the WISE for the placement of the individual i (e.g. for disabled people or mentally impaired),
 SW_i = social security contribution for worker i (a percentage of i 's monthly wage),
 $Trans_j$ = subsidies and other monetary transfers granted to WISE j ,
 $TaxExemp_j$ = tax exemptions enjoyed by WISE j .

The values of most of the items included in equations (1) and (2) come from WISE administrative documents: some from tax files (PIT_{ij} , $DisVAT_{ij}$ and $TaxExemp_j$), others from the HR information system (SW_i) or other cost accounting documents (WE_{ij} , WC_i and $Trans_j$). The administrative documentation provides also precise information on the type and amount of the disability benefit individual i is eligible for.

Some discretion is needed to determine the value of the remaining components. For what concerns the mean-tested cash transfer the individual i may receive if unemployed (MI_i), it is necessary to remind that in Italy there isn't any universal unemployment benefit or minimum vital income. Nevertheless, municipalities often provide income support to people in need either with earmarked cash benefits (e.g. subsidies for paying utility bills, or housing stamps for tenants) or supporting general basic necessities. It is difficult to assess the monetary value of this public assistance, because of the heterogeneity of the amount of resources available to the municipalities for this activity and because the decision to pay the benefits depends on the judgment of social workers. In this context VALORIS assumes that the public administration is willing (and able) to assure a minimum income to the vulnerable individual equal to 10 Euro per day (see Strati 2009), net of any disability benefit already paid to him/her and costs borne directly by the WISE, that is

$$MI_i = \max(10 - DB_i - WE_{ij}, 0).$$

In order to assess the monetary value of additional health care services, social support or custody costs that the individual i would require if s/he were unemployed (AP_i), VALORIS relies on the expertise of the social managers, who are WISEs senior managers in charge of assessing the working ability of the vulnerable individuals and of supervising their placement process. They are asked to make an educated guess on what would happen to the worker if s/he were not employed, and the cost for the public administration of this hypothetical scenario is estimated on documental bases. In particular, for the cost of imprisonment or home arrest we refer to the Italian Ministry of Justice documents (Centro Studi Ristretti Orizzonti 2009); for residential and non-residential services for disabled persons and psychiatric impaired we refer to the relevant Lombard Regional Laws (D.g.r. 12620/2003, D.g.r. 18333 and 18334/2004,

D.g.r. VIII/5743)² and the fees charged by the main structure for disabled in Brescia (Fondazione FOBAP, www.fobap.it); for drug/alcohol rehabilitation centres we have consulted two social enterprises that run the vast majority of such centres in the province (Cooperativa di Bessimo and Gruppo Fraternità); finally, the cost of meeting with social workers has been estimated on the basis of the tariffs published by the social workers union (SUNAS, www.sunas.it). Whenever alternative hypothetical scenarios are equally likely (e.g. an unemployed drug addict might be in a rehab centre, or living with a self-sufficient family of origin, or homeless), VALORIS takes a caution approach and it considers the alternative cheapest for the public administration (in the example, “with the family of origin”).

Finally, it is of paramount importance to stress that Italian WISEs play a central role in the job placement of what in jargon are called persons with a “not certified disadvantage”. In fact, many people who would be defined disadvantaged according to the European Union definition (EC 800/2008, EC 2204/2002), do not belong to any category considered by the Italian Law 381/91, and as such, they are not entitled of any subsidy, fiscal incentive or reduction of social security contributions to facilitate their job placement. Nevertheless, given the commitment to their social aims, WISEs hire many “uncertified” vulnerable workers, as migrants, single mothers, and long term unemployed. At discretion of local authorities, a “motivational grant” can be paid to the individual in case of placement in a WISE. In these cases, the grant is registered as a public cost related.

