Analysis of feasibility and suitability of setting up a new social finance instrument in Estonia

Baltic Innovation Agency

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SoFiMa is co-financed by the European Commission through the 'Employment and Social Innovation' (EaSI) 2014-2020. One of the objectives of the EaSI programme is to promote employment and social inclusion by improving financial access for social enterprises, while the programme also supports the development of the social enterprise finance market. For further information, please see http://ec.europa.eu/social/easi.

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Introduction

The general context of the Feasibility Study and aims of SoFiMa

This feasibility study is carried out in the context of the project 'Kick-starting the nascent social finance market in Estonia' (SoFiMa), co-financed by the European Commission Programme for Employment and Social Innovation (EaSI). SoFiMa brings together a variety of partners representing different stakeholders in the ecosystem to support social enterprises and impact organisations in Estonia. The aim of the project is to contribute to the further development of the social finance market in Estonia. It also strives for increased cooperation between various sectors and stakeholders in developing the social finance market, engaging with representatives of businesses, non-profit organisations, scientists, investors, representatives of banks and local as well as national-level policy makers.

Aims of the Feasibility Study

The aim of the feasibility study is firstly to analyse the context for setting up new social finance and impact investment instruments in Estonia and discuss the potential alternatives for this, based on the needs of social enterprises and impact organisations on the one hand and on the interests of existing and potential impact investors and social finance providers on the other hand. Thereafter, the **key objective** of this study is to identify **which new social finance instrument(s) would be the most feasible to be created and implemented in the near future,** based on the best fit between the interests on both the demand and supply side in the current market situation and general stage of development of the social economy. The feasibility study provides direct input to developing a Memorandum of Understanding (MoU) focused on the future creation of a new social finance instrument meeting the specific needs of the Estonian market. The MoU will outline the investment strategy for this envisioned financial instrument (investment focus, models of intervention, risks and returns, types of investee organisations, form and size of investment, co-investment, non-financial support, etc.).

Methodology

The feasibility study uses input from two analyses carried out in the context of SoFiMa, focused on the demand and supply side of social finance in Estonia: (1) the analysis focused on investment needs and investment readiness among Estonian social enterprises on the demand side[1] and (2) the analysis focused on the readiness of Estonian investors to invest in social enterprises.[2] Both studies combined an online survey with follow-up interviews to get additional insights on the topics addressed. In addition, the feasibility study builds upon broad-scale desk research on social entrepreneurship, impact investing and social finance in the EU (various studies and materials produced by the European Commission, the Euclid Network, EVPA, etc.) and globally (studies and materials by GIIN, United Nations, etc.).

[1] Tallinn University (2022), “Investment needs and investment readiness amongst Estonian social enterprises”. Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont. https://www.tlu.ee/sites/default/files/INVESTMENT%20NEEDS%20AND%20INVESTMENT%20READINESS%20AMONGST%20ESTONIAN%20SOCIAL%20ENTERPRISES.pdf.

[2] Baltic Innovation Agency (2022), “Private investor readiness to invest in impact organisations in Estonia“. Authors: Kadri Uus, Rene Tõnnisson, and Mart Veliste. https://bia.ee/wp-content/uploads/2022/06/Private-investor-readiness-to-invest-in-impact-organisations-in-Estonia.pdf

To get a deeper look at different types of social finance instruments in Europe as well as some existing instruments in Estonia and to learn from the good practices and existing experiences, six case studies on some particularly relevant social finance instruments were carried out in the context of the feasibility study. The case studies were developed based on publicly available materials (information on websites of the respective instruments, activity reports) as well as additional interviews with the representatives of the management team of each instrument covered.

Definitions

The feasibility study is based on the following key definitions:

- **Social economy** – in the context of the Action Plan for the Social Economy[3], adopted by the European Commission in December 2021, the social economy is considered to cover entities sharing the following main common principles and features: the primacy of people as well as social and/or environmental purpose over profit, the reinvestment of most of the profits and surpluses to carry out activities in the interest of members/users ('collective interest') or society at large ('general interest') and democratic and/ or participatory governance. Traditionally, the social economy refers to four main types of entities providing goods and services to their members or society at large: cooperatives, mutual benefit societies, associations (including charities), and foundations. independent of public authorities.

- **Social enterprise or impact organisation** is an organisation that has an explicit goal to deliver positive social and/or environmental impacts via its business activities. Such enterprises seek to earn income from sales of their products and/or services while maximising benefits to society and/or the environment. They also explicitly measure the impact achieved based on pre-defined KPIs.[4]
  In the context of the feasibility study, the terms 'social enterprise' and 'impact organisation' are used interchangeably. While the demand side study carried out in the context of SoFiMa by Tallinn University used the term 'social enterprise', the supply side study by Baltic Innovation Agency foremost used the term 'impact organisations'. This was a conscious choice based on the estimation that the uniformly understood definition of a social enterprise is still a 'work in progress' in Estonia and Europe and when approaching the Estonian investors, focusing on 'impact' (societal and/or environmental) is more favourable than overly emphasising the 'social' (a somewhat problematic term in Estonia, also considering Estonia's Soviet past.[5]

- **Impact investing** refers to investments made into companies, organisations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.[6]

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[3] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck, https://ec.europa.eu/social/BlobServlet?docId=24985&langId=en.
[4] Please also see the discussion on the definitions in the demand and supply side studies carried out as part of SoFiMa and providing input to the Feasibility Study: 1) Tallinn University (2022), "Investment needs and investment readiness amongst Estonian social enterprises"; 2) Baltic Innovation Agency (2022), "Private investor readiness to invest in impact organisations in Estonia".
[5] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris; p 18.
[6] In line with the Global Impact Investing Network (GIIN) definition of impact investing (https://thegiin.org).

I Social finance instruments in the EU: overview and best practices.

