Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.

Margaret Mead, Anthropologist

Team members

Prof DR André Nijhof
DR Adriana Kocornik-Mina

On behalf of the Global Alliance for Banking on Values

Special thanks to Ugo Biggeri, Tommaso Rondinella and Simone Grillo (Banca Etica Group) for their interviews.

This case study is funded by the Open Society Foundations as part of the Open Society Initiative For Europe research programme (OSIFE).
# TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>Introduction</td>
<td>6</td>
</tr>
<tr>
<td>Step 1: Defining the market</td>
<td>7</td>
</tr>
<tr>
<td>Step 2: Focus on the main sustainability challenges in this market</td>
<td>8</td>
</tr>
<tr>
<td>Step 3: Back-cast the future you envision</td>
<td>10</td>
</tr>
<tr>
<td>Step 4: Analyse the current System loops</td>
<td>11</td>
</tr>
<tr>
<td>Step 5: Map the maturity of the initiatives so far</td>
<td>14</td>
</tr>
<tr>
<td>Step 6: Use the stakeholder matrix – Who needs to do what</td>
<td>19</td>
</tr>
<tr>
<td>Step 7: Develop and refine your actionable strategy</td>
<td>21</td>
</tr>
<tr>
<td>Discussion and conclusions</td>
<td>23</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

This case study report presents whether, and if so, how Banca Etica is an industry game changer for the financial sector. To answer the questions, it is important to keep in mind that Banca Etica is a small bank with about 0.1% market share in Italy and well below that in Spain. Hence, its direct influence on parts of the financial sector is therefore limited. However, industry game changers can also have an indirect influence. Both dimensions are assessed in this case study report.

Regarding direct influence, Banca Etica finances about 5% of the non-profit sector in terms of institutions in Italy. It endeavours to support solutions for the main social issues in Europe, including work stability, good contracts, inclusive dialogues, transparency in all aspects of its financing and operations, development opportunities for disadvantaged people, young people who cannot afford social housing and women entrepreneurship.

Regarding indirect influence, Banca Etica is demonstrating that it can deliver positive social impact alongside real economic value through the inclusion of social criteria in the credit process as a foundation for rethinking risk that is supported by a broadening engagement with clients and other stakeholders. In doing so, Banca Etica is becoming an ecosystem of values integrator, strengthening its clients not just with credit, but also with determining the intentionality of their impacts and enhancing their public reporting processes.

Banca Etica’s consistent, continuous, and holistic approach to advancing social sustainability has generated extensive data on the social aspects of client organisations and of their intentionality and actual impact. Today, clients can download a report that comes close to a sustainability report, which represents a significant step forward in the public accountability domain. This is particularly helpful for SMEs, many of whom lack this information.

This exercise in transparency is in effect what underpins efforts by Banca Etica to become an ecosystem of values integrator as new pathways for action emerge, including the possibility to generate benchmarks and other relevant management information in some years.

Banca Etica’s indirect influence is linked to changing market dynamics in the financial sector by moving from phase 2 to the beginning of phase 3 of sustainable market transformation. In phase 3, the dynamics shift towards collaborating with other stakeholders in order to develop a sector strategy to make Banca Etica’s best practices more mainstream.

The integration of addressing environmental and social challenges into the business models of banks reflects a moral stance. For members of the GABV, like Banca Etica, this moral stance is based on key principles embedded in the culture of the organisation. A values-based bank like Banca Etica embraces an intentional approach to triple-bottom-line business (i.e., businesses that contribute to People, Planet and Prosperity). This approach is achieved not only through the exclusion of harmful investments they do not want to be associated with, but also by actively using finance to do good through the inclusion of organisations with an explicit positive social impact.
In order to increase the impact of Banca Etica on the development of a sector strategy to include social data in the banking processes of all major market players, it is crucial that the regulator develops different frameworks for credit processes. And this, both with and without the above-mentioned exercise in transparency that Banca Etica has developed. This differentiation creates a pathway for other banks as well. It gives other banks the opportunity to learn how to align with their clients in a different way, offering the same advantages to those clients that pass a threshold when it comes to the clients’ ex-ante social and environmental impacts.

In the long run, Banca Etica’s transparent approach fits very well with the EU Taxonomy. However, due to the differences in what kind of social issues are included, it is best not to wait for an alignment with the EU Taxonomy. Still, Banca Etica recognises that it must understand how compliant their products are with legislation. While it notes that the sheer quantity of sustainable finance regulation for a small organisation like Banca Etica is difficult to manage, it also recognises an important opportunity to assess the efficacy of its holistic approach in the light of new directives and regulations.

