Impact Investing in Disadvantaged Urban Areas

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We examine whether impact investing is more effective in fostering business venture success and social impact when investments are directed toward ventures located in disadvantaged urban areas compared to similar investments directed toward ventures located outside these areas. We explore this question in the context of loans made to business ventures in French "banlieues" vs. "non-banlieues." We find that loans issued to banlieue ventures yield greater improvements in financial performance, as well as greater social impact in terms of the creation of local employment opportunities, quality jobs, and gender-equitable jobs. These results suggest that impact investors are able to contract with ventures of greater unrealized potential in banlieues, as banlieue ventures tend to be discriminated on the traditional loan market. This is corroborated in a controlled lab experiment in which participants--working professionals who are asked to act as loan officers--are randomly assigned to identical business ventures that only differ in their geographic location. We find that participants are indeed less likely to grant loans to banlieue ventures compared to non-banlieue ventures, despite the ventures being identical.

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