
BANCA PROSSIMA AS IMPACT INVESTOR A SPECIALIZED BANK

di MARCO MORGANTI

Part of IntesaSanpaolo, Banca Prossima is a bank that specializes in providing support to the nonprofit sector. We believe that specialization offers obvious benefits in terms of allowing a deep understanding of nonprofit peculiarities: e.g. as regards legal or tax matters, economics, values ... Today Banca Prossima has extended about €1.5 bn in loan commitments (about €1.1 bn utilized), has €1.9 bn in total assets under management and over 24.000 customers. Given that nonprofits are peculiar in terms of their values, sometimes it also pays to import some of their practices and language within the intermediaries serving them, even if they are incorporated as for-profit; and so we have done at Banca Prossima. This is not to say that nonprofits should be served only by specialized banks; we believe they are best served by a diverse ecosystem of finance providers. However, we

also believe that as the range of financial instruments available and actually used by nonprofits expand to include collateral services to debt, quasi-equity and equity, specialization increases in value.

Credit to nonprofits

One major obstacle to nonprofits' access to debt finance is that evaluations of creditworthiness are typically based on practices and concepts developed for for-profit customers. These usually neglect specific strengths that nonprofits have, primarily the ability to mobilize resources not available to for-profits but stable over time, such as a solid donor base or a wide pool of trained volunteers.

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Banca Prossima developed a scoring system, integrated within IntesaSanpaolo's credit assessment methodology but that takes account of about 20 additional factors – some quantitative, some qualitative – that modify the standard rating and can be used to override its indications. We believe this effort should be pur-



sued more widely. This is different from scoring projects on impact only, which is more typical of “ethical banks” but mixes two different objectives, widening access and evaluating creditworthiness.

Banca Prossima also has a balance-sheet item (“the Fund” heretofore), not available for distribution to shareholders, which takes first losses on loans earmarked as “difficult”. This is not strictly a guarantee fund, being subject to the same accounting rules as the other liabilities. However, it plays a similar function, **making it easier to extend credit by providing a backstop for losses**. It also has a multiplier effect insofar as it covers only a fraction of loans qualifying for Fund coverage. Thus €24 mln of Fund money generate €100 mln of loans for riskier subjects such as nonprofits based in Southern Italy, startups, or initiatives in “difficult” businesses.

One issue about proprietary rating systems is their performance at identifying dangers *ex ante*. It is therefore important to assess performance by checking out default rates.

Banca Prossima’s nonperforming loan rate, under Italian reporting standards, is **currently 0.7% of total loans**.

Product innovations: TerzoValore and social purpose bonds.

TerzoValore is a Web platform which allows citizens and firms to lend money, at lower-than-market rates, to social projects, taking advantage of professional evaluation of credit risk and total coverage of capital, both provided by Banca Prossima. Essentially a nonprofit organization proposes a project needing finance, Banca Prossima evaluates it and stands ready to finance up to 100% of it at market rates. When the project is exposed on the platform, citizens can take slices of it (up to €10,000 or €50,000 depending on whether they are incorporated or not) at a maximum rate specified by the nonprofit itself, which could be very low or zero. Banca Prossima will retain at least one third of the total loan. Each single project might not exceed €900,000 in total value. In this experimental phase, finance for about €5 mln has been provided this way and nonprofits have thus seen their debt service decrease significantly (potentially to one third).

Finance for social projects – if not helped along by initiatives such as TerzoValore – can be very expensive even in normal market conditions. This happens, for instance, when banks finance >



themselves on the market at high rates due to sovereign risk. In this case final rates to SMEs – including ones with social impact – can get quite high. One remedy is to **tailor bond issues so that their proceeds are earmarked to be lent to social-impact projects.**

This allows to tap local markets, or markets with impact-conscious investors (both institutional and retail), which may be willing to invest at relatively low rates with a guarantee that their income sacrifice is entirely passed onto borro-

wers. Of course, a bond issue can (and normally will) raise more than the €900.000 maximum applying to TerzoValore: so a tailored bond issue can take care of projects with higher social stakes than those that can be dealt with by crowdfunding. Banca Prossima is operationally ready to use this mechanism as soon as opportunities arise. The mechanism can be further generalized to use deposits, in place of bond issues, either with a similar role or functioning as escrow (guarantee) for social loans. ●