It may be that Banca Etica’s greatest impact will come from stimulating the success of other value chain integrators across Italy, Spain, and potentially even the wider EU. This kind of deep-seated, sustainable market transformation will mean the institutionalisation of new solutions (phase 4).
This report captures the main findings of a case study conducted at Banca Etica. This case study is part of the OSIFE research programme which aims to influence the development of the EU Taxonomy by clarifying how ‘social impact’—in terms of inequality, job security, and equitable access to safe food, housing, energy, and health—can be defined and integrated in the practices of banks. Instead of starting from scratch, this case study aims to contribute to this overall objective of the OSIFE research programme by highlighting the current practices of a values-based bank like Banca Etica. More specifically, the objective of the case study is to pinpoint pathways for transformation of banking models towards social inclusion by investigating the practices of the GABV member in Italy: Banca Etica. The methodology that is used for this case study is outlined in Appendix 1 and is based on analysis of corporate reports and interviews with several executives of the bank.
Banca Etica is active in the financial market in Italy and Spain. As a cooperative bank, it serves more than 100,000 clients and the assets under management add up to 7 billion euro. In 2021, about 1.1 billion of these assets were granted to clients who were all assessed on creating positive social and environmental impacts. Banca Etica offers normal banking services, but with full transparency in the banking activities. For example, they are the only bank in Italy to publish their list of loans to organisations and enterprises online.

“In order to challenge the financial system, we need to prove that Banca Etica is not only doing well in a niche, but is a sound financial institution—not despite, but because of our social practices.”

Often shareholders are perceived as an obstacle for long-term sustainability ambitions. This is different at Banca Etica:

“The founders and shareholders of Banca Etica are mainly big NGO’s. We feel pressure from our shareholders to keep the ambition very high. This is a strong countervailing power to becoming uniform with other banks.”

Although the market share of Banca Etica is small (about 0.1% in Italy and well below that in Spain), they notice that the market for responsible finance is increasing (although not for ethical lending). Yet Banca Etica finances about 5% of the non-profit sector in terms of institutions in Italy.
Banca Etica creates impact by providing funds to clients who create positive social and environmental impact. This is also the objective of the EU Sustainable Finance Action Plan, but it matters what kind of issues are included:

“The EU Taxonomy focuses on human rights, like child labour and dangerous working conditions. Although this is crucial in international supply chains, it is less relevant for a regional bank in the EU. The main social issues we face are: work stability, good contracts, inclusive dialogues, transparency, development opportunities for disadvantaged people, young people who can’t afford social housing, and women entrepreneurship.”

Banca Etica is taking a stand in relation to these issues partly by excluding certain organisations. For example, they guarantee that 0% of their funds are allocated to financing of fossils, weapons, factory farming, and gambling. However, many of their competitors also have funds with the same exclusion criteria. The biggest differentiator is not what Banca Etica excludes, but what they include. They are trying to include the socially excluded by granting funds to people and organisations who create positive social or environmental impacts. Many of them are social economy organisations or not-for-profit organisations who would otherwise either not be able to receive a loan, or would only be able to under less favourable conditions.
Step 2: Focus on the main sustainability challenges in this market

“One of the main social challenges in Italy is that there is a lot of money for the elderly, but no money for young people. We want to change this social problem by including any investment having to do with disadvantaged people or those in financial need.”

Figure 1 shows the main categories that Banca Etica uses to measure and disclose the impacts they create with their credits.

But, in the case of Banca Etica, positive social impact is not just about the impact objectives of products and services:

“What Banca Etica offers that mainstream banks do not is the inclusion of environmental, social, and governance factors in all banking processes. Every action the bank takes involves ESG analysis. Banca Etica does not have a sustainability committee on the Board because it does not need it. The approach is pervasive.”
STEP 3:
BACK-CAST THE FUTURE YOU ENVISION

Based on the interviews, it became clear that the future Banca Etica envisions is one that embraces digitalisation. Banca Etica also foresees a more integrated society due to the rise of digital services in social and welfare institutions.

“Digitalisation will also be a big impetus for countering greenwashing. Right now, many organisations can still claim that they have a positive impact when they don’t. In the future we will know the impact”.

