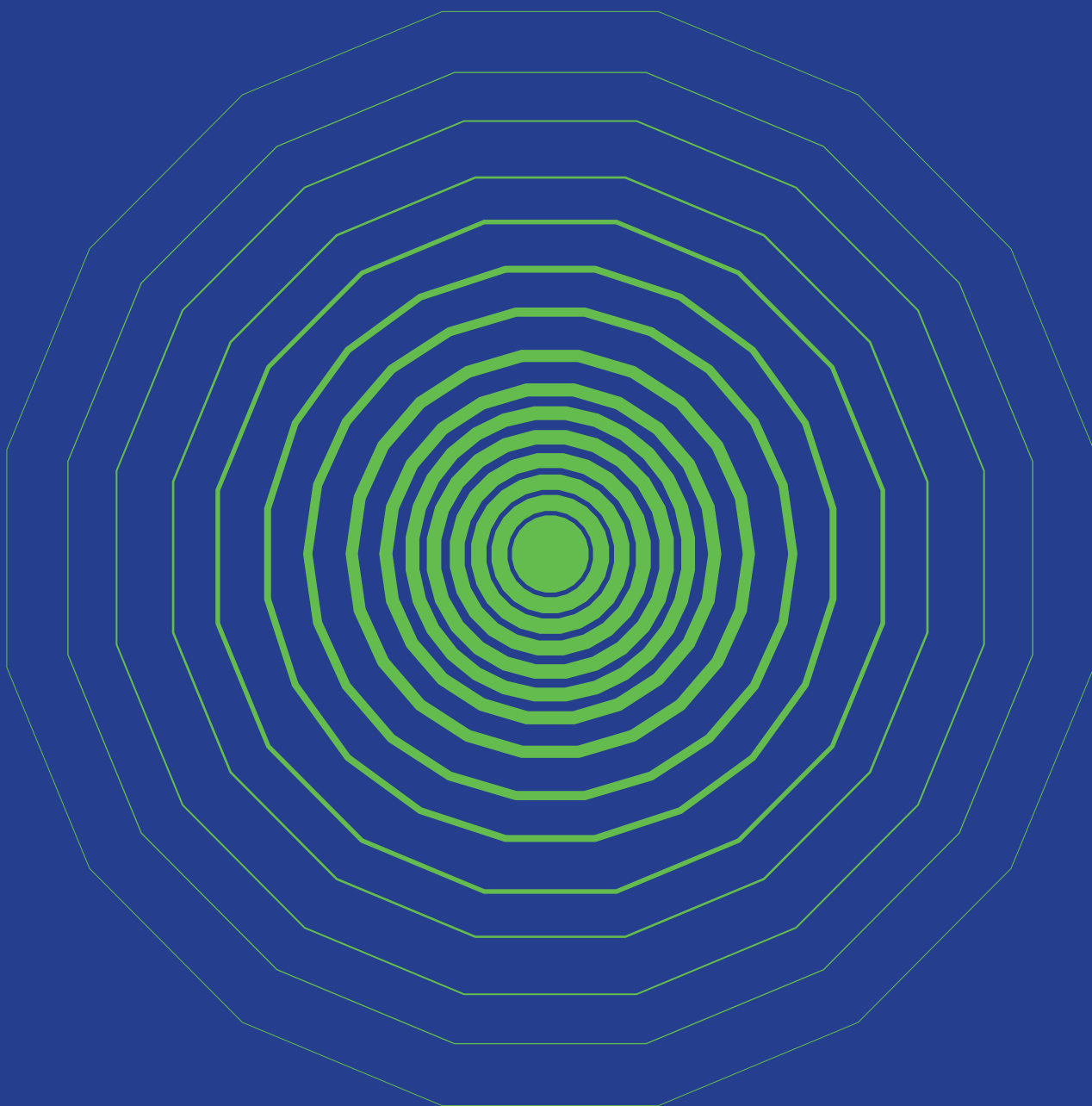


# IMPACT INVESTING

## new funding opportunities & impact on the municipalities

Guide for the development of an impact investment portfolio  
for the City of Skopje



Skopje  
July, 2021

**Elson Solutions** (Elson) is a strategic management consultancy working with public and private clients or at their intersection to sharpen their innovative lens, ESG outlook, access growth finance, and invest with impact in an Industry 4.0 era.

Elson creatively links knowledge across industries and geographies to advise, craft policies, portfolios, or actionable solutions, helping clients leverage their position in their ecosystem.

**SmartUp - Social Innovation Lab** acts as an ecosystem builder connecting different stakeholders to promote and develop social innovation, thus building a socially, environmentally, and economically sustainable society. SmartUp is the flagship institution for developing social innovations and supporting social innovators and entrepreneurs that generate impact.

# IMPACT INVESTING

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Guide for the development of an impact investment portfolio  
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prepared by **Elson Solutions**

with support from **SmartUp - Social Innovation Lab**

co-financed by **EIT Climate-KIC**

written by **Olimpija Zaevska**

editor **Sofija Bogeva**

layout & design **Milosh Sokolikj**



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# Overview

In times when cities and municipalities are faced with complex challenges, such as climate change, pollution and the necessity of balancing the needs of citizens and businesses, authorities find themselves in a position to contemplate how to strategically utilize their resources. In this context, and the world of investments and the public and private sector, terms such as **Impact Investments, Corporate Social Responsibility (CSR), Responsible Investing and Environmental, Social and Corporate Governance Investment (ESG Investment)** are becoming more relevant.

**Municipalities and cities** contain all prerequisites to becoming one of the most influential impact investors and innovative ecosystems, which the academic and expert community are yet to develop models for.

This document is both an analysis and a guide for the opportunities of the municipalities of the Republic of North Macedonia to become impact investors by using the existing mechanisms of their budget, expertise, and position with regards to the central authority and financial institutions, to design specific instruments, bring risky capital and expertise in their public mission, build partnerships with the remaining local factors, all with the aim creating some type of social impact in the community while receiving a return of their investments at the same time.

Precisely this unused potential is the starting point of this study which also serves as a practical guide and tool to generate and define impact investments and build an investment portfolio, specifically for the City of Skopje. This model can be applied in all municipalities of the Republic of North Macedonia and beyond.

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# 1. What is impact investing?

**Impact investing (II)** means investing funds or investment capital for the purpose of generating specific positive social impact or environmental impact, and financial benefits.<sup>1</sup>

The term was first used in 2007<sup>2</sup>; however, the concept itself has much earlier applications, and therefore II is deemed to be an extension of philanthropy. This term is often used as a synonym for so-called **Responsible Investing, ESG Investment** (Environmental, Social and Corporate Governance Investment) or Sustainable Investment. A similar type of investment with attention focused on social aspects of social life is the so-called **SRI – Socially Responsible Investment**. In this analysis and model development, we will focus on **Impact Investments (II)**.

**Impact Investor** is a term deriving from the financial sector and referring to any individual or organization with a particular mission for positive social impact simultaneously with a market-based strategy.<sup>3</sup> This means that apart from being focused on product, sales and profit, the investor wants to achieve particular positive social impact. Individuals, private companies, institutions, investment funds, private funds, banks, pension funds, financial institutions for the development of communities, corporations, banks and governmental entities can all be impact investors.

Individual or institutional investors *can match their investments with their values* - for example, a company can evaluate the environmental responsibility of the companies in its chains of supply. An example of impact investment are investments of the public or private sector in non-governmental organizations working with specific communities, investments in clean technologies or investments in renewable energy sources with a positive impact on the environment or investment in educational programmes for vulnerable categories.

Often the **II incentive** for companies is their strategy for social responsibility (Corporate Social Responsibility CSR), the sense of giving back to the community or care for a particular local community. The type of positive impact or impact from a certain II depends on the industry and sector. The majority of impact investors expect an amount of investment return within the market margins and expectations or a certain degree below-market return level.

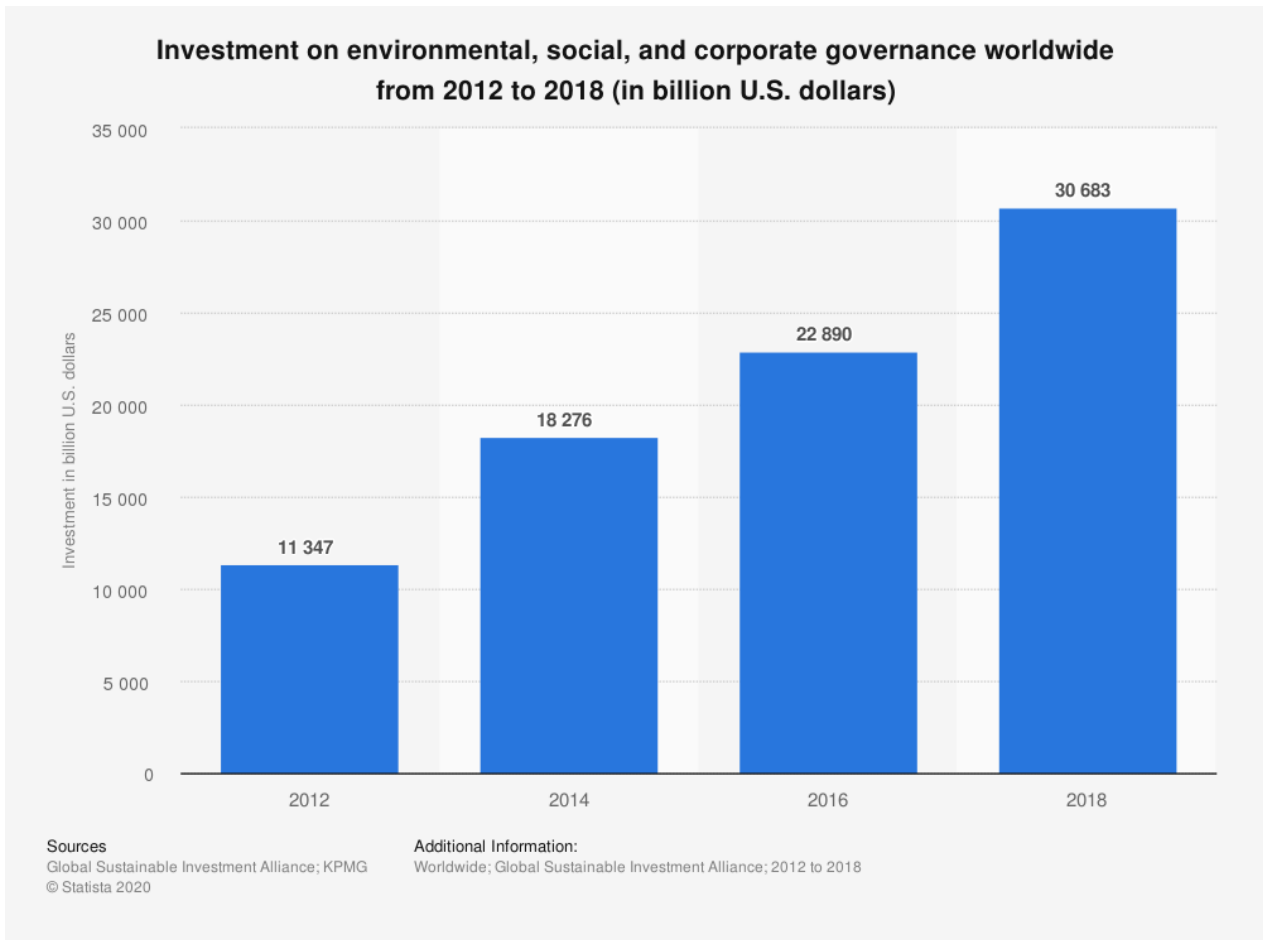
The **Impact investment potential** on a global level is quite high and the topic for impact investment is becoming globally more prevalent, especially when facing challenges such as climate change, pandemics, poverty, insufficient access to basic resources for life (such as water, heating), limited access to quality education for vulnerable groups of citizens, insufficient participation of women in the management of institutions and businesses etc. Such challenges can, to a large extent, be addresses via impact investment. In the period between 2012-2018, impact investments on a global level increased from 11,347 billion US dollars to 30,683 billion US dollars, which represents a growth of almost 200% for six years (Chart 1).

The **Impact investment trend** continues to grow; however, considering the size of the social and environmental issues, such growth demands more attention and acceleration. Finally, there is a rising awareness of impact investment in the private and public sectors.

1 Global Impact Investing Network <https://thegiin.org/impact-investing/>

2 Global Impact Investing Network <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

3 Rockefeller Philanthropy Advisory <https://www.rockpa.org/guide/impact-investing-introduction/>



*Chart 1 Global impact investments for the period 2012-2018*

According to a recent PwC study from 2019, which included 162 respondents from 35 countries representing 145 private investment funds, impact investments are becoming more significant for private investors.<sup>4</sup>

The report shows that almost 81% of the respondents presented questions related to II to their management boards at least once a year, while one third (35%) of the respondents do that more often. Almost all (91%) report that they have established or developed an impact investment policy compared to 80% in 2013. 78% of them use or develop KPIs (Key Performance Indicators) to monitor, measure and report the progress of their responsible investing or ESG policy.

Most notable is that 35% of the respondents stated that they have a team dedicated to responsible investing activities (27% growth from 2016). 66% of those without specific sectors or persons responsible for impact investments use the existing investment teams to include impact investment topics in their work. At the same time, two thirds (67%) of the respondents give priority to SDGs as a relevant aspect of their investments (compared to 38% in 2016) and 43% have a proactive approach to monitoring and reporting on the company portfolio compliance with regards to SDG (unlike 16% in 2016).

<sup>4</sup> Equity Responsible Investment Survey 2019 PwC <https://www.pwc.com/gx/en/services/sustainability/assets/pwc-private-equity-responsible-investment-survey-2019.pdf>



## 1.2 Impact investing benefits

The global philanthropy leader, Rockefeller Foundation<sup>5</sup>, specifies three **benefits** for investors in impact investment and three dominant **challenges**.



*Chart 2 Impact investment benefits and challenges*

### 1.2.1 Increased financial performance

The clear focus on social and environmental protection aspects and good management can contribute to an even better financial performance. The Global Competitiveness Index (GCI Index)<sup>6</sup> of the World Economic Forum constantly emphasizes in its findings the importance of good management and strong institutions for the creation of a positive business environment and better company performance. In addition, the development of human capital, visible via the Human Development Index (HDI), is constantly used as one of the key factors for company success development.<sup>7</sup> This shows that the profitability of companies or institutions depends on their investments, not only with the entire profit but also with investment in the environment which will increase profitability together with community sustainability.

<sup>5</sup> Rockefeller Philanthropy Advisory <https://www.rockpa.org/guide/impact-investing-introduction/>

<sup>6</sup> The Global Competitiveness Index Report 2019 [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)

<sup>7</sup> Human Development Index 2019 <http://hdr.undp.org/en/2019-report>

### 1.2.2 Focused corporate/institutional strategy

The transformation of a particular investment into an impact investment improves the focus on the corporate strategy of organizations. Corporate strategy or institutional strategy should essentially reflect the competitive advantage and positioning of the organization in a specific context, industry or sector. The focus on the impact can help make the strategy clearer and more efficient, considering that the organization will invest in ideas according to their principles and values.

### 1.2.3 New models for addressing social issues

Investors can use market-based approaches to meet the social needs they care about. Most social issues are difficult to solve with traditional institutional approaches. Private sector innovation may contribute with new usable solutions in the public sector, and at the same time strengthen the innovation potential of the public sector. Additionally, if such solutions prove to be successful, they will bring double the benefits for both the public and private sector, with the assumption that the mutual obligations and benefits are well and clearly defined. Apart from benefits, impact investing brings **challenges** as well.

### 1.2.4 Two-dimensional investment

Impact investing brings risks as any other investment. Impact investing implies the development of investment plans in two dimensions – **profit and impact**, which means higher complexity for investors and at the same time, bigger barriers for the investors to make impact investments.

### 1.2.5 Lack of models and strategies

Impact investment has been developing as a concept since 2007. The period for learning and building models for impact investments is exactly during this decade, when more convincing, for investors, examples that impact investing is profitable should be created.

### 1.2.6 Impact measurement difficulties

Profitability and return on investment are easier to measure in financial terms compared to the social impact of a particular investment. Investors generally prefer clear indicators for their investments, and if that is difficult to operationalize and measure it can have a negative impact on the decision to engage with impact investing.