4. THE DATA

We have collected data for 34 WISEs operating in the province of Brescia (Lombardy, Italy) in the period 2010-2012, covering the job placement of 1,242 disadvantaged workers. Despite its spatial specificity, we consider the dataset of great interest, given the historical leading position of this territory in the social cooperative movement. In fact, Lombardy is the region with the largest number of social cooperatives in Italy (1,603 in 2010, 16% of the national total), 511 of which are WISEs (“Type B Social Cooperatives”), and the province of Brescia accounts for 20.7% of them. In contrast, the overall number of active companies in the province is only 12.7% of the total number of firms in the region. The population of the province is also 12.7% of the regional population, but the WISEs of the province employ 24% of the workers with physical, mental or sensory inability in Lombardy, the same percentage of minor workers with social problems, while the quota goes above 30% for the mentally ill and the addicts. The province is one of the richest area of Italy, with a strong tradition for manufacturing and a historically low unemployment rate. Nevertheless, the current crisis has also affected this area,

² D.g.r. 12620 (07/04/2003), D.g.r. 18333 and 18334 (23/07/2004), D.g.r. VIII/5743 (31/10/2007), *Determinazioni in ordine alla gestione del servizio socio sanitario regionale per l'esercizio 2008*, available at <http://www.regione.lombardia.it>.

with the unemployment rate rising from 3.2% in 2007 to 8.8% in 2013 (with a national unemployment rate equal to 12.2%).

The social cooperative movement in the province of Brescia has always played an active role in the implementation of the local welfare policies. On the other hand, the public administration has typically awarded them contracts on a non-competitive basis, preserving them from the market competition pressure. At the end of 2009 there were more than 2,000 public contracts awarded to the cooperatives in Lombardy, in areas such as cleaning, maintenance of buildings and public parks and gardens, waste management and recycling, canteen services, information services, people mobility, and others. The public administration is clearly a major client of the WISEs, but it is rarely their sole customer, as they usually supply their products and services to other businesses or final consumers.

The research project collected data on 34 WISEs, approximately one third of the social cooperative for work integration active during the three-year period 2010-2012. The majority of them provided information only for the first year, four for two years, two from 2010 to 2012; four took part to the survey only in 2011 and one only in 2012. As result of the drop rate, the number of disadvantaged workers with information in the dataset is declining over time: 743 in 2010, 344 in 2011, and 155 in 2012. Their characteristics are summarized in Table 1 by year.

Table 1 • Disadvantaged workers by disadvantage type, residual working ability and activity (column percentage; source: authors' elaboration)

	2010	2011	2012	Total
Disadvantage				
Convicts	1.62	3.20	0	1.85
Addicts	15.75	11.05	12.26	14.01
Physically disabled	33.92	48.84	61.94	41.55
Minors	1.08	0	0	0.64
Not certified	15.34	17.15	10.97	15.30
Mentally disabled	32.30	19.77	14.84	26.65
Residual working ability				
0%-25%	14.40	9.01	10.32	12.40
26%-50%	46.84	58.43	62.58	52.01
51%-75%	6.06	2.91	2.58	4.75
76%-99%	2.69	2.33	0.65	2.33
100%	30.01	27.33	23.87	28.50
Activity				
Agriculture	2.69	0	0	1.61
Constructions	9.56	0	0	5.72
Data entry and call centre	13.32	27.33	65.16	23.67
Cleaning services	21.53	17.73	0	17.79
Waste manag. and public parks and garden maintenance	37.01	54.94	34.84	41.71
Tax collection	6.59	0	0	3.95
Meters reading and signposting	5.52	0	0	3.30
Other services and manufacturing	3.77	0	0	2.26
# of workers	743	344	155	1,242

More than 65% of the vulnerable workers hired by the WISEs are disabled, either mentally or physically. This group of individuals, together with the addicts, convicts and minors, benefits from the Law 381/1991, while 15% of vulnerable workers without a certified disadvantage are excluded from these benefits. There are few cases of job placement of convicts and minors. The presence of many vulnerable but not disabled workers explains the high percentage of workers who, according to the official documentation or the judgment of the WISE's social manager, have no reduced working ability: 28.5% of the workers retain all their working capacity, and a further 7.1% retains at least 50% of the abilities. The non-standard classification of the activities mirrors the decision to adhere to the reality rather than to the international classification standards. So we have combined waste management and gardening because WISEs typically run the two businesses jointly. Actually, this combination of activities is the one providing more job opportunities to disadvantaged workers, together with data entry and the call centres.

The comparison between the annual columns in Table 1 makes evident that the variation of the pool of WISEs participating to the study remarkably changes the mix of characteristics of the workers involved. The number of cooperatives interviewed goes from 29 in 2010, to 10 in 2011 and three in 2012. This affects the mix of activities (with a sharp increase of the relative weight of data entry and call centres), the mix of disadvantages (with the percentage of physically disabled workers going from 33.9% in 2010 to 61.9% in 2012) and the residual working ability of the workers. Given that these variations are due almost exclusively to changes in the set of firms considered, there is little scope for a dynamic analysis of the data at hand.