In order to create positive impact, banks need to develop certain competences. Only when you create positive impact can you earn a license to operate in the age of digitalisation. This requires different principles for many banks:

“All banks should tune in on what is happening in society. Listen to the voices in the market, incorporate them in your practices, and evolve to a higher level of inclusion.”

In order to keep up with these developments, a bank like Banca Etica continues to evolve. In the past, they started as a cooperative bank, now they are characterised as a transparent bank, and in the future, they will position themselves as an ecosystem of values integrator. This means broadening engagement with clients beyond social issues:

“For social economy organisations and non-profit organisations, there is a need to push ecological and digital transitions. For the energy transition in Italy, it is important that community energy organisations increase opportunities for renewables. And the EU has established support for Financial Strategic Partners.”

How they can become an ecosystem of values integrator is discussed later on in this case study report. For now, it is good to mention that the future they envision also requires regulatory reform:

“At Banca Etica, we earn less money compared to normal banks and include clients with a higher financial risk. Due to solvency regulations, the client must pay more to cover the risk. However, this regulation does not include the “relationship guarantee”. We do an intense assessment of the client’s activities and get to know each other. Consequently, costs go up not because of risk, but because of the time invested. However, this also results in a “relationship guarantee” wherein clients want to live up to their financial commitments. Our unpaid accounts are three times lower compared to regular banks. So we should not have to pay twice (in time and to cover for the traditional risk). However, we need policy change to make this reality.”
STEP 4: ANALYSE THE CURRENT SYSTEM LOOPS

One of the key takeaways of systems thinking is: \textit{the problem is not the problem}. The problem we perceive is a natural outcome produced by a system. To fully understand that system, we have to analyse its deeper levels. To do this, we distinguish four generic system loops (see Figure 2). When these four loops coincide, they create unsustainable outcomes.

In general, banks are required to operate in a context wherein sustainability challenges are seen as risks—due to the need for high financial return on assets—rather than as opportunities for long-term investments. Additionally, when it comes to stakeholders, the bank’s business model operates as a black box: stakeholders know what goes in at one end and what results come out at the other, but they are left in the dark regarding the money still in the bank. Banca Etica uses a different approach. This is illustrated by the following statement:

\begin{quote}
“We work to change the world. Therefore, we need to change the rules. To do this, we have to talk to the regulators.”
\end{quote}

This is especially important when new regulatory frameworks are practically inconsistent with Banca Etica’s 360-degree integration of environmental, social and governance considerations:

\begin{quote}
“Sometimes Banca Etica might appear to be non-compliant with new sustainable regulations even though we have stricter conditions. This is because we have defined our processes well before the new regulation was written.”
\end{quote}

\footnote{NeXt Nuova Economia per Tutti, Un nuovo paradigma dell’economia è possibile. Changing the world also means giving shape to the new. Banca Etica joined NeXt Nuova Economia! to promote a responsible economic model and to participate in advocacy initiatives such as the “Conference on the future of Europe”. It also has asked the EU Parliament to ban nuclear and gas from the EU Taxonomy.}
Moreover, the system loops for traditional banks also result in a loss of perspective with regards to financial risks and allocations of investments. The main system loops for traditional banks are presented in the following figure:

![System Loops Diagram](image)

These system loops exist for a reason. For example, the stability of the financial sector requires banks to be thorough in their assessments and avoid money laundering. This has also positive consequences for Banca Etica:

“The regulatory framework proved to be very helpful for us. It gives guidance on how to manage a bank. Also, the audits are helpful to assess whether we are ‘walking the talk.’”

But these same system loops also result in many unintended consequences. One of them is the lack of focus on the impact created with the credits. But there are others as well:

“There are big problems in the financial sector. We have the challenge of speculative finance and tax havens. These problems will not be solved by Banca Etica deciding it does not want to make use of these benefits.”

---

financially attractive opportunities. We need a social economy and we therefore promote system reform. This is also why we expressed our opinion in relation to the EU Sustainable Finance Action Plan.”

Still, in the present, Banca Etica must conform to similar rules as other banks. Therefore, one might wonder whether it is possible to bank in a different way. The facts show it is indeed possible:

“Our biggest impact is not related to special products. We provide normal financial products, but we provide them to clients who would not be able to find credit elsewhere.”

And yet Banca Etica’s whole approach is different. As previously mentioned, compared to traditional banks, Banca Etica ensures that the inclusion of environmental, social and governance considerations is maintained across all banking processes:

“We may not have the tools to stress test climate change impacts on our portfolios, but from the decisions of the Board to every action the bank takes, all the processes are designed to support the objective and identify the best approach.”

