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Economic Crisis and New Challenges for Banking Foundations

Abstract. – The Banking Foundations were created in 1990 to enable the privatization of an important part of the Italian banking system. These foundations quickly became important subjects in no-profit sector, bridging the lack of subjects grant-making widely available in other countries. The Banking Foundations represent a curious link between finance and territory and can be seen as entities able to reduce the gap between inclusion and social exclusion for their ability to allocate resources oriented to the principle of subsidiarity. Banking Foundations may contribute, with their mission, to create conditions for local development and resilience of territories. The recent economic crisis has rekindled attention on these hybrid subjects and developed a wide-ranging debate that has seen economists and jurists take conflicting positions on the relationship between banks and foundations. However, the effects of the crisis on the operational dimension of Banking Foundations are neglected. Can we speak of continuity or rupture in the strategies of these subjects? The contribution raises the question, with reference to the variegated universe of Banking Foundations localized in the North of Italy, comparing

their financial reports.

Keywords: Italian Banking Foundations; strategies; economic crisis.

1. The double identity of Banking Foundations.

The 88 Banking Foundations (Fondazioni di origine bancaria, hereinafter identified also as FBs), created through the privatization process of Italian savings banks under the “Amato-Carli Law”, have been the subject of much debate since their birth in 1990 and the recent financial crisis is deepening the discussion. Their origin makes them an Italian peculiarity in the international complex field of foundations (Schlüchter, Then and Walkenhorst, 2001; Barbetta, 2013). The BFs are hybrid bodies whose different roles are not always easy to reconcile. They lie “between public and private, institutions and civil society, politics and economics, central powers and local communities, between different conceptions of democracy and social organization. It is not surprising that they are a matter of disputation in the political, legislative and juridical fields” (Bassanini, 2003, pp. 11-12). Their position is the result of an “unfinished reform” (Pastori and Zagrebelsky, 2011) and of the gradual stratification of rules introducing many elements of ambiguity and contradiction (Clarich and Pisaneschi, 2001). At the beginning their aim was to open up the Italian banking system to competition, so that the anomaly of the public ownership of banks could be overcome. That was possible thanks to the transformation of 88 savings banks and other banking institutions into joint-stock companies. For that purpose, the enti conferenti (then called

BFs), which initially held all the shares of the privatized banks, were introduced. Then, the legislation required the disposal of a majority stake of the banks, which encouraged the BFs to become non-profit organizations and intermediary institutions working in the field of subsidiarity. By virtue of their grant-making capability, so grown over time that it almost reached 1.6 million € in 2008, the BFs are becoming new territorial development agents, even if they still play an important role in the Italian banking system. As a matter of fact, they are the major shareholders of the participating banks

[\[1\]](#)

, including those born as a result of mergers and acquisitions from 1990 on, which have become well-known brokers in the European market.

The recent economic crisis is now testing the twofold soul of the BFs and highlights the need to face the tricky problem of the relationship between foundations and banks (Buonaura Calandra 2010). In fact, they played a key role in strengthening the Italian banking system, by subscribing to the capital increase of their banks and by acting as institutional investors (or supra-institutional: Benassia, 2009), preferring long-term strategies. This choice avoided the public support to troubled banks, implemented in other countries, and pushed many observers, including the Governor of the Bank of Italy, to endorse the need of the permanence of BFs in the capital of their banks, since they could ensure the stability of the banks themselves. On the other hand, other observers insist on the need to cut all ties between banks and foundations, mainly because the BFs' board – whose members are elected by public institutions – might reflect the interference of politics in the credit sphere, with bad effects on bank efficiency.

In addition to the problems related to the BF connection with the banking system, the recent economic crisis raises the local communities' expectations towards foundations considered as philanthropic subjects. They operate mainly as grant-making organizations in the fields of cultural heritage, science, local development and social welfare, but they have been undergoing the reduction of public funding for a long time. After being recognized as important actors in the field of subsidiarity, the BFs have become significant "collection points" of local energy, which hold generative knowledge and financial resources useful for strengthening the resilience of the territories and the social cohesion that the economic crisis is testing harshly, fueling a "new urban question" (Secchi, 2013).