1.1 EU strategic outlook on social economy and social finance

According to the European Commission, there are 2.8 million social economy entities in Europe that employ 13.6 million people[7] who work to offer solutions to critical societal and environmental challenges in the EU and elsewhere, representing 8% of the EU's GDP. These entities contribute to the EU's employment, social cohesion, regional and rural development, environmental protection, consumer protection, agriculture, third countries development, and social security policies. Social economy entities are mostly micro, small, and medium-sized organisations.[8] Social enterprises form a subset of the social economy in which commercial models are used as the vehicle to achieve social objectives.[9] There is no single legal form for social enterprises in Europe. Many social enterprises operate in the form of social cooperatives, some are registered as private companies, some are mutual benefit societies, and many are non-profit-distributing organisations such as associations, voluntary organisations, charities or foundations.[10]

In December 2021, the European Commission adopted a new **Social Economy Action Plan**.[11] With this action plan, the Commission has put forward concrete measures to help mobilise the full potential of the social economy, building on the results of the 2011 Social Business Initiative (SBI) and the 2016 Start-up and Scale-up Initiative. Despite the progress made under the previous initiatives, needs persist in several areas. Improving the right framework conditions for the social economy across Europe, including enhanced visibility and recognition and access to finance and markets, are key aspects of the action plan.

he COVID-19 pandemic made the case for a switch to a fair, sustainable and resilient economic model even stronger than before. The aim of the action plan is to enhance social investment, support social economy actors and social enterprises to start-up, scale-up, innovate and create jobs. The action plan will do this through a series of initiatives in the following three areas:

- creating the right framework conditions for the social economy to thrive
- opening up opportunities and support to capacity building
- enhancing recognition of the social economy and its potential

The action plan announces a number of key actions to support social economy, for example:

- a Council Recommendation on developing social economy framework conditions

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[7] European Commission (2021), "Social Economy Action Plan Factsheet". https://www.socialeconomy.eu.org/the-social-economy/the-social-economy-in-the-eu/.
[8] https://ec.europa.eu/growth/sectors/social-economy_en.
[9] Huybrechts, B., Nicholls, A. (2012). Social Entrepreneurship: Definitions, Drivers and Challenges. In: Volkmann, C., Tokarski, K., Ernst, K. (eds) Social Entrepreneurship and Social Business. Gabler Verlag. https://doi.org/10.1007/978-3-8349-7093-0_2.
[10] https://ec.europa.eu/growth/sectors/proximity-and-social-economy/social-economy-eu/social-enterprises_et.
[11] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck.

- a new EU Social Economy Gateway to provide a clear entry point for social economy stakeholders, other relevant actors and individuals seeking information on relevant EU funding, policies and initiatives
- a new European Competence Centre for Social Innovation

Access to funding was highlighted as a challenge for social economy organisations in the context of the SBI, and 10 years later it still remains a challenge. Improving access to finance is therefore an important area of work under the action plan.[12]

The general principle of EU financial support to social enterprises is that the European Commission and its partners (such as the European Investment Fund (EIF)[13]) do not provide financing directly to social enterprises but select suitable financial intermediaries across Europe who then make the financing available to the end beneficiaries based on agreed terms. The EIF is the entrusted entity to implement a set of support measures for social enterprises under the European Commission Programme for Employment and Social Innovation (EaSI), including the EaSI Guarantee Instrument to increase access to finance for social enterprises, micro-enterprises and vulnerable groups, the EaSI Capacity Building Investments Window to build up the institutional capacity of micro-credit and social finance providers and the EaSI Funded Instrument to support senior and subordinated loans to financial intermediaries.[14,15]

As part of the next multiannual financial framework of the EU, which covers the **period 2021-2027**, the European Commission has decided to consolidate all of its investment activities into a single investment fund, **InvestEU**,[16]. The InvestEU Fund aims to mobilise more than €372 billion of public and private investment through an EU budget guarantee of €26.2 billion that backs the investment of implementing partners such as the European Investment Bank (EIB) Group and other financial institutions in support of social investments, including for microfinance and social enterprises. As a complement to InvestEU, the European Commission focuses on further strengthening the Union's social dimension with a new and improved ESF, the **European Social Fund Plus (ESF+)**[17] which has a budget of more than EUR 99 billion. Together, InvestEU and the ESF+ open up new possibilities for building up the social investment market ecosystem.

More specifically, **InvestEU** is designed to pursue efforts made under the financial instruments of the EFSI programme.[18] It aims to bridge financing gaps through the provision of a complementary toolbox of financial products tailored for microfinance and social enterprise and social innovation finance, as well as to support new systematic developments in the emerging social investment

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[12] European Commission (2021), "Social Economy Action Plan Factsheet". https://www.socialeconomy.eu.org/the-social-economy/the-social-economy-in-the-eu/.
[13] https://www.eif.org/.
[14] https://www.eif.org/what_we_do/microfinance/easi/.
[15] Regarding other relevant earlier initiatives, the Social Impact Accelerator (SIA) was the first pan-European public-private partnership addressing the growing need for availability of equity finance to support social enterprises. SIA reached its final closing in July 2015 at the size of EUR 243 million. EFSI Equity was another a facility managed by the EIF that supported social impact investors providing risk capital financing in the form of equity investments (to or alongside financial intermediaries) in early stage, growth stage and expansion stage. https://www.eif.org/what_we_do/equity/sia/index.htm; https://www.eif.org/news_centre/publications/eif_efsi_equity_en.pdf.
[16] https://investeu.europa.eu/index_en.
[17] https://ec.europa.eu/social/main.jsp?catId=325&langId=en.
[18] https://www.eib.org/en/products/mandates-partnerships/investeu/index.htm.

ecosystem. In March 2021, the European Parliament adopted the final InvestEU regulation[19], including the provision that 30% of all financing and 60% of financing in the area of sustainable infrastructure will be used for climate protection. All funded projects will have to comply with environmental guidelines.

The **ESF+** will continue to tackle unemployment, poverty and exclusion. It will also remain the main EU instrument investing in policy and systems reforms with the aim of enhancing peoples' skills and level of education.[20] The ESF+ will directly support social innovation, social entrepreneurship and cross border labour mobility through the new Employment and Social Innovation (EaSI) strand of the ESF Plus with a dedicated financial envelope of €676 million. EaSI will support analytical activities, capacity building and transnational/cross-border cooperation to strengthen social protection and social inclusion, fair working conditions, equal access to the labour market, and to enhance labour mobility. EaSI calls for proposals are published on the EC´s Funding and Tenders Portal.[21]

1.2 Impact investment and social finance instruments

Various different logics of activity can be used to support the development of social economy, social entrepreneurship and impact organisations. **Venture philanthropy** is one of the common approaches, defined by the European Venture Philanthropy Association[22] as high-engagement and long-term approach whereby an investor for impact supports social purpose organisations to maximise social impact, through three core practices: (1) Impact measurement and management: measuring and monitoring the change created by an organisation´s activities, and using the information/data to refine activities in order to increase positive outcomes and reduce potential negative ones; (2) Non-financial support: providing support services to a social purpose organisation in order to maximise its social impact, increase its financial sustainability or strengthen its organisational resilience; (3) Tailored financing: Choosing the most suitable financial instrument(s) to support a social purpose organisation. These instruments include grant, debt/loan, equity, and hybrid financial instruments.

Regarding **impact investments**, the definition of the Global Impact Investing Network (GIIN) is widely accepted, seeing these as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market rate to equal to the market rate, depending on investors' strategic goals. The growing impact investment market provides financial means to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. [23]

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[19] Regulation (EU) 2021/523 Of The European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0523.
[20] https://ec.europa.eu/esf/main.jsp?catId=62&langId=en.
[21] https://www.ecre.org/agreement-on-the-european-social-fund-for-social-inclusion-including-integration-of-third-country-nationals/.
[22] https://evpa.eu.com/glossary.
[23] https://thegiin.org/impact-investing/need-to-know/.