Although anonymity in data treatment has always been assured, for confidentiality reasons, many WISEs have been reluctant to disclose personal data of their disadvantaged workers. We therefore have information on age for 93% of the individuals while information on gender is available for only 43% of them. On average the disadvantaged employees were 42 years old at the time of hiring, with negligible differences between categories of disadvantage (with the obvious exception for the minors), with men being on average two years older than women. Looking at gender composition, men account for 73.5% of the cases for which the information is available. This percentage is higher than 61.1%, the share of male workers on total number of employed people in the province in 2010. Convicts and drug addicts are almost exclusively male, 75% of physically or mentally disabled workers are male, while the quota reduces to 54% in case of no certified disadvantage. Gender plays a clear role in the job matching process: 79.3% of the female vulnerable workers are employed in cleaning services, while 72.6% of men work for WISEs in the waste management and gardening sector. This polarization is not surprising, but it is worth reminding that the result is influenced by WISEs' decisions to disclose the information or not. In particular, the information is missing for all the enterprises operating in the data entry and call centre business.

5. DO THE WISES GENERATE SAVINGS FOR THE PUBLIC BUDGET?

We now turn to illustrate the distribution of the core variables used to assess costs and benefits of the job placements as in Equations (1) and (2).

Table 2 • Percentage of individuals in training, eligible for disability benefits and with positive benefits or costs for their placement; mean number of working days considered and mean daily costs and benefits (source: authors' elaboration)

	Convicts	Addicts	Physically disabled	Minors	Not certified	Mentally disabled
In training	30.4%	8.0%	6.2%	75.0%	12.1%	16.3%
Number of days as employee	89.75	129.01	127.86	39.61	122.37	107.18
Using health care services or social assistance if unemployed	47.8%	46.6%	39.0%	37.5%	54.2%	53.5%
Cost for services (Euro)	113.00	36.01	13.77	23.30	8.67	48.36
Disability benefit eligible	0%	0%	13.0%	12.5%	0%	9.1%
Disability benefit (Euro)			15.68	24.89		22.23
Savings for services and cash transfers (Euro)	64.04	26.54	16.64	20.60	16.31	37.06
Positive personal income tax	60.9%	81.6%	80.2%	12.5%	60.5%	62.5%
Personal income tax (Euro)	6.40	9.40	12.38	10.72	9.93	6.67
VAT (Euro)	12.95	18.74	18.17	15.89	16.02	14.79
VAT, adjusted for residual working ability	10.22	12.30	11.27	10.35	9.27	5.62
With positive placement costs	95.7%	98.3%	100.0%	100.0%	44.2%	97.0%
Placement costs (Euro)	24.01	27.38	42.14	9.48	28.48	39.88
Savings (Euro)	44.97	7.34	15.58	12.46	9.79	2.59
With negative savings	43.5%	64.9%	81.8%	12.5%	32.6%	62.8%
Savings + VAT (Euro)	57.92	26.08	2.58	28.35	25.81	17.38
With negative savings + VAT	21.7%	14.9%	29.3%	0%	12.1%	36.9%
Savings + adjusted VAT (Euro)	55.19	19.64	-4.31	22.81	19.07	8.21
With negative savings + adjusted VAT	34.8%	26.4%	48.4%	0%	15.3%	51.4%

Table 2 shows that not all of the job placements can be considered as temporary or permanent labour contracts. In fact, about 30% of the convicts' placements relate to training programs, 75% for the few minors considered. Being on training rather than on employment affects both the number of hours worked, the number of working days in a year, as well as the cost and benefits of the placement. The average number of days in which the individuals have been working with the WISEs has been computed starting from the number of hours worked in the reference year, and assuming a standard working time of 7.5 hours per day. The average ranges between 39.6 days for the minors to more than 120 days for addicts, physically disabled and "uncertified" vulnerable workers. Trainees were employed on average 47 equivalent working days, other workers 129.4. To make

the various situations positions, we standardise all the monetary variables in terms of working day.

