



ISTITUTO PER
IL CREDITO
SPORTIVO

The ESG and SROI evaluation of the financing of the Istituto per il Credito Sportivo

From measurement method to planning tool for an ESG-SROI oriented bank.

September 2023

Purpose and content of the document

One of the main objectives of the Istituto per il Credito Sportivo (ICS) 2022-2023 Sustainable Development Plan consists of launching an ex-ante assessment - both of the ESG score and of the social return (SROI) - of all loan requests starting from 2023. This document describes the results and the work carried out by the ICS with the support of OpenEconomics to acquire the technical and operational capacity of the aforementioned assessments with the consequent incorporation of non-financial factors in risk appetite, credit policies and in structuring the pricing of the Institute's loans.

The main part of the document has a purely informative view and explains the internal and external representation of the main elements relating to the activities carried out in the planning period (April-September 2022) and testing (October 2022- February 2023).

The Institutes social orientation in addition to constituting its characteristic and founding value, permeates the 2021-2023 Business Plan, aimed at the evolution of ICS into a "bank for sustainable and inclusive development through Sport and Culture".

In §1, the document describes the rationale and methods for understanding the needs of ICS stakeholders, an exercise that circumscribes the areas of non-financial reporting. In this case we wanted to anticipate stakeholder requirements, thus directing the objectives of the ICS action towards their stakeholder satisfaction.

§2 examines the approach used in defining the evaluation methods, in the absence of a clear regulatory framework. This approach is an evolution of ICS and not in a transformation, since the bank has had a "social" mission since its establishment in 1957. The project gives a scientific foundation to activities and integrates the data requested from customers that harmonises with the regulatory evolution according to the dictates (currently in progress) of the supervision.

In this regard, §3 and §4 illustrate the results of the extensive ESG and SROI assessment conducted on the existing portfolio (1993-2022), which confirms the social nature of the bank and simultaneously, identifies areas and types of actionable intervention to further improve ICS's social mission as measured by the SROI.

The extensive assessment expresses other fundamental elements for the design of operations connected to the ex-ante assessment, i.e. the integration of ESG risk factors in the risk management system, in credit policies and in the structuring of the bank's pricing; elements illustrated in §5.

§6 describes the construction of the platform and reports on the first responses of the test phase, which will lead to the implementation of the ex-ante evaluation on all loans already started in March 2023.

Finally, §7 reports on the results of the first phase of the digital platform carried out between March and June 2023 through the ex-ante analysis of the projects to be financed based on information collected directly from customers.

In essence, the planning phase returned not only a **measurement method** but, above all, a **planning tool** to make ICS increasingly ESG-SROI oriented, i.e. the bank for sustainable and inclusive development.

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1. Materiality analysis

Before proceeding with any other exercise, it was necessary to identify the most relevant ESG topics for the Institute, i.e. those that:

- reflect the significant (negative and/or positive) economic, environmental, and social impacts of ICS and its activities.
- influence the assessments and decisions of the main stakeholders regarding ICS.

The method used to conduct the analysis was structured in compliance with the most widely used international reporting standards for drafting the Non-Financial Statement (NFS) and which bases its effectiveness on the continuous involvement of stakeholders, both internal and external, to identify the most relevant themes of the Institute. The process of identifying the material topics involved three main phases:

1. the identification of relevant issues
2. measurement of the level of relevance of the above
3. the construction of the materiality matrix.

During the identification phase of the relevant issues, ICS conducted both an in-depth analysis of internal and external sources, and a comparative analysis on the relevant issues for the main subjects operating in the same sector. Finally, a questionnaire detected the level of relevance reached by 184 internal and external stakeholders (Tab.1).

Tab. 1: Share of respondents by type of stakeholder

Stakeholders	Engaged	% Incidence	Representativeness
Employees	101	54,9%	Adequate
Managers	31	16,8%	High
Board Members	4	2,2%	Full
Shareholders	3	1,6%	Adequate
Internal Stakeholders	139	75,5%	
Local communities	14	7,6%	Adequate
Clients	11	5,9%	Sufficient
Institutions	9	4,9%	Very high
Suppliers	7	3,8	Very high
Media	4	2,2%	Adequate
External Stakeholders	45	24,5%	
Total Stakeholders	184	100%	

** The sample of Clients surveyed also includes 5 Sports Federations which it is believed can provide a clear representation of the sensitivity of subjects belonging to the categories and the profit and non-profit activities connected to them.