The BFs should be active bodies, able to bring benefits that go beyond the monetary value of grants (Ristuccia, 2000), and this requires the ability to plan strategies in order to control their actions in the territory. If we consider the U.S. experience, an ideal foundation should be a "social innovator" (Anheier and Leat, 2006; Barbetta, 2008) able to provide both cognitive and

financial resources for the “creative” solution of the problems that the public operator and the market cannot adequately resolve (as in the case of social housing). During the current crisis, characterized by a general reduction of grants, what kind of behavior must the BFs adopt? There are two possibilities: to be active bodies able to express their own strategies or simply to provide resources to the territories in difficulty.

2. New strategies during the recent economic crisis

Each grant-making foundation can be described as a “double company”: on the one hand it has to manage the assets in order to ensure adequate profitability, on the other one, it has to grant money to support the local society and legitimize itself against it. Now more than ever, it is clear that there is a strong connection between return on equity and the ability to allocate resources to the territories in increasing difficulty. The foundations have recently financed the capital increase of the their banks, whose ability to pay dividends is significantly decreased – and probably there will be no changes in the future. As a result, there will be a substantial reduction in grants to the territories. Except for few studies (Funari and Rizzi, 2003; Filtri and Guglielmi, 2012), the literature has neglected the link between employment equity and grants. In the first work, the analysis of the index balance in the period 1994-1999 of a BF group, located in the Northeast of Italy, proves that the bodies with higher shares in the banks are less effective in granting resources to the territories; in the second one, it is argued that BFs have to diversify their investments in order to generate higher revenues in comparison to banking revenues. If not, the current grants could be maintained only by using stabilization funds at risk of their rapid depletion and of a significant weakening of the BFs as non-profit organizations.

How has the BFs’ activity changed by reason of the recent economic crisis? The following pages show the results of a study about the 47 BFs located in the North of Italy. They were

considered as companies operating for the profitability of their assets and also as non-profit companies providing resources to the territories. They represent more than half of the 88 Italian BF's which managed to concentrate more than 70% of the total assets and grants in 2011 (Tab. I).

Tab. I – Assets, grants and return on equity of Banking Foundations, 2009, 2011

Banking

Foundations(FBs)

Fixed assets in the bank

(%)

Assets

2011

(Euro)

Grants

2011

(Euro)

ROE

average

2009-2011

Grants/Assets.

average

2009-2011

2009

2011

Cariplo

16.1

21.0

6,449,077,428

175,403,333

2.7

2.7

Compagnia di Sanpaolo

47.6

52.8

5,559,321,938

124,341,565

3.7

2.3

Verona, Vicenza..

63.9

53.7

2,647,721,664

118,933,333

1.4

3.4

Torino (Crt)

24.6

11.6

1,914,152,262

73,600,000

6.0

2.9

Padova-Rovigo

52.6

57.0

1,733,413,920

62,193,159

3.6

3.6

Cuneo

19.2

28.9

1,318,944,468

24,828,107

3.3

1.9

Genova-Imperia (Carige)

94.8

85.6

1,059,479,438

18,789,567

7.9

2.0

Parma-Piacenza

86.6

88.7

936,650,345

23,099,502

4.1

2.4

Cassamarca

48.9

53.9

867,229,034

12,867,522

2.1

1.5

Modena

25.8

27.0

814,754,106

32,239,715

7.2

4.0

Monte Lombardia

39.4

58.9

796,981,160

13,087,649

3.2

1.9

Bologna (Carisbo)