Despite the specified challenges, there are tools and approaches that may contribute to overcoming the aforementioned risks. For example, governments, companies and local authorities are part of the mutual challenge for achieving 1.5 degrees of greenhouse gas emissions up to 2050. RNM, according to the Paris Agreement, plans to give the following contribution to the global efforts for the reduction of greenhouse gas emissions:

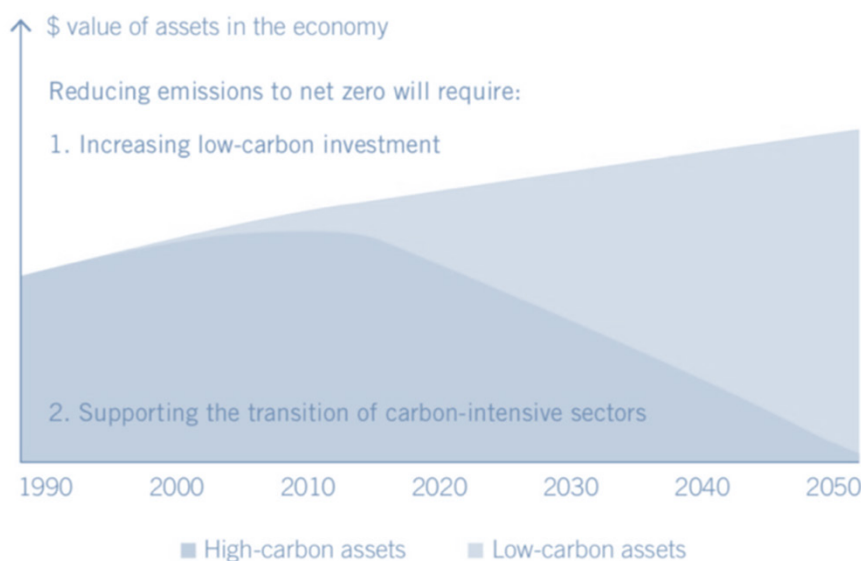
*Carbon dioxide emissions from fossil fuels combustion to be reduced by 30%, or 36% for a more ambitious target, by 2030 with regards to the reference scenario. Carbon dioxide emissions from fossil fuels combustion account for almost 80% of total greenhouse gas emissions with dominant participation of the sectors for energy supply, buildings and transport.*

Such efforts of the countries give clear indicators where drastic changes should be made: energy, land management, urban infrastructure, industrial systems, according to the 2018 Report of the Intergovernmental Panel on Climate Change (IPCC).<sup>8</sup>

Hence, considering the measurable results that should be achieved, the potential for impact investing exists in the following sectors:

- Generation and access to energy
- Transport
- Health, food and water
- Quality life of the communities
- Construction, cities and industries
- Utilization of forests and land
- Ecosystems and ecosystem services

The role for targeting such challenges should be given to governments, central banks, commercial banks, international financial institutions, the private sector, and civil society. In order to achieve a transition, investing should be done in goods with low carbon dioxide emissions. In order for such actors to become active factors, **incentive and a visible ROI from such investments is necessary, which can be presented in the following manner** (Chart 3).



Source: CFLI. Note: Stylized asset value and transition trajectory.

Chart 3 Return of investments in energy transition

8 IPCC Report 2018 <https://www.ipcc.ch/sr15/>

## 1.3 Impact investing in developing countries

The number of impact investors is still insignificant in developing countries. The business entities in developing countries still do not have sufficient access to financial products, such as risky capital, working capital and long-term debt funding. On the other hand, the majority of governments are in the process of creating a favourable regulatory environment for impact investing for the purpose of mobilizing private capital for the common good.

There is increased interest among development banks and international financial institutions to be included in risk reduction of investments. There are examples where the funds and programmes show that high-quality investment models can be created in developing countries as well, with **additional technical assistance, training and acceleration programmes**. However, one of the key actors with the potential for impact investing are the municipalities and this guide is dedicated to that potential.

## 2. The Municipality/City – Impact Investor

Starting from the fact that the development of impact investment models in developing countries is still in an inception phase, one of the greatest challenges is to implement successful models and raise **awareness for the benefits and potentials of impact investments**. Hence, the public sector is the starting point when developing these models.

In the Republic of North Macedonia, the best example for impact investing from the public sector is the Fund for Innovation and Technology Development (FITD), through which the Government of the Republic of North Macedonia, via its own funds and favourable loans, promotes co-financing in order to encourage innovation, commercialization of innovations and technological extension of companies, with the final goal/impact being the development of a favourable business climate, reduction of unemployment, an increase of productivity and economic development.

The topic for governmental institutions as impact investors is just becoming prevalent on a global level and, according to the Urban Institute from the USA, is primarily focused on the local level<sup>9</sup>. Governmental institutions are uniquely positioned influential organizational units **recognized by the citizens**. While the central authorities implement and experiment with co-funding models, interest-free credits, public-private partnerships and the introduction of special regimes and zones in order to encourage particular economic activity, municipalities significantly fall behind with the development and implementation of impact investment models.

However, impact investment is often **geographically focused** and from this point of view, local authorities are particularly well-positioned. Municipalities possess knowledge of the local context and the population and have the power to make decisions, prioritize, and gather opinions of the citizens. For example, the local authorities can invest in the *development of the local business climate, business support, impact budgeting, energy transition, the introduction of new services for a better quality of life in the municipality, digitalization, etc.* Municipalities can invest via *taxes, other local fees, grants, funds, blended capital, co-investment, loans, trainings and capacity building*.

<sup>9</sup> Eldridge, M., Hawkins, R., & Mitra-Majumdar, M. (2019). Research Report, State and Local Governments and Impact Investing A Guidebook for Strategic Engagement Acknowledgments iv.

# But **why** would municipalities think about impact investing?

**Firstly**, because municipalities do that regardless. Municipalities are the management level closest to the citizens; they have a budget at their disposal and make investments daily, that should have a positive impact on the community within a certain territory, while also having ROI from such investment in the municipal budget for the purpose of sustainable functioning. Hence, municipalities are uniquely positioned to use the municipal budget **as a tool for impact investing** and develop this approach, thus positively impacting the decisions of the business community.

**Secondly**, on one hand, municipalities have limited resources at their disposal, while on the other there is an expectation for high-quality and timely implementation of services whose effect is visible, and their effectiveness and efficiency are easily evaluated. Municipality resources in the Republic of North Macedonia are a combination of own resources or resources generated by the municipality and resources obtained from central levels of authorities for specific goals.

In the case of a lack of resources, municipalities may request additional transfers from the central authority, go into debt or seek donations. Apart from these mechanisms, it is most important for municipalities to optimally use the existing resources and to invest with impact–impact investing considering their central competencies.

According to the analysis of numerous case studies in Great Britain from 2018<sup>10</sup>, municipalities show a strong interest in municipal entrepreneurship. However, municipal entrepreneurship and investment demand dedication from local authorities, especially local champions, which at the same time need the corresponding expertise and readiness to take risks in partnership with the local communities.

Considering the strong positioning of municipalities as impact investors, their need for capital and need for bigger impact when solving complex issues in their community, the management of the City of Skopje offers the opportunity to design a model of an impact investor on a municipal level. For such purpose, this study proposes a vision for the municipality as an **impact investor-integrator**<sup>11</sup>, built on the basis of the theory for ecosystems.

This approach is increasingly applied in world metropolises such as Chicago, London and Vienna for the purpose of economic development and improving the quality of life in the municipality, whereby the city/municipality is the integrator of activities of different sectors, divisions, public enterprises, NGOs, partners and companies working together on the achievement of the strategic priorities of the municipalities while innovating during the process.

In the next part of this guide, we propose a model of the City of Skopje as an impact investor and guidelines for generating an impact investment portfolio of the city based on projects contained in the latest LEAP 2020-2026 for the City of Skopje.

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<sup>10</sup> Localism at work 2018 <https://www.powertochange.org.uk/wp-content/uploads/2018/05/Localism-Working-Paper.pdf>  
<sup>11</sup> Governing the city: Unleashing Value from the Business Ecosystem. 2017. <https://journals.sagepub.com/doi/full/10.1177/0008125616683955>

## 2.1 Ecosystem for impact investment

Should the City invest in parks or paving the roads? Is it better for the city to invest in energy efficiency or the sewerage network? Cities are increasingly expected to solve complex issues, make smart investments with taxpayers' funds and show a strategic approach towards organizing life in the respective community.

The **Ecosystems** analytical framework is used to analyse the potential of the City of Skopje for impact investing. We are using the example of the Vienna ecosystem in order to see how an ecosystem functions.<sup>12</sup> Ecosystem literature gives us the opportunity to analyse complex organizational environments which are not based on bilateral, but on **multilateral and dynamic relations**. These relations are multilateral since they encompass the cooperation of multiple different actors at the same time and the roles of those actors change in the cooperation process. The **ecosystem manager**, in this case, the City of Skopje, has the central role in the analysis.

### 2.1.1 Challenge for city ecosystem management

City or municipality management is undoubtedly one of the most complex management tasks organization leaders are faced with. Cities are not just **physical areas** where companies and individuals mix and perform economic activities; cities are **business ecosystems** established via a complex set of overlapping relations between the actors which include inhabitants, service providers to the citizens, suppliers or clients of other companies with headquarters in the city or citizens representing the clients or employees in these companies. Finally, cities are **political ecosystems** where decisions are being made that directly affect the quality of life of the citizens.

For example, the synergy between the quality of life and the business climate is reflected in the ability of a city to **attract talent, which is of key importance when it comes to attracting companies**. A good business climate equally creates a basis for employers to succeed in generating good job positions which improves the quality of life of the citizens. City authorities are pressured to invest in order to achieve both goals with limited resources.

The dilemma of whether to invest in business zone infrastructure or in social housing appears constantly. Since the city ecosystem and its actors work to achieve one or both goals, they lead a process of constant change and adjustment, thus making the city a living social and economic space.

Due to the **heterogeneity of their constituents/affected parties**, cities are faced with challenges when it comes to solving requests that frequently impose multiple opposing goals or which imply an exchange of resources and/or activities. For example, by investing in infrastructure and offering a wide range of services aimed at companies, they may encourage industrial settlements for manufacturing companies which may also benefit from the availability of the workforce and clients living in the city area. However, the business-oriented activities may be to the detriment of other goals such as preservation of the environment or building infrastructure and expanding the scope of current services for an increasing population.

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<sup>12</sup> Governing the City: Unleashing Value from the Business ecosystem Ivanka Visnjic, Andy Neely, Carmelo Cennamo, and Nikola Visnjic. California Management Review 2016, Vol. 59(1) 109–140

Mayors, as city leaders, bear the **burden of balancing the dual-task for improving the lives of citizens and ensuring a favourable economic climate for companies**. This task is even more difficult with **limited resources**, leading mayors to contemplate innovative strategies and manage the city more as **entrepreneurs** than as public administrators.

Therefore, the city authorities may be seen as **ecosystem managers** which are directly or indirectly involved in the organization of activities and provision of services for meeting the needs of the citizens (e.g. transport, education and healthcare services), as well as coordination and facilitation of the functioning of economic activities of companies working within the city area (e.g. tax benefits, licenses and regulations, purpose-built infrastructure and funding).

Hence, an **innovative and strategic approach** by cities/municipalities is increasingly necessary by creating a strategy for the development of the municipality and smart utilization of available resources. In order to address these two key dimensions – strategy and impact investment, it is primarily necessary to identify the city/municipality as an innovative ecosystem.

### **2.1.2 Vertical / linear structure of the expanded enterprise**

Many of the projects delivered by cities are structured as "**extended enterprises**". In this form, the activities supporting the solution (outcome) of the project are gathered and coordinated by a **central subject – integrator**. The city authority, one of its subsidiaries or a private body authorized by the city authority, plays the role of integrator and is directly connected with more affected parties in order to consolidate solutions.

An important differentiating feature of this ecosystem is that the (multiple) participants in the ecosystem do not communicate directly with the clients. The ecosystem thus adopts a vertical structure and secondary inter-organizational interconnections, where the city authorities play the role of a "higher-level organization", monitoring and directing the activities of "lower organizations" included in the service delivery process.

An example of a city integrator is Vienna. The city has two large sectors focused on macro issues (mainly related to activities for planning and supervision) and five departments focused on specific issues, with different companies specializing in specific services, directly or indirectly owned by the city, working independently. For example, mobility issues are solved by different companies, including Wiener Linien (subway lines), Wiener Stadtwerke (infrastructure), WiPark Garagen (city garages and parking lots) and Localbachen (street infrastructures) working independently and covering specific areas, led by an executive director.

In the ecosystem, the integrator – City through its administrative infrastructure is responsible for delivering integrated solutions in the form of a product or service to the clients. Although all activities are not under the hierarchy of one organization, the integrator still performs a certain degree of control over the result, since it can directly organize the system of activities and its participants in order to optimize the outcome delivery. At the same time, this requires a high degree of responsibility, capacities, capital and staff to perform the coordinating and monitoring functions of such great scale.

On the other hand, in the context of the ecosystem, the clients often have different requirements and expectations. For example, Wiener Linien, the city department responsible



for the transport in Vienna takes into consideration the needs of the citizens for integrated, competitive and efficient public transport. In order to fulfil this task, the organization is involved in different tasks, such as ownership of subway infrastructures, managing lines, training and hiring staff (technicians and services), managing clients' services and promoting the services in cooperation with the relevant city department for meeting all the needs of the citizens in order to achieve the high-quality standards and encourage the majority of people to use the subway, and at the same time make public transport affordable for all economic groups of the population.

In this case, this means prioritizing public transport (over the use of private vehicles), focusing on client satisfaction and guaranteeing a competitive offer for the citizens (annual ticket of 364 € or 1 € per day allows access to the entire public transport).

#### *The integrator focuses on control and coordination.*

An important aspect of the integrator's task is the process of coordinating the necessary activities with the parties best positioned to deliver those activities, establishing proper mechanisms for contract/coordination and supervising project implementation. For example, city authorities intensively work on accumulating knowledge by following the performance of their existing partners and at the same time develop the network and test potential partners. Deciding which activities should be performed from within (by the city authority or any of its partner organizations) and which should be granted to external contractors are of key importance in this regard.

Wiener Linien is once again used as an example. Wiener Linien's "Planning Department" takes over the role of "architect" of the extended enterprise by designing the process referring to the development of the next ten-year plan; the actual development of "content" is then divided into seven "workgroups" consisting of different representatives of the departments. Once the plan is finalized, it is submitted for final approval by the city councillors, while the final decision lies with the planning department.

This is just the starting point for the city to commence with the project implementation which will involve multiple external actors. By keeping the planning "within" and being partially involved in the implementation, the city tries to reduce the complexity of service delivery. The idea is to balance efficiency and control by maintaining the basic activities from within.

#### *The integrator approach centralizes innovation.*

To a certain extent, the integrator's access implies that new ideas and innovations are somewhat "centralized". Same as the decision whether to engage contractors or have the city perform the implementation by itself, the city authority can decide to develop an innovative solution by itself and afterwards make a contract for a part of the solution to be implemented together with the ecosystem members.

In Vienna, the representatives of the involved companies meet once a month to discuss the current projects, new ideas and methods of implementation. The process is partially formally structured and partially depends on the initiatives of the company representatives.



### 2.1.3 Ecosystem advantages and challenges - integrators

#### *Quality control advantage.*

One of the main advantages of the integrator ecosystem is that the integrator largely controls the ecosystem result. The integrator can set the necessary standard for the desired result and control the delivery thereof. Quality control is especially important when **large investments should be made in advance** in order to provide efficient long-term solutions even in times when the market stimuli are not optimal.

Aspern 3420 is taken as an example, a company established in order to transform the unused airport into a new city quarter in Vienna called Aspern. The company is responsible for supervising the construction of the technical infrastructure and the layout of the streets; however, the company itself is not developing the project. Its role is to make sure that the infrastructure is established on the basis of strict standards. The integrator or the city has the power to optimize the quality by choosing collaborators with the best qualifications for particular parts of the project.

#### *Lack – coordination, complexity and expenses.*

The ecosystem integrator usually entails significant complexity, significant expenses for coordination and is time-consuming. In other words, the integrator may become an obstacle for more efficient interactions. This is the usual case when the extended enterprise becomes "open" or when many parties communicate with the integrator when delivering the solution.

#### *Lack – inflexibility.*

Similar to inefficiency, this system may have particular dynamics or institutional inertia which is difficult to change.