Source: OpenEconomics elaborations on ICS data

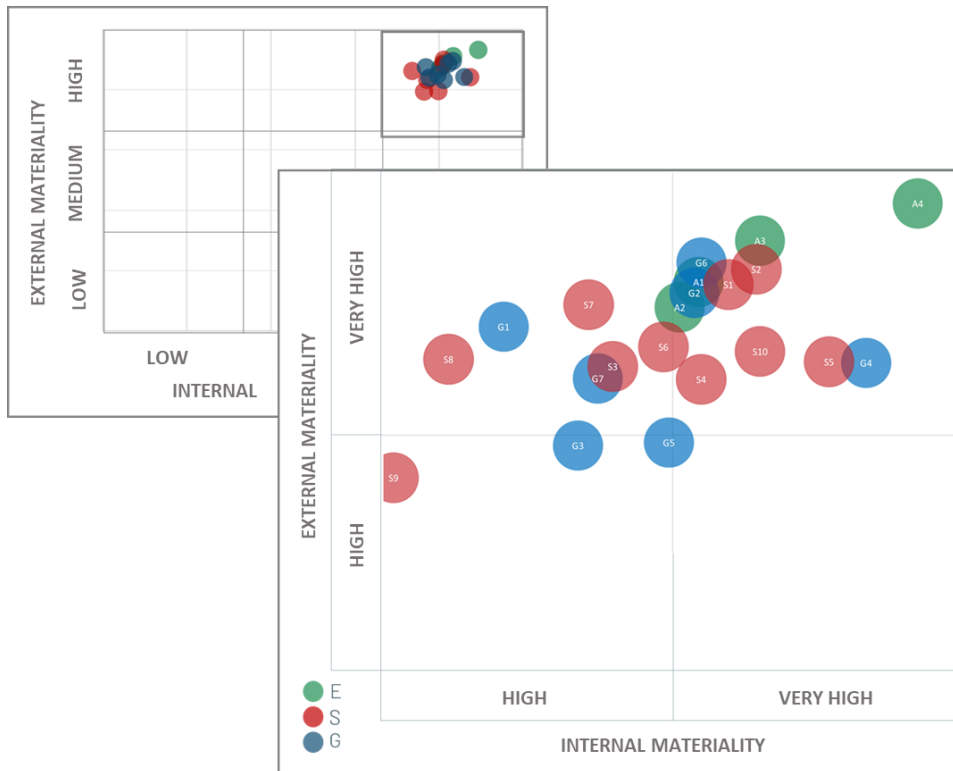
The data collected allowed the construction of the materiality matrix, from which the bank has learned its positioning and that of its stakeholders with respect to material topics.

Tab. 2: ESG Material Topics of the Istituto per il Credito Sportivo

A1	Climate change ✓
A2	Environmental direct impacts ✓
A3	Generative finance ✓
A4	Sustainable and resilient infrastructures ✓
S1	Local socio-economic development and social cohesion ✓
S2	Education, development and valorization of Human Capital ✓
S3	Health and Safety at work
S4	Diversity, inclusion and equal opportunities ✓
S5	Innovation, research and digitalization ✓
S6	Customers satisfaction and service quality
S7	IT security of the Institute
S8	Customers privacy protection
S9	Promotion of volunteering, sport and culture among employees
S10	Health and wellbeing through Sport and Culture ✓
S11	Education to Finance, Sport and Culture
S12	Demographic change and aging population
S13	Epidemic and socio-economic consequences
S14	Geopolitical tensions and their impacts
G1	Transparency and Communication towards stakeholders
G2	Ethics and integrity in corporate conduct ✓
G3	Responsible management of supply chain
G4	Channelling of public resources ✓
G5	Identity, brand and reputation management
G6	ESG issues integration ✓
G7	Risk management

Source: OpenEconomics elaborations on ICS data

Fig. 1: ESG Materiality Matrix of the Istituto per il Credito Sportivo



Source: OpenEconomics elaborations on ICS data

2. The approach used by ICS in the SROI and ESG assessment

Although awareness of the strategic importance of sustainability and the socio-environmental impacts of loans is now unanimously established, especially in the credit sector, its introduction into decision-making processes, monitoring and control tools has not yet achieved systematic application and uniformity.

The main cause can be traced back to the lack of a mature and standardized framework and above all, tools capable of guaranteeing an appropriate compromise between the robustness of results and the effort employed in the evaluation. A recent report from the European Banking Authority¹ underlined how banks are currently unable to map the level of vulnerability of loans and customers to adverse physical events and changes in a regulatory, technological and market-driven environment from the climate emergency.

In this blurred and rapidly changing context and awaiting a stable and punctual market discipline, OpenEconomics and the internal ICS Sustainability working group have chosen to address the problem of assessing SROI and the relationship between ESG factors and credit risk.

This project was launched through the estimation of the ESG Rating and the SROI of the Institute's outstanding portfolio of loans and, in its second phase, through the development of a sophisticated digital platform capable of allowing timely data collection and a sufficient degree of standardization of the ex-ante measurement process of the SROI and ESG Rating indicators, with a limited impact on the Bank's operating structures.