19.2

30.1

755,794,142

17,759,009

2.3

2.3

Bolzano

47.1

46.9

721,141,882

9,376,114

2.2

1.3

Trieste

38.5

41.3

445,489,804

9,507,693

3.5

2.1

Forlì

11.4

26.7

429,764,511

8,601,652

3.0

2.0

Udine-Pordenone

65.2

60.6

400,212,822

8,397,635

2.5

2.1

Trento-Rovereto

□

□

380,356,974

7,796,100

4.3

2.1

Piacenza-Vigevano

□

□

369,989,584

6,815,184

-0.5

1.8

Venezia

46.8

53.7

366,077,039

6,263,898

1.7

1.5

Alessandria

8.7

11.4

319,244,620

5,974,020

-1.1

1.8

Carpi

□

□

316,778,882

6,419,805

3.2

2.0

Monte Bologna- Ravenna

53.9

54.0

221,485,873

17,551,444

12.4

8.1

Biella

27.5

27.9

216,667,388

6,812,993

4.9

3.2

Tortona

□

□

205,885,064

2,789,650

2.3

1.4

Asti

75.0

74.6

203,162,427

6,126,339

4.6

3.0

La Spezia

45.9

48.9

200,916,376

4,143,386

3.4

2.0

Ferrara

87.3

91.1

181,880,327

1,678,613

1.9

0.9

Savona

22.1

27.7

176,107,898

3,946,660

4.1

2.3

Reggio Emilia

55.8

61.3

175,561,724

6,969,593

3.8

3.9

Gorizia

36.2

44.8

168,538,826

4,485,780

2.8

2.7

Imola

□

□

160,969,826

3,966,262

2.8

2.4

Ravenna

53.9

52.8

153,611,655

8,142,509

8.0

5.4

Rimini

59.4

64.3

137,281,404

4,321,805

2.9

3.2

Monte Parma

85.8

9.1

124,953,744

1,794,800

1.5

1.5

Mirandola

□

□

121,330,652

2,116,068

4.0

1.8

Cesena

77.7

84.0

120,202,661

3,587,660

5.4

3.0

Vercelli

9.8

12.8

111,266,309

2,100,852

4.2

1.9

Vignola

□

□

79,174,874

1,767,061

4.2

2.2

Cento

65.4

68.2

55,238,261

1,728,863

3.8

3.1

Fossano

76.5

76.4

51,060,698

2,217,349

6.0

4.4

Saluzzo

65.9

66.4

42,013,032

1,132,031

3.8

2.7

Lugo

29.6

38.4

35,617,995

1,419,257

7.8

4.0

Savigliano

75.6

75.2

34,825,886

709,987

4.6

2.0

Bra

83.9

85.2

25,896,533

443,464

2.7

1.7

Faenza

32.1

40.8

17,276,762

451,467

4.9

2.7

Monte di Rovigo

□

□

6,890,324

124,779

3.8

1.8

Monte di Vicenza

□

□

1,713,710

127,820

9.6

7.6

FBs in Northern Italy

31,632,116,252

856,951,055

3.4

2.6

Source: Financial reports of Banking Foundations

In Northern Italy, the BFs have different dimensions: Cariplo has the largest assets (6.4 billion €) and Monte di Vicenza the smallest ones (1.7 million €). This is reflected in the variety of operating models and relations with the territories: from the exasperated localism to the tendency to build important relationships thanks to projects and donations (Faravelli, 2012). While the geography of the BFs' assets mirrors the main capitals of Northern Italy (Milano and Torino), the geography of the grants gives evidence to more peripheral contexts: the maximum values of grants per capita are reached in the province of Cuneo and in almost all the provinces of Emilia-Romagna, as a result of the presence of several BFs established in the centers of these economies.

The BFs are generally seen as a unitary system with a common destiny, which are all still too tied to their banks and in the recent years affected by a reduction in funding. That is a simplistic image because problems that BFs have to face are certainly common, but the grant-making choices of these bodies, locally rooted in different ways, varied quite considerably. As stated by Arfaras (2013), the idea of an "ideal" BF is to be abandoned and the different "real" behaviors are to be considered, even though it is not easy due to the difficult comparability of their financial reports, through which the BFs make their operations public.

3. Forging stronger links with banking institutions.

The safeguarding of assets is one of the fundamental objectives required by law so that the BFs can operate. It is also recognized by the Carta delle Fondazioni (approved in 2012), where the basic principles that should guide their operability are outlined, in compliance with the autonomy of the single subjects. The BFs' assets, amounting to 23 billion € in the early 90s, grew over time and reached the value of 50 billion € in 2009. Due to their asset size, the BFs, including the smaller ones, are important subjects in the molecular system of Italian foundations, dominated by small and not capitalized subjects. The economic crisis slows the asset growth of the BFs; between 2010 and 2011, 10 bodies were affected by a reduction in assets, which was particularly dramatic for the foundations of Verona (-38%), Torino (-33%), Alessandria (-20%) and Venezia (-14%).

Financial fixed assets prevail in the BFs' portfolio, except for 5 foundations, including the largest one in Italy (Cariplo), which decided in 2008 to transfer many holdings to the unfixed portfolio. As to the other foundations, the weight of fixed assets is really considerable: it is between 50% and 75% of assets (17 cases) and in the other 26 cases it is even higher than 75% of assets.