According to the GIIN Annual Impact Investor Survey 2020[24], the social finance providers and impact investors most commonly rely on the United Nations' **Sustainable Development Goals (SDGs)**[25] to shape their impact targets. 73% of respondents to the 2020 survey reported using the SDGs. Members of the United Nations adopted the 2030 Agenda for Sustainable Development in 2015. This was a call to action to address social and environmental challenges. Its predecessor, the United Nations' Millennium Development Goals—intended to be achieved by 2015—gained only modest traction in the industry. The SDGs, however, have become the most widely used framework among impact investors. In addition to target-setting, impact investors often use the SDGs to guide their impact measurement practice by mapping investments to the SDGs, and channelling capital toward SDG-aligned priorities.

Figure 1: The United Nations Sustainable Development Goals. Source: https://sdgs.un.org/goals

The European Commission´s 'Recipe Book for Social Finance'[26] by gives an overview of a wide spectrum of approaches to social investment along the finance-first and impact first. While finance-first investors are focused on financial return on investment, **impact-first** investors prioritise investments **that generate a high social/environmental impact**. Sometimes the nature of the impact may in itself generate the potential for higher financial returns (particularly if there is compensation through the tax system). However, impact-first investors are generally willing to accept lower and sometimes even no financial return if the social or environmental impact created is high enough, while some may also be prepared to accept capital erosion or a subordinate role to enable more financially attractive returns to be offered to other (finance-first) investors.

[24] GIIN (2020), "2020 Annual Impact Investor Survey". Authors: Dean Hand, Hannah Dithrich, Sophia Sunderji, and Noshin Nova. https://thegiin.org/research/publication/impinv-survey-2020.
[25] https://sdgs.un.org/goals
[26] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.

Figure 2 by the European Venture Capital Association[27] shows a spectrum of expected returns from a modest or marginal social return, to a situation where the emphasis is entirely on the social return and no financial return is expected. At this end of the spectrum (impact only or impact first), there may be no expectation of capital repayment either. At the same time, the aim of impact investing is to generate financial as well as social return. Venture philanthropy covers the impact-only and impact-first sections of the spectrum. On the other hand, the finance-first end of the spectrum includes traditional businesses, which attract investors mainly driven by financial return. This kind of investment is not considered social investment, even if social impact happens as an unintended consequence.[28] Figure 3 further differentiates the investing *for* impact and investing *with* impact perspectives outlined by EVPA.[29]

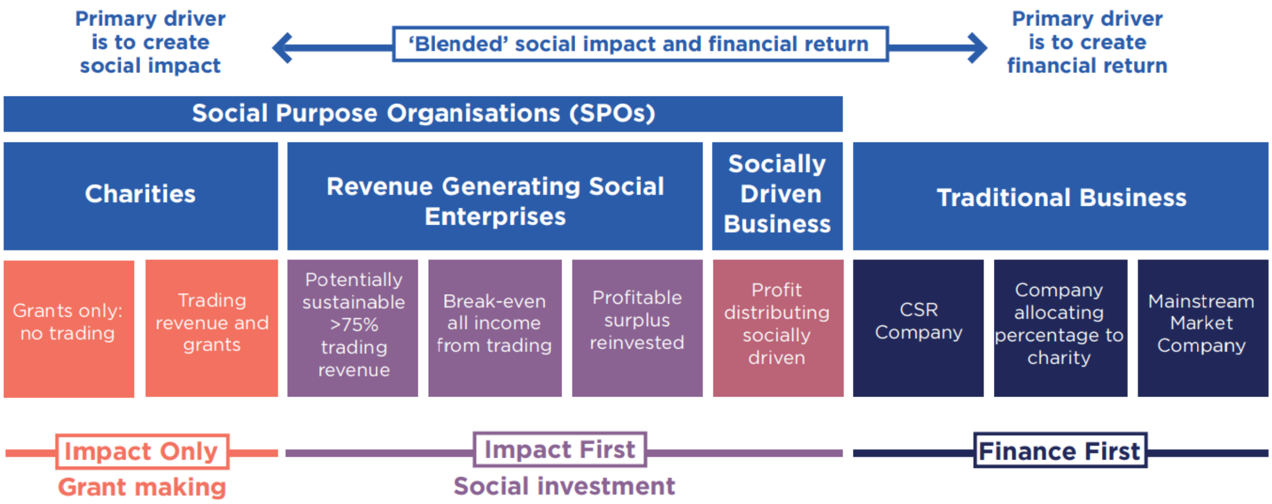

Figure 2: EVPA Investment Spectrum. Source: European Venture Philanthropy Association[30]

[27] European Venture Philanthropy Association (2018), "A Practical Guide to Venture Philanthropy and Social Impact Investment". https://evpa.eu.com/knowledge-centre/publications/venture-philanthropy-and-social-impact-investment-a-practical-guide.

[28] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.

[29] https://evpa.eu.com/about-us/what-is-venture-philanthropy.

[30] European Venture Philanthropy Association (2018), "A Practical Guide to Venture Philanthropy and Social Impact Investment". https://evpa.eu.com/knowledge-centre/publications/venture-philanthropy-and-social-impact-investment-a-practical-guide.