Characterizing the City of Skopje as an ecosystem is the starting point for understanding the complexity of the relations, the integrator role of the City in processes such as impact investment. In order to proceed with the model and guide for creating an impact investment portfolio, in the next part we will present the current vision and mission of the City of Skopje, the strategic goals and findings of 2020-2022 SWOT analysis, for the purpose of contextualizing the impact investment model in the existing strategic frame of the city.

### 3. The process of creating an impact investment portfolio of the City of Skopje

In order to develop an innovative tool such as impact investing, in the next parts we will present the process in the following order: organizational support for impact investing, definition of the impact investing goals, development of the quantitative tool for impact investing of the city, development of an impact investment portfolio of the city, prioritizing impact investments, useful examples. For each of the specified parts, there are tools developed for the City of Skopje to be able to design and follow the impact investment process. The following publicly available tools and resources are being used for developing a suitable model for the City of Skopje:

- The Impact Due Diligence Guide: Practical guidance for investors seeking to systematically assess investments' anticipated impact (2019) Pacific Community Ventures.
- Shifting the lens: A De-risking Toolkit for Impact Investment- Bank of America and bridges ventures (2014).
- A Portfolio Approach to Impact Investment A Practical Guide to Building, Analysing and Managing a Portfolio of Impact Investments (2012) JP Morgan.
- IMP – Impact Management Project.

Considering the fact that there is no unified and developed model for impact investment on a local level, the model for the City of Skopje is a pioneer attempt for an impact investment model where the primary investor is the local self-government - municipality - city. In the next parts, we will address the individual steps and propose specific tools for their implementation.

#### 3.1 Organizational support for impact investments – Mapping the City ecosystem – City of Skopje

In order to position one municipal, in this case, city, ecosystem we identify the following:

- actors/participants in the ecosystem
- manager's role in the ecosystem
- goals to be jointly achieved (value proposition)

As with any initiative aimed at organizational change, the **initiators** need to seek support within the organization. This process can be very simple if the parties agree that it is necessary to build an impact investment portfolio and assess the impact thereof.

For example, the investment staff may be open to the opportunity for more efficient evaluation of investments with bigger impact, while the management may be worried about the possible inability to show the bigger investment impact. The **financial department** may also have a negative reaction to the development of an impact investment portfolio since the scope of work increases, while the management may be interested in a more systematic approach to investing existing resources or the possibility for clearer insight into its investment portfolio, evaluated with specific indicators.

City ecosystem – integrator – impact investor		
Actors	Mayor Municipal administration Municipal council Municipal enterprises Cultural institutions High schools Central authority	Citizens Companies NGOs Economic chambers Academic community
Manager's role in the ecosystem	Solution integrator - extended enterprise	
Ecosystem goals (according to 2020-2021 Strategic Plan of the City of Skopje <sup>13</sup> )	1. Clean city 2. Sustainable urban and cultural development of the city 3. Developed city traffic infrastructure 4. Energy-efficient city 5. Building human, technical and financial capacities	

*Table 1 City of Skopje – Mapping actors in the ecosystem*

Hence, the key prerequisite for developing an impact investment portfolio for the City of Skopje and further in the remaining municipalities would be establishing an **impact investment committee** by appointing an impact investment coordinator from the mayor's cabinet and establishing a multisectoral unit for the coordination of these activities. Members of the committee, as a body giving proposals and a programme for impact investments, are the representatives of the affected parties (Chart 4).

On the other hand, if the municipality cooperates with a certain organization, such as the case of the City of Skopje with SmartUp Social Innovation Lab, the same structure can be used to coordinate the process of developing an impact investment portfolio, piloting and following one impact investment, and developing a model evaluation and finalizing the impact investment portfolio.



*Chart 4 Impact Investment Committee of the City of Skopje*

<sup>13</sup> 2020-2021 Strategic Plan of the City of Skopje: <https://skopje.gov.mk/media/4910/strateski-plan-na-grad-skopje-2020-2022.pdf>

Once the Impact Investment Committee is established, the **need for impact investments** should be mapped. Governmental institutions are uniquely positioned to address the challenge of non-conformity of supply and demand, considering the access to information and the role of integrator - ecosystem having access to both supply – public institutions and companies and to demand – citizens and companies.

The City should consult the affected parties in order to identify the needs and select the priorities. Consulting the affected parties is useful: before, during and after the initiative for the impact investment portfolio.

- **Before** the City undertakes a particular initiative: The feedback from the affected parties may be used to design an intervention corresponding to the preferences and the needs of the respective affected party.

- **During** the initiative: The municipality can gather data on how the affected parties react to intervention, allowing fast adaptation.

- **After** the initiative: The municipality can use the feedback of the affected parties to understand whether the intervention advanced according to the expectations and if so, explain why.

E.g.:

*Indian Health and Social Enterprise Zika conducts regular surveys via telephone in order to better understand its clients. Via this process, the enterprise got the information that pregnant women are primary clients of the enterprise services. Hence, Zika actively cooperates with the government schemes to support mother and child's health and placement of products intended for this target group.<sup>14</sup>*

The City of Skopje could start the process for the creation of an impact investment portfolio by organizing a one-day seminar for impact investments for municipal administration, councillors and the mayor.

**Goal:** Introducing the local affected parties with the impact investment concept and appointing a coordinator (sector, responsible person, committee) who would lead the impact investment process of the City of Skopje.

**Modules:** Introduction of impact investments, impact measurement, presentation of examples from other countries, discussion about supply and demand for impact investments and mapping potential ideas for impact investments.

We propose the existing strategic documents of the City of Skopje, i.e. 2020-2022 Strategic Plan and 2020-2026 Local Economic Action Plan where the strategic priorities of the municipality are best presented, to serve as a starting point for developing an impact investment portfolio.

## 3.2 Identifying the need and opportunities for impact investments

In order to map the goals of impact investments, we recommend commencing from the existing defined strategic priorities of the municipality, and if there are no current priorities, the mapping to be based on previously available or informal, but shared strategic priorities by the municipality officials.

### 3.2.1 Strategic priorities – a basic trend for impact investment

With regards to the City of Skopje, there is 2020-2021 Strategy of the City of Skopje with a clearly defined vision, mission and priorities.

**Vision:** *Skopje is a city with highly developed infrastructure and traffic mobility, a green and ecologically clean city, desired tourist destination, multi-ethnic, cultural, educational and highly developed business centre.*

**Mission:** *City of Skopje with its modern, efficient, educated city administration upon the European standards, creates conditions for high-quality life of its **citizens**, as well as the successful and prosperous functioning of the **business entities**.*

As was identified in the beginning, the City of Skopje aims to balance the needs of the citizens and business entities - companies and their prosperous functioning. This is the starting point in the further model for impact investment that should be focused on these key actors and goals.

The strategic priorities identified for 2020-2021 of the City of Skopje, as well as the priorities for economic development according to the Local Economic Action Plan of the City include:

2020-2022 Strategic Plan	2020-2026 LEAP <sup>15</sup>	Potential impact investments
1. Clean city 2. Sustainable urban and cultural development of the city 3. Developed city traffic infrastructure 4. Energy-efficient city 5. Building human, technical and financial capacities	1. Smart city – city modernization 2. Encouraging SME and entrepreneurship development 3. Favourable business surroundings 4. Improvement of spatial qualities and city functions 5. Improvement of quality of life and the standard of living of the citizens 6. Energy and energy efficiency 7. Protection of the environment and nature 8. Health and welfare of people	<b>Environment</b>  Improved public cleanliness Improved energy efficiency Developed city traffic infrastructure  <b>Digitalization</b> Smart city development  <b>Business climate</b> Entrepreneurship development Favourable business surroundings  <b>Modernized administration</b>  Building capacities and administration modernization  <b>Cultural development</b>

*Table 2 Strategy of the City of Skopje*

According to the conducted SWOT (strengths, weaknesses, opportunities, and threats) analysis, it can be concluded that the City is well-positioned in economic terms, considering that it has the highest GDP per capita and at the same time contributes with 43% in the national GDP. The City is an educational and cultural centre which means that the entire talent pool in the country is concentrated in the City.

At the same time, the City is evaluated as having a qualified and modern public administration, with the space to use additional funding sources and strengthen the cooperation with the remaining municipalities, organizations and universities. The City sees the most potential in the development of a cleaner environment, waste management and public cleanliness.

The lack of consolidated databases, insufficient cooperation between the sectors with the central authority and the business community is deemed as a weakness and obstacle of the City for further development and realization of the strategic priorities. There is also the fear of further brain drain, insufficient funds for implementing projects and lack of a motivated public administration, improperly allocated to perform its duties. A detailed review of the SWOT analysis for the City of Skopje is shown in Table 3.

<sup>15</sup> LEAP 2020-2026 City of Skopje: <https://skopje.gov.mk/media/6058/leap-2020-2026.pdf>

Strengths	Weaknesses
<p>Experience in international projects, funds and other</p> <p>Drafted projects and strategies</p> <p>Cooperation with the civil sector Continuous co-operation with twin cities</p> <p>Highest GDP per capita</p> <p>Economically strong and stable enterprises</p> <p>Qualified employees with long-term experience</p> <p>Implementation of trainings for the employees</p> <p>Preventive action with its occurrence and efficiency for handling entities.</p> <p>Increased number of people present in the course of supervision</p> <p>Defined work processes</p> <p>Introduced standards in the administration work</p> <p>Information system (DMS,ERP,GIS) Experience in managing school facilities and staff</p> <p>Responsibility, professionalism, trust, kindness</p>	<p>Lack of databases (statistics, registries)</p> <p>Weak and insufficient intersectoral communication and cooperation</p> <p>Resistance to novelties</p> <p>Weak cooperation with the business community.</p> <p>Lack of professional staff</p> <p>Slow gathering of opinion from the line ministries</p> <p>Lack of corresponding legal regulation. Insufficient motivation for retention and promotion of professional staff. Insufficient use of information system</p> <p>Insufficient integration of DMS, ERP, GIS systems</p> <p>Need of new employments of IT professionals</p> <p>Lack of motivation of the city authority for taking on competences</p> <p>Lack of readiness for change of MES</p> <p>Lack of underground cadastre</p> <p>Poorly motivated staff</p> <p>Lack of planning</p> <p>Improvement of the work conditions.</p> <p>Allocation to corresponding job positions of the employees</p>
Opportunities	Threats
<p>Participation in foreign funds (EU, IPA and others)</p> <p>Cooperation with universities</p> <p>Cooperation with municipalities</p> <p>Strengthening NGOs capacities</p> <p>Faster handling with the perpetrators</p> <p>Development of long-term perspective plans for a cleaner city and other competencies</p> <p>Trainings, workshops from socially responsible IT companies</p> <p>Exchange of experiences in the administration from the region</p> <p>Education of citizens for the existing rights and opportunities</p> <p>Waste reduction and ensuring a higher level of public cleanliness</p>	<p>Non-inclusion of the City of Skopje in the coordination of donor priorities by the government</p> <p>Brain drain of young workforce (expert and non-expert)</p> <p>Legal difficulties for project realization</p> <p>Unavailability of gas refill</p> <p>Non-compliance with defined procedures and hierarchy</p> <p>Not getting positive opinions from the line ministries</p> <p>Poor communication and coordination. Not informing all affected parties. Insufficient means of project realization</p> <p>Difficulties when solving property-legal matters</p> <p>Problems with the underground infrastructure. Providing funds and functionality for project implementation</p> <p>Project acceptance by the citizens</p>

Table 3 2020-2021 SWOT analysis of the City of Skopje

Based on the identified disadvantages and advantages, we deem that the impact investment portfolio will enable the city to overcome certain weaknesses, at the same time using the municipality's strengths. In fact, considering that impact investing by definition implies an investment of funds which apart from a positive social impact or environmental impact also bring positive financial profit to the organization, the impact investment portfolio can help to overcome the following challenges and help the realization of the following goals presented in Table 4:

Challenges	Goals
Lack of funds for implementation of the desired projects	Utilization of foreign funds
Weak cooperation with the business community	Energy-efficient, clean and sustainable city
Weak intersectoral cooperation	Strengthened cooperation with the business community and the universities

*Table 4 Potential contribution of impact investments in the City of Skopje*

Pursuant to the data from the 2016-2018 Strategic Plan of the City of Skopje, in 2014 a total of 25,506 business entities were active on the territory of the City of Skopje, as one of the key actors in impact investment. They represent 36.1% of the total active business entities in the Republic of North Macedonia. The majority of large enterprises (68.2% of all large enterprises in Macedonia) are registered in Skopje. According to their activity, the majority of active entities on the territory of the City perform wholesale and retail activities, followed by entities performing real estate activities, manufacturing industry activities and others.

Finally, in order to move towards defining impact investments, it is important to know the exact competencies of the Municipalities and the City of Skopje. Most of the competencies can be seen as potential areas for impact investment.



Competence	Impact investment potential
1. Urban (urban and rural) planning	
Issuance of construction permits to facilities of local importance stipulated by law	Integrated energy efficiency standards
Landscaping	Green surfaces
Construction land arrangement	Incentive for sustainable constructions
2. Protection of the environment and nature	
Measures for protection and prevention of water, air and soil pollution; protection of nature, noise and non-ionizing radiation	<p>Tax relief upon presented performance</p> <p>Subsidies for the enterprises addressing the aforementioned issues</p> <p>Investing via targeted grant schemes of enterprises</p>
3. Local economic development	
Planning of local economic development	Developing municipal action schemes in the enterprises (de-risking of investment)
Determining development and structural priorities	Impact investments in identified priorities
Leading local economic policy	Municipal industrial policy and competition policy
Support development of small and medium enterprises and entrepreneurship on a local level and in that context	Grant schemes and municipal development funds for private SMEs
Participation in establishing and developing a local network of institutions and agencies and partnership promotion	Investment schemes for joint investment of local and national actors
4. Communal activities	
Supply of drinking water	Investments in the promotion of a network of clean drinking water
Delivery of non-potable water	Partnership with local companies for delivery of non-potable water
Drainage and filtering wastewater	Water filtering stations PPP
Public lighting	PPP
Drainage and treatment of rainwater	Water filtering stations PPP
Maintaining public cleanliness	Evaluation of PE work and development via KPIs
Collection, transport and handling communal solid and technological waste	Incentive for selection and disposal of waste
Regulation and organization of public local transport of passengers	Green transport and green public procurement
Supply of natural gas and thermal energy	PPP
Maintenance of graves, cemeteries, crematoriums and providing of funeral services	-
Construction, maintenance, reconstruction and protection of local roads, streets and other infrastructural facilities	Investing in providing information and preparation of local enterprises for participation in public procurement
Traffic regime regulation	Dividing the city into zones

Construction and maintenance of street traffic signalization	-
Construction and maintenance of public parking space	Evaluation and improvement of the work of PE Parking
Removing improperly parked vehicles	Modernization and placement of green surfaces of PE Parking
Removing wrecked vehicles from public surfaces	-
Construction and maintenance of markets	Green and sustainable markets Encouraging organic manufacturing
Chimney cleaning	Subsidies
Maintenance and utilization of parks, greenery, park forests and recreational surfaces	PPP for introducing sports and creative content in the parks and forests
Regulation, maintenance and utilization of river beds in urban parts	
Determining names of streets, squares, bridges and other infrastructural facilities	-
<b>5. Culture</b>	
Institutional and financial support of cultural institutions and projects	Cooperation with the independent cultural scene Support of young artists
Nurturing the folklore, customs, old crafts and similar cultural values	Tax reliefs/Events
Organization of cultural events	Educational events Partnership with the private and NGO sector
Encouraging various specific types of creative work	Grants, subsidies, tax reliefs
<b>6. Sports and recreation</b>	
Development of mass sports and recreational activities	sports programmes for vulnerable groups Public exercising surfaces
Organization of sports events	Sports events
Maintenance and construction of sports facilities	PPP
Support of sports associations	Grants, performance awards
<b>7. Social protection and child protection</b>	
Kindergartens and nursing homes (ownership, funding, investments and maintenance)	Partnerships with universities and the private sector Facilitating the entry of private entities in investments intended for kindergartens and nursing homes
Providing social care for disabled people	Partnerships with NGOs
Orphans and parental care	Partnerships with NGOs
Children with educational and social challenges	Partnerships with NGOs
Children with special needs	Partnerships with NGOs
Children of single-parent families	Partnerships with NGOs
Homeless children	Partnerships with NGOs
Persons exposed to social risk	Partnerships with NGOs

Persons using drugs and alcohol	Introduction of telephone counselling
Raising the awareness of the population	Campaigns for spending budget funds and potential and importance for impact investments
Finding homes for people exposed to social risk	Partnerships with NGOs
Exercising the rights and education of children of pre-school age	Partnerships with NGOs
8. Education	
Establishing, funding and administration of elementary and high schools in cooperation with the central authorities pursuant to the law, organization of transport and food for students and their accommodation in dormitories	Evaluation of the impact and improvement
9. Health protection	
Management of the network of public health organizations and primary health care institutions which should include participation of the local self-government in all boards of all publicly owned health organizations, health education	Systematic cooperation and infrastructural support of general practitioners Introduction of electronic access to the health records and interoperability with the Ministry of Health in cooperation with IT companies
Health improvement	Investments aimed at raising the awareness of the public for the health risks and awards for taking care of one's own health and the health of their families
Preventive activities	
Health protection of workers and occupational safety and health	Partnerships with NGOs
Environmental health surveillance	Partnerships with NGOs
Infectious disease surveillance	
Providing assistance to patients with special needs (e.g. mental health, child abuse, etc.) and other areas stipulated by law	Investments with the assistance of foreign organizations
10. Conducting preparations and taking protection and rescue measures	
For citizens and tangible goods as a result of military destructions, natural disasters and other consequences caused by them	Tax exemption, subsidies per performance
11. Fire protection	
Of territorial fire units	Educational activities Reinforcing fire units
12. Supervision	
Of the performance of the works under their competence	-
13. Other works stipulated by law	

Table 5 Municipality competences

### 3.2.2 Public opinion – an additional trend for impact investments

Surveying public opinion is one of the most valuable tools of any local authority for becoming aware of the needs of the citizens, their feedback and input for key impact investments. Regular surveying of the public opinion according to the same methodology (at least once a year) ensures evaluation and measurement of the effects throughout the years.