Not all the costs and benefits components are relevant for every job placement. Some individuals are entitled of disability benefits, others are not; some need special assistance if not employed, others don't; and similar considerations hold for other costs and benefits. For instance, it is interesting to notice that according to the social managers' judgement, about 54% of the vulnerable workers without any certified disadvantage would need some extra assistance if they were not employed, and the cost of such assistance would be 8.67 Euro per day. A similar percentage of individuals who would need extra intervention by the public sector is recorded for the mentally impaired, but the cost of their extra care is much higher, 48.36 Euro per day. The highest extra costs in case of unemployment are those of the ex-prisoners and convicts (113 Euro per day), in particular when the alternative would be imprisonment.

Only few physically and mentally disabled and minors are eligible for disability benefits. If they were to collect the subsidies, they would get between 15.68 Euro (the physically disabled) and 24.89 Euro per day (the minors). The sum of the savings for the reduced used of services, for the fewer disability benefits paid, and for the reduction of other cash transfers gives the total variation of public money outflow originated by the policy (i.e. $AP_i + MI_i + DB_i + WE_{ij}$): the job placement of a physically disabled individual gives origin to a benefit of 16.64 Euro per day, similar to the benefit originated by the placement of "not certified" vulnerable labourers; the benefits are higher for the other categories of disadvantaged workers, with convicts and ex-prisoners providing the largest benefit (64 Euro per day).

The wages of the vulnerable workers are subject to personal income taxation, if the annual income is above the exemption threshold. The non linearity of the taxation scheme, together with the fact that some trainees receive tax free grants rather than wages, imply that not all the disadvantage workers pay taxes on income originated by their employment in the WISEs. About 80% of the wages of addicts and physically disabled workers are taxed (that is, they have $PIT_i > 0$ in Equation (1)), this percentage drops to about 60% for addicts, mentally disabled and not certified and is around 10% for minors. Those paying taxes contribute with 6 to 12 Euro per day to the public budget.

The other positive contribution of the job placements to the public budget is the VAT collected on goods and services sold by the WISEs thank to their vulnerable workforce ($DisVAT_{ij}$ in Equation (1)). The portion of VAT is imputed to each worker proportionally to the ratio of the number of hours s/he worked over the total number of hours worked by all WISE's employees in the reference year. By so doing, we implicitly assume that the productivity is constant across employee of the same WISE. Under this assumption, the job placement of a physically disabled generate a positive cash flow of about 18 Euro per day, 5 Euro more than the job

placement of an ex-prisoner. This difference shrinks to 1 Euro if the imputation mechanism accounts also for the residual working ability of the individuals: the daily imputed VAT in case of physical disability is now about 11 Euro, vs 10 Euro of the convicts.

Up to now, we have assessed the benefits of the job placements, either in terms of reduction of public spending ($AP_i+MI_i+DB_i+WE_{ij}$) or of increase of tax revenues ($PIT_i+DisVAT_i$). Looking at costs (WC_i+SW_i in Equation (1) and $WISECB$), it is important to notice that for the majority of “not certified” disadvantaged cases, such costs are absent. There is a remarkable heterogeneity in costs, and it is possible to recognise three levels: about 40 Euro per day for physically and mentally disabled, between 24 and 28 Euro per day for addicts, convicts and not certified, and only 9 Euro for minors.

We are now in the position to confront costs and benefits, and we do it in three different ways: without considering the VAT revenue as a benefit of the policy, including the worker portion of VAT and finally including the portion of VAT adjusted for employee’s residual working ability. The inclusion of the VAT revenues among the benefits of the intervention may create a deadweight issue if the production of vulnerable workers is meant as a substitute of the production made by non-vulnerable workers rather than in addition to that. If this were the case, we would overestimate the intervention benefits. Including the VAT in the benefits, we assume that the WISEs increase the overall level of the output for the entire economy by including the marginal labour force. When the VAT revenue is equally spread among WISE’s employees, we implicitly assume that the companies are able to distribute the tasks and organise the workflow in such a way to compensate the lack of working capacity of the vulnerable individuals. Although this may be the ultimate goal of the organizational design of many WISEs, an adjustment of the contribution to the VAT revenues to the capacities of the disadvantaged workers is advisable.

The last rows of Table 2 describe the results of the three methods. When VAT is not considered, the costs of the placement are higher than the benefits in more than 80% of the cases of physically disabled, with a negative mean balance of 15.58 Euro per day. In contrast, the employment of convicts and ex-prisoners generate a positive costs-benefits balance in more than 55% of the cases, with mean savings of 44.97 Euro per day. When VAT is considered, the percentage of negative balances is dramatically reduced and the intervention appears profitable – from the public budget perspective – for all the categories of vulnerable workers. When the imputed VAT is adjusted for the residual working abilities, the picture is between the previous two, with about 50% of the placement of disabled individuals producing a negative impact on public budget.