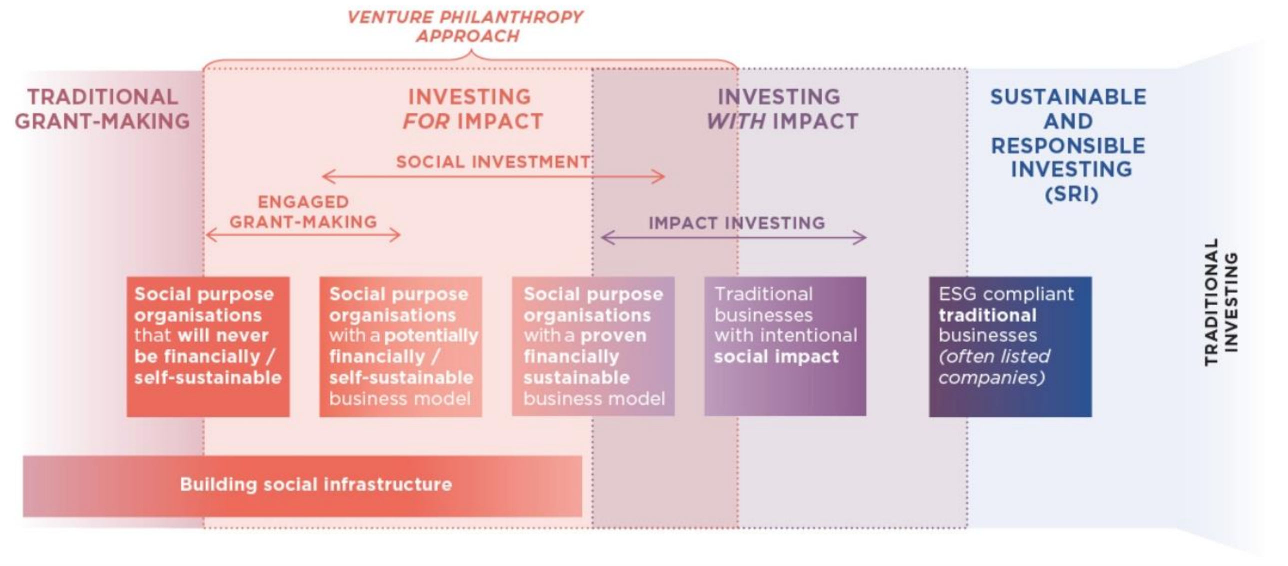

Figure 3: EVPA Impact Ecosystem Spectrum. Source: European Venture Philanthropy Association[31]

SOCIAL FINANCE AND IMPACT INVESTMENT INSTRUMENTS

The three main types of social finance instruments include **grants, debt and equity instruments**, plus there is a wide variety of **hybrid financial instruments** that represent a variation or combination of features of the three main types in order to achieve the best possible alignment of risk and impact/financial return for particular investments.[32]

Each delivery option has its own mechanics. Grants enable the growth and development of new business models. Any form of grant support should thus help to lower transaction costs and open new funding sources for social enterprises. Equity increases the capital base and serves as a signal to other investors. Loan guarantees reduce the risks for lenders, expand the capital available and reduce the costs of borrowing for social enterprises.[33]

The following social finance and impact investment instruments are discussed in more detail below – including the traditional instruments and some key hybrid mechanisms and specific delivery mechanisms that are more commonly used:

- Grants
- Debt capital and guarantees
- Equity capital
- Quasi-equity and hybrid capital
    - mezzanine financing
    - convertible notes
    - recoverable grants
    - forgivable loans

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[31] https://evpa.eu.com/about-us/what-is-venture-philanthropy.

[32] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.

[33] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck. https://ec.europa.eu/social/BlobServlet?docId=24985&langId=en.

- revenue participation
- Crowdfunding and crowdinvesting
- Social impact bonds

A short overview of the logic of each instrument is given below and some relevant examples of key players offering the respective instruments in Europe is also provided. As the main aim of the feasibility study is to analyse the alternatives for setting up new social finance and impact investing instruments in Estonia, the following provides a reference to relevant initiatives in Europe. To get a more in-depth view of the operational logic of certain instruments, case studies were carried out with some particularly interesting initiatives in the EU as well as in Estonia. The case studies are provided in Annex 1 of the Feasibility Study and referenced under the relevant general instrument overview below.

GRANTS

Grants are a type of funding in the form of a money allocation that establishes neither rights to repayments nor any other financial returns or any form of ownership rights on the donor. In short, EVPA defines grant-making as the provision of non-repayable donations to the social purpose organisation, in line with an Impact Only strategy.[34]

Grant-makers include the EU and other international institutions, as well as national and regional institutions (governments and other public sector organisations), public charities, private foundations and other organisations which award monetary aid or subsidies to organisations or individuals. Grants are one of the key tools for venture philanthropy.

See linked case study:
GOOD DEED IMPACT FUND (venture philanthropy)

DEBT CAPITAL AND GUARANTEES

Debt capital

Debt capital comes in the form of loans that investors can provide impact organisations with charging interest at a certain rate. The interest rate can vary depending on the risk profile of the investee, on its potential social impact, and on the securitisation and repayment priority of the loan, e.g., senior vs subordinated loan (subordinated loans have a lower repayment priority than normal (senior) loans and in the event of default, all other lenders are repaid before the holders of subordinated loans).[35]

In Europe, two types of **banks** involved in the financing of social enterprises can be outlined. The first group comprises commercial banks usually listed on stock markets which have established services for social enterprises, such as Erste Bank or BNP Paribas. The second group includes banks which refer to themselves as community banks, ethical banks or social banks and are organised in networks like FEBEA (Fédération Européenne des banques Ethiques et Alternatives) or GABV (Global Alliance for Banking on Values). Some examples include the GLS Bank, Crédit Cooperatif or Triodos. Both groups provide loans to social enterprises in Europe.[9]

[34] https://evpa.eu.com/glossary.
[35] European Venture Philanthropy Association (2020), "Financing for Social Impact. Financial Instruments Overview". https://evpa.eu.com/uploads/publications/EVPA_Financial_Instruments_Two_Pager.pdf.

In addition to banks (traditional, social/ethical), loans can be provided to impact organisations by other types of financing bodies such as microfinance institutions, credit unions, financial cooperatives, etc. The European Microfinance Network[36] unites many of these organisations.

Guarantees

Guarantees help unlock financing for SEs on more beneficial terms than they would normally get with a loan instrument. Guarantees are intended to reduce risks for private investors or banks (in case of EU or state guarantees) so that they would be more willing to invest in social enterprises or make the loan conditions (e.g., required down payment or interest rate) more favourable. Guarantees can take many forms - they may be structured to take an agreed percentage of the financial risk in the project or they can be used to unlock an advance payment or can be used by the contractor to 'insure' against the risk of non-performance.[10]

On the EU level, as of October 2019, 31 EaSI social entrepreneurship guarantees and counter guarantees have been provided to banks. This equates to a well-balanced portfolio of guarantees across Europe involving 16 countries. There are three commercial banking groups which have benefitted from EaSI guarantees. This leaves space for other banks to offer similar services.[12]

EQUITY CAPITAL

Impact-oriented equity instruments are contracts through which impact investors provide funding to impact organisations and in return acquire ownership rights on part of the investee's businesses. If the investee organisation is successful, the equity share holds the possibility of a financial return in the form of dividend payments and/or the capital gain at the exit. In addition, it allows for the possibility of a transfer of ownership to other funders in the future. This form of capital can be appropriate when the prospect of a loan repayment is low or non-existent. Equity investments are often the preferred investment instruments of business angels, social venture capital funds as well as accelerator-related investment funds. [37]

Social venture capital funds apply the model of traditional venture capital to the funding of social enterprises. It has proven to work well as it helps social enterprises to grow and these funds provide valuable advice in addition to financial support. However, the traditional venture capital model has certain implications. It puts an upward pressure on the fund sizes to cover the relatively high operating costs with a management fee of approximately 2% and is increasingly met with reservations. In addition, funds are usually closed after a few years, which implies that investments have to be exited after 5-7 years.[38]

The first social venture capital funds in continental Europe were established as early as 2003 with Oltre Venture, BonVenture or Phitrust as just some examples of these funds. The second generation of social venture capital funds has combined incubation and acceleration services with investments. This combination has allowed investments that often start at around or below € 100 000 potentially being increased in subsequent investment rounds. The third generation of social venture capital funds has started within different investment fields and has expanded its services to also offer equity

[36] https://www.european-microfinance.org/members/grid.