¹ 1 European Banking Authority, "[Mapping climate risk: Main findings from the EU-wide pilot exercise](#)", EBA/Rep/2021/11, 21 May 2021, European Banking Authority, Paris.

3. The estimate of the ESG rating of the outstanding portfolio

As usual, the procedure analysed the three components separately:

- Environmental (E), in relation to the risks associated with climate change, CO2 emissions, air pollution, waste and deforestation.
- Social (S), which considers aspects relating to the well-being of the community impacted by the project, such as gender policies, human rights, labour and union standards.
- Governance (G), to evaluate the adequacy of the organization's governance practices, including manager compensation policies, composition of the Board of Directors, presence of independent directors, diversity policies, control procedures.

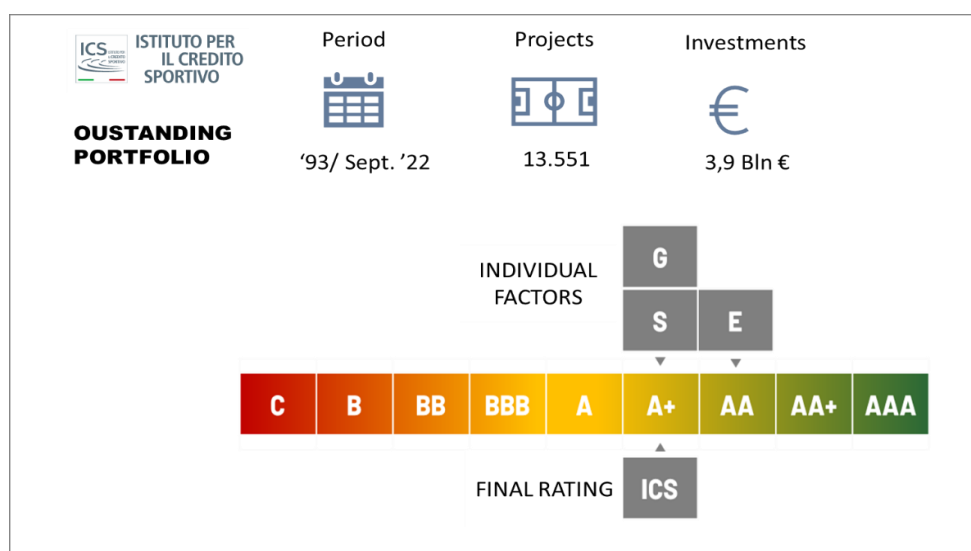
The estimation procedure, built on the basis of the characteristics of ICS and its customer target, takes into account the material topics of the Institute and the specificities of the banking, sporting and cultural context, and is aimed at identifying the best compromise between the two institutional objectives of ICS, namely: credit risk mitigation and support for the economic growth of the Sport and Cultural sectors by reducing pressure on the environment whilst taking into account social and governance aspects.

Considering the significant information gap relating to historical loans (since they occurred prior to the definition of a non-financial data collection procedure), the estimation of ESG factors has made it necessary to balance carefully the robustness of the results with a concrete and efficient material feasibility of the estimation.

It was necessary to resort to an articulated system of proxies, representative of the typical characteristics of the loans analysed, filling the information gaps by using "standard" data retrieved from public sources deemed reliable (mainly ISTAT, Ispra and Ministerial databases). To connect the public data sources to individual projects, the physical location of the interventions was used for environmental and social factors, and for governance factors, the typological characteristics of the applicant was applied.

The analysis carried out estimated an ESG score of 68.4/100 for the portfolio of historical loans of ICS (1993-September 2022), equivalent to an A+ rating, indicative of a medium-low ESG risk.

Fig. 2: The overall ESG results of the ICS loan portfolio



Source: OpenEconomics elaborations on ICS data

The overall portfolio score and the consequent rating scale were obtained by aggregating the single projects for each of the three dimensions through a weighted average with respect to the value of the relative investments. Finally, the three dimensions were in turn aggregated by averaging the related overall portfolio scores.

4. The estimated SROI of the outstanding portfolio

The exercise described in the previous paragraph was supplemented by the estimate and valuation of the benefits and non-monetary costs of the projects financed through:

- Selection of the most appropriate KPIs.
- Translation of financial quantities into impacts on the target community of the projects through the use of specific conversion factors (shadow prices).
- Evaluation in terms of social return of investment (Social Return of Investment - SROI)

The SROI analysis of the outstanding ICS portfolio was conducted through the following stages:

- definition and identification of the scope of analysis and the main stakeholders.
- mapping of the socio-economic benefits of the project.
- representation of benefits and their valorisation in terms of characteristic KPIs.
- attribution of the monetary value to the benefits.
- estimation of SROI and comparison between result and investment.