From the recent survey of the public opinion in the City of Skopje (August 2020), we may point out the following aspects which are important when proposing impact investments:

- Majority of citizens deem that the investors do not compensate properly for investments in construction facilities with tree-lined paths, roof terraces and facades;
- The most frequently specified problem with the poor condition of the environment is uncontrolled urbanization;
- Citizens see huge inconsistencies among the citizens themselves, the City of Skopje and the public enterprises when it comes to the care of the environment;
- The urban congestion and lack of green surfaces, poor air quality, creation of wild landfills, floods, unsustainable agricultural practices and water pollution are deemed to be the key problems in the City of Skopje.

From the indicated activities taken by the citizens for environmental protection in the past 6 years, particular tendencies can be identified which proved to be promising for successful impact investment as follows:

- Transition to cleaner thermal energy sources (central heating system, pellet heating, briquettes)
- Sustainable transport: bicycle, public transport, walking, electric scooter and vehicle
- Purchasing energy-efficient devices
- Purchasing locally manufactured food
- Waste selection
- Aforestation
- Eliminating the use of plastic bags

What would the citizens justify for better management with the environmental threats:

- Higher penalties for violating the laws regulating the environment
- Increased inspection supervisions
- Financial incentive of companies or citizens taking measures for environmental protection (tax relief, subsidies)
- Education and raising the awareness for environmental protection
- New traffic policy
- Development of energy efficiency
- Development of green economic and tourist zones
- Eco-marking of facilities

### 3.2.3 Existing action plans - input for impact investments

Once the areas and projects which could be subject to impact investment are defined, the next step is to develop the desired results - particular goals with measurable indicators for the impact to be reached with the investment.

We propose the existing strategic documents of the City of Skopje, i.e., the 2020-2022 Strategic Plan and the 2020-2026 Local Economic Action Plan where the strategic priorities of the municipality are best presented, to serve as a starting point for developing an impact investment portfolio.

As an example, we can separate the following specific projects from the same strategic documents which could be part of the impact investment model.

Problem	Description	Impact investment potential
BICYCLE TRAFFIC PROBLEM	The annual comparisons show that the average of 195.4 traffic accidents involved cyclists and occurred in the same period, of which 1.4 resulted in death, 20.4 with serious bodily injuries, 125.1 with bodily injury and 48.4 with caused material damage.	"Smart Cycling Tourism in Skopje" will establish a public bicycle-sharing system with 40 stations for bicycle-sharing with a total of 600 bicycles. It will consist of solar panels for battery charging, a video surveillance system with 30 cameras, 3 trucks for bicycle transport and handling, a bicycle washing machine, a machine for cleaning bikeways and establishing a bicycle servicing unit.
PROBLEMS WITH PEDESTRIAN ZONES IN CENTRAL CITY AREA	Lack of pedestrian zones, traffic culture problems, control and application of laws and regulations (obvious non-adhering to the traffic rules and regulations by the participants in the traffic), illegal parking of vehicles on the sidewalks.	Development of pedestrian zones and accompanying contents
PROBLEMS WITH PARKING SPACES	Lack of organized parking space due to the rapid growth of vehicle use creating barriers in the traffic. This also seriously affects pedestrians and cyclists. Another big problem for the city is the insufficient space i.e., lack of constructed organized parking lots for cargo motor vehicles and buses.	Promotion, maintenance and placement of green surfaces on the existing parking lots (especially half-empty multi-storey car parks) instead of building new ones.  Within the apartment buildings, it is suggested the parking lots be made with permeable materials which would allow the urban heat island effect to be reduced.

PUBLIC TRAFFIC	Local authorities are obliged to promote intermodality and ensure actual alternatives to encourage people to walk, use bicycles and public transport.	Green workplaces.  Start-up car-sharing companies. Start-up rent a bike/scooter company.
IRRIGATION	Utilization of underground waters for irrigating public green surfaces.	Utilization of well water (alternative utilization of water from Kozjak-Matka-2 or Kadina River) for maintenance of public green surfaces and public cleanliness on the entire territory of the City.
SEWERAGE AND WASTEWATER TREATMENT	Due to the poorly constructed rainwater network or the irregular maintenance of the existing ducts, large quantities of rainwater flow into the faecal sewerage, which causes problems with overfilling and overflowing.	Utilization of rainwater for irrigation purposes.
THERMAL ENERGY	The existing capacity in suburban and non-urban parts of the City, as well as in the central city area with more intensive construction such as Bunjakovec, Debar Maalo, Centar and others is overburdened.	Keeping the practice of using inverter air conditioners.
GAS NETWORK	The gas system consists of two technological wholes with different basic functions, work modes and operational pressure as follows: Backbone gas pipeline with a total length of 98 km and city gas pipeline network of 19,170 km. 13 consumers are connected to this network.	Construction of another 12 km network is planned in order to round up the gas pipeline infrastructure system.

ENERGY EFFICIENCY	<p>The City of Skopje does not have its own energy sources – it is supplied by the power system of RNM and all populated areas are supplied with a stable voltage of the power network. The power supply is done via several power supply stations – transformer stations allocated on the City territory.</p> <p>Energy efficiency and renewable energy sources are implemented on a local level as well. A good example is the subsidy programme for the citizens on the territory of the City of Skopje for purchasing pellet stoves which started in 2016 and allows compensation by 70% of the stove value; however, not more than MKD 30,000 (~EUR 500).</p>	<p>The City has the potential to develop and use alternative energy sources, mostly solar energy:</p> <p>Savings potential in municipal facilities is between 5% and 35%;</p> <p>The proposed investments for the pilot projects are within the range from MKD 500,000 to MKD 33,000.00, and the calculated time for returning the investment is a maximum of 2 to 17 years.</p> <p>Technically feasible potential for solar energy utilization in Skopje Planning Region is 261 TWh per year.</p> <p>Economically feasible (20% of the surfaces can be used for solar energy) potential for Skopje Planning Region is 16.25 TWh and 10 TWh for the City of Skopje</p>
ECO-CULTURAL TOURISM	<p>Skopje is in the category of highly appreciated and ranked city, which competes for Capital City Tourism global trend.</p>	<p>The rural area is suitable for eco-tourism development.</p> <p>Gastronomy and wine tourism.</p> <p>Vodno and Skopska Crna Gora as areas/destinations with the possibility for the development of adrenaline and extreme sports tourism.</p> <p>Katlanovo Thermal Bath as an area for the development of thermal tourism.</p> <p>Jasen and Matka as areas for development of eco-tourism and alternative, cultural tourism; in short, areas suitable for new alternative kinds for active passing of the time.</p>

SMART TOURISM	<p>The era of smart tourism starts after the era of smartphones. An important segment for establishing smart tourist destinations are a developed ICT infrastructure, as well as smart tourist services "open data" which allow the creation of new innovative services for the tourists. The City of Skopje should follow these new trends and see the opportunities for utilization of available funds for the preparation of the tourist product which should be innovative and unique in order to attract tourists. The smart tourism concept also opens up another segment for the economy where other companies, mainly from the ICT sector, can develop and market services.</p>	<p>Development of mechanisms for sustainable tourism.</p> <p>Improvement of the inclusion of natural heritage in the tourism offer of the City of Skopje.</p> <p>Improvement of the inclusion of natural heritage in the tourist offer of the City of Skopje.</p> <p>Increasing the offer and utilization of "Rural Skopje".</p> <p>Introduction of smart tourism.</p> <p>Development of sustainable urban cultural tourism.</p>
GASTRONOMY	<p>Skopje gastronomic offer is rich with traditional recipes with original and unparalleled quality.</p>	<p>Development of infrastructure for the production of healthy organic food.</p>
KATLANOVO THERMAL BATH	<p>Katlanovo Thermal Bath is a well-known tourist attraction that offers sources of thermal and thermal mineral water.</p>	<p>Development of content for the visitors.</p>
TOURISM		<p>Need of organized activities for the tourists.</p>
AIR QUALITY	<p>Decarbonisation of the method of heating households and public institutions under the competence of the City.</p>	<p>Introduction of green mobility and logistics focused on eco-efficiency of the transport sector.</p> <p>Development and promotion of eco acceptable urban transport with low carbon levels.</p> <p>Transport electrification.</p> <p>An incentive for eco-city transport.</p>



BIODIVERSITY	The space of the City of Skopje (and the surroundings) is rich in biodiversity. The mix of different geographic, geomorphological and climate features is the reason to differentiate a larger number of natural habitats and communities (the belt of lowland swamps, wetlands, meadows, open areas), and especially a wide range of different urban biotopes (parks, green surfaces, gardens, etc.), offering conditions for the development of over 2000 taxons of fungi, flora and fauna.	Protection and improvement of the natural heritage, expansion and continuous improvement of the management thereof.
CLIMATE CHANGES	The driving forces pressuring the climate in Skopje include energy, transport, industrial processes, waste, agriculture, forestry and land utilization. As a result, the concentration of greenhouse gases is increasing, which is the direct cause of climate change.	The implementation of measures for prevention, adjustment and mitigation of climate changes via realization of "Resilient Skopje – Climate Change Strategy" Action Plan.
URBAN DEVELOPMENT	The City should offer its natural and ecological qualities to its citizens, which will be connected in the network of public places with high quality and unique local character	Establishing a system for coherent compliance with the determined measures and conditions for environmental protection when implementing spatial and urban plans.
GREEN PUBLIC SURFACES	The condition with the green surfaces in Skopje directly depends on the actual trends of increasing the number of inhabitants and the needs of construction land. Hence, no special attention was paid to the importance of the green surfaces as the main indicators for the quality of the environment and as social interaction space.	<p>Creation of specific system of green surfaces in function of sustainable development of the city and the green economy.</p> <p>Continuing the trend of redesigning public surfaces.</p> <p>Inclusion and encouraging the local population in activities for horticultural landscaping and urban agriculture.</p>

WASTE MANAGEMENT	There is a Regional Waste Management Plan drafted for the purpose of regulation and harmonization of mutual goals for waste management on regional level i.e., integrated planning of waste management.	<p>Creation of conditions for primary selection of communal waste.</p> <p>Increase/renewal of the number of waste bins.</p> <p>Establishing a primary waste selection system.</p> <p>Mobile transfer centres for waste selection.</p>
HEALTH	Large percentage of obesity Respiratory diseases	Ensuring easy access to healthy food by improving the local food-related environment. Improvement of the local infrastructure which will give the possibility for active transport and satisfactory physical activity.
GREEN WORKPLACES	Cities have the best knowledge of local labour markets. They can design programmes in line with the local economy and create locally available green workplaces.	<p>Landscape architecture.</p> <p>Maintenance of public green surfaces.</p> <p>Eco-constructions. Green entrepreneurs.</p> <p>PR for the environment</p> <p>Design by using recycled materials</p> <p>Urban planners</p> <p>Solar panels installers.</p>

*Table 6 Existing planned activities as the starting point for II portfolio*

### 3.3. Development of impact investment goals

The investors, after obtaining organizational support, should commence with the harmonization of the wanted impact. In order to have an understanding of the expected impact investment, it is crucial for the investors to engage their key factors so that they can understand how their investment can have an impact on them.

To identify desired impact investments, we suggest defining the following features for each particular impact investment project: **what, who, how much, impact, investment risk**. The five dimensions serve as a list for checking whether the investor properly evaluated the impact and are the most used tool for impact investments of private companies, investment funds and social enterprises, with the methodology developed by IMP - Impact Management Project.

**Impact Management Project** is a global initiative that presents a forum for building consensus between the organization about the manner in which the impact on the environment and social issues should be measured and evaluated.<sup>16</sup> Impact Management Project has over 2000 members and works on the synchronization of its frames with the UN Global Goals for Sustainable Development (2030 Agenda). Among others, the members of this initiative are OECD, PwC, KPMG, Ford Foundation, Bank of America, Deutsche Bank, Black Rock, Impact Investment Group.

Tool:	Definition of impact goals
<b>WHAT</b>  Results achieved by the organization for II and how much they are important for the affected parties	Result <ul style="list-style-type: none"> <li>- Positive or negative</li> <li>- Intentional or unwanted</li> <li>- Meets the needs of the stakeholders</li> <li>- Internationally, nationally or locally recognized thresholds</li> <li>- Contributes to sustainable development goals<sup>17</sup></li> </ul>
<b>WHO</b>  Identifies the affected parties the impact refers to.  What group of affected parties are the limited resources focused on.	<ul style="list-style-type: none"> <li>- <b>Clients</b> using organization products/services</li> <li>- <b>Employees</b> working for the organization</li> <li>- <b>Local communities</b> directly or indirectly affected by the municipality activities (e.g., unhealthy emissions by the factories having a negative impact on the surrounding local communities, or favourable apartment units of endangered communities)</li> <li>- <b>Suppliers and distributors</b> affected by the scope of procurement, regulations and quality control of the enterprise (e.g., child labour zero-tolerance policy affecting the vendors)</li> </ul>
<b>HOW MUCH</b>  Impact importance measure according to its scope, intensity, and duration.	<ul style="list-style-type: none"> <li>- <b>Number:</b> Number of people affected by the outcome</li> <li>- <b>Intensity:</b> Level of change</li> <li>- <b>Duration:</b> time period for which the party is affected by the result</li> </ul>

<sup>16</sup> Impact Management Project <https://impactmanagementproject.com/>

<sup>17</sup> <https://impactmanagementproject.com/impact-management/impact-management-norms/what/>

<p><b>CONTRIBUTION</b></p> <p>Evaluation of the added contribution of the intervention for social (ecological) results compared to what would happen without the given intervention.</p>	<ul style="list-style-type: none"> <li>- Intensity: Investment contribution via the intensity of the result by factoring in the <i>estimated change level which would occur</i>.</li> <li>- For example, calculate the duration and intensity of contribution of the programme for business support to net income of the companies' participants (i.e., primary outcome), IM combined data on the internal programme with a systematic review of 92 studies for similar interventions. Based on this evidence, IM estimated that each company earned an additional USD 2,600 annual net income for the period of five years (the intervention ended in the fourth year), beyond what the business would if there was no programme.</li> <li>- Duration: Estimated duration of the result.</li> <li>- E.g.: How long the investment result would last compared to the result that would occur without the particular investment (i.e. counter actual scenario).</li> </ul>
<p><b>RISK</b></p>	<ul style="list-style-type: none"> <li>- <b>Impact risk type:</b> Nine types of risks that may prevent the result of impact investment</li> <li>- <b>Impact risk level:</b> Risk probability and severity</li> <li>- <b>Mitigation strategy:</b> Strategy for mitigating and reducing the risk level upon the impact</li> </ul>

Table 7 Definition of II goals

### 3.3.1 Indicator development

The result indicators estimate the progress with regards to the specific results, allowing the investors to understand whether the change occurred. Result indicators can be expressed as four types of data: **absolute number, percentage, ratio and categorical datum**.