[37] European Venture Philanthropy Association (2020), "Financing for Social Impact. Financial Instruments Overview". https://evpa.eu.com/uploads/publications/EVPA_Financial_Instruments_Two_Pager.pdf.

[38] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck.

investments. For example, Belgium-based Crédal started as a loan fund and is now offering access to crowdfunding and equity investments.[39]

According to the European Securities and Markets Authority (ESMA, 2019) there are currently 11 funds registered as European Social Entrepreneurship Funds (EuSEF) in Europe.[9] They are listed in six countries and have been registered between 2014 and 2018. The European Venture Capital Funds (EuVECA)[10] label has been met with much stronger demand.[11]

See linked case studies
ESIIF
MAZE/ MUSTARD SEED
INPULSE (HELENOS fund)

QUASI-EQUITY AND HYBRID CAPITAL

A wide variety of hybrid financial instruments (HFIs) exists that are a **variation or combination of features of the key traditional financial instruments**. HFIs are financial instruments that attempt to reconcile some of the basic tensions between the financial requirements of the investors and the impact motivation of the social entrepreneurs.[40]

Mezzanine finance is a hybrid of debt and equity financing, usually used to fund the scaling of an organisation. Although it is similar to debt capital, it is normally treated like equity on the organisation's balance sheet. Mezzanine finance involves the provision of a high-risk loan, repayment of which depends on the financial success of the investee organisation.[41] For some mezzanine loans, the financial returns to the investor are calculated as a percentage of the future revenue streams of the investee. If these are not achieved, then a floor rate – or possibly nothing – is paid to the investor. The return can also be capped and based on gross or incremental revenue. In such cases, there is no dilution of ownership. Traditional mezzanine investors are hold-to-maturity investors, generally focused on cash flow lending. To get mezzanine funding, therefore, enterprises need to have positive cash flow.[42]

Convertible notes are agreements based on which loans given to the investee may be converted into equity. Convertible loans are most often used to support investees with a low credit rating and high growth potential. Convertible loans are also a frequent vehicle for seed investing in start-ups, as a form of debt that converts into equity in a future investing round. It is a hybrid financial instrument that carries the (limited) protection of debt at the start, but shares in the upside as equity if the start-up is successful, while avoiding the necessity of valuing the company at a too early stage.

[39] Ibid.
[40] European Venture Philanthropy Association (2017), "Financing for Social Impact – The Key Role of Tailored Financing and Hybrid Finance". Authors: A. Gianoncelli and P. Boiardi.
https://evpa.eu.com/uploads/publications/EVPA_Financing_for_Social_Impact_2017_online.pdf
[41] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck.
[42] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.

Recoverable grants (or convertible grants) are grants that investors for impact use to fulfil a role similar to equity. Recoverable grants may include an agreement to treat the investment as a grant if the investee is not successful, but to repay the investor for impact if the organisations meet the pre-agreed KPIs with success. Recoverable grants are designed to focus the organisation on sustainability and to reduce its risk of grant dependence.

Forgivable loans are the opposite of convertible grants. They are loans which are converted into grants in case of success. If the investee reaches the goals agreed on beforehand with the investor, the loan does not have to be repaid. The investee bears the full risk of project success and, on top of that, has strong incentives for making it happen as planned.[43]

Revenue participation agreements – revenue sharing agreements (or royalty-based financing) are hybrid financial instruments in which the impact investor lends money to the investee against its future revenue streams. The initial capital plus an additional interest has to be repaid by the company until the pre-established amount is paid back (so called royalty cap), with repayments only starting when the company generates positive cash flow. Investors obtain returns as soon as the investees reach an agreed level of revenue.[44]

> *See linked case study*
> LIMITLESS (revenue participation)

CROWDFUNDING, CROWDINVESTING

Crowdfunding pools often small contributions from lots of individual investors via an online platform. It can involve donations and/or in-kind rewards (traditional crowdfunding) but it can also be structured around debt financing (crowd-lending) or equity (equity-crowdinvesting). The latter two are regulated financial services.[45]

Social investment crowdfunding platforms support social enterprises through deployment of debt and equity instruments. These platforms normally aggregate rather small amounts of capital in a limited time-frame from many individuals (i.e., the crowd) who share a common interest in a specific idea, project or business. In some cases, individual investors also provide non-financial support related to their areas of expertise on a voluntary basis.[46]

Crowdfunding platforms use technology to link demand and supply of financing for social enterprises. Some of the most known platforms in Europe include Bolsa Social, LITA.co and One Planet Crowd. Together, these three platforms have raised more than €60 million and have roughly 35,000 members involved. The average investment size is €140.000 - €300.000.[47]

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[43] European Venture Philanthropy Association (2020). "Financing for Social Impact. Financial Instruments Overview". https://evpa.eu.com/uploads/publications/EVPA_Financial_Instruments_Two_Pager.pdf
[44] Ibid.
[45] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.
[46] European Venture Philanthropy Association (2020), "Financing for Social Impact. Financial Instruments Overview". https://evpa.eu.com/uploads/publications/EVPA_Financial_Instruments_Two_Pager.pdf.
[47] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2019), "Social Enterprise Finance Market Analysis and Recommendations for Delivery Options." Authors: Wolfgang Spiess-Knafl and Barbara Scheck

Civic crowdfunding and match-funding practices that involve public sector institutions as investors have multiplied in the European Union over the past five years. The intrinsic flexibility of crowdfunding models and platforms has allowed for new partnerships with public administrations in a range of different organisational, political, social and economic contexts (see also matchfunding).[48]

SOCIAL IMPACT BONDS

The Social Impact Bond (SIB) model was introduced in Great Britain in 2010. This makes it a rather novel investment model, focused on seeking to finance more effective solutions to social issues. SIBs are contracts between three parties - private investors, government and third sector organisation(s), including social enterprises. The goal is to solve a specific social issue by engaging the private sector. Rather than provide the service itself, the public sector contracts social investors who provide the capital for social enterprises to deliver a set of interventions. The public sector transfers the financial risk of failure of a SIB to its initial social investors, without reducing the overall level of public welfare services performed.[49] If the proposed solution yields better results than the existing public service during an agreed period of time, the government shall reimburse the investment to the investor with interest.[50]