In practice, this translates into the identification of solutions in the forms of products that best meet the needs of clients and specific impact objectives as in the case of social inclusion:

“When working on social inclusion, it is important to consider the role of micro credit, as well as public private partnerships (PPP) to create new opportunities for progress to occur.”
STEP 5: MAP THE MATURITY OF THE INITIATIVES SO FAR

Sustainable market transformation starts with actors doing something different that influences the system loops in a sector. Such a transformation is already on its way in the system around Banca Etica. Several parties have already introduced certain initiatives that paved the pathway Banca Etica is exploring. A main cluster of initiatives relates to the kind of data a bank collects:

“There is a mismatch between the current policy evaluations and social and environmental evaluations. Normal banks just assess whether projects are financially sound and often have no insight into the social and environmental impact of the total portfolio.”

“At Banca Etica, every action the bank takes involves an analysis of environmental, social and governance issues. The approach is pervasive; it is in every aspect of the work of the bank.”

Banca Etica took it as their challenge to figure out how the social and environmental evaluation could be included. This is a logical outcome of the values they are based on as a values-driven bank:

“We are not just checking for credibility and leaving it up to the client how they want to use the money. No, we do an ex-ante impact assessment. We want to know how our clients are using the loans. For example, we prefer clients who buy their first house above clients who already have a house because we want to create positive impact on accessibility to housing for young people.”
More precisely, this means that they are changing their credit rating process by including different criteria (Figure 3):

“Next to the traditional assessment that all banks do, we do an additional assessment within the department of credit. This additional assessment generates data on the social and environmental aspects of the organisation and the impact that will be generated if Banca Etica provides the desired funds. Therefore, the impact assessment is not ex-post but ex-ante. We know the impact that will be created before we decide whether we will provide the credits. We know the intentionality of the impact created with our funds.”

The additional assessment for big and medium enterprises is based on a set of 99 questions, including governance aspects, turnover of employees, certificates, etc. For smaller clients, a subset of these questions can also be used: exactly 95 questions for small enterprises and 76 questions for micro-enterprises. The overview of the ESG rating applied by Banca Etica is presented in Figure 3.
Step 5: Map the maturity of the initiatives so far

In addition to the questionnaire, an interview is also part of the assessment process. The results of this assessment change the relationship with clients and therefore influence the risk profile of Banca Etica’s clients. Figure 4 contains the flow of the credit process at Banca Etica.

Based on this credit process, Banca Etica adapted their decision criteria. Most banks use a Risk Appetite Framework (RAF), but Banca Etica also has an Impact Appetite Framework (IAF). The main setup of the topics included is the IAF (see Figure 5).

![Figure 4: Steps in the credit process of Banca Etica](image)

![Figure 5: Banca Etica's Impact Appetite Framework](image)
Just like the Impact Appetite Framework is a new language to capture what they do, Banca Etica also considers changing the language in relation to other parts of the credit rating process:

"Maybe we should stop talking about an assessment. It is an exercise in transparency that results in insights that are valuable for all parties involved and – in the process – strengthens the relationship between them. Therefore, it also fits that, at the end of the process, it is not just a decision made by one party, but a conversation about how to overcome the remaining problems."

As a consequence, the traditional meaning of credit risk is challenged by the practices of Banca Etica. Risk cannot be measured only by characteristics of the client. It is also based on the relationship that emerges between the client and the bank:

"Due to the lack of disclosure of the criteria used in traditional frameworks, the rating for non-profit organisations will be low. However, the accounting books of non-profit organisations neither reveals the full picture of their impact nor their overall creditworthiness. You need to include other elements, like long-term relationships, governance, awards and so on."

This screening also lowers the risk of clients:

"Banca Etica applies a double screening. Along with the financial assessment, we apply a social and environmental assessment to all our clients. This results in many additional insights that other banks are missing. Therefore, we not only have a higher or lower risk appetite, but a different risk appetite. Based on our data, we know that there is a strong correlation between the ESG score we measure and the credit risk."

A new development at Banca Etica is that they have started to create value with the data from the credit process. There is no need for Banca Etica to do this. They do it because they can and because it adds value to their clients. So, while this might also be beneficial for Banca Etica in the long run, it all starts with a different ambition. It starts from the ambition to move from being a transparent bank towards being an ecosystem of values integrator.