**Proxy** indicators – are types of indicators that do not measure the result we want to measure directly, but indirectly. For example, through the number of used hospital beds in a particular hospital, we may obtain particular indications for the population health when it comes to a particular disease in a particular part of the country.

The **validity** of indicators depends on how well they present the wanted result. Consultation with affected parties may provide useful comprehension of the relevance of the indicators. In order to subliminate the indicator, apart from validity, **data availability** is also important when choosing the indicator.

Municipalities may compare their results by using two types of thresholds:

- **Thresholds are determined by default which defines the limit** above which the result changes from negative to positive. Thresholds set by governmental and regulatory bodies assist the organizations to evaluate whether they meet (or exceed) the generally accepted minimum income level. The examples include actual consumer basket, poverty threshold, GDP per capita and others.

- **Thresholds based on particular wanted results** refer to the organization data to ensure a benchmark of the minimum (i.e. threshold), average and maximum level of impact performances.

For example, a particular organization can measure its performance according to the results with the average (or minimum) success of the industry. The municipality can measure the increase of the number of employees in the municipality compared to the previous year, the average salary in a particular sector on a municipal level, the average rate of graduated students in the municipality, etc.

The coding/scoring process of the foreseen impact may help the investors to make sure that all internal affected parties are in compliance with their wanted impacts. This is especially important considering the fact that the financial staff may have different opinions and assumptions for the impact of their organizations, even if all agree on the investor's mission. For example, even though the entire staff may agree that the investor should create opportunities for the most vulnerable categories of citizens, the staff may have different opinions on which opportunities are most important for which demographic groups.

Once the potential investments are identified, the goals are defined according to these five dimensions and the next step is to design financial instruments or mechanisms based on which the entire investment would be done. Hence, two new dimensions are included in this part, financial instrument/mechanism and risks related to the financial aspect of the investment.

## 3.4 Funding impact investments and risks

In order to design the financial instruments for a specific investment, the following should be determined:

- Whether the local self-government is the investor or facilitator of the investment;
- Definition of a financial instrument – mechanism;
- Financial risk evaluation.

The municipality can directly participate in the impact investment market via:

- Incentive for impact investments via policy or regulation;
- Increase of the amount of capital for impact investment (offer development);
- Increase the availability or strengthen the capacity of capital recipients (demand development);
- Adjustment of conditions for trade, market principles or prices (directed capital).

In order to identify the possibilities for funding impact investments, the first step is an analysis of the existing legislative and strategic framework which creates the basis for proposed models for impact investment of municipalities.

For the purpose of this activity, the following was realized:

- Law on Local Self-Government, 2002 <sup>18</sup>
- Law on Funding Local Self-Government, 2004<sup>19</sup>
- Law on Property Taxes, 2012<sup>20</sup>
- Law on Donations and Sponsorships, 2015 <sup>21</sup>
- Law on Corporate Tax, 2019<sup>22</sup>
- Tax System Reform Strategy, 2020 <sup>23</sup>

Each of the documents was analysed through the prism of what **obligations** it creates for the citizens and companies and **what is the basis for incentive** within this frame for everyone.

Below we present the funding sources and basic competencies of municipalities since the concept of impact investment implies that the **municipality budget contains the means for impact investments**, and the **municipality competencies contain the areas of impact investments for the municipality**. Furthermore, we analyse the specified legal documents considering the basis and **obligation they create for the citizens and companies**, as a potential **mechanism for impact investment**.

18 Закон за локалната самоуправа 2002 [http://mls.gov.mk/images/laws/Zakon\\_za\\_lokalnata\\_samouprava.pdf](http://mls.gov.mk/images/laws/Zakon_za_lokalnata_samouprava.pdf)

19 Закон за финансирање на локалната самоуправа [https://finance.gov.mk/wp-content/uploads/2009/04/zakon\\_els.pdf](https://finance.gov.mk/wp-content/uploads/2009/04/zakon_els.pdf)

20 Закон за даноците на имот 2012 <http://www.ujp.gov.mk/e/regulativa/opis/26>

21 Закон за донации и спонзорства во јавните дејности 2015 <http://www.ujp.gov.mk/mk/regulativa/opis/68>

22 Закон за данокот на добивка 2019 <http://www.ujp.gov.mk/mk/regulativa/opis/295>

23 Стратегија за реформа на даночниот систем 2020-2023 [https://arhiva.finance.gov.mk/files/u3/%D0%94%D0%B0%D0%BD%D0%BE%D1%87%D0%BD%D0%B0\\_%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D1%98%D0%B02020\\_2023\\_1.pdf](https://arhiva.finance.gov.mk/files/u3/%D0%94%D0%B0%D0%BD%D0%BE%D1%87%D0%BD%D0%B0_%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D1%98%D0%B02020_2023_1.pdf)

### 3.4.1 Municipality funding

Pursuant to the Law on Local Self-Government (2002), **Article 11**, municipalities are funded via

- (1) Pursuant to the economic policy of the country, the municipality is funded from its own sources of income and other funding sources.
- (2) Municipality's own sources of income are **local taxes, compensations and fees stipulated by law**.
- (3) The municipality, within the frames stipulated by law, determines the amount of the tax rates and the amount of compensation and fees referred to in paragraph (2) of this Article.
- (4) The municipality is also funded from **state donations** and other sources of income pursuant to the law.
- (5) The municipality has the right to **get into debt on the national and foreign capital market pursuant to the law ("Law on Public Debt")**.
- (6) The municipality, within its competences, independently disposes with own sources of income.
- (7) Municipality sources of income should be provided upon the performance of its competences stipulated by law.
- (8) Municipality funds are stipulated by law.

**Own sources** of income for the municipalities (Article 4) are as follows:

Type of income	Impact investment potential
<b>OWN INCOME</b>	
<b>1. Local taxes</b>	
Property tax	Reduction upon particular result (reduction upon performance – RUP)
Inheritance and gift tax	RUP
Tax on real estate turnover	RUP
Other local taxes	RUP
<b>2. Local fees</b>	
Utility fees	RUP
Administrative fees	RUP
Other local fees	RUP
<b>3. Local compensations stipulated by law</b>	
Construction land arrangement compensation	RUP
Compensations from communal activity	RUP
Compensations for spatial and urban plans	RUP
Other local compensations	RUP
<b>4. Ownership income</b>	
Income from lease fee	RUP
Income from interest	RUP
Income from the sale of property which does not violate the public functions and competencies of municipalities	RUP

5. Income from donations	
6. Income from fines	RUP
7. Income from self-contribution	RUP
8. Other income stipulated by law	RUP or exemption upon realized activities

*Table 8 Own funding sources of the municipality*

**Shared income** with the central authority in the Republic of North Macedonia includes the following:

- Personal income tax (3%)
- Value added tax (4%);
- Special purpose subsidy;
- Capital subsidy;
- Block subsidy; and
- Subsidy for delegated competence.

### 3.4.2 From taxpayers – to taxpayers

Citizens of the Republic of North Macedonia belong to different municipalities according to their address of residence. They are **taxpayers towards the central and local authorities**. Taxpayers are legal entities as well – firms, companies located in a particular territory of the municipality. Corresponding sanctions are foreseen for the non-fulfilment of these obligations. Hence, taxes and sanctions may serve as a particular mechanisms for encouraging impact investments of municipalities. The municipality, by facilitating the obligations towards the citizens and companies, encourages co-investment by the citizens, while the municipality also makes impact investments.

The corresponding obligations of the citizens and companies towards the municipality are laid down in the Law on Property Tax, Law on Corporate Tax and Law on Sponsorships and Donations. The citizens are obliged to pay property tax, real estate turnover tax, inheritance and gift tax.

#### *Property tax – Article 4*

- (1) Property taxpayer is the **legal entity and natural person** owning the property.
- (2) Property taxpayer is the **legal entity and natural person** using the property, in cases when the owner is unknown or cannot be reached.
- (5) Property taxpayer is the **legal entity and natural person – user of the state or municipality-owned real estate**.

#### *Real estate turnover tax – Article 20*

- (1) *Real estate turnover taxpayer* is the legal entity and natural person - real estate seller.
- (2) Notwithstanding paragraph (1) of this Article, real estate turnover taxpayer can be the legal entity and natural person – real estate purchaser,



if agreed in the contract on real estate purchase that the tax is to be paid by the purchaser.

(3) In the event of real estate change, the taxpayer is the participant in the change of real estate of higher value.

(4) In the event when an ideal part of real estate ownership is assigned, the taxpayer is each owner in particular.

(5) In the event when the right to real estate ownership is assigned based on a *lifetime support contract*, the taxpayer is the real estate recipient i.e., his/her successors.

(6) In the event of sales of real estate in bankruptcy and execution procedure, as well as during the realization

of mortgage contracts, the taxpayer can be the real estate purchaser as well.

#### *Inheritance and gift tax – Article 10*

(1) Inheritance and gift tax is paid for *real estate* and the right to enjoying and using the real estate inherited by the successors i.e. gift recipients i.e. received pursuant to the Law on Inheritance i.e. Gift Agreement.

(2) Inheritance and gift tax is paid in *cash, monetary receivables, securities and other movable property*, if the market value of the Law on Property Taxes, inheritance i.e. gift agreement is higher than the amount of the one-year average salary in the Republic of Macedonia in the previous year according to the data from the State Statistical Office.

(3) The value of all gifts referred to in paragraph (2) of this Article of the same type, received within one calendar year, presents one tax basis.

(4) The municipal administration, administration of municipalities in the City of Skopje and the administration of the City of Skopje keeps records of the gift values based on which, at the end of the year, the gift recipient may be indebted with tax if he/she receives more gifts in the same year of the same type and value beyond the amount prescribed in paragraph (2) of this Article.

(5) The Minister of Finance prescribes the form, content and method of keeping the records referred to in paragraph (4) of this Article.

#### *Inheritance and gift tax – Article 11*

(1) Inheritance and gift taxpayer is a natural person and legal entity – resident of the Republic of Macedonia who inherits the property referred to in Article 10 of this Law, as well as the natural person and legal entity receiving property as a gift in the country and abroad.

(2) Inheritance and gift taxpayer is also a foreign natural person and legal entity – non-resident for the real estate and movable property they inherit i.e. receive as a gift on the territory of the Republic of Macedonia.

**With regards to the Sanctions based on these types of taxes, the citizens and companies will be sanctioned:**

- if the payment is not effectuated in time, the taxpayers have prescribed procedures at disposal for payment of tax debt i.e. tax liability.
- taxpayers **pay interest** for untimely tax payments.

From the existing obligations and reliefs or possibilities for encouraging the citizens, it can be concluded that the municipality has the biggest space for encouraging the citizens by modifying **property taxes, property purchase tax, inheritance and gift tax**. The municipality can reduce such taxes via these financial instruments in order to encourage a specific activity with an impact or introduce progression where it wants to discourage a certain behaviour.

**Utility fees, administrative fees, compensations for construction land arrangement**, communal activity or spatial urban plans also present a mechanism for impact investment and they could be invested according to the system of highest need or highest performance in particular parts of the municipality. Utility taxes can be reduced upon a specific achieved effect - citizen behaviour. The dimensioning of such measures would be more effective considering their specificity and ability for the citizens to quickly understand the benefits if such compensations are reduced or dully cancelled.

The same conclusions apply on a company level, whereby the companies will additionally pay **company name display fee, compensation for public space lease** which is an additional mechanism for impact investment.

Finally, there is the option to introduce local taxes and fees by the municipality for natural persons and legal entities as well.

With regards to **sanctions, interests for the delay with the payment of particular taxes and fines for non-payment or payment errors** apply to companies and citizens. Overlooking such interests and fines may be considered as a potential mechanism for encouraging particular positive behaviour of the citizens and companies which should be seen in the context of other existing laws from the positive corpus of legal regulation. However, such an approach is secondary, while incentive and positive models with reward and performance should be used as a primary approach instead of exemption from penalties or fines which may lead to moral hazard and contra effective behaviour.

**Public institutions can also use additional funding sources**<sup>24</sup>, including concession funds, grants, loans, blended capital.

**Concession funds** are financial products placed according to conditions more favourable than the ones at the market disposal. Concession funds can have different types, such as grants, loans, capital or guaranties and other measures for risk reduction, and any form can be compared via specific financial instruments.

For example, **grants** can be effectuated as capital expenses or operating subsidies, interest rate subsidies or periodical payments for achieved and reviewed results (i.e. payments based on results or funding products based on results).

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<sup>24</sup> Private Capital for Sustainable Development Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance. Evaluation Study 2016/2 DANIDA International Development Cooperation Denmark

**Loans** can be concessional or market (including interest rates and/or compensations), mandate, order, payment dynamic and/or security. The capital, by its nature and as an instrument of lower rank, can be used for funding a debt; however, it is deemed concessional only if the concession capital provider agrees to accept a lower benefit for the taken risk or purchase the capital at not so favourable price as the one offered by commercial investors.

**Blended finance** is one of the methods used for the placement of concession funds. Each instrument of concession funds can be blended. This happens when the non-concession resources are mixed with concession funds provisioned by public agencies for the mobilization of additional funds. In the past, the mix used by public grant creators, such as the European Union, mostly resulted in the mobilization of additional funds from international financial institutions and development banks and not so much from the private sector.

Nevertheless, the initiative for redesigning finances for OECD development defines the mix as an approach to the development funding which includes strategic use of development funding and philanthropic funds for mobilization of private capital.

As a summary of the aforementioned, the City of Skopje or other municipalities in the Republic of North Macedonia may use the following impact investment instruments (Table 9) in accordance with the valid legislation:

Instrument <sup>25</sup>	Description
Subsidy	To legal entity or natural person for encouraging particular behaviour
Grant	Reward-incentive-co-investment
Reward	Open call and competition
Donation	Donation without return, with the purpose to encourage particular additional investment
Tax credit	Exemption from the payment of part of tax or deferred payment of part of the tax
Beneficial tax rate	Reduction of the tax rate for the purpose of encouraging a particular investment
Tax exemption	Full exemption from the tax payment for certain taxpayers for the purpose of encouraging specific behaviour
Grants for companies	For encouraging a particular activity
Co-investment with companies	Capital with exit strategy
Beneficial loans for companies	Municipal guaranteed loans (in cooperation with Macedonian Development Bank, commercial banks, funds, international financial institutions)
Equity investment in companies	Investment with shares in companies with clear exit strategies
Modification of the regulation for encouraging investments	Facilitation of the regulation for the purpose of generating new types of investments
Modification of the regulation for allowing investments	Facilitation of the regulation for the purpose of allowing investments for which interest already exists

Table 9 II financial instruments/mechanisms

<sup>25</sup> Investing in Localism: How Local Authorities Can Provide Good Finance For Community Business Pagura, S. Pollock, June 2018 R. and Mussani, S. 2018

Examples for using different financial instruments from other investments at the local level include (Table 10):

Measure	Financial instrument/mechanism from the municipality	Impact
<p>Goodwin Development Trust – Social enterprise which employs 200 people and manages:</p> <p>Child centres</p> <p>Nurseries</p> <p>Conference centre</p> <p>Local college</p> <p>Facilities for disabled people</p> <p>Sports fields</p> <p>Youth and art centres</p> <p>Performance spaces</p> <p>Meeting halls</p> <p>Eco housing</p>	<p>On-lending</p> <p>Municipal loan with a fixed interest rate of 3.5%, 30 years payment deadline for funding construction works.</p> <p>The municipality funds the loan via capital from Public Contract Fund (on-lending).</p>	<p>40 new homes in the community.</p>
<p>Doddla Diary Purchase of fresh milk on a daily basis</p>	<p>Purchase and distribution of local products</p>	<p>220,000 farmers</p> <p>73% increase of annual income of the households</p>
<p>Cellulant – African mobile payment application – Application for subsidies for farmers obligated to purchase goods from local vendors</p> <p>(Municipality in cooperation with the ministry of agriculture)</p>	<p>Subsidies via an application.</p> <p>89% of the funds are lost due to corruption and poor management of funds.</p>	<p>Thanks to the application, 90% of the subsidies are provided to the right users.</p> <p>Impact measurement:</p> <p>Comparison of the farmers' earnings in the previous year with the year when using the subsidy application.</p>
<p>AlcoholEdu – application for reduction of alcohol consumption rate among young people</p>	<p>The municipality funds the application development.</p>	<p>Measurement: Reduction of fatal cases or injuries – evaluating the value of a life lost or injury.</p>
<p>Municipal real estate fund (Portsmouth City)</p> <p>Target investment in real estate generating profit for the municipality</p>	<p>Fund of £ 108 million for real estate.</p> <p>7.25 million – warehouse space.</p> <p>11.5 million – bed factory.</p> <p>16 million – in market.</p>	<p>Impact: Generating profit for basic services, but not for additional profit.</p> <p>The portfolio <b>generates £4.3 million</b> profit for investing in services, libraries, museums, weekly waste collection, patrols for homeless and homeless children.</p>

Table 10 II examples

Impact investments, according to the Social Finance Study, are implemented best when local authorities use the **existing partnerships with organizations with proven previous success and good financial management**. Investments by the local authorities are often upgraded according to existing capacities - property and capital they already possess, as fixed assets through which investment can be provided. Possession of own assets is a good indicator for a potential opportunity for local authority investment.<sup>26</sup>

If local self-government funding moves toward the larger keeping of income from local business activities, municipalities will be more encouraged to develop sustainable tax bases by attracting new businesses or supporting the growth of the existing business. Many councils already follow this strategy. More advanced municipalities create new business opportunities in the community via investments that may provide financial benefit, additional business activity rates and ensure social benefit or profit from the community instead of typical annual expenses for the revenues.