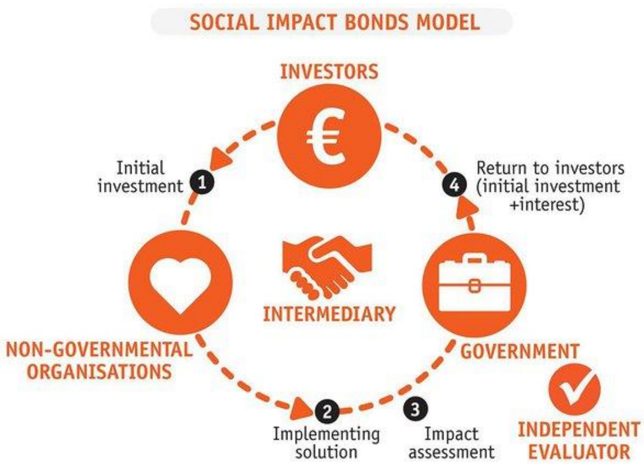

Figure 4: The Social Impact Bonds model. source: Good Deed Foundation[51]

In theory, all three parties as well as the beneficiaries of the service should benefit from the successful implementation of a SIB. The social enterprise or NGO becomes more capable through the long-term contract to provide their service and develop trust with the beneficiaries. The public sector gets to allocate its budget based on performance and get a higher-quality service that yields significant

[48] European Crowdfunding Network (2018), "Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU". Editor: Francesca Passeri. https://eurocrowd.org/wp-content/uploads/2021/12/Triggering-Participation-A-collection-of-Civic-Crowdfunding-and-Match-funding-Experiences-in-the-EU.pdf.

[49] European Investment Bank and the European Commission (2019), "The Portuguese Social Innovation Initiative. The Social Impacts Bonds Programme. Using ESF to finance Social Innovation and Social Entrepreneurship". https://www.fi-compass.eu/sites/default/files/publications/fi-compass%20study%20on%20the%20Social%20Impacts%20Bond%20programme%20under%20the%20Portugal....pdf.

[50] https://www.heategu.ee/sib-eng.

[51] Ibid.

savings in the long run.[52] Investors receive a return on their investment and the beneficiaries get a better service. However, SIBs are complex measures that also have many inherent challenges (e.g., high transaction costs, difficulties with measurability, complicated contracts) and seem to be most suitable for preventative service gaps rather than all forms of social innovation. In 2020 there were 194 impact bonds in 33 countries across six key sectors.[53]

See linked case study
SKILL MILL

MATCH-FUNDING

Match- funding refers to the stipulation set by a grant-providing body or investor that the recipients of a grant or investment raise a certain percentage of the money they require, generally a sum more or less equal to that of the sum of money being granted.[54] Match-funding has been used successfully in the context of grant-making (e.g. by public sector institutions) as well as in the context of crowdinvesting. E.g., Bolsa Social has developed a match-funding scheme for debt with two institutional investors engaged alongside investors in the crowdinvesting platform.[55]

[52] European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets." Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union.
[53] Gustafsson-Wirght, Emily (2020), "What is the size and scope of the impact bonds market?". https://golab.bsg.ox.ac.uk/knowledge-bank/resources/what-size-and-scope-impact-bonds-market/.
[54] https://www.circularcityfundingguide.eu/ccfg-glossary/
[55] European Crowdfunding Network (2018), "Triggering Participation: A Collection of Civic Crowdfunding and Match-funding Experiences in the EU". Editor: Francesca Passeri. https://eurocrowd.org/wp-content/uploads/2021/12/Triggering-Participation-A-collection-of-Civic-Crowdfunding-and-Match-funding-Experiences-in-the-EU.pdf.

II Assessment of the social finance market in Estonia and feasibility of new instruments

2.1 Demand

The exact **number of impact organisations/social enterprises** in Estonia is not known, but it can be estimated that the total number still remains somewhat limited. The studies by European Commission (2019)[56] and OECD (2020)[57] have identified between 120-125 social enterprises in Estonia. However, as outlined in the recent study by Tallinn University as part of the SoFiMa project[58], "accurately mapping the number of social enterprises is a task which can often prove difficult within the Estonian context due to various reasons such as self-identification biases which can lead to under-or over-estimations." The Tallinn University research team identified 385 organisations that could be categorised as social enterprises and to whom direct participation invites were sent in the context of their study (91 complete answers were received).[59] The study considered social enterprises as organisations that have an explicit social purpose, i.e., their main goal is to create positive social impact vs. making a profit for the owners or shareholders. It was also considered necessary that the organisation plans and measures its societal impact and is managed responsibly, transparently, and innovatively, involving its employees, customers, and stakeholders in relevant management processes.

An important aspect to be pointed out is that the most widely used **legal form** for a social enterprise in Estonia is a non-profit association (NPA; 51.7% in the Tallinn University study). Although NPAs in Estonia can earn income from the sale of goods and services, such a legal form is problematic for investors as equity investments cannot be made in this type of organisations. Many social enterprises select the non-profit legal status as they consider this to be more in line with their aims and some key public financing programmes and measures that support activities with societal and environmental impact only accept non-profit organisations as applicants. At the same time, the NPAs are not eligible for the measures of Enterprise Estonia, the principal agency for supporting business development in Estonia – Enterprise Estonia only supports private limited companies. There is also a group of impact organisations/ social enterprises (35% in the Tallinn University study)[60] registered as private limited companies. Some organisations also function in a way that there are two parallel legal entities, both a

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[56] European Commission (2019), "Social enterprises and their ecosystems in Europe. Updated country report: Estonia". Author: Katri-Liis Reimann. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny

[57] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris.

[58] Tallinn University (2022), "Investment needs and investment readiness amongst Estonian social enterprises". Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont. https://www.tlu.ee/sites/default/files/INVESTMENT%20NEEDS%20AND%20INVESTMENT%20READINESS%20AMONGST%20ESTONIAN%20SOCIAL%20ENTERPRISES.pdf.

[59] To date, this study includes the biggest number of social enterprises in Estonia. For comparison, Estonia was also one of the countries included in the European Social Enterprise Monitor inaugural study in 2020-2021, but due to the response rate and limitations of the survey design, the final pool of respondents was limited to 24 organisations. See more: Dupain, W., Pilia, O., Wunsch, M., Hoffmann, P., Scharpe, K., Mair, J., Raith, M., Bosma, N. (2021), "The State of Social Enterprise in Europe – European Social Enterprise Monitor 2020-2021. Euclid Network, Social Enterprise Estonia (2021), "European Social Enterprise Monitor – Estonian report 2020-2021". Author: Katri-Liis Lepik.