4.1 Management of the information gap

Since these are projects financed in the absence of non-financial estimation procedures, the starting database is considered inadequate for an immediate and systematic application of the complete estimation procedure. Therefore, it was necessary to carry out some simplifications and use some standard indicators relating to the types of intervention.

The value of the SROI was therefore estimated on a subset of projects representing 80% of the total value of the outstanding portfolio of ICS for the period 1993-(September) 2022.

4.2 The estimation of economic and social benefits

The socio-economic benefits and costs were identified for homogeneous groups of project categories. The first macro-classification saw the separation of the Culture projects from Sports projects.

In the Sport category there are some projects that require further specifications useful for identifying possible social benefits. The economic cost represented by the increase in health care costs for injuries induced by the increase in sports practice was subtracted from these benefits.

For all project categories, the benefits have been parameterized to the size of the project and the Municipality of implementation (resident population).

Further hypotheses necessary for the analysis were set up as follows:

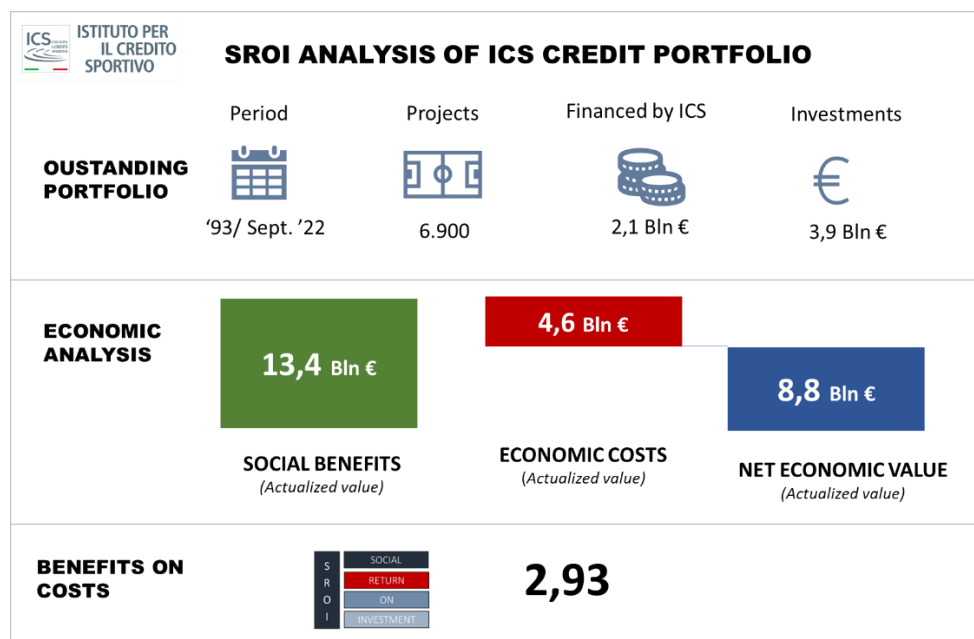
- standard construction period for all projects set at 2 years.
- operating cost estimation (Opex) parameterized for different project categories:
 - for projects with covered structures: 5% of capex per year.

- for swimming pools and indoor ice skating: 8% of capex per annum.
- for all other projects: 3% of capex per year.

4.3 Main results of the SROI analysis

The SROI of the ICS portfolio is equal to 2.93, the current net economic value (NPV) generated directly by the projects is equal to 8.83 billion euros (data at €₂₀₂₂ values).

Fig. 3: SROI estimate results of the ICS outstanding portfolio



Source: OpenEconomics elaboration on ICS data

This result shows how the ICS loan portfolio, in addition to the financial performance guaranteed to the Institute and indirectly to its shareholders, can generate social wealth with a benefit/cost ratio equal to 2.93 euro for each euro spent.

The main types financed achieve an SROI greater than one, i.e., that the socio-economic benefits generated exceed the costs.

5. Integration of ESG factors into credit risk and pricing policies

To enable ESG factors to be integrated into credit risk and pricing policies, it was necessary to carry out a study on the relationship between bank rating indices and ESG score indices. For this purpose, a linear regression model (OLS) was used first and then a logistic regression model.

The results agree in confirming the positive correlation between the two variables. That is, projects with high ESG scores have a higher credit rating and a lower probability of performing a low one.

In summary, as the ESG score increases, the probability that the project has a low credit score decreases, and the probability that the project has a high credit rating increases. This evidence is in

line with that of the linear regression model and seems to confirm the positive relationship between credit rating and ESG score.

In conclusion, the study - analysing the relationship between the credit rating and the ESG score using the dataset of historical loans of ICS expanded by the ESG score of OpenEconomics - confirms the evidence in the literature according to which the ESG score appears to have a positive impact on the assessment of creditworthiness.