Before drawing any conclusion about the financial sustainability of the policy, it is worth noting that few (7) cases of job placement should be considered as outliers,

with a negative balance between costs and benefits larger than 200 Euro per day. When these cases are excluded from the dataset, the negative balance for the physically disabled is almost halved (8 Euro per day) and if the VAT is added, accounting for the residual abilities, all the categories have a positive average impact (1.9 Euro per day for the physically disabled).

In conclusion, although in many individual cases the cost of the placement is larger than its benefit, the overall balance of the intervention, that is

$$\sum_j (ICB_j + WISECB_j),$$

is positive: taking the most conservative approach, that is excluding the VAT revenues from the benefits, the placements generate savings of 1.45 Euro per day on average. The 34 WISEs considered in the study used 149,531.2 equivalent working days of vulnerable workers in the period considered, which originated 216,820 Euro of savings for the public budget. If the VAT revenues were considered, adjusting for the working capacity, the impact would be of 1,566,633.8 Euro.

6. WHAT DETERMINE THE FINANCIAL SUSTAINABILITY OF THE JOB PLACEMENT?

The analysis in the previous section delivered two main results:

- ❶ the overall intervention of job placement of disadvantaged workers in WISEs is financially sustainable, and
- ❷ there is a remarkable heterogeneity in job placements costs and benefits, with a large fraction of placements whose costs are higher than benefits.

In this section we provide a first tentative analysis of the causes behind the latter result. More specifically, we use a multiple regression analysis to investigate which characteristics of the workers, of the placement contracts and of the hiring WISEs affect the probability of the job placement to generate savings for the public administration and their amount.

We use the information at individual level, excluding few outliers and focusing on those cases with all the necessary data available, the estimation sample reduces to 1,206 observations. For each of these cases, the type of disadvantage and the residual abilities of the worker are considered, as well as the type of contract (whether a training contract or not) and the number of (equivalent) days worked in that WISE during the reference year. These information are combined with those regarding the WISEs, that is, the activity sector, the commencement year and three financial indicators from the balance sheets: the (log of) total annual sales to control for the size of the company, and – to take into account the sustainability of the business – an indicator of negative Earnings Before Interests, Taxes, Depreciation and Amortization (EBITDA) together with the ratio EBITDA/Sales. Finally,

as the characteristics of the workforce can be crucial determinants of WISEs' ability to produce positive economic results, the models consider also the total number of vulnerable individuals who have been working with the WISE during the reference year, the incidence of the trainees among disadvantaged workers, and the ratio between the annual number of hours worked by disadvantaged workers over the total number of hours.

Table 3 • Multiple regression results (source: authors' elaboration)

	Benefits-Costs		Variables sample mean
	Positive	Amount	
Workers and job contract characteristics			
Job tenure in the reference year (# days)	0.001	0.079***	122.58
Trainee			
No	(base)	(base)	0.896
Yes	0.312***	11.737	0.104
Disadvantage			
Convicts	-0.416**	-10.440*	0.019
Addicts	-0.312***	-16.760***	0.141
Physically disabled	-0.409***	-19.640***	0.414
Minors	-0.194	-17.497	0.007
Not certified	(base)	(base)	0.153
Mentally disabled	-0.412***	-17.91**	0.266
Residual working ability			
0-25	0.138	34.470***	0.126
26-50	-0.319***	-13.218***	0.515
51-75	0.203*	34.396***	0.048
76-99	0.270**	92.984***	0.024
100	(base)	(base)	0.287
WISEs characteristics			
# of disadvantaged workers employed	-0.002***	-0.061	132.41
Disadvantaged trainees / Disadvantaged workers	-0.795*	-39.047	0.069
# hours of disadvantaged workers / Total # hours	0.44*	33.276	0.356
Activity commencement year	0.005	1.026**	1,996.33
Activity			
Agriculture	-0.79***	-20.782	0.016
Other services	-0.393**	-23.155	0.010
Other manufacturing	-0.405	-23.715	0.012
Constructions	-0.68***	-28.087**	0.058
Data entry and call centre	(base)	(base)	0.240
Cleaning services	-0.459***	-15.424**	0.178
Waste management and public parks and garden maint.	-0.571***	-17.954*	0.414
Tax collection	-0.435*	10.384	0.040
Meters reading and signposting	-0.380***	-20.385***	0.032
log(Sales)	0.141***	5.088	14.92
EBITDA/Sales	0.002	-0.532	7.065
EBITDA<0	0.092	6.832	0.061