[60] Tallinn University (2022), "Investment needs and investment readiness amongst Estonian social enterprises". Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont.

non-profit organisation and a private limited company, and the first deals with activities that are considered to be more on the non-profit side while the other focuses on business activities. By Estonian law, the NPAs are allowed to establish private limited companies if it is in accordance with their statutory aims, and if the company distributes profits, the NPA may use it for the benefit of its statutory purposes.

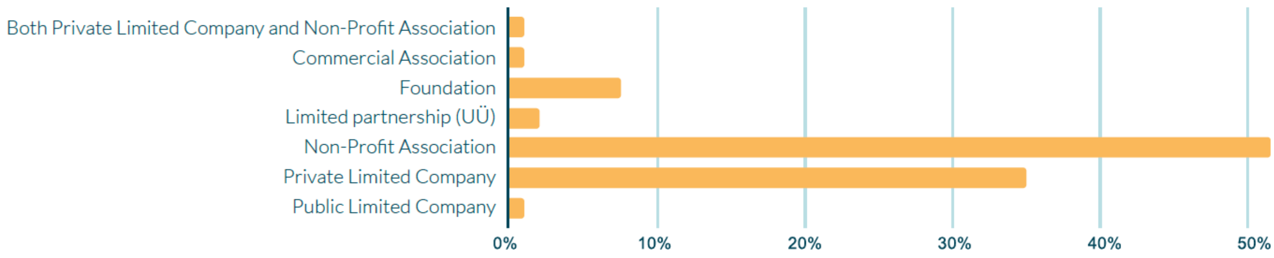


Figure 5: The legal status of organisations that participated in the study by Tallinn University

According to the Tallinn University study, the Estonian social enterprises primarily operate on a national level. In terms of areas of activity, no single dominant group emerged. The surveyed social enterprises were active within the fields of education (16.5%), health (13.2%), social work (11%), and technology (9.9%). Technology and health are more prevalent in the start-up stage of development, while social work is more prevalent in the late implementation and growth stage.

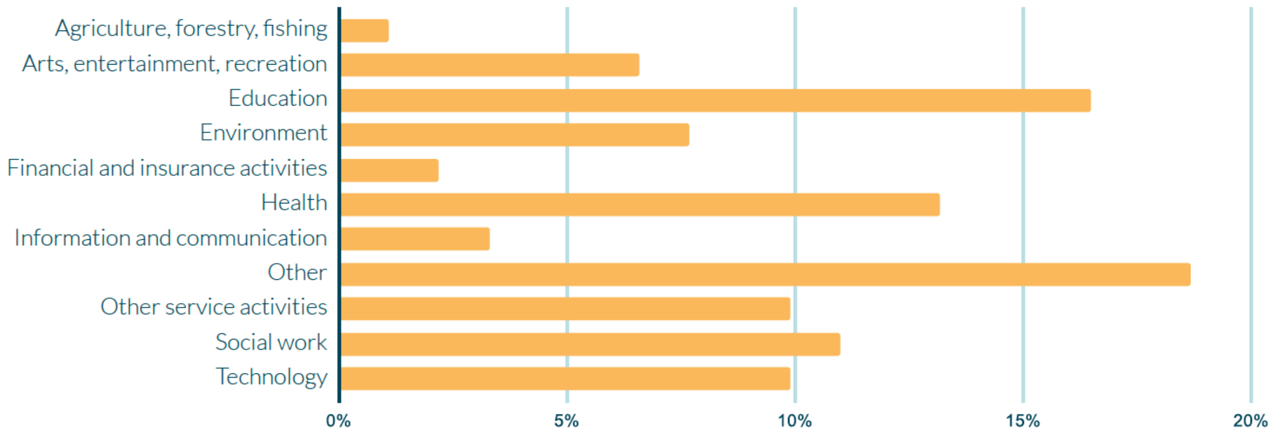


Figure 6: The main business activities of organisations that participated in the study by Tallinn University

The organisations that participated in the study are strongly focused on generating revenue via their business activities. A total of 47.3% of participating organisations stated that the main revenue source for them today is business activities (primarily, sale of its products or services). More importantly, 60.4% of the organisations have set a goal to have business activities as their main revenue source and become more financially sustainable over the next twenty-four months. Additionally, 61.5% of those social enterprises which participated in the survey stated that at least 25% of their income comes from the sale of their products or services, and 78% of social enterprises expected to earn at least 25% of their revenue from the sale of their products or services over the next twenty-four months.

The surveyed social enterprises are also **actively working to engage external financing.** The social enterprises are **primarily interested in grants.** A total of 61.5% of the surveyed organisations said that, in the last twenty-four months, they applied for or raised funding from 'Grants/project funding (including vouchers and operating grants)'. Additionally, 78% of the organisations stated that they plan to apply for this kind of funding over the next twenty-four months.

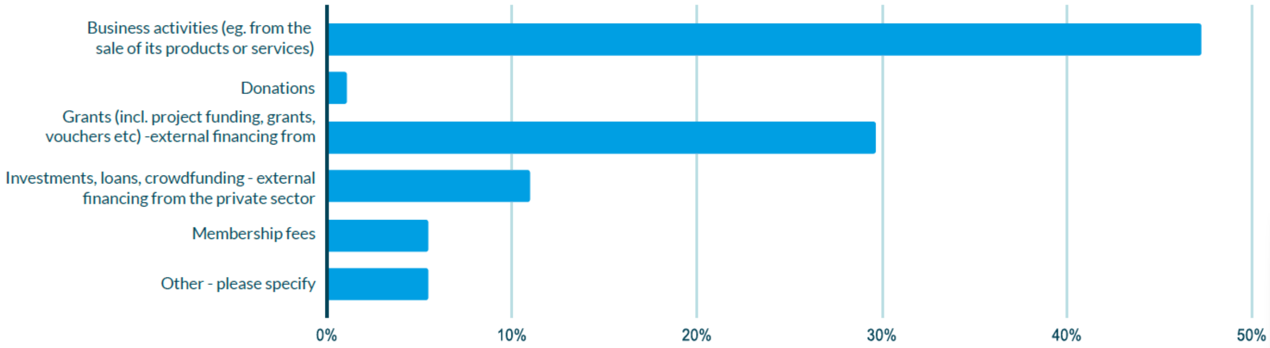


Figure 7: The main revenue sources of organisations that participated in the study by Tallinn University (based on the last 24 months)

