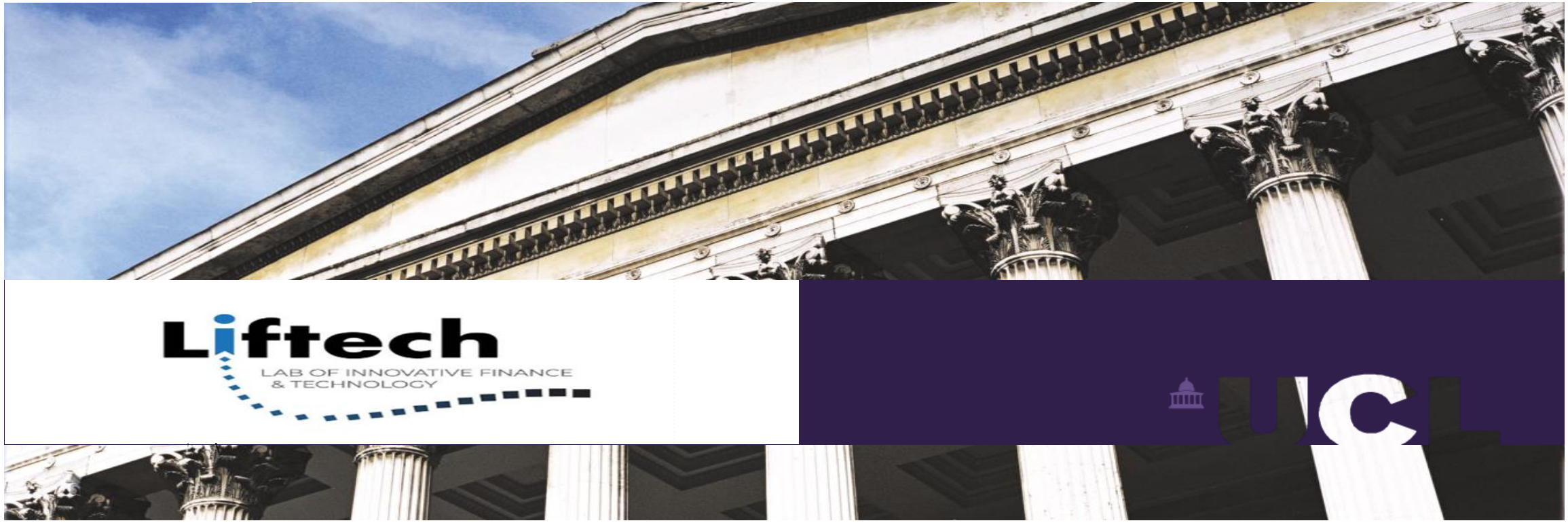
2nd Social Impact Investment
International Conference
Rome, 12-13 December 2018



A New Investment Framework for Cities

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UCL LIFTech

A primary way to motivate impact investment is to demonstrate that the **performance is comparable to the overall market.**
As long as the impression persists that impact investing means taking a hit in terms of profitability (Kob, 2018), then most investors (both retail and institutional) will shy away from impact investing.

Now that there is beginning to be enough data to explore this issue (Barclays Research, 2016, 2018), the best way to trigger more impact-guided investment is to show that it is a **good investment in terms of financial returns in addition to being a good investment in terms of climate or moral returns.**

Indeed, the best way to help grow the market is to show **that impact investing does not have to be a compromise.**

Financial Model and Value

The proposed investment models are based on:

generation, capture and shared values

The application of innovative financing mechanisms like blockchains or revolving funds is essential in ensuring that funding is scaled up, the funding gap is closed, and the transition to the circular economy is made.

Within this financial framework, it is necessary to identify the social and environmental impacts that will be achieved through:

participation
complementarities
as well as additionality of the existing financial mechanisms.

WHY CITIES?

Today 55% of the world's population lives in urban areas, a proportion that is expected to increase to 68% by 2050
In Europe 74% of its population is living in urban areas in 2018 (UN, 2018)

Cities are the source of around 75% of carbon emissions from energy use.
(Seto et al., 2014).

In 2018 European local authorities suffered a striking reduction in government grants, equal to 55%, in conjunction with a 61% reported decrease in revenue from the fiscal system. 37% of European local authorities claim that securing loans is problematic, they express alarm at their inability to raise long-term borrowing at cost-effective rates. As a consequence, urban investment are decreasing in more than 57% of local and regional governments in the EU

(United Cities and Local Governments, 2017).