In order to achieve joint investment of the municipality with actors from the community, the following conditions should be met:

- Strong existing partnership;
- Good understanding of the conditions necessary for successful investment;
- Clear financial and social records;
- Joint mission.

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<sup>26</sup> Investing in Localism: How Local Authorities Can Provide Good Finance For Community Business Pagura, S. Pollock, June 2018 R. and Mussani, S. 2018

### 3.4.3 Municipal budget – tool for impact investments

The municipal budget is the initial resource for the allocation of impact investment funds. There is a liquid budget in the City of Skopje generating a budget surplus in the last ten years. The analysis of the realized budget for 2017, 2018 and 2019 and the plan for 2020 show that the city has a **small but growing trend compared to tax income fulfilment**.

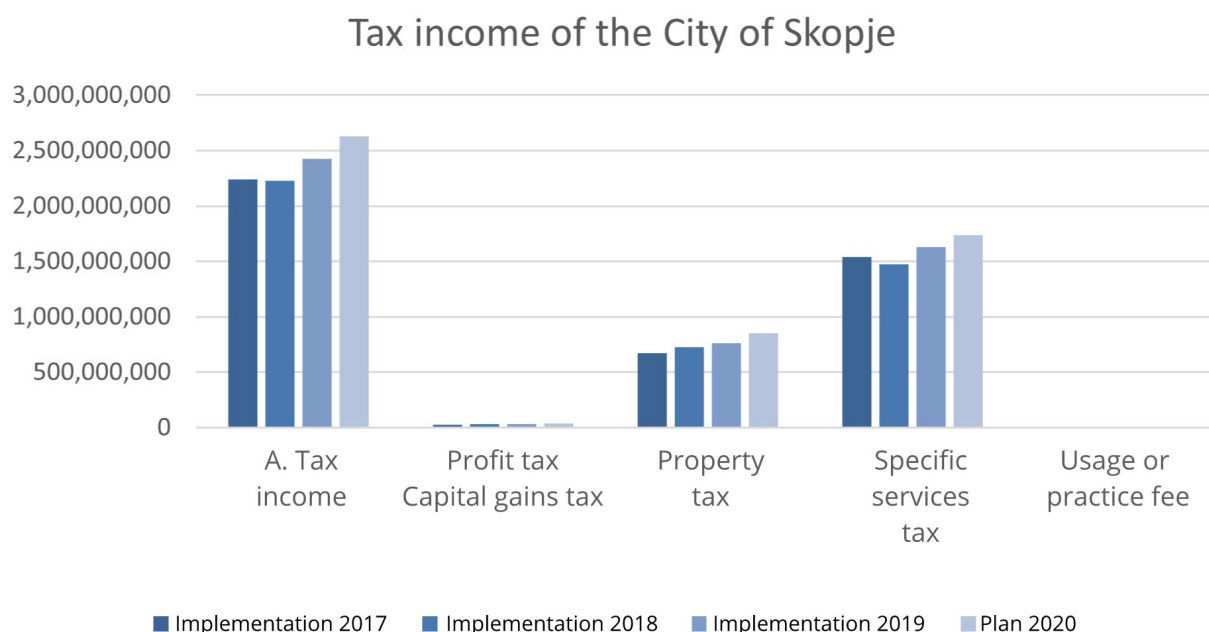


Table 11 Tax income of the City of Skopje 2017-2020

The same upward trend can be seen in non-tax income.

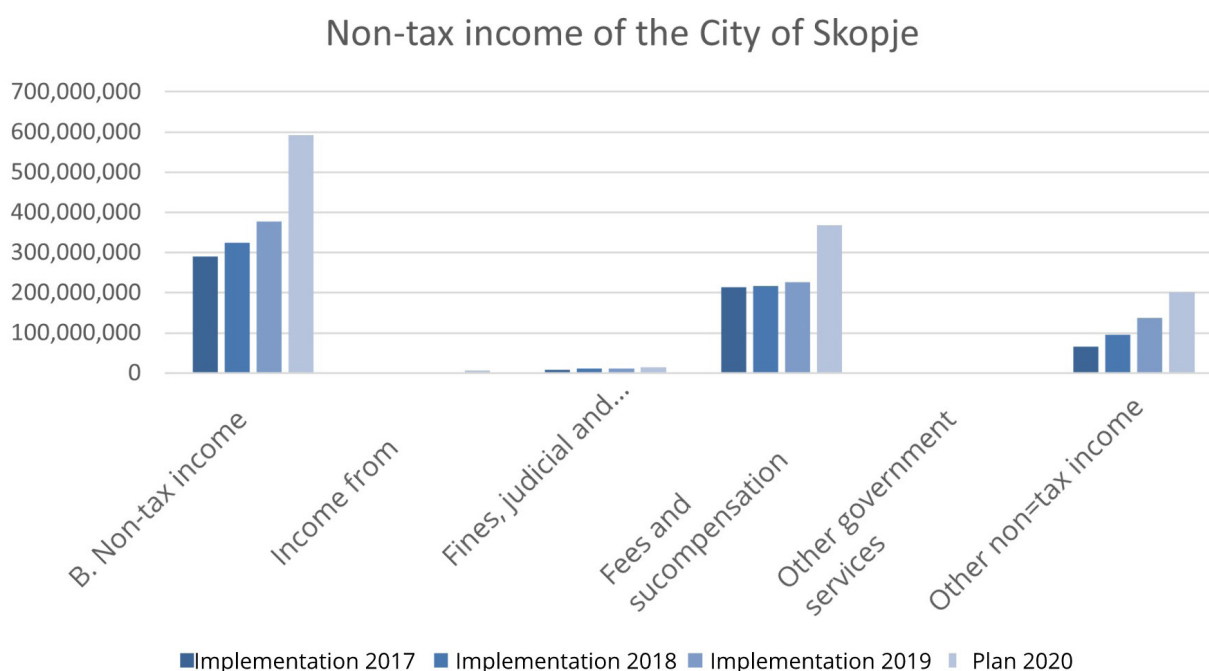
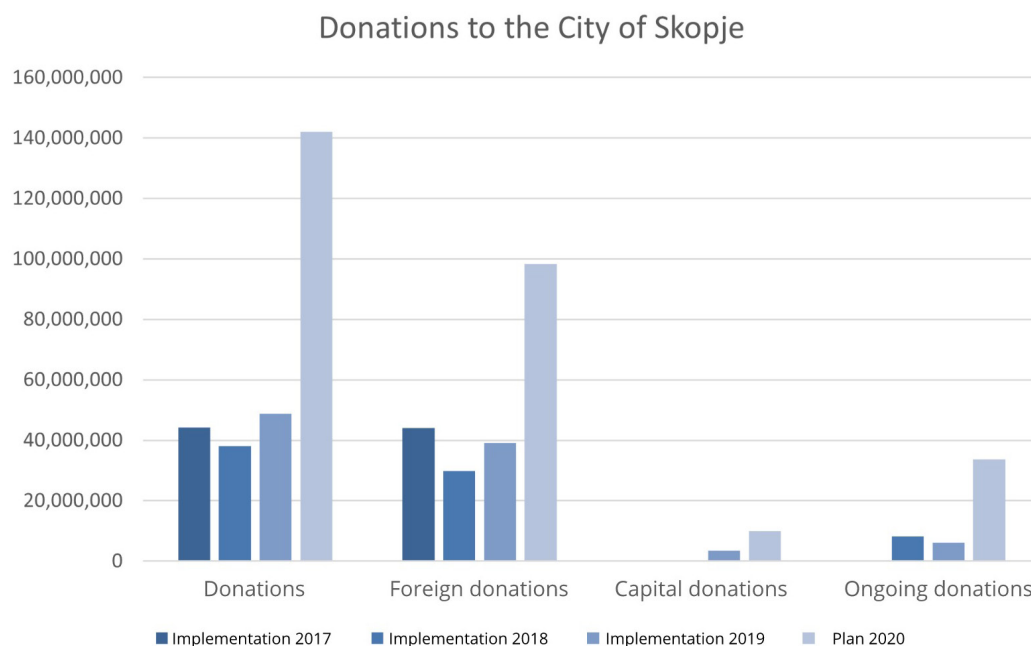


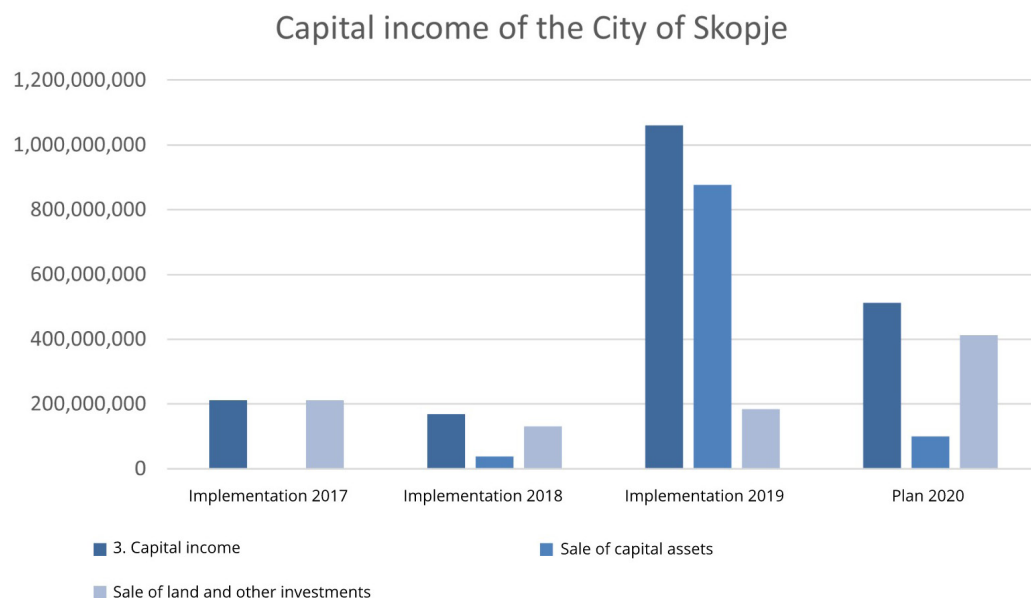
Table 12 Non-tax income of the City of Skopje 2017-2020

With regards to donations, we notice a variation in foreign donations, a decrease in current donations and a low level of capital donations.



*Table 13 Donations to the City of Skopje 2017-2020*

With regards to capital income, we notice the largest realization in 2019 from the sales of assets. Due to the nature of this type of revenue - one-off sales of land or facilities, the expectations for 2020 are already reduced.



*Table 14 Capital income of the City of Skopje 2017-2020*

With regards to the current expenditures, the City of Skopje spends the most on ongoing maintenance and contractual services, and there is a generally mild increase in ongoing expenditures.

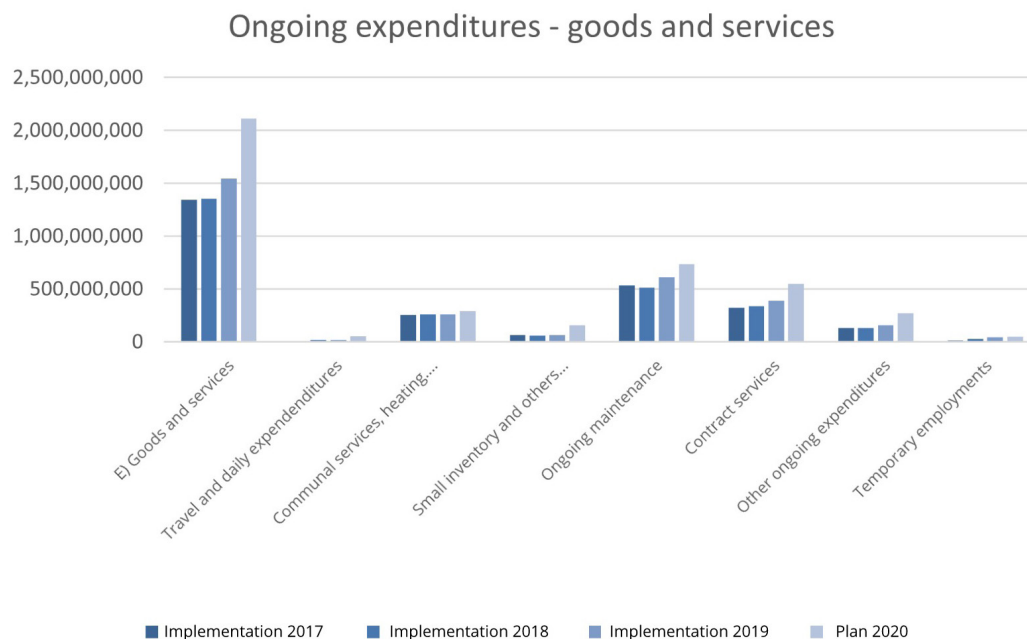


Table 15 Ongoing expenditures City of Skopje 2017 - 2020

Most of the subsidies of the City of Skopje are aimed at public enterprises, thus leaving little space for subsidies towards NGOs or other activities where the City of Skopje can distribute grants.