Legend: * p<.05; ** p<.01; *** p<.001

Notes: Ordinary least square estimates of the linear probability model for the probability that the job placement has a positive *Benefits - Costs* difference (first column), and linear model for the amount of the difference (second column). The third column shows the sample mean of the covariates. Standard errors are computed adjusting for heteroskedasticity and clustering at the WISEs level.

Table 3 shows the ordinary least square estimates of the parameters of two model, the first one describes the relation between the listed variable and the probability that the placement generates positive savings for the public budget (the column with the heading “Positive”), the second one relates the same set of variables with the monetary value of such savings (the column “Amount”). The third column of the table presents the mean of the covariates, the rows with coloured background refer to binary (0/1) variables. The main advantage to resort to multiple regression analysis is given by the possibility to disentangle the effect of a variable on the outcome, *keeping the other characteristics constant*, that is, trying to control for possible confounding factors. So, for instance, the “Positive” column shows that taking two individuals with the same residual working ability, same tenure, working in the same WISE, but one with a certified physical disability and the other without a certified disadvantage, the job placement of the latter is 40 percentage points more likely than the former to generate positive savings. The “Amount” column states that the savings due to the placement of the physically disabled is 19.64 Euro lower than the savings for the placement of the “uncertified” vulnerable individual, with the same characteristics and working in the same WISE. The results in Table 3 can be summarized as follow:

- ❶ training episodes are more likely than employment spells to generate positive savings for the public budget;
- ❷ the job placement of “not certified” vulnerable workers are those more likely to produce positive effects on public budget, and the savings are remarkably higher than those of the other categories (10 to 20 Euro per day);
- ❸ the intervention is most effective, in terms of public money savings, with those individuals whose residual working ability is above 50% but lower than 100%;
- ❹ increasing the number of disadvantaged workers, and among them the number of trainees, reduces the chances to get a positive result from job placement; in contrast, the more relevant is the number of hours worked by disadvantaged employees with respect to the total number of hours worked in the reference year, the more likely is that the job placement brings positive savings. These results suggest that WISEs with many trainees, working for short periods and few hours, are not in the position to positively contribute to the public budget; at the opposite, WISEs with a stable pool of disadvantaged workers may increase the fraction of employee with reduced productivity without penalizing the final outcome;
- ❺ larger enterprises operating in relatively new sectors as data entry and call centres perform better than the other WISEs.

CONCLUSIONS

The Italian WISEs play a key role in the implementation of social inclusion policies of large sectors of the vulnerable population, going from disabled to inmates and ex-prisoners, from addicts to lone mothers and long term unemployed. The

job placement of disadvantaged workers in WISEs is incentivised on the one hand by fiscal exemptions and *ad hoc* individual grants, on the other by reserving to WISEs special procedures for the award of public contracts.

Discussing the merits of this intervention scheme in terms of the well-being of the individuals who benefit of the intervention is beyond the scope of this study, but it is generally recognised that work integration is welfare improving. It is instead still under debate if the policy is financially sustainable or it demands a disproportionate amount of public resources.

The evidence provided in this paper, based on a large sample of job placements in WISEs operating in the province of Brescia (in Northern Italy), shows that the policy as a whole is self-financed. This result is obtained maintaining a conservative approach. For instance, it excludes any monetary valuation of the (present and future) improvement of well-being of the disadvantaged workers, or the presence of positive externalities. It is rather obtained using a mere accounting approach, that is embracing the principle informing most of the policy decisions nowadays. With this respect, the adoption of this evaluation strategy strengthens the conclusion: cutting on resources dedicated to work integration of vulnerable individuals is a short-sighted, counterproductive public budget policy.

The fact that the policy is self-financing does not exclude that there is room for improvement in its implementation and fine tuning. In particular, there is evidence that WISEs that focus on long lasting job contacts for vulnerable workers are more likely to produce positive returns for public money dedicated to work integration. Which suggests that the policy maker should incentive more interventions toward permanent job contracts rather than toward brief training experiences.

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