Impact Index

Non-Financial Impact: a three-step procedure

Indicators should grasp the diversity of urban areas

1. **Outputs Indicators;**
2. **Contextualization;**
3. **Interdependence.**

NON-FINANCIAL IMPACT FOR EACH PROJECT = I_h^E

Cohesion Policy 2014-2020

- Investment policy covering about 1/3 of the EU budget
- Supports 11 thematic objectives of smart, sustainable and inclusive growth

European Commission

Data

EUROSTAT

Copernicus Urban Atlas

European Cities Report

INSPIRE data themes

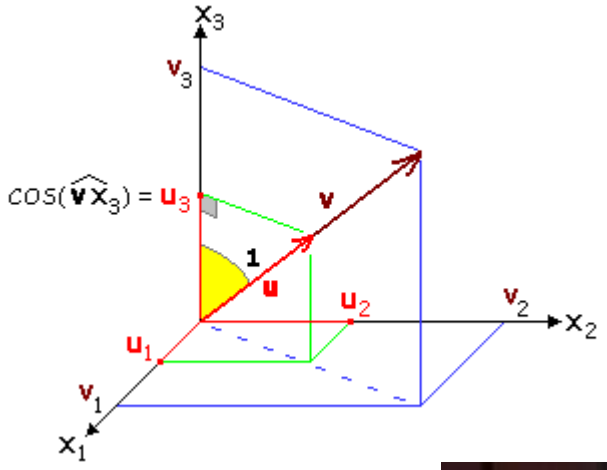
Inforegio website

Non-Financial Impact: a three-step procedure

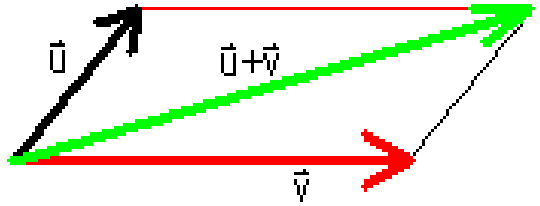
1. **Outputs Indicators;**
2. **Contextualization;**
3. **Interdependence.**

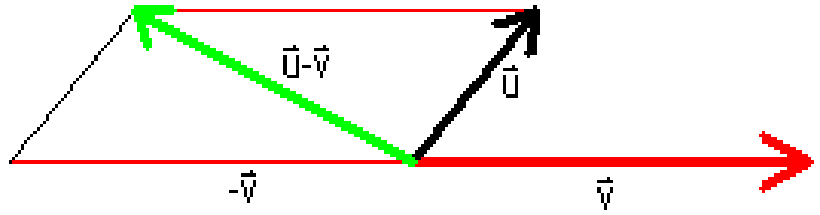
NON-FINANCIAL IMPACT FOR EACH PROJECT = I_h^E