The data obtained with the approximation of the massive assessment will be made statistically credible through the monitoring of future loans, granted only after a specific ex-ante ESG and SROI assessment.

6. Prospective assessment of loans

Having overcome the significant obstacle of the ex-post evaluation of outstanding loans with the relative difficulties associated with the information gap, the working group concentrated on previous evaluations and on preparing the necessary application tools.

With regard to the ESG rating estimation procedure, it should be emphasized the important work carried out to ensure sufficient flexibility and robustness of the analysis without penalizing the effort of the ICS commercial network. In fact, the agreed procedure automatically takes into account the relevance of the project to be financed (in terms of size) and the level of sophistication of the applicant (in terms of organizational structure and the ability to respond) by selecting the most suitable ESG questionnaire from a diversified library. That is, the one with the correct number of questions (around 30 questions for smaller projects and less sophisticated subjects to more than 100 for large projects and more organizationally complex customers), the right level of complexity (in terms of data requested) and the most suitable language (different by sector type).

Tab. 3. Project clustering

			Complexity level				
			Low	Medium-low	Medium-high	High	
			25%	35%	17%	23%	
Investment amount (relative value in %)							
From (K€)	To (K€)	Local Public Entites	No Profit	Parishes and Religious Entities	CONI and Federations	Enterprises	Universities and CUS
-	250	9,6%	2,3%	0,2%	0,0%	0,3%	0,0%
250	500	10,1%	0,9%	0,2%	0,0%	0,4%	0,0%
500	1.000	15,9%	1,2%	0,1%	0,1%	1,1%	0,0%
1.000	2.000	15,5%	1,0%	0,1%	0,1%	1,4%	0,0%
2.000	5.000	10,5%	1,2%	0,0%	0,3%	3,5%	0,0%
5.000	10.000	1,7%	1,0%	0,0%	0,8%	7,7%	0,0%
10.000		0,0%	0,0%	0,0%	5,1%	7,0%	0,6%

Source: OpenEconomics and ICS elaboration on ICS data

A further implementation was the integration of public databases for the determination of some specific scores. For example, for the detection of hydrogeological risk (and many other risks), once the project location address has been acquired, this is translated into geographical coordinates and used to query the Ispra database to automatically acquire the relative indicators.

This approach has been used for several indicators and brings two very important advantages to the procedure:

1. **reduces the number of questions** and consequently the compilation effort of the questionnaires;

2. **it strengthens the evaluation** as it can rely on a set of indicators from official sources that are homogeneous and comparable, thus eliminating involuntary or intentional material errors by the compiler.

The greatest simplification effort was also adopted in the previous measurement of SROI.

The model will be refined automatically by the platform itself as the number of loan applications increases which, assimilable by characteristics of the reference area, type and size of the intervention, together with the use of other data connected to habits (leisure time, food, mobility, etc.) of potential customers, will facilitate the development of an automatically queryable database over time.

7. Initiating the platform testing phase

7.1 Ratio and modality

The digital platform for the direct collection of non-financial information was launched on 1 March 2023 and officially presented to the press on 2 March 2023. This tool, the DELTA Platform, has been developed through an online questionnaire divided into three sub-questionnaires: a questionnaire dedicated to the collection of general information on the project and on the proposer; a questionnaire dedicated to collecting information on the management of ESG factors within the project and the client's internal organisation; a final questionnaire aimed at collecting the data necessary for calculating the SROI. The questionnaire is submitted to all ICS customers during the loan application phase and is applied to all types of projects, including small interventions. Thanks to the data and information released by customers within the DELTA Platform, ICS is able to assign a previous ESG rating and an SROI to all projects to be financed.

The estimation of the ESG rating is part of the overall ICS process of commercial acquisition and management of credit lines and therefore, also in consideration of the innovative nature of the activity, a gradual introduction of new non-financial assessment processes and an adequate test phase, both of the procedures and of the IT tool.