"A new development is that we are giving back the information of the credit process to the client. They can download a report that comes pretty close to a sustainability report as indicated in several guidelines. Many SMEs are lacking such a report. Integrating the credit process with a public reporting process is a big step forward towards including a lot more SMEs in the public accountability domain (Figure 5)."
Thus, professionalising the reporting process of their clients is already an important initiative for Banca Etica. In the upcoming years, Banca Etica is considering taking this to the next level by creating benchmarks to provide public information about the relative characteristics of organisations in a sector:

“As a next step, we are thinking about generating benchmarks based on the data we have. This has not yet been put into practice, but we may implement it in a couple of years’ time.”

One example of the use of such benchmarks is emphasised by the following statement:

“There is a lot of talk about tax havens, but nobody has an overview of which companies make use of them. With our data, we know that the key performance indicator of the tax paid divided by the number of employees should be quite stable within a sector. If certain companies score much lower on this indicator, there is a good chance they make use of tax havens. With big data analysis, this information will become available at some point in time, triggering accountability at a company level and social dialogue on a political level.”
The different activities of GLS Bank are plotted in the four phases of Sustainable Market Transformation in Table 1:

Table 1: Initiatives of GLS Bank plotted in one of the four phases

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call for, and commitment to stabilisation</td>
<td>Reporting is based on values situated within ecological ceilings and socioeconomic floors instead of profit</td>
<td>Value of relationships gives rise to quality engagements with a diversity of stakeholders</td>
</tr>
</tbody>
</table>

Table 1 indicates that most activities of GLS Bank stimulate the system dynamics of phase 2 and the transition to phase 3. A commitment to stabilisation (phase 1) and the consideration of thresholds means in practice that financing decisions are made not only for their financial returns but also for their impact on finite resources and contribution to the visions that GLS Bank has articulated for the five areas in Figure 1. Through collaboration and partnerships, climate impacts and client needs inform core activities of the bank.

The initiatives in phase two are changing the alternative system loop and the mismatch between benefits and costs loop. The changes are coming about through, among others, the science-based approach to informing financing decisions taking into consideration the sustainability risk of clients and opening the door for future pricing differentiation.
Step 6: Use the stakeholder matrix – Who needs to do what

STEP 6:
USE THE STAKEHOLDER MATRIX
– WHO NEEDS TO DO WHAT

Considering the dynamics around the initiatives so far, the sustainable market transformation that Banca Etica is in focuses on the transition from the end of phase 2 to the beginning of phase 3. In phase 1, the dynamics focus on initiating new practices, often within projects and as an add-on to the main activities. In phase 2, these new practices are used at the core of the organisation, so clients and other stakeholders learn the value of these practices compared to other competing practices. In phase 3, the dynamics shift to collaborating with other stakeholders to develop a sector strategy towards making these practices more mainstream.

Some of Banca Etica’s practices, like reporting based on the data of the credit process, are still in phase 1. So there is no one-size-fits-all strategy. But the inclusion of social criteria in the credit process as a foundation to rethink risk is a proven model. Then the focus shifts from the end of phase 2 to the beginning of phase 3. Based on the interviews, a whole series of stakeholders emerged who have become partners in Banca Etica’s activities:

- Commercial partners (like crowd funding platforms)
- Insurance companies providing additional security to Banca Etica’s clients
- Cultural partnerships (like universities where students experience the social setting via internships)
- Networks with clients (like Impact Hub, incubators, social investment companies, cooperatives, micro finance institutions and caritas organisations)
- Data organisations providing support for the (big data) analysis of clients
- Local partners who help with offices, equipment and so on
- Some competitors (by exchanging practices and joining in social dialogues)
- The association of banks, who occasionally requests that Banca Etica share views and insights
- The government, who sets rules for oversight of the financial sector
Some unusual stakeholders are the networks of clients and the government. For the latter, there is always some tension when developing partner relationships. Governments should be independent, of course, but in the case of Banca Etica a partnership is logical:

“Our point of view is that we see the relationship with government as engagement. We aim to promote ourselves, and in doing so, we hope that the regulator understands the impact we are creating. In essence, we are doing what governments need to do. For example, the refugee situation is a big issue in Italian society, and governments are struggling with how to manage it. It is also the purpose of Banca Etica to support refugees with housing, providing funds and stable jobs. Why should not there be an engagement relationship that is favourable to all parties involved?”