Analytical Definition of Impact Index



Vector Analysis





Orchestral Impact Index

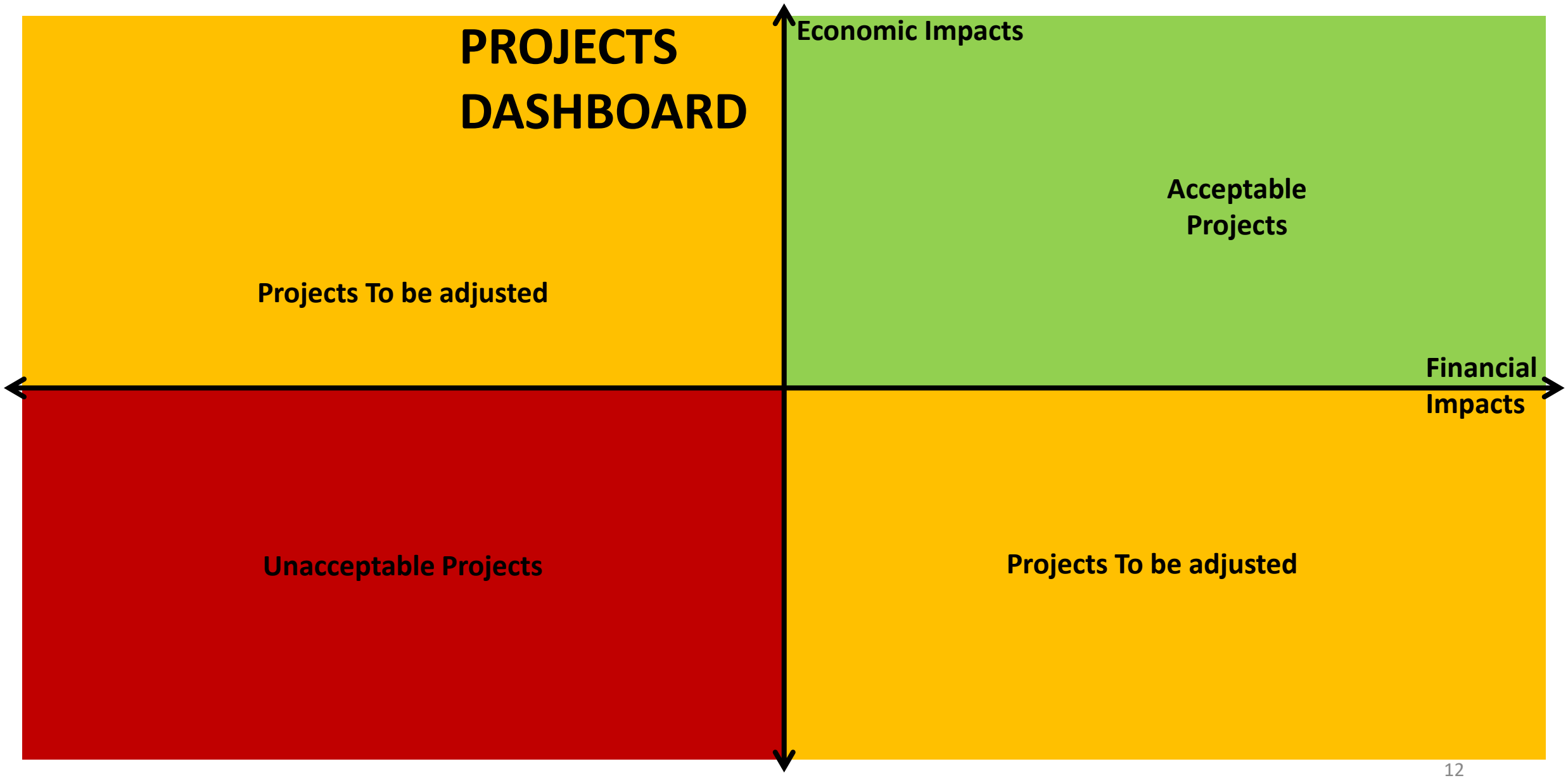
Portfolio Structuring

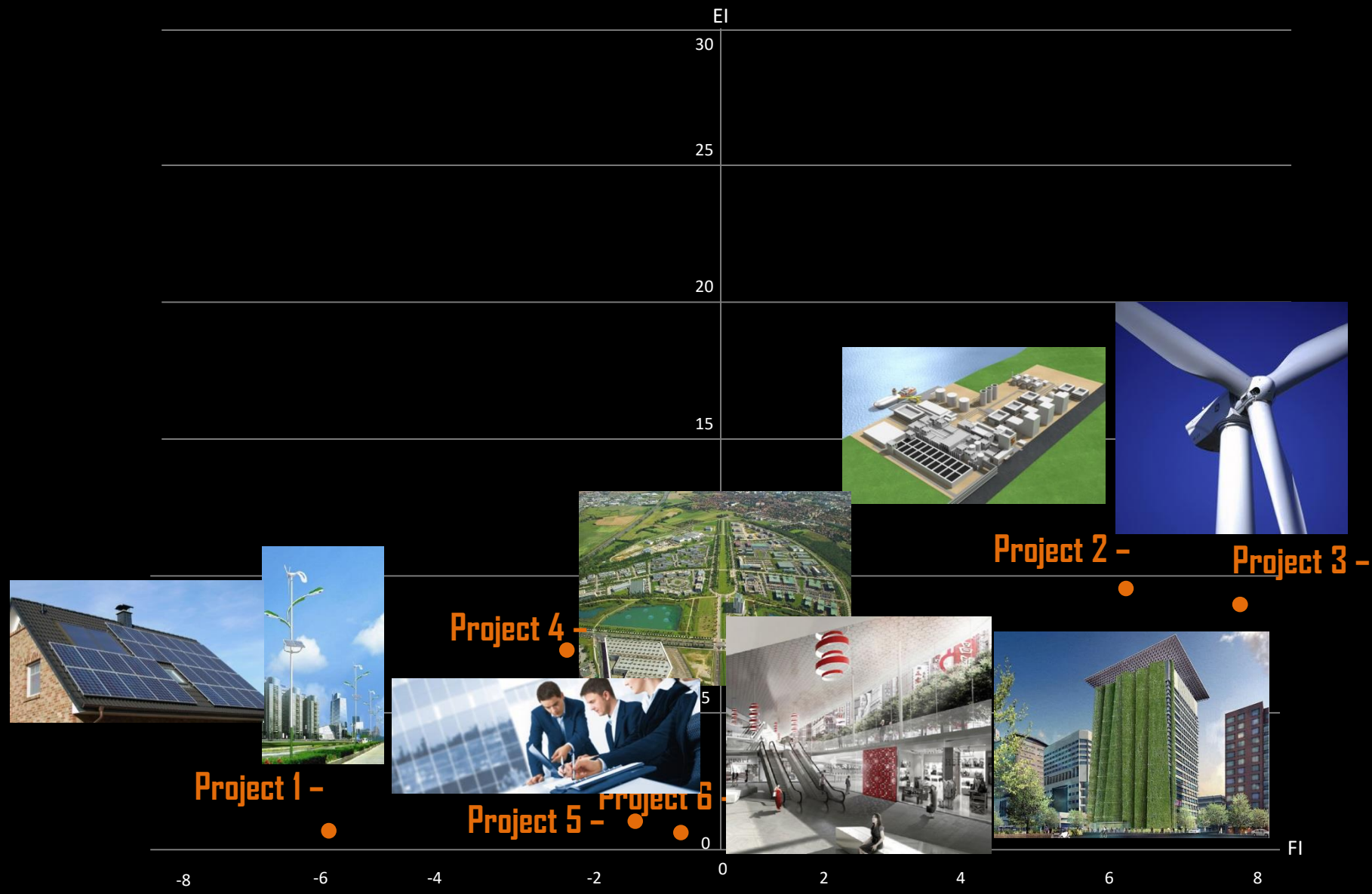
Objective

As part of the framework of innovative instruments for Impact and Value Finance, the development of a **portfolio structuring** model for projects intends to give stakeholders and decision makers:

(1) a **practical tool** to assess **financial returns and social and environmental impacts of** urban investment.

(2) for the **combination** of different typologies of investment in order to capture **multiplier factor** of the city