The fixed assets in the banks play a key role: their weight in respect to the total assets increased between 2009 and 2011, following the subscription of their capital increase. Only 9 BFs do not hold the bank shares; the fixed assets in the bank is less than 50% in 16 cases and the other 22 are above this threshold. This underlines the strong link with the lending institutions, from which they were born. If the shares of BFs in the banks' capital are considered, the strategic key role of the BFs as major shareholders is evident. But this is only one side of the coin, since it is mainly the weight of bank stocks in the portfolio of BFs that highlights the close and strong links with the banks. Even the foundations that proudly insist on the exit from the bank, just because this no longer has an autonomous network of branches, such as that of Venice, actually have unbalanced portfolios on bank shares through IntesaSanpaolo group.Alpha

The substantial fixed assets in banks have no clear relationship with the asset size, since the highest levels of fixed assets in bank stocks involve both large foundations (Carige, Parma and Piacenza) and the smaller ones (Cesena, Bra).

It is difficult to break the bonds between a foundation and its bank of origin; on the contrary, they are now becoming much stronger, since the BFs contributed to re-capitalize their banks. In the Carta delle Fondazioni that choice was described as essential to "contribute to the promotion of the economic development, in the light of the fact that a financial institution, which is solid and locally rooted, is a driving force behind the growth and the stabilization of the financial system both locally and nationally". This interesting statement shows the role of BFs as subjects who help the credit institutions – including those with a wide range of operations, such as Unicredit and IntesaSanpaolo group – to be anchored in their birthplaces.

The loyalty to the banks, as demonstrated in the current crisis, has its price: the BFs' assets are fixed on a single subject and therefore they are riskier in maintaining the grant levels. The difficult situation in financial markets involves the reduction of the ordinary incomes of the BFs, which was already visible between 2009 and 2010 (-19%) and more dramatic between 2010

and 2011 (-59%). On the other hand, the incidence of extraordinary incomes is increasing, to a great extent thanks to the “bets” on both stocks and bonds: in 2009 they amounted to 1/10 of the ordinary incomes, while in 2011 they are more than half of the latter. If these aggregated data show an increasing difficulty, the BF performances are very diversified, with an average return on equity ranging between 1.4% (Verona) and 12.4% (Monte Bologna and Ravenna) in the 2009-2011 period. The links with unlisted banks made it possible an average return on equity higher than the return of the foundations linked to the major listed banks, whose performances are different and fluctuating over time.

The situation of Cariplo foundation is particularly interesting. In fact, even if it has few fixed assets and a low percentage of shares in its bank, it has an average return on equity (2.7%) among the lowest. Many observers argue that the FBs must diversify their assets to ensure stable flows of grants to their reference communities. The Cariplo case shows that this strategy does not necessarily produce a greater profitability, since it is below the levels set by the foundation rules in the management of its assets.

The relations between banks and their foundations is very strong, but the latter – especially the largest ones – have considerable fixed assets in other companies. The majority of the FBs make investments in Cassa Depositi e Prestiti (CDP) and Fondazione Sud; however, there are two main profiles of foundations. On the one hand, there are the foundations more oriented to financial world, sometimes with small holdings in insurance companies, asset management..., but sometimes able to become important shareholders in a key company as Mediobanca (Verona, Bologna) and MID Industry Capital (CRT, Cuneo, Imola, Piacenza and Vigevano). On the other hand, there are the FBs investing in utilities, in fair organizations and in infrastructure management associations, which are often active locally. In this way they become a sort of support for the networks promoting the economic development processes. This pattern is typical of the widespread FBs in Emilia-Romagna and probably reflects their particular form of governance linked to their origin, with an assembly of members representing the local society. Perhaps these foundations are more directed to support the local economy.

4. Supporting territories in difficulty.

Due to the difficult economic situation, the BF incomes are reduced. As a result, there is also a reduction in the resources distributed to the territories. Between 2009 and 2010 there was a slight increase in grants (+3.7%), but this actually hid a difficult situation: only Verona foundation

and to a lesser extent other 11 foundations - almost all situated in the Northeast of Italy - were responsible for this increase, while the other BFs were reducing their grants. The signs of this slackening were even more evident between 2010 and 2011 (-10.1%): the slight positive changes affected only 11 foundations, while the rates of decrease were particularly high for the foundations of Emilia-Romagna. The result is a phase of reduced grants, which will continue at least until 2013, as the Documenti Programmatici Previsionali prepared by the BFs show.

