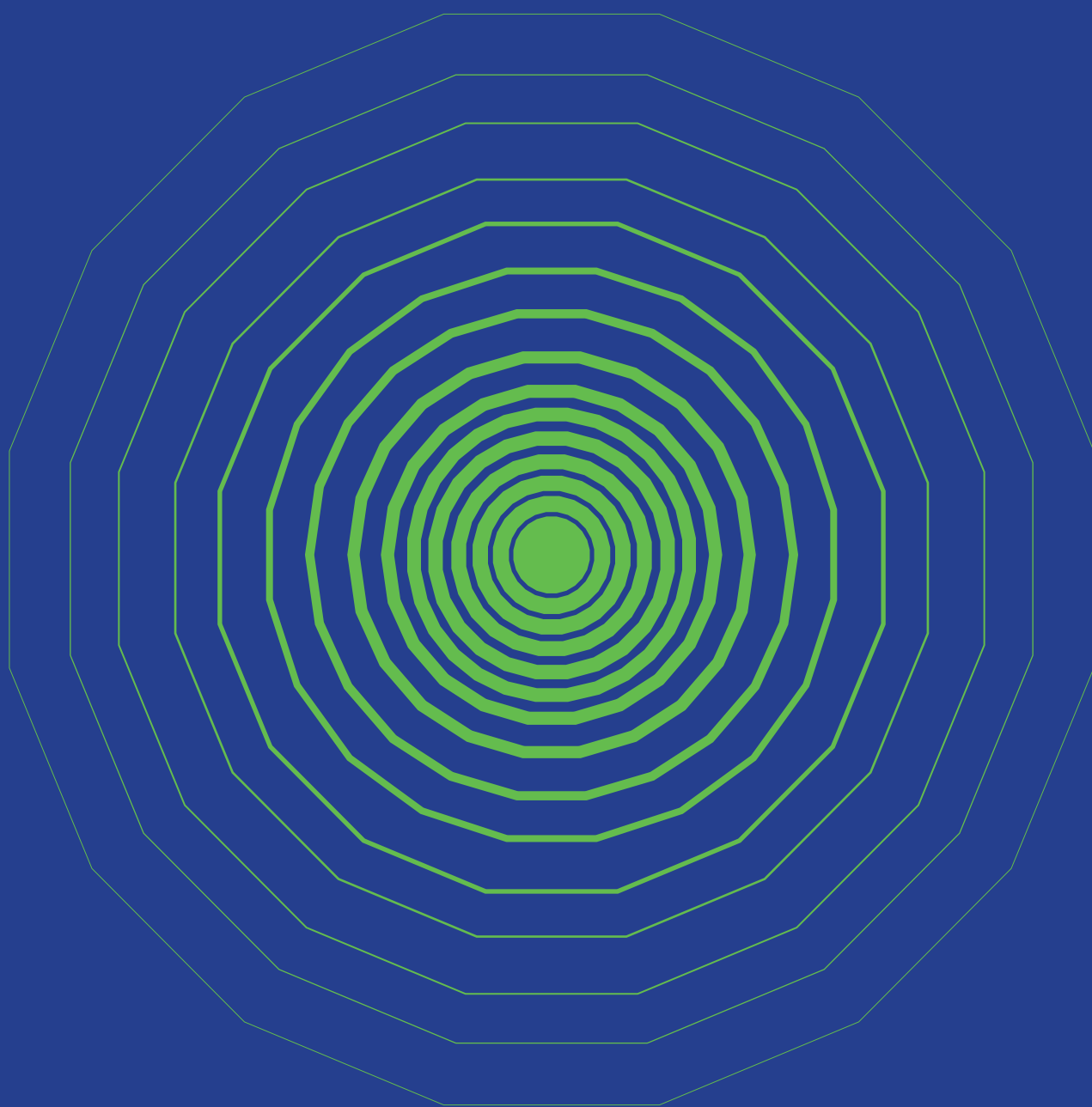


IMPACT INVESTING

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.

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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.

Table of Content

1. What is impact investing?	7
1.2 Impact investment benefits	9
1.2.1 Increased financial performance	9
1.2.2 Focused corporative/institutional strategy	10
1.2.3 New models for addressing social issues	10
1.2.4 Two-dimensional investment	10
1.2.5 Lack of models and strategies	10
1.2.6 Impact measurement difficulties	10
1.3 Impact investing in developing countries	12
2. The Municipality/City – Impact Investor	12
2.1 Ecosystem for impact investment	14
2.1.1 Challenge for city ecosystem management	14
2.1.2 Vertical / linear structure of the expanded enterprise	15
2.1.3 Ecosystem advantages and challenges - integrators	17
3. The process of creating an impact investment portfolio of the City of Skopje	18
3.1 Organizational support for impact investments	18
3.2 Identifying the need and opportunities for impact investments	21
3.2.1 Strategic priorities – a basic trend for impact investment	21
3.2.2 Public opinion – an additional trend for impact investments	28
3.2.3 Existing action plans - input for impact investments	29
3.3. Development of impact investment goals	35
3.3.1 Indicator development	36

3.4 Funding impact investments and risks	38
3.4.1 Municipality funding	39
3.4.2 From taxpayers – to taxpayers	40
3.4.3 Municipal budget – tool for impact investments	46
3.4.4 Financial risks for investments	50
3.5 Impact investment quantitative tool design	54
4. Instructions for using Impact Investment Tool	55
4.1 Investment description	55
4.2 Funding	56
4.3 Strategic fit	57
4.4 Impact	58
4.5 Investment return	60
4.6 Investor capacity	61
4.7 Risk level	62
4.8 Result calibration	63
4.9 Investment prioritization & development of impact investing portfolio	64
5. Conclusion	66
References	67

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.¹

The term was first used in 2007²; 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.³ 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 addressed 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.

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/>

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