In order to develop an effective strategy in phase 3, theory suggests that at least five different actors can contribute. Governments can contribute by facilitating roundtables, knowledge institutions can provide objective information about the proven concepts, companies can express their willingness as clients, NGOs can guide the conversation, and financial institutions can check for which parts of the financial sector this type of social inclusion can become mainstream. Not all actors are active yet in the sustainable market transformation that Banca Etica is in.
STEP 7: DEVELOP AND REFINE YOUR ACTIONABLE STRATEGY

Based on the knowledge of the current momentum in the market, it is possible to develop a strategy for the near future. This strategy should answer the magic question: "Who should do what, and when should they do it?" The effectiveness of the actions of one actor will depend on what others are doing.

To solve complex challenges, a portfolio strategy is needed that spells out what each organisation can do in the current phase and how organisations can influence one another to play their part. Knowing what *not to do* and what *to stop doing* is often just as relevant as knowing what to do and what to start doing. We will now discuss a possible strategy called the "ecosystem of values integrator-strategy" and its advantages and disadvantages. This strategy focuses on accelerating change from phase 2 to phase 3, meaning that the objective is to gain momentum in developing a sector strategy to include social data in the banking processes of all the major players in the market.

The starting point for this strategy is that there is real economic value in the "exercise of transparency." It generates a more realistic impression of the credibility of an organisation, and in the process, problems can be overcome together with partners. This means that banks position themselves as ecosystem of values integrators in this process, and aim to strengthen their clients not just with credit, but also with determining the intentionality of impacts, enhancing their public reporting processes, providing benchmarks, and other relevant management information.

Not all credits in the financial sector will have similar positive social and environmental impacts as most clients of Banca Etica. Therefore, it is crucial that the regulator develops different frameworks for credit processes both with and without this exercise of transparency. This creates a pathway for other banks to learn how to align with
their clients in a different way and provide the same advantages for clients who pass a threshold when it comes to their ex-ante social and environmental impacts. The approach of Banca Etica is to find out what its clients are going to need. When coupled with the undeniable importance of listening to and speaking with civil society movements, such as Fridays for Future, and the growing awareness of the younger generations in particular, opportunities for alliances to promote a more inclusive financial system increase.

In the long run, the exercise of transparency also fits very well with the EU Taxonomy. However, due to the differences in what kind of social issues are included, it is best not to wait for a total alignment with the EU Taxonomy. Still, Banca Etica recognises that it must understand how compliant their products are with legislation. Yet, it notes that the normative deluge in sustainable finance for a small organisation like Banca Etica is difficult to manage. But there is an important opportunity for Banca Etica to provide a reality check for new directives and regulations with its approach to ethical finance, which is holistic and does not just focus on products.

It will likely be the most effective if Banca Etica and its partners stimulate the value chain integrators pathway in Italy and (possibly) Spain. Once when the results become visible, it could also contribute to the social upscaling of the EU. However, that would imply a shift to phase 4 of sustainable market transformations with a focus on institutionalisation of the new solutions.
DISCUSSION AND CONCLUSIONS

Since the establishment of Banca Etica, they have learned to be sensitive to new social developments and act on them, to develop new partnerships, and to overcome financial illiteracy by providing information in an accessible way. These will be crucial competencies for the future of the financial sector.

With these competencies, Banca Etica generates impact along three distinct, but related pathways:

1. Including clients that would not get credit otherwise
2. Making SMEs more professional and accountable by giving back data from the credit rating assessment
3. Proving it is possible to be a healthy bank by changing the risk appetite to different foundations

The foundation for all these impacts is a different practice for internal control that includes a lot more information about clients and establishes a mutual relationship with clients. To take this even further, the momentum is there to initiate a sector dialogue, discussing how this can become the common practice for parts of the financial sector that are linked to positive social and environmental practices. This will require a lot from the actors involved, but it would have a big influence on societal development in Italy and Spain. In the long run, this could also be a great impetus for including social issues in the practices around the EU Taxonomy.
APPENDIX 1

The theory on Sustainable Market Transformation is translated in eight steps for developing an effective strategy to stimulate systemic change in existing markets. The last step is not applicable in a case study setup, so this questionnaire is organised around seven steps:

• Step 1: Define the market
• Step 2: Focus on the main sustainability challenges in this market
• Step 3: Back-cast the envisioned future
• Step 4: Analyse the current system loops
• Step 5: Map the maturity of the initiatives so far
• Step 6: Use the stakeholder matrix to decide who needs to do what
• Step 7: Develop or refine an actionable strategy

Step 1: Define the market
Tackling complex problems can be overwhelming. The first key step is to define the market where the sustainability challenges occur.