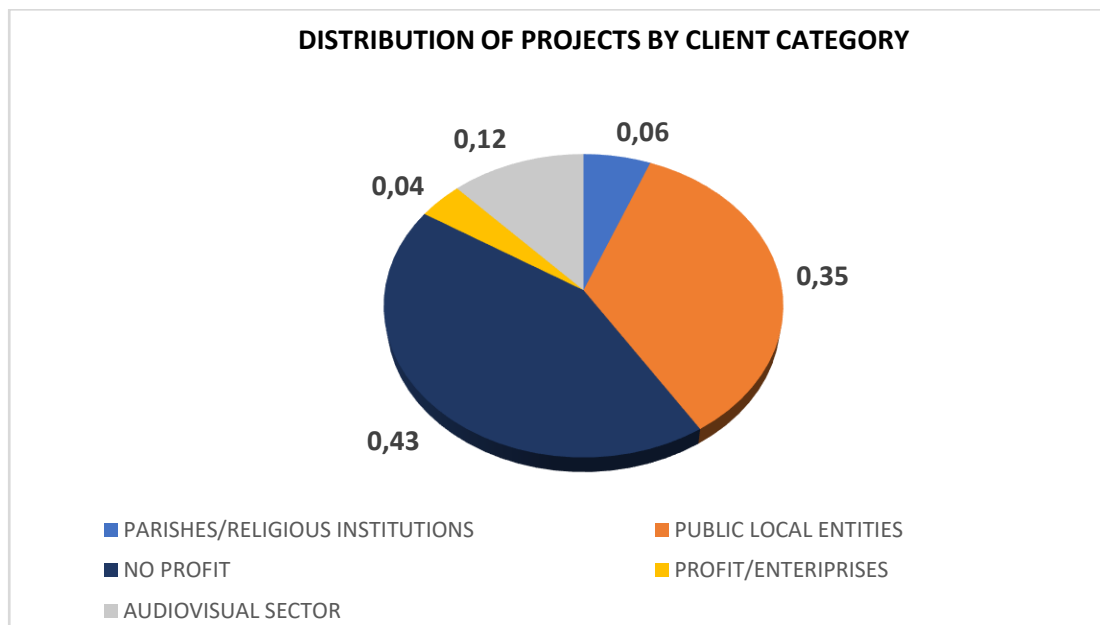
The test had a twofold objective:

- on the one hand, to detect the first observations from the ICS sales network and a limited pool of its customers regarding the information collection procedure and the IT tool over an appropriate period of time (established in the period October-December 2022);
- on the other hand, verifying the effectiveness of the platform by intercepting any gaps to be filled during the first months of operation of the platform itself (March-June 2023)

7.1. Test results

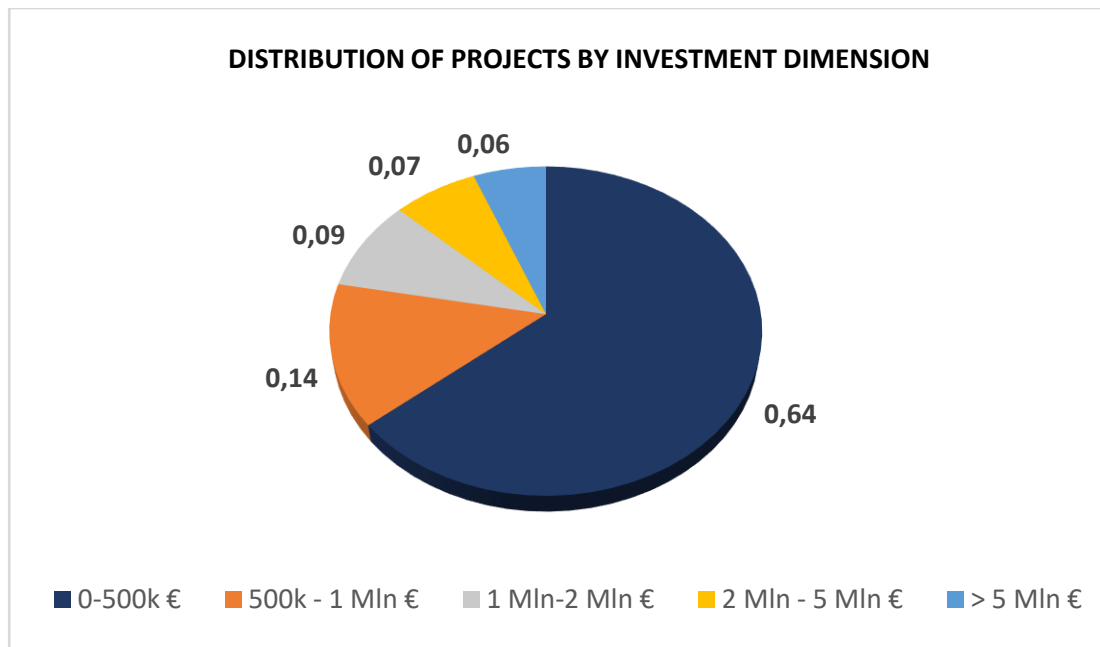
During the first 4 months of DELTA's operation, from March to June 2023, an initial analysis of the results in terms of ESG and SROI was carried out. First of all, the sample of projects uploaded to the platform in this test phase is mainly made up of Non-Profit Entities and Territorial Entities as shown in the Figure 4 and of small-scale projects under €500,000 as can be seen in the Figure 5.

