# Impact investing in Paris suburban 'banlieue' neighborhoods: Untapped social and economic potential

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From July to August, Paris will host the 2024 Olympic games. However, once the athletes and spectators have packed up and left, the Games will leave behind a lasting social impact on the run-down neighborhoods on the outskirts of the French capital.

These neighborhoods, known as banlieues, are benefiting from a surge in investment in Games-related infrastructure. The Olympic Village to house athletes, for example, will be located in the working-class area of Saint-Ouen. After the Games, the buildings will be converted into residences for around 6,000 people and offices for another 6,000 workers. This could provide a much-needed lifeline for the neighborhood.

To examine the struggles of small businesses located in the banlieues, Caroline Flammer of Columbia University, Rodolphe Durand of HEC Paris and myself carried out a study on impact investing in disadvantaged urban areas. We found that banlieue companies had a harder time getting a bank loan than an identical business in the city center. That is, if they even get one at all.

However, when given external funding, small and medium enterprises (SMEs) based in the banlieues not only turn a healthier profit than their counterparts in other areas of the city, they also create a higher number of better quality and more equal jobs.

## Double prizes: Profitable and sustainable investment

Impact investing not only seeks economic returns, but also a positive social or environmental impact. Impact investors look for business opportunities that allow them to maximize the efficiency of their investment with both of these objectives in mind.

In our research, we wanted to find out whether this type of socially responsible investment is more efficient when it finances companies located in disadvantaged areas than those based in other neighborhoods.

We did this by focusing on SMEs located on the outskirts of French cities, in working class neighborhoods with high proportions of immigrant population.

## Credit discrimination

From its inception, through to its consolidation and eventual growth, access to financing is a decisive factor for any entrepreneurial venture. In a general analysis of SMEs in French cities, we found that their sources of funding were mainly self-financing (35%) and medium-term loans from commercial banks (33%).

Breaking these results down by neighborhood, however, revealed various disparities. Businesses located in banlieues had a 28.7% chance of being granted a medium-term bank loan, while those located outside these areas had a 33.4% chance.

They were also less likely to receive a long-term bank loan (only 4.4% had done so, compared to 5.8% of other businesses), thus making them more likely to resort to self-financing—40.3% of businesses in banlieues were self-funded compared to 34.5% in other areas. In other words, business owners in the banlieues were far more likely to end up putting their own money on the line.

Through an economic experiment, we were able to see first hand the discrimination faced by SMEs in the banlieues in the traditional credit market. We applied for two loans for two (fictitious) SMEs, both working in the signage industry. Both had 43 employees, a 20 year history, and economic outputs that matched averages in the sector. The only difference was that one was based in a well off central Paris neighborhood, while the other was outside the city center.

This experiment confirmed our research conclusions: the bank only granted a loan to the business based in the center of Paris.

## Promising results

This prejudice became even more unfounded when we analyzed the performance of SMEs that had secured public funding through entrepreneurship support programs. In total, we analyzed 5,871 companies, all with fewer than 250 employees and a turnover between 750,000 and 50 million euros, both in and outside the banlieues.

In the three years after being granted a loan from the state credit institution, the return on assets (ROA, the indicator of a company's profitability in relation to its assets) was between 2,3% and 3% higher among banlieue based SMEs.

Perhaps the most obvious reason for this for this difference is that the banlieues companies had great untapped potential, and the funding received did little more than unleash it.

But suburban SMEs' strong performance did not stop there. They also generated between 6.5% and 9.2% more employment growth than their competitors in other areas. Moreover, the new jobs were of high quality and included both men and women.

In fact, the most notable employment growth was in highly skilled personnel, suggesting that firms in the banlieues had lacked specialization and innovation prior to receiving the loan.

Overall, financing SMEs in these areas not only led to their business success, but also to a positive social impact thanks to inclusion of disadvantaged communities and the development of more sustainable cities.

This is exactly why impact investment exists.

## Untapped investment potential

Our study shows that SMEs on the outskirts of French cities present a huge opportunity for impact investors, both in terms of both financial benefit and social impact, all the more so because this potential has been neglected by commercial banks.

Our results open up the wider possibility that impact investment can correct this shortcoming in the traditional credit market. Most importantly, they can stimulate the development of profitable businesses and help to socially and economically revitalize deprived urban areas.



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