The amount of the grants of each BF varies annually, while the capability of grant-making of these bodies (that is the relation between the amount of grants and the foundation assets) is stable. Always the same foundations manage to maintain a high grant/asset ratio over time, which is above average in Northern Italy. The maximum values are reached by Monte Bologna-Ravenna (8.1) and Vicenza (7.6) foundations but, more generally, the foundations of Veneto and Emilia-Romagna seem to be more oriented to allocate resources in their regions. In the North-West of Italy the situation is different: only 6 bodies have a high index (grants/assets) and among the most capitalized foundations – with values just above average – only Cariplo and CRT can be found, but not the second major foundation (Sanpaolo). In Northern Italy, described as a mega-city region (Perulli, 2012), a marked dualism can be pointed out in the system of BFs, which may contribute to the consolidation of the macro-region. It is not only a question of presence, but of roles. The major foundations of the North-West, situated in Milan and Turin, are undisputed protagonists if we consider the amount of resources provided and the ability to be “social innovators”, thanks to their action plans and projects. But taking into account the BF performances, measured through the financial ratios, many foundations in the Northeast of Italy are better as for both grants and incomes.

Does the reduction of grants hide a linear cut in the resources allocated to the territories, or is it accompanied by a re-calibration of the flows for specific purposes? To answer this question, the BF projects have been grouped into four broad categories: art and cultural heritage, research and education, human services, environment and territory. The trend of grants after the crisis shows an increase in welfare at the expense of art and cultural heritage (Tab. II).

Tab. II – Banking Foundations Grants, 2009-2011

Grant-making sectors

2009

2010

2011

Euro

%

Euro

%

Euro

%

Art and cultural heritage

286,536,365

33.1

276,433,929

30.8

230,511,427

28.5

Research and education

227,759,189

26.3

223,450,696

24.9

208,490,323

25.8

Human services

292,300,683

33.8

337,284,284

37.6

311,041,079

38.5

Environment and territory

58,827,946

6.8

60,543,838

6.7

57,673,895

7.1

Total

865,424,183

100.0

897,712,747

100.0

807,716,724

100.0

Source: Financial reports of Banking Foundations

This result is achieved in different ways: when passing to a new multiannual programming period, some foundations have introduced new policy areas to expand their operations in the social field; others have provided funding for specific projects like microcredit, job placement of young people and immigrants, social housing and the fight against new forms of poverty. To face the challenges posed by the economic crisis, the BFs try to work to respond to emerging needs.

The reduction of the average value of disbursements confirms the active position of the BFs; but the greatest sign of loyalty to the reference communities can be seen in the reduction of grants which is less considerable than necessary to achieve the goal of a balanced budget. In fact, the payments have been reduced, but to a lesser extent if compared to the cash flow (flow of dividends and collected coupons). A growing number of foundations (from 10 to 29 between 2009 and 2011) used the stabilization funds, previously appropriated, to maintain high grant-making levels. The tendency to overspend can be attributed to the behavior of the foundation boards interested in replying to stakeholders with the mechanism invoked by Buchanan when he explains the difficulty in reducing the public spending (Arfaras, 2013). To sum up, everyone wants to defend the interests of their target group and accepts a reduction in resources only if everyone else does the same.

5. Conclusions.

This work does not take a stand on the heated debate over the BFs but tries to understand their behaviours in a period of economic crisis. Two relevant issues emerge. First, the BFs' behaviors are very different; they are not a "small" unitary system and their differences have to be pointed out. The banking group membership cannot explain the FB performances thoroughly; much depends on the individual bodies. This shows how the strong ties with a

specific place – with its players, its identity and its problems – are essential to explain the resilience of the foundations in times of crisis. The existence of a geography of finance can be confirmed only in the light of the BF strategies.

The second issue is the twofold loyalty demonstrated by the BFs in the current crisis: on the one hand they support troubled banks and on the other one, they keep the cash flows to their communities high, even if they often have to use their surplus reserves. This double loyalty highlights the problem of their ambiguous identity. They cannot do everything. When resources are scarce, this ambiguous identity might depress the foundations' capabilities on both sides. The role of the BFs must be redefined – and the Carta delle Fondazioni gives some indications –

, but also politics must be involved. When it is assumed that the assets of the BFs have to become public, and that they can play a role in the reduction of public debt, we push these bodies in a partial and perhaps incorrect direction, because their identity is still undefined.

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[1] Only 14 foundations with assets of less than 200 million € or located in regions with special status can maintain the role of the majority shareholders of the banks of origin.