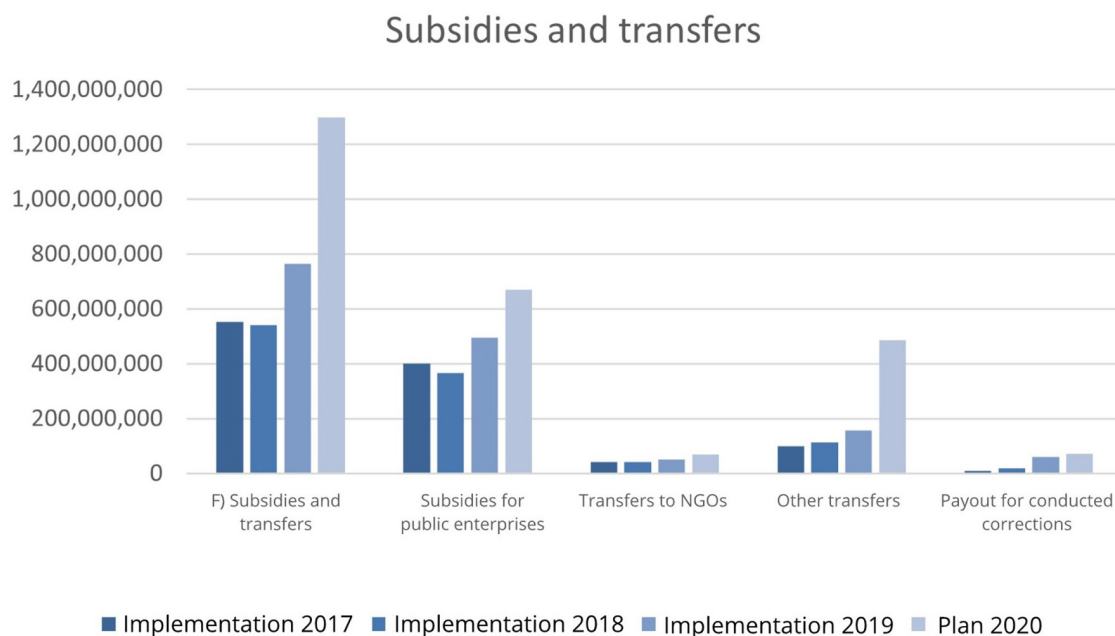
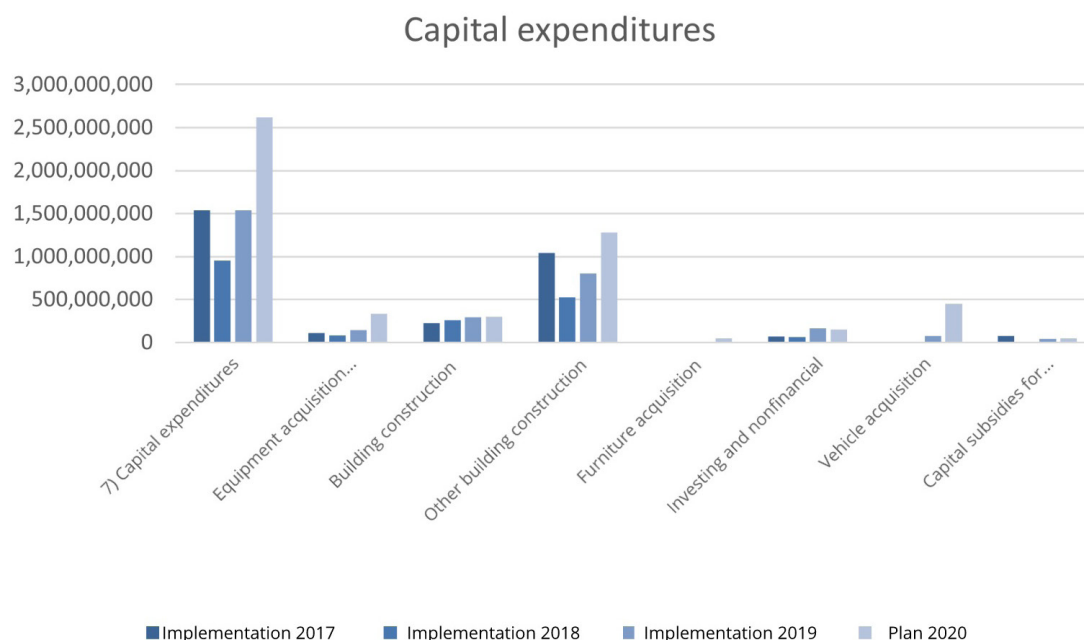


Table 16 Subsidies and transfers City of Skopje 2017-2020



Finally, capital expenditures are the most important for one municipality. In the City of Skopje we notice that the most prevalent category is the category of **other construction facilities**, which is the largest category and usually includes asphalt paving and road repair. On the other hand, we notice that the level of capital subsidies for public enterprises is low, which implies that the **subsidies granted to public enterprises are aimed at current operating i.e. non-productive expenses**.



*Table 17 Capital expenditures of the City of Skopje 2017-2020*

The conclusion from this simple analysis of the budget of the City of Skopje implies that the largest impact investment potential is related to:

- **optimizing subsidies** towards public enterprises with a specific performance component;
- **increasing transfers towards NGOs** and companies for specific impact investments;
- **developing a fund for business environment development** which is not at all present at the moment;
- **developing a city platform for collective funding** (crowdfunding) for the City of Skopje;
- **utilizing the property tax and property purchase tax** to encourage certain behaviours by the citizens and companies;
- **optimizing expenses for current maintenance** via models for cooperation with companies, universities and commercialization of some of these activities;
- **capital expenditures that follow specific criteria** in order to make a bigger impact (e.g. emission reduction);
- **donation events** with specific goals.

### 3.4.4 Financial risks for investments

Finally, in order to choose the financial instrument, the financial risk and the strategies for surpassing such risk should be evaluated. The types of financial risks are presented in Table 18 below.

Type of risk	Risk description	Mitigation strategies	Examples
CAPITAL RISK	<p>Capital risk is a risk for the investor to lose any part of the original amount of the investment in actual or nominal aspects.</p> <p>Investors are often mainly worried about losing the capital amount (risk of decline), then the potential for return (risk for generation).</p> <p>Some of them require a product with a market rate (lower risk with lower proportional profit).</p> <p>Others behave as impact investors (ready to partially or fully give up all profit in favour of bigger impact), but only if part of their capital amount is protected.</p>	<p>Minimum protection.</p> <p>Multi-layered investment.</p> <p>Institutional guarantees or blended capital.</p> <p>Owners of assets can also ask product developers to consider the negative protection of the discrete product elements, for example factoring in the price of products to mitigate political risk or currency risk.</p>	<p>For example, the governments can play a catalyst role on a local, regional, national and even on an international level. For example, USAID has a partnership with Acumen to provide a 50% loan guarantee to local banks which can be then loaned to investors from Acumen.</p> <p>With such protection from an unfavourable position, local banks are included in impact investments which are deemed too risky, while USAID share in the risk exempts one part of Acumen own capital for higher risk investments.</p> <p><a href="http://www.acumen.org">www.acumen.org</a></p> <p>For example, foundations usually rely on their investment strategies and believe that they can return their capital from which they will continue to generate the income necessary for grants.</p> <p>Some of the larger banks test their models with their own funds in small impact investments, taking into account that, in order for such instruments to be offered in the future, it is necessary to demonstrate that the invested capital is protected.</p>

INVESTMENT LEAVING RISK	<p>A large number of impact investments are structured as private capital or debtor structures impeding the sales or transfer of funds.</p> <p>The "Patient capital" principle claims that the building of successful business models for social impact may demand investors to wait for the investment return.</p> <p>A large number of investors formally require the option for sales of securities, even if they decide not to use such right.</p> <p>At the same time, investors may insist on ensuring product liquidity before placing it on the market.</p>	<p><b>LIQUIDITY</b></p> <p>The presence of a dynamic secondary market for impact investing may convince investors to sell securities.</p> <p>Governments can develop the secondary market and work with mediators in order to help the development of innovative schemes to guarantee liquidity.</p> <p>Governments can request pro-bono advice from international financial institutions and private banks for the development of secondary markets.</p> <p>A municipality can request pro-bono advice from banks for developing an impact investment instrument.</p>	<p>For example, Etex offers a non-profit mediation service when trading with shares in ethical business. Providing information for corresponding investment opportunities for its members, as well as a platform for developing a personal portfolio of shares and bonds. The initiative specifies every option with detailed information (including financial records and accompanying risks, as well as social impact performances), thus ensuring bigger transparency of the impact of investment products and encouraging bigger liquidity via the secondary market. <a href="http://www.ethex.org.uk">www.ethex.org.uk</a></p> <p>Imprint, a registered investment advisor strictly focused on impact investments, often works in partnership with the traditional advisor of the client in order to design platforms for impact investing through different capital categories. For example, a family with a great interest in impact investment and a specific geographical focus in Baltimore contacted Imprint. Working together with the existing manager of the individual's assets, the client portfolio developed into impact investment. <a href="http://www.imprintcap.com">www.imprintcap.com</a></p> <p>Worthstone in Great Britain works pro bono on raising awareness for impact investing in the country. <a href="http://www.worthstone.co.uk">www.worthstone.co.uk</a></p>
TRANSACTION EXPENSES RISK	<p>Every investment entails transaction expenses (time and money spent on proper care, bargain structuring and continuous asset monitoring).</p> <p>The smaller the investment the bigger the risk such expenses to be disproportional to the potential profit, and therefore discourage investments.</p>	<p><b>Creation of investment portfolio</b></p> <p>Transaction expenses are reduced and dispersed by creating an impact investment portfolio.</p>	<p>For example, Finethic micro-funding SCA, SICAV-SIF sub fund is an investment in micro-funding (MIV) offering diverse instruments per country, region, institution and investment size.</p> <p><a href="http://www.fundo.ch/en">www.fundo.ch/en</a></p>

UNMEASURABLE RISK	<p>The economist Frank Knight defined risk as "measurable". In other words, risk is something that can be measured (historical standard deviation of profit or instability, the most frequent measurement approach used on the stock exchange). When investors reflect on an investment product, they consider different data, such as historical performances (for the product and the team), regulation, current and predictable events and behaviour of people in order to evaluate (sometimes precisely and sometimes roughly) how to invest over time.</p> <p>What the investor cannot measure is the probability of occurrence of completely new risk factors.</p>	<p><b>Positioning factors</b></p> <p>The government may conduct pre-screening which will help demystify impact investments and allow investors to be aware of where to position the investment.</p> <p><b>TECHNICAL ASSISTANCE</b></p> <p>Governments are well-positioned to provide technical assistance - for enterprises and investment mediators, such as fund managers. In order to assist the solving of investors' issues related to the availability of suitable opportunities for investing in an emerging market, the government is especially well-positioned to provide technical assistance prior to the investing (also known as "investment readiness funding").</p>	<p>For example, SVX in Canada, led by the Impact Centre in Toronto and supported by Ontario Government, was established as a private investment platform for connecting potential impact sectors, funds and investors.</p> <p>In Asia, Impact Investment Exchange (Asia) (IIX) launched the first private platform for placement in Asia, dedicated to connecting sophisticated impact investors with a selected group of reviewed social enterprises. Among other things, this was supported by the Singapore Economic Development Board, a governmental agency in Singapore. <a href="http://www.asiaiix.com">www.asiaiix.com</a>; <a href="http://www.impactinvesting.marsdd.com">www.impactinvesting.marsdd.com</a></p>
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*Table 18 Types of financial risks*

Identification, evaluation and mitigation of risks is not a single task, but an ongoing learning process requiring re-evaluation of risks during the project development (or policy).

In order to evaluate impact risks, enterprises and investors should consider the following:

- risk occurrence probability;
- consequences to the affected parties in the event of risk occurrence.

Municipalities can classify these risks as "low", "medium" or "high". A highly possible and serious risk is classified as "high", while a highly improbable risk and a risk that is not serious is classified as "low".

### Risk addressing example:

The goal of the Education Outcomes Fund (EOF) for Africa and the Middle East, launched in 2019, is to improve the achievements in education by increasing proven and innovative solutions for education. EOF intends to cooperate with impact investors, philanthropic organizations and agencies in assisting intervention funding through multiple countries on all education levels. EOF recognized early on the need to understand exposure to the risk of impact in order to ensure the success of the initiative. For such purpose, EOF implemented a four-phase approach to risk identification, evaluation and mitigation:

- EOF, by using the education database of evidence and expert interviews, compiled a comprehensive list of risks it may face in every phase of the initiative – design, implementation, monitoring and evaluation;
- After identifying a total of 64 risks that may endanger the initiative impact, EOF ranked the risks according to their probability and severity.
- Based on such findings, EOF reviewed the research in order to fill in the gaps in data and evaluate risks more precisely.
- The team organized a list of existing and new procedures which may mitigate the risks.

From the total 64 identified risks, EOF revealed that almost half refer to the participation of the affected parties and unexpected types of risks for the impact. The analysis also showed that a significant part thereof can be mitigated by using preventive measures. Even though EOF recognizes risk forecast limitations, the exercise contributed greatly to EOF by allowing the affected parties and impact investors to establish a risk mitigation plan.

### 3.5 Impact investment quantitative tool design

Quantitative tools assist investors to translate qualitative and quantitative information on potential investors into standardized, numerical results which may be easily compared through the portfolio, as well as all potential investment opportunities. In order to develop due diligence tools for quantitative impact, the investors choose relevant indicators based on their investment strategy and impact topics.

Afterwards, a tool is assigned to each indicator to reflect the investor priorities. Quantitative due diligence tools provide the expected results from the impact which can be used to inform investment decisions. The implementation of new systems or processes – including formal attention and proper attention – may entail significant time and resources, and therefore it is important for the investors to choose the most appropriate approach considering their internal capacity and priorities.

A quantitative tool used for the analysis of each individual project and the development of an impact investment portfolio by prioritizing the investments is enclosed in this guide. The tool is thoroughly elaborated hereinafter.

## 4. Instructions for using the Impact Investment Tool

The Impact Investment Tool consists of three parts:

1. General part: Investment description and funding.
2. Impact evaluation:  
Strategic fit, investment return, impact, investor capacity and risks.
3. Scoring – there are two scoring types.
4. Project prioritization.

### 4.1 Investment description

The impact investment is described in detail based on:

- investment name;
- sector;
- investment duration;
- responsible sector - sector primarily competent for the investment;
- intervention level;
- baseline - description of the current situation; primarily with quantitative indicators; if no option for identifying quantitative indicators exists;
- expected result – how municipality defines the expected result;
- KPIs – they serve as a basis, but is not the same as impact analysis, which follows in further dimensions;
- monitoring frequency – how often is intervention success measured.

DESCRIPTION							
Agriculture, Energy, Health, Food, Education, Water / Sewerage, Housing, Financial Services / Micro Funding, Other (explain, specify):	How long will the investment period last	Municipal sector/unit or intersectoral group leading the project and responsible person	National, regional, municipal, intermunicipal, settlement, street, households	Definition of the problem the investment tries to address	How the municipality defines the desired result from the intervention	How is the success measured (indicators)	Quarterly, Semi-annually, Annually, Biannually
Sector	Duration	Responsible sector/unit	Intervention level	Baseline	Expected result	KPIs	Supervision frequency

## 4.2 Funding

- **Funding from exact budget item** - this indicator is essential for showing where a particular investment is funded from and where the investment funds would return to.
- **Financial instrument** – here it is necessary to describe which instrument is used to fund the investment.
- **Total investment** - total funding by the municipality.
- **Investment per one unit** – for example per km of cycling path, company subsidy, citizen subsidy.
- **Partner type** – here the municipality indicates partners in the investment having a primarily financial share. Should the co-investor contribute otherwise – material, expertise, free use of space - it is quantified and financial value is added thereto.

FUNDING					
	Tax relief, Grants, Tax credits, Guarantees, Co-funding, Structural funds, Matched funds, Thematic bonds, Beneficial loans, Equity	MKD	MKD	Citizen, Company, Donor, Bank, NGO, International organization, Central authority, Fund	/
<b>Funding from exact budget item</b>	<b>Financial instrument</b>	<b>Total municipality investment</b>	<b>Municipality investment per unit</b>	<b>Partner type (co-investor)</b>	<b>Expected co-funding</b>



## 4.3 Strategic fit

Strategic fit contains three subdimensions:

- **Relation with the municipality policy** – here the relation of the investment with the municipality policies is evaluated, including strategies, action plans, annual programmes. If the investment is related to one policy/strategy it gets one point, if related to 2-4 it gets 2 points and if related to more than 4 strategic documents/policies it gets 2 points.
- **Relation with the municipality strategic priorities** – here one can see the relation of the investment with the currently adopted strategic priorities of the municipality in an actual strategic plan. If the municipality does not have any actual strategic priorities, the last available strategic priorities of the municipality are evaluated. The investment gets 1 point if related to 1 strategic document, 2 points if related to 2-4 strategic priorities and high level if related to over 4 priorities.
- **Relation with national strategy** – since municipalities mainly depend on the transfer of central authority, a bigger fit with national strategies creates bigger space for the municipality to get co-funding for a specific investment from the state. This is especially important for capital investments. By principle, the investment for this subdimension is scored based on the previous two indicators.

STRATEGIC FIT		
Relation with the municipality policy	Relation with the municipality strategic priority	Relation with the national strategy
1 – insufficient – not related with any policy/strategy; 2 – sufficient – related with one policy/strategy; 3 – good – related with 2 policies/strategies; 4 – very good – related with 3 policies/strategies; 5 – excellent – related with more than 4 policies/strategies;	1 – insufficient – not related with any strategic priority; 2 – sufficient – related with one strategic priority; 3 – good – related with 2 strategic priorities; 4 – very good – related with 3 strategic priorities; 5 – excellent – related with more than 4 strategic priorities;	1 – insufficient – not related with any strategic priority; 2 – sufficient – related with one strategic priority; 3 – good – related with 2 strategic priorities; 4 – very good – related with 3 strategic priorities; 5 – excellent – related with more than 4 strategic priorities;
0 None 1 Low - 1 2 Medium 2-4 3 High - over 4	0 None 1 Low - 1 2 Medium 2-4 3 High - over 4	0 None 1 Low - 1 2 Medium 2-4 3 High - over 4

## 4.4 Impact

The impact dimension is a key dimension for evaluating the impact which can be achieved with a particular investment. It is used in the project prioritization phase, covering the investment transformation potential.