Fig.4 Percentage distribution of projects included in DELTA based on customer type (March-June 2023 data)



Source: ICS elaboration on ICS-DELTA data

Fig. 5. Percentage distribution of projects included in DELTA based on project/investment size (March-June 2023 data)



Source: ICS elaboration on ICS-DELTA data

From an ESG and SROI point of view, the results of the projects analysed in these first 4 months are almost satisfactory with respect to the evaluation as regards the ESG Rating and are more optimistic as regards the SROI.

The average **ESG Rating** of the projects presented to ICS for financing and uploaded to DELTA from March to June 2023 is equal to A compared to the ESG Rating estimate equal to A+ which emerged from the assessment of the entire ICS portfolio 1993-2022. In contrast, from the SROI point of view, the projects presented to ICS between March and June 2023 obtain an average SROI of 4.5 compared to the estimated 2.93 in the context of the large evaluation. These first results are to be considered "provisional" since they are measured on a database that is considered not adequate yet.

The test exercise has, in fact, allowed ICS to also verify the reliability of the results and of the answers provided by customers to the online questionnaire. In fact, it emerged that in some cases the questions were misinterpreted by the customer and, in other cases, they were even reported as not very suitable for certain types of project. An Action Plan was therefore prepared by ICS to make changes to the questionnaires and resolve the problems that emerged during the test. Most of the changes were made by July 2023 and all resolutions are expected to be completed by September 2023.

7.2. The ICS ESG-risk adjusted pricing model

To fulfil its mandate as a Bank for Sustainable and Inclusive Development, ICS intends to integrate ESG factors and social impact into its main policies and main processes. It is essential to be able to measure exactly the sustainability and impact of the projects that are financed, but also to use these assessments for the purpose of risk management and of promoting sustainability with customers. One of the tools for promoting sustainable models with customers is the development of a reward system that allows for the graphic design of the most exemplary projects.

With the launch of the Platform, ICS immediately wanted to integrate the ESG ratings measured by DELTA into its pricing model. In this way, for the types of ICS financial products that do not provide for a pre-established pricing agreement, ICS rewards with a better pricing initiative that obtain a high ESG rating in consideration of important socio-environmental contributions generated by this type of investment. The ICS ESG-risk adjusted pricing model is supported also by the impact of ESG factors on the overall risk of companies as demonstrated by scientific literature and by the analysis of the relationship between banking risk indices and ESG scores carried out by ICS during its extensive assessment.

7.4 Strategic points of attention

In the near future, when samples of projects uploaded to DELTA will be significantly large, it will be possible to proceed with a comparative analysis of the assessment results of new practices with twin ones extrapolated from the extensive evaluation with the exclusion of biased practices, i.e., those characterized by few users (low SROI by definition) and those in which long depreciation compresses the effect of SROI.

Points of attention will be identified on projects that present SROI and ESG scores with high deviation from the average values. With reference to low-rated projects, this will allow the Institute to be able to plan strategic and commercial actions to promote the improvement of the sustainability performance of the projects to be financed and activate the desired multiplier effect of sustainable development.

8. Conclusions

Therefore, it is important to underline that **the results of the extensive evaluation confirm the "social work of ICS in the past**. In fact, the overall average ESG rating (A+) detected in relation to the outstanding portfolio and the provisional rating (A) detected on the projects uploaded to DELTA between March and June 2023, testify to the correct evaluation of the Institute, confirming an average portfolio ESG risk medium-low and, therefore, the attention of ICS to the sustainability of the financed projects.

At the same time, an estimated average portfolio SROI with an extensive valuation of 2.93 euros for each invested euro and a total net economic present value (VPN) of 8.83 billion euros allows us to state that the assets financed by the Institute can generate an extremely significant net economic and social value for the community.

A result that is also confirmed by the first projects included in the DELTA platform which report an average SROI of 4.5. It should be underlined that both the ESG Rating and the SROI measured by DELTA will be subject to adjustments following changes and improvements that are currently being implemented on the Platform.

The positivity of the score obtained must also be considered in the light of the fact that the projects evaluated retrospectively discounted the absence of a specific policy on the management of non-financial risks and a consequent information gap which penalizes the score, deliberately calculated cautiously.

There is ample room for improvement to achieve both aspects, as a result of the new procedure and by virtue of the integration of the ESG rating in the Risk Appetite Framework and, consequently, in the Bank's credit policies.

These aspects, together with the "proselytism" that the new method exerts on ICS customers, will generate a sustainability multiplier effect that only a financial intermediary with high leverage can achieve.