PROJECTS DASHBOARD
Economic Impacts
Acceptable Projects
Projects To be adjusted
Financial Impacts
Unacceptable Projects
Projects To be adjusted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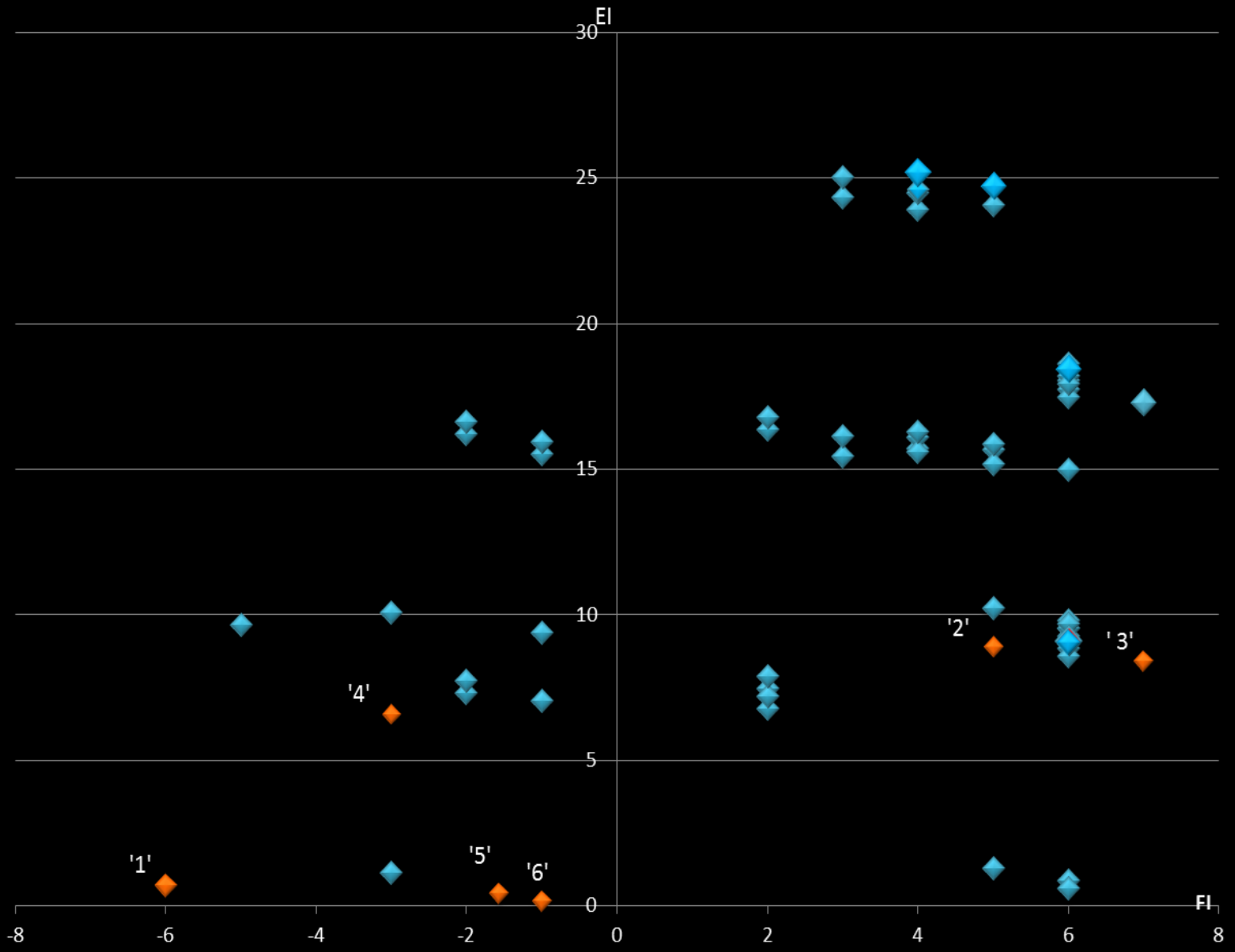
Project 1 –
Project 2 –
Project 3 –
Project 4 –
Project 5 –
Project 6 –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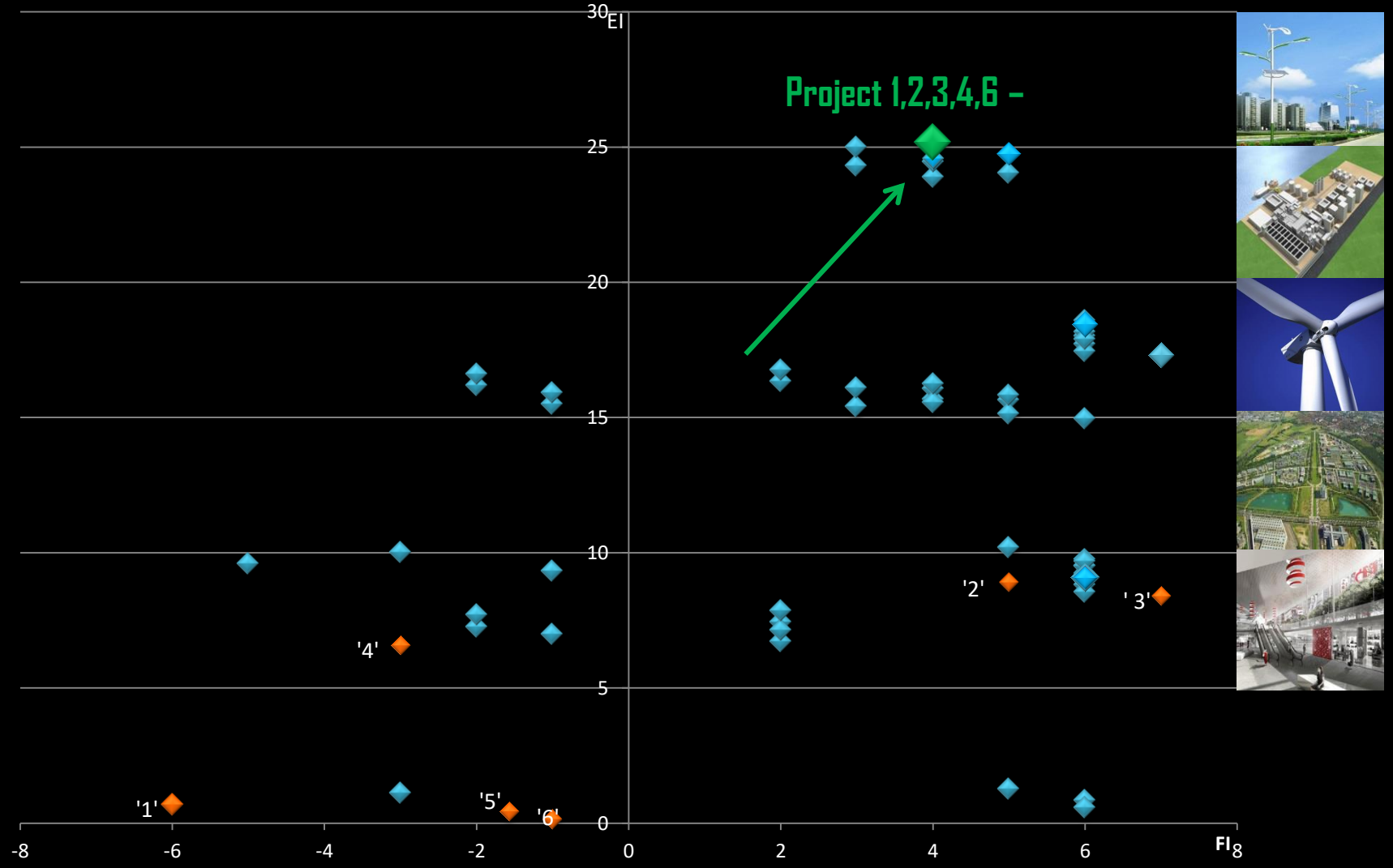