Guiding Questions for step 1
• How would you describe the market you are focusing on?
• What are geographical or other borders for your practices?
• What are the main groups of clients in this market?

Step 2: Focus on the main sustainability challenges in this market
The second step is to focus on the main sustainability challenges in this market. A good way how to do this is by executing a sustainability materiality assessment. This is an assessment to prioritise the main sustainability challenges in a specific situation relevant to the organisation.

Guiding Questions for step 2
• What sustainability challenges have both a high level of influence on business success of the sector and have a high level of importance to stakeholders.
• More specifically, how do these problems relate to social inclusion?

Step 3: Back-cast the future you envision
The next step is to create a vision of what the market will look like if the solutions for this sustainability challenge are fully institutionalised. So, this step is not about the solutions themselves.

Guiding Questions for step 3
• In 20- or 30-years’ time, what will society look like if we have solved the challenges selected in step 2?
• What would be the role of the organisation in such a future?
• What other actors / stakeholders will have changed once when we are in such a future?

Step 4: Analyse the current System loops
There are four generic system loops according to the theory on sustainable market transformation. When these four loops coincide, they create unsustainable outcomes every time. Each loop asks critical system questions that aim to explain the collective behaviour of actors in the system.

Guiding Questions for step 4
• Market Dynamics: What is the market rewarding and competing on. What does it take to be successful in the market?
• Enabling Environment: What are the goals of the governing bodies and what are they benefitting from? What regime - policies,
Appendix 1

- infrastructure, financial and tax systems, educational systems, laws, compliance mechanisms - have they built to safeguard and strengthen these goals?
- **Consequences:** Who in the system is affected by the negative outcomes of the collective behaviour - and who is not?
- **Alternatives and conditions for change:** Are there any viable alternatives that can be used to change the behaviour and move away from the negative outcomes; are the conditions to scale-up change present in the system?

**Step 5: Map the maturity of the initiatives so far**
In this step the objective is to create an overview of the relevant initiatives and how they are changing the underlying system loops. The phases are:

**Phase 1: Inception** – Actionable alternatives through projects and pioneering (pilots, charity, subsidy programs) next to the core business.

**Phase 2: Competitive Advantage** – Proven business models through innovation and competition (labels, rankings, branded programs) linked to or integrated in the competitive advantage of the business; value chain collaboration, selected group of multi-stakeholders in the program.

**Phase 3: Pre-competitive collaboration** – Critical mass through coalitions and platforms. Multi-stakeholder collaboration, pre-competitive agenda, structural collaboration with governments and civil society; Policy goals and indicators; Exploration of a viable business case for all stakeholders; Scaling-up solutions to the entire market.

**Phase 4: Institutionalisation** – Level playing field through legislation and coercive self-regulation, and/or new policies, legislation and/or financial (e.g. tax) incentives, ‘licence to operate’; Compliance with law and enforcement.

**Guiding Questions for step 5**
- What are the most influential initiatives contributing to sustainable market transformation? When you go back in time, what are other initiatives that contributed to the sustainable market transformation so far?
- What are promising initiatives out there that are not yet influential? How come? What does it tell us about the forces at play? What setbacks can be expected and how can you deal with them?
- What initiatives can foster a next phase in the market transformation process?

**Step 6: Use the stakeholder matrix – Who needs to do what**
The stakeholder matrix helps to determine what roles are most effective for each of the market actors in the current phase of the market:

**Guiding Questions for step 6**
- Take a first relevant initiative from the previous step. Discuss what the right behavior is for each of the market actors.
- Do this also for a second and third initiative.
- What are the common courses of action that are needed from each market actor to stimulate sustainable market transformation?

**Step 7: Develop and refine an actionable strategy**
Knowing more about the momentum in the market helps to develop a strategy for the near future. This strategy should answer the magic question: Who should do What, and When should they do it?

**Guiding Questions for step 7**
- Which initiative is ready to be brought to the next phase?
- What initiative is not needed anymore so it is better to stop with it?
- What initiative is still missing that would be effective according to the stakeholder matrix?
- Who is not playing their role right? What do they need to do what is needed for sustainable market transformation?
- What would this require from your organisation? Ask yourself where to take the initiative and where to join others, follow and support?