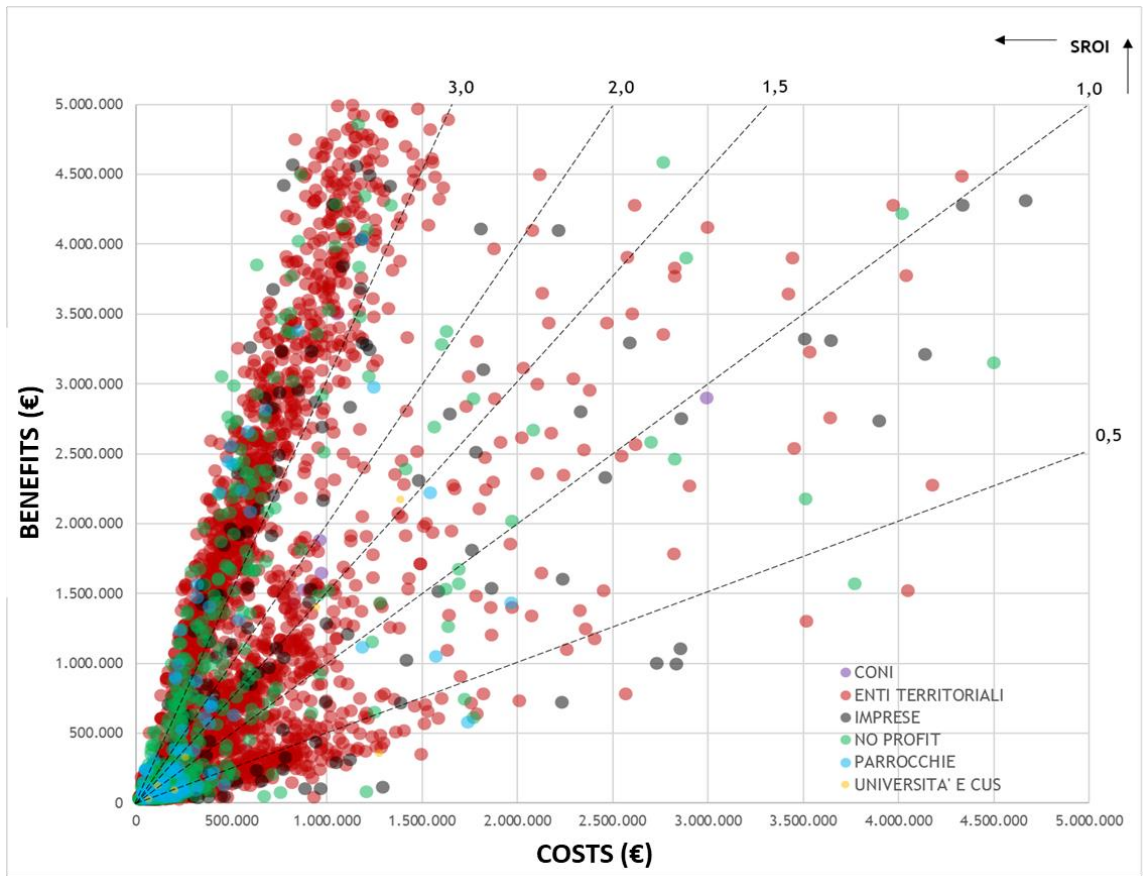
Therefore, the experience gained by ICS in the last 12 months, the aforementioned report of the European Banking Authority and careful observation of the banking and financial sector in general, show how, with the ESG-SROI project, the Istituto per il Credito Sportivo can align the banking and financial dimension with its institutional role and mission of significant socio-environmental sensitivity. This approach, at the forefront of its sector, also allows ICS to protect itself from the inevitable monetary restrictions of institutional investors, who have already begun to condition the supply of funds with exemplary behaviour in the ESG area.

The document narrates the design experience of a unique initiative in terms of themes and depth of action, which will begin to unfold its multiplier effects in a few weeks through the initiatives of the beneficiaries of funding. The uniqueness of the ICS ESG-SROI strategy is essentially represented by two characterizing elements: 1) the ex-ante application of the ESG and SROI analysis to all financing transactions, regardless of size, and to all types of customers, including local authorities; 2) the integration of the ESG analysis on transactions with the measurement of the economic-social benefit of investments through the SROI methodology, still little known by the banking system today.

But the most interesting data that this planning phase returns is obtained by analyzing the cloud graph in Fig. 6 that shows all the existing loans and which, in addition to returning an extraordinary number of projects with high SROI, identifies areas characterized by insufficient SROI, providing clear strategic indications on the types, dimensions and beneficiaries that require greater interventions to align the bank's activity with its ESG-SROI oriented strategy.

In summary, the ESG and SROI assessment, in addition to being an innovative calculation and measurement tool, constitutes the indispensable planning tool of the "bank for sustainable development through Sport and Culture.

Fig. 6. Analysis of benefits by type of client and investment dimension



Source: OpenEconomics elaboration on ICS data

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