Project 1,2,3,4,6 –
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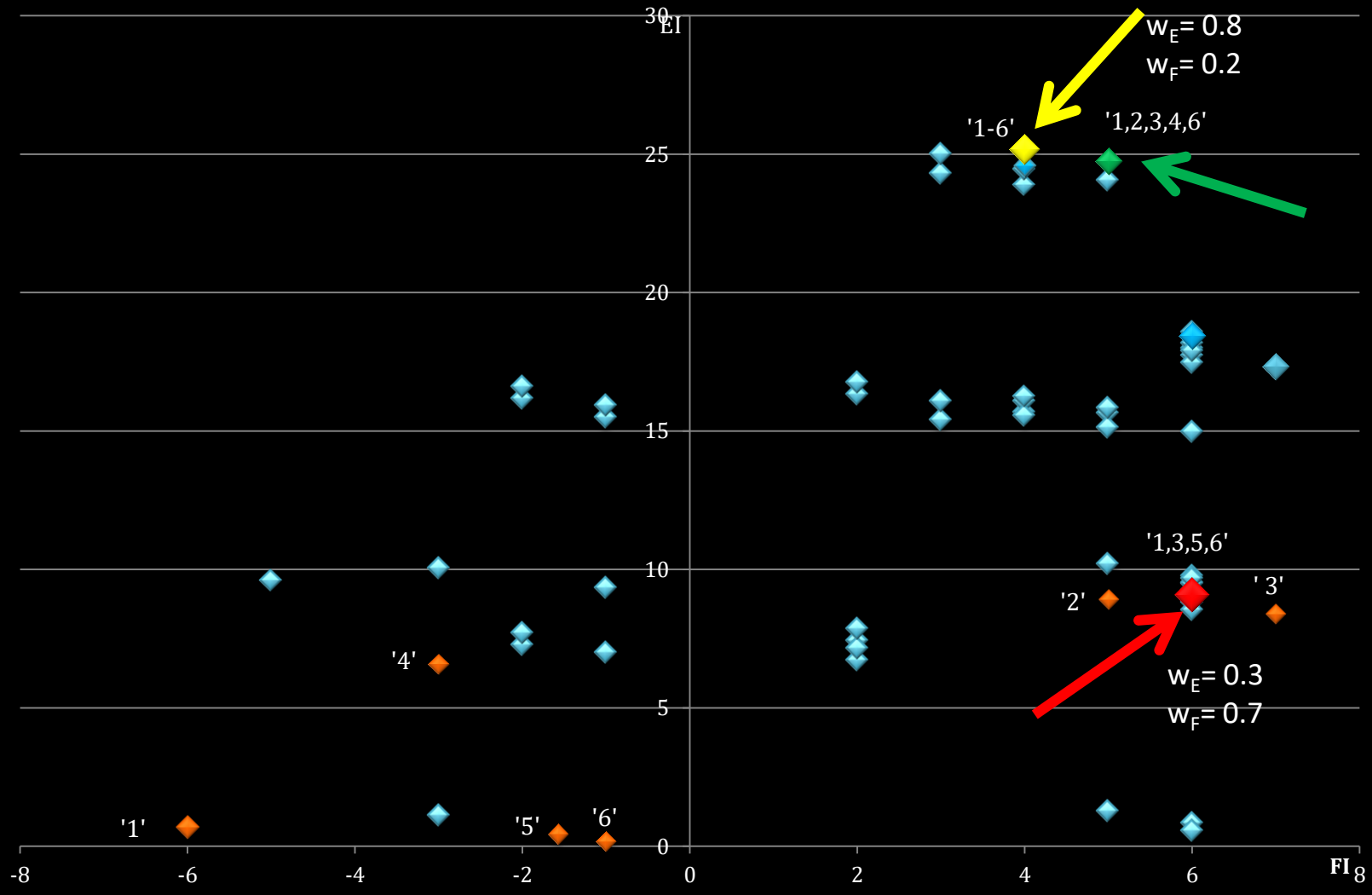
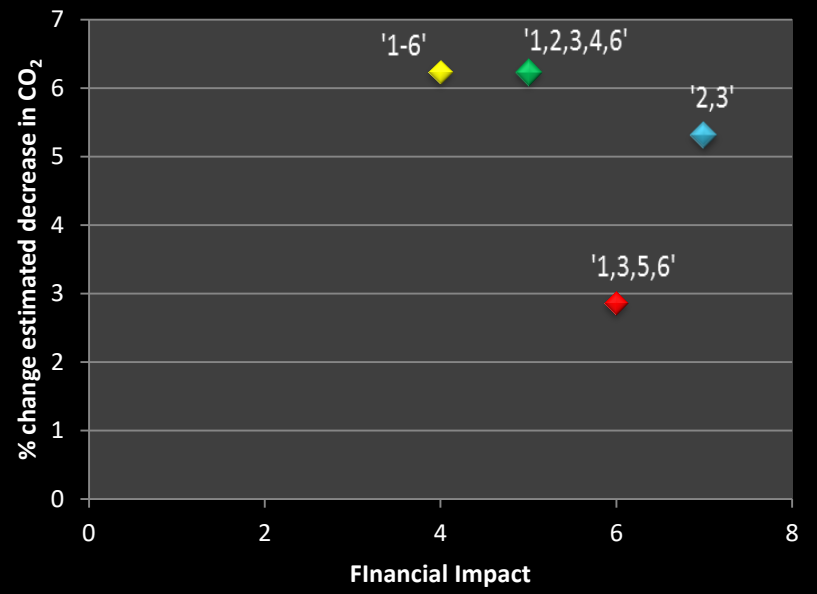
Portfolio Structuring without budget constraint: Results