B. IMPACT				
Green impact	Contribution to SDGs	Impact range	Impact effect relative to the initial scenario	Effect duration
1 – insufficient – no green impact; 2 – sufficient; 3 – good; 4 – very good; 5 – excellent – high level of green impact;	1 – insufficient – not related with SDGs; 2 – sufficient - related with one SDG; 3 – good - related with 2-4 SDGs; 4 – very good - related with 5-10 SDGs; 5 – excellent - related with more than 10 SDGs;	1 – insufficient – no impact larger than several individuals; 2 – sufficient – several households; 3 – good - several households, street, neighbourhood; 4 – very good – several neighbourhoods; 5 – excellent – several municipalities or the entire City – systematic impact;	1 – insufficient – no effect; 2 – sufficient; 3 – good; 4 – very good; 5 – excellent – large effect;	1 – insufficient – effect less than one year; 2 – sufficient – effect up to one year; 3 – good – effect of 1-2 years; 4 – very good – effect of 3-4 years; 5 – excellent – effect longer than 4 years;
0 None 1 Low 2 Medium 3 High	0 None 1 Low - 1-2 goals 2 Medium - 2-10 goals 3 High - 10-17 goals	0 None 1 Low – several citizens, household or several households; 2 Medium – particular community; 3 High – systematic solution;	0 None 1 Low 2 Medium 3 High	1 - less than 1 year 2 - 1-3 years short-term; 3 - 3-5 years long-term;

- **Green impact** – This dimension is included for the clear need and trend of the public and private sector for transition to green technologies contributing to a cleaner environment and adaptation to and mitigation of climate changes.  
The precise scoring of this dimension depends on the expert evaluation by the employees in the environmental sector or proper external expertise.
- **Contribution to SDGs** – Most institutions incorporate the UN Global Sustainable Development Goals in their policies and budget allocation. The impact and contribution of the municipality to the SDG agenda can be seen from the number of SDGs one investment contributes to. The high impact in this dimension may additionally help the municipality to mobilize development means.  
Finally, the evaluation of investments with this dimension shows that the municipality is building an investment portfolio contributing to global efforts and opening space for additional partnerships.  
An investment gets 0 if not related to any SDGs, 1 if related to 1-2 goals, 2 or medium relation if related to 3-10 goals and 3 or higher if related to more than 10 sustainable development goals.
- **Impact range** – this indicator shows to what level the investment affects a larger number of users. The impact can be limited to a small number of citizens (household, multiple households) scored with 1 point; particular community (cyclists, socially endangered citizens, homeless people) - neighbourhood, settlement scored with 2 points and finally, the investment may include all citizens of the municipality, and beyond which presents systematic impact for which the investment gets 3 points.
- **Effect size** – this indicator is seen compared to the basic scenario or initial position targeted by a particular investment. With regards to this initial position, the scoring consists of expert evaluation and/or deliberate evaluation on whether the wanted effect from the investment has low, medium or high effect compared to the initial position. This indicator is qualitative, although it can be based on quantitative data.  
For example, if grants are offered to certain companies for innovations, the initial status, where a certain number of start-ups exist, can be used as a measure. If the investment is aimed at doubling or tripling the number of start-ups after the offered support, the coders reach a particular level of wanted effect via discussion and consideration of the context.
- **Effect duration** – each investment has the goal to leave a long-term effect. If the effect duration is estimated to be less than 1 year the investment gets 1 point, 1-3 years 2 points and 3-5 years 3 points.

## 4.5 Investment return

C. INVESTMENT RETURN		
Reduction of the cost of citizens (users)	Expected return (profit margin) in the municipal budget	Expected community impact – co-benefits
1 – insufficient – the expense of the citizens does not reduce; 2 – sufficient – small reduction of the expense of the citizens – 1-3%; 3 – good – medium reduction of the expense of the citizens 4-7%; 4 – very good – significant reduction of the expense of the citizens 8-10%; 5 – excellent – high reduction of the expense of the citizens over 10%;	1 – insufficient – no investment return; 2 – sufficient – 1-3% return; 3 – good – 4-7% return; 4 – very good – 8-10% return; 5 – excellent – over 10% return.	1 – insufficient 2 – sufficient 3 – good 4 – very good 5 – excellent
0 None 0% 1 Low 1-5% 2 Medium 5-10% 3 High - over 10%	0 None 0% 1 Low 1-5% 2 Medium 5-10% 3 High - over 10%	0 None 1 Low 2 Medium 3 High

Investment return is measured via the return for the citizens i.e. reduction of their expenses or expected benefits and co-benefits for the community, as well as the investment financial return.

- **Reduction of the expense of the citizens** is scored with 0 if there is no reduction of expenses, 1 point if expenses reduce by 5%, 2 points if expenses reduce 5-10% and 3 points if expenses reduce over 10%.
- **Expected investment return** for the municipality is scored 0 if no financial return is expected, 1 point if return with 1-5% margin is expected, 2 points if return with 5-10% margin is expected and 3 points for return over 10%.
- **Expected co-benefits** – this indicator refers to the investment return in sense of co-benefits or benefits which are not the primary investment goal. The indicator is qualitative i.e. depends on the expert evaluation; however, it is recommended the scoring be based on measurable indicators.  
For example, if a particular investment of the municipality in funding green technologies of enterprises is expected to create a certain number of new jobs or increase the innovative activity of the companies for a specific percentage, then these co-benefits are quantified and are subject to coder evaluation.

## 4.6 Investor capacity

D. INVESTOR CAPACITY				
Municipality stability for II realization	Results in this or similar area	Top management dedication	Sector dedication	Expected user dedication
1 – insufficient 2 – sufficient 3 - good 4 – very good 5 - excellent	1 – insufficient 2 – sufficient 3 - good 4 – very good 5 - excellent	1 – insufficient 2 – sufficient 3 - good 4 – very good 5 - excellent	1 – insufficient 2 – sufficient 3 - good 4 – very good 5 - excellent	1 – insufficient 2 – sufficient 3 - good 4 – very good 5 - excellent
0 None 1 Low 2 Medium 3 High	0 No dedication; 1 Low dedication level; 2 Medium dedication level; 3 High dedication level	0 No dedication; 1 Low dedication level; 2 Medium dedication level; 3 High dedication level	0 No dedication; 1 Low dedication level; 2 Medium dedication level; 3 High dedication level	0 No dedication; 1 Low dedication level; 2 Medium dedication level; 3 High dedication level

The successful realization of a particular investment mainly depends on the investor's, in this case, municipality/city, capacity. If the municipality or the city and the line sectors are highly dedicated, as well as the users and the private sector, the probability that the investment would be implemented and afterwards generate the planned impact and return drastically increases. Therefore, this dimension not only serves to check the capacity for implementation of particular impact investments, but it also serves as a key dimension when developing an impact investment portfolio, and it shows the organizational capacity of the investor proposed as one of the key dimensions.

- **Municipality independence for investment realization** – scoring by the top management and sectoral representatives for a particular investment i.e. from 0 – no independent capacity to 3 – high capacity level for independent implementation of the investment.
- **Top management dedication** – scoring by the top management and sectoral representatives for particular investment i.e. from 0 – no independent capacity to 3 – high capacity level for independent implementation of the investment.
- **Sector dedication** – scoring by the top management and sectoral representatives for particular investment i.e. from 0 – no independent capacity to 3 – high capacity level for independent implementation of the investment.
- **Expected user dedication** – scoring by the top management, sectoral representatives, association and NGOs representatives for particular investment i.e. from 0 – no independent capacity to 3 – high capacity level for independent implementation of the investment.
- **Expected private sector dedication** – scoring by the top management, sectoral representatives and private sector representatives for particular investment i.e. from 0 – no independent capacity to 3 – high capacity level for independent implementation of the investment.

## 4.7 Risk level

E. RISK LEVEL	
Financial risks	Impact risks
-1 – insufficient – almost no financial risk; -2 – low - 1 type of financial risk; -3 – medium - 2 types of financial risk; -4 – high - 3 types of financial risk; -5 – very high - 4 types of financial risk	-1 – insufficient – almost no impact risk; -2 – low - 1 type of impact risk; -3 – medium - 2 types of impact risk; -4 – high - 3 types of impact risk; -5 – very high - 4 types of impact risk
0 None - 1 Low - 1 type of risk - 2 Medium - 2 types of risk - 3 High - 3 or more types of risk (Capital risk, investment exit risk, transaction expenses risk, unmeasurable risk)	0 None -1 Low -2 Medium -3 High

The awareness of financial risks prior to the commencement with the realization of a particular impact investment is key to building strategies for surpassing and addressing the risks when they occur. However, if the investment is subject to a higher level of financial risk, the investor should be aware that the investment may prove to be financially unprofitable.

When it comes to investments of the public sector, public goods are often financially unprofitable; however, it is necessary for them to be provided to the end-users – citizens. Even in such cases, the investor can evaluate how a particular investment turns from an entirely financially unprofitable into a highly profitable investment and succeeds to improve a particular service.

Financial risks identified by the largest number of investment funds and consulting agencies include capital risk, complicated investment exit risk, transaction expenses risk and unmeasurable risk.

In order to develop an impact investment portfolio and gain aggregate points, the scores for the level of risk will be expressed in negative values.

- **Financial risk** – if a particular investment is not subject to risk it gets 0 points in this dimension. If a particular investment is subject to 1 type of risk it gets -1 point, from 2-3 types of risk it gets -2 points and for 4 types of risk it gets -3 points which means a high-risk investment.
- **Impact risks** – include risk anticipation which may contribute to achieving the wanted impact. These risks depend on the context. For example, a particular investment may not be easily accepted by the citizens or the private sector. In this case, the evaluation is qualitative. If there is no risk for impact, the investment gets -1 point, if there are 2-3 types of impact risk the investment gets -2 points and if there are 4 or more risks the investment gets -3 points which is the highest risk level for the investment.

## 4.8 Result calibration

After the coding/scoring of each sub-dimension of impact investments, the principle of arithmetic mean is applied

	SCORING per dimensions					
Investment	A. Strategic fit	B. Impact	C. Investment return	D. Investor capacity	E. Risk level	Investment coefficient/score
1	2,67	4,00	3,00	3,25	-1,50	2,28
2	2,67	3,80	2,00	3,75	-2,50	1,94
3	2,67	3,40	1,00	3,00	-1,50	1,71

*Chart 5 Scoring – median value*

Once the sub-dimensions are coded, the average value is used to get the scoring per dimension and afterwards the average value is used to get the scoring of a particular impact investment.

Once impact investments are scored, they can be ranked per particular dimensions, total points or can be reviewed by the sectors.

## 4.9 Investment prioritization and development of impact investment portfolio

In order to prioritize impact investments, the City should develop a prioritization frame. Apart from simple ranking according to investments having the highest score - coefficient, the previous quantitative tool creates a basis for the division of investments in two axes - dimensions depending on the organizational capacity and transformation potential which afterwards categorizes investments according to their attractiveness.

**The first axis, Y-axis/dimension** refers to the **quality of the organization, investor** or partner in the investment, in order to evaluate the feasibility and success of a particular investment. Investing in or with organizations of higher quality results in higher efficiency and effectiveness of invested funds. How one organization manages its system and resources and its clarity in the mission are the key components for evaluation of the organizational effectiveness.

In order to evaluate organizational competence, we propose three basic criteria for differentiating organizational effectiveness:

- leadership and management;
- existence of evidence-based results;
- financial stability.

**Leadership and management** include the mayor, key leadership team and board and their managerial experience.

**Existence of evidence-based results** means that the organization can enclose evidence for former impact in the relevant projects.

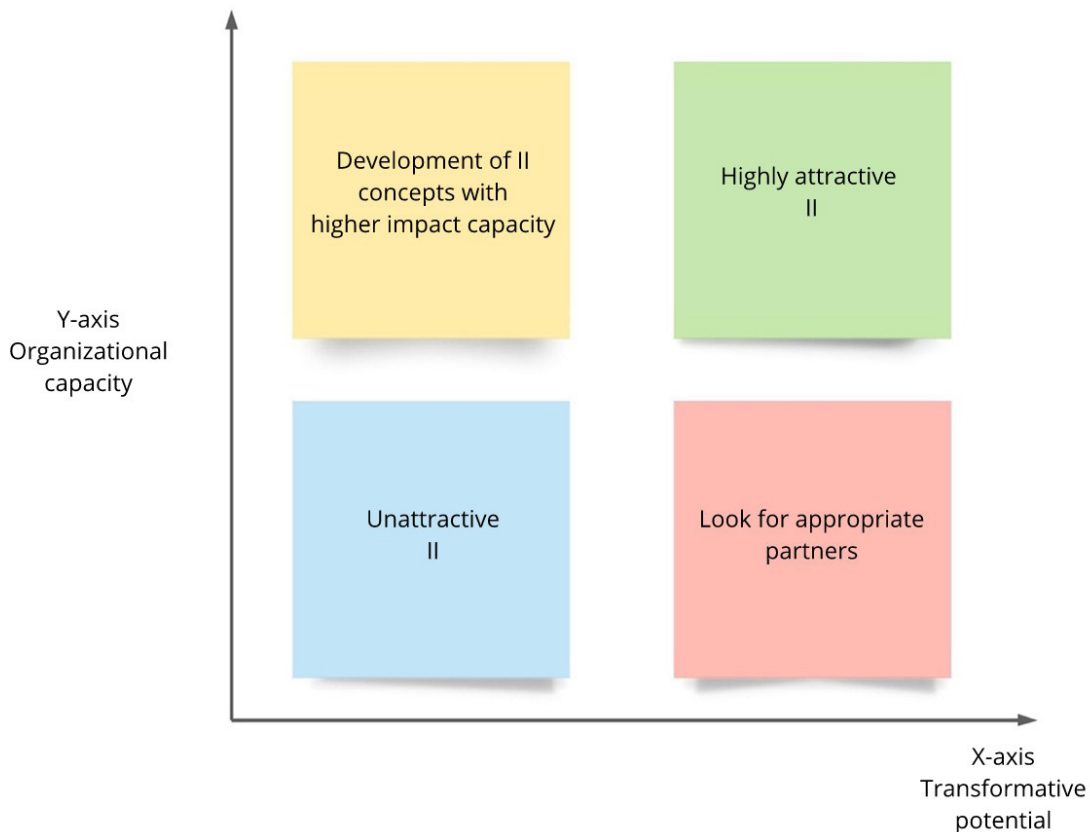
**Financial stability** means diverse and constant sources of income and expense structure management in a manner which promotes stability in the organization.

Even though the low grade of the Y-axis may imply improper organization which is not yet mature for investment or partnership, it can also imply a young or start-up organization with a promising future where investments can be made for building the capacities.

As an alternative, the investor capacity dimension can be used in this process as the Y-axis.

**The second axis, the X-axis** marks how much the change of the expected investment is incremental or transformative. The transformative character of the investment is evaluated via the scope and depth of the impact, as well as investment profitability or the possibility to generate investment return.





*Chart 6 II prioritization*

For the transformation potential of the investment, we take two dimensions - impact and investment return and their average value. With regards to the two dimensions, each particular sub-dimension is evaluated with a high/medium/low level and afterwards, the average value is taken for positioning the investment on a particular axis.

Once the investments are mapped in this coordinate system, the City can see which investments are:

- highly attractive – big transformation potential and the ability for implementation;
- medium attractive investments – the transformation potential is smaller with these investments and the organization has the capacity, and therefore it is recommended for them to be redefined.
- investments in need of strong partnership – these investments have big transformation potential; however, the municipality/city cannot implement them without strong organizational support.
- unattractive investments – these investments do not bring on transformation and the organization is not ready and does not have the capacity to implement them. These investments can be removed from the portfolio, or it could be elaborated why such investments appear and whether they have the potential to be redesigned.

## 5. Conclusion

Impact investments continue to garner attention from both public and private investors. Especially local self-governments - municipalities can lead the public sector in impact investments. Municipal authorities are in direct communication with the citizens, recognize their needs and are able to meet them in a more flexible and creative manner. By creating an impact investment portfolio model, we give a specific proposal for the City of Skopje to be the pioneer in impact investment trends. This model is suitable for the remaining municipalities in the Republic of North Macedonia and beyond. The impact investment portfolio is mainly focused on the potential for the transformative impact of the investment, financial profitability and return to the local budget, contribution to the sustainable development goals, investor capacity and the risk level of the investment implementation.

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