% change estimated decrease in CO_2
FInancial Impact
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'1,3,5,6'
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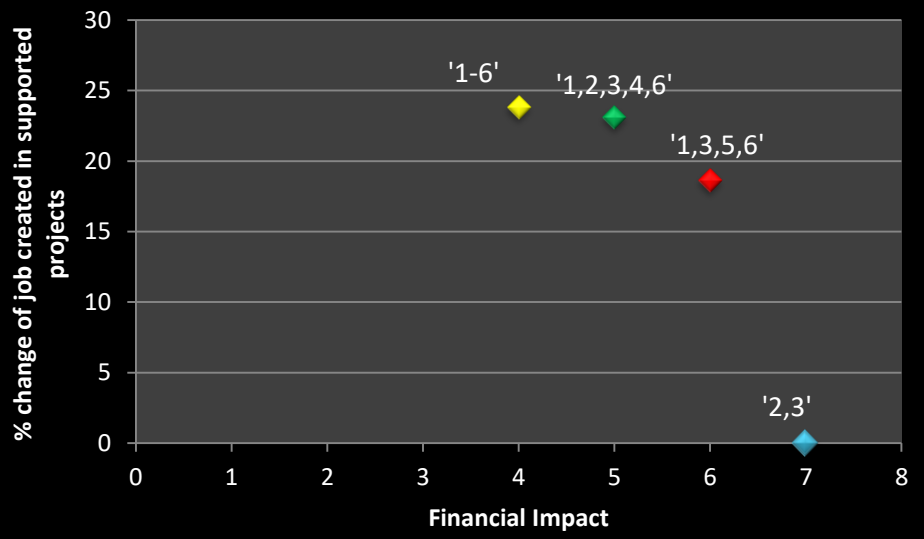
% change of job created in supported projects
Financial Impact
'1-6'
'1,2,3,4,6'
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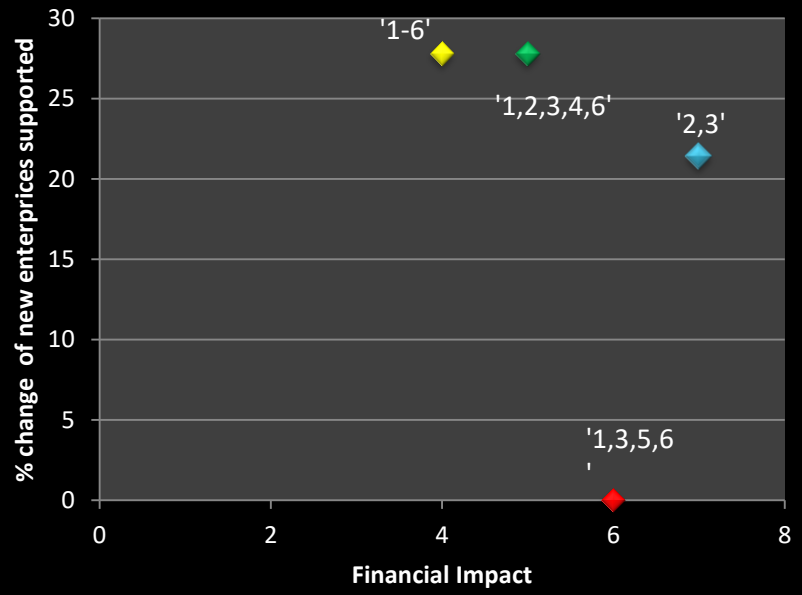
% change of new enterprices supported
Financial Impact
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'1,3,5,6'
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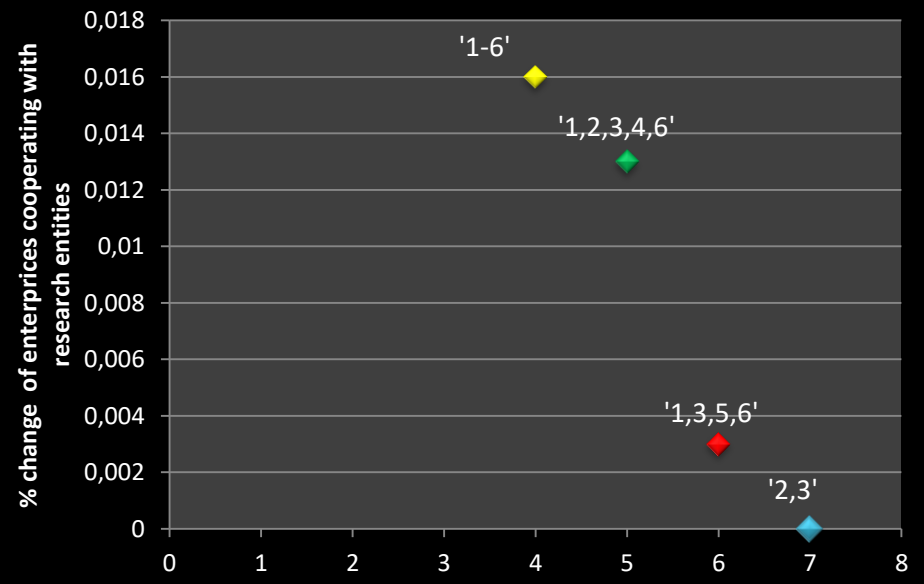
% change of enterprices cooperating with research entities
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'1,3,5,6'
'2,3'
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Conclusion

We have developed an approach based on:

- Transparency in relation of quality of data, aggregation and interpretation
- Shared understanding in selecting targets and metrics with investors and investees
- Analytical rigor in defining an appropriate method for measurement

Impact investing is not a financial compromise.

Thank you very much

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