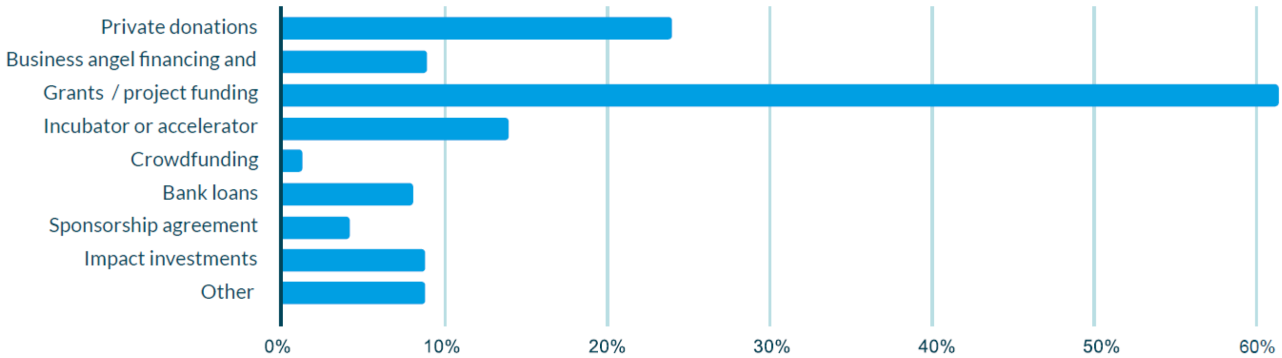


Figure 8: Sources which the participants of the Tallinn University study have used for external funding in the past 24 months

Only slightly more than **one tenth of the surveyed organisations had engaged investments and other external private sector financing** (such as crowdfunding, loans) in the previous twenty-four months. Only ca 8% had experiences with engaging impact investments. The share of organisations that had engaged investments and other private sector financing was higher among younger organisations that are currently in their start-up phase, amounting to 30%. However, according to the Tallinn University study, social enterprises see that the **relative importance of impact investments will be growing in the near future:** ca 24% of the respondents are planning to work towards engaging impact investments in the next 24 months. The majority of the respondents in the Tallinn University study targeted an investment figure of up to 25 000 euros over the next three years.

It also needs to be mentioned that during the interviews several answers showcased a general confusion around the term 'investment', especially for those social enterprises registered as NPAs. Out of the total pool of respondents, 18.7% stated that their organisation has 'No investors', outlining that they do not know how to find investors, and especially investors who would be interested in: 1) those issues which these organisations are tackling; 2) social enterprises in general; or 3) organisations which are growing slowly or are still in the 'seed stage', 'start-up stage', or 'early implementation and growth stage'. Several organisations also shared what they believed were the reasons for not being able to meet the requirements of investors, such as meeting set goals on time or having the organisation's monitoring validated.

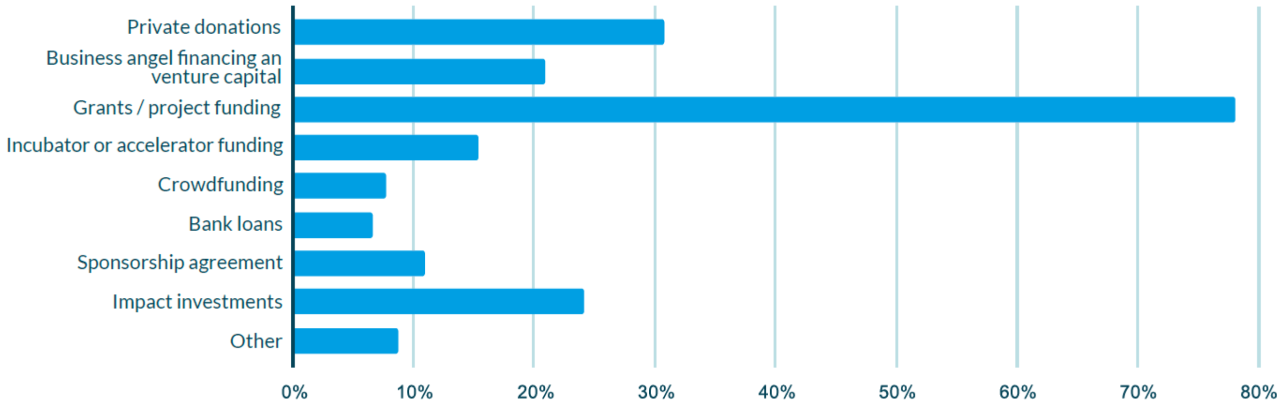


Figure 9: Sources from which the participants of the Tallinn University study are planning to apply for/raise funding in the next 24 months

The results of the Tallinn University Study are broadly in line with the results of the "Discussion Paper on Social Impact Investment in the Nordic-Baltic Region" by Nordic Council of Ministers Office in Estonia (2018).[61] The conclusion to be drawn from both studies is that **social entrepreneurs are in general not ready to involve investors, as they are more familiar with grants** and have limited or no prior experience with investments. **NPAs also have not been built up to enable certain types investments due to their legal forms** and related restrictions. The discussion paper also points out that social enterprises are often relatively risk averse and fear the potential loss of control related to involving outside investors. In addition, the social enterprises lack some of the critical skills needed to manage an organisation to be invested into and scaled up.

In the study by Tallinn University, the social enterprises also outlined **various barriers** in terms of reaching their ideal revenue goals. A total of 38.5% of the organisations stated that there is a general **lack of financial support mechanisms** in place. 38.5% of the respondents also outlined a **lack of employees** as a barrier. These results are in line with the results of the European Social Enterprise Monitor Estonian country report (2021) in which the involved social enterprises also brought out the lack of financing measures as one of the main problems (38%), outlining also the limited awareness related to social entrepreneurship among banks, investors and support organisations (21%).[62]

Another key topic related to social enterprises and impact organisations is **impact management and measurement**. The Tallinn University study concludes that social enterprises in Estonia **need support related to impact assessment frameworks and tools.** A total of **60.4%** of the respondents **do not regularly measure their social impact**, while **82.4% do not measure their environmental impact**. Additionally, 68.1% of the organisations do not follow the United Nations 'Sustainable Development Goals' as a measurement tool.[63]

[61] Nordic Council of Ministers Office in Estonia (2018), "Discussion Paper on Social Impact Investment in the Nordic-Baltic Region. Ideas and opportunities, needs and challenges." https://sua.lv/wp-content/uploads/2018/09/SocialimpactinvestmentintheNordic-Balticregion_A4_5bl_trykk.pdf.
[62] Euclid Network, Social Enterprise Estonia (2021), "European Social Enterprise Monitor – Estonian report 2020-2021". Author: Katri-Liis Lepik.
[63] For those that do measure their impact, the study included an open-ended question to indicate the impact measurement methods utilised. The respondents outlined the following impact measurement mechanisms: 1) surveys; 2) baseline and endline impact research amongst beneficiaries; 3) an internal evaluation of the organisation's work; 4) focus group interviews or quantitative observations; 5) using a feedback form or a book in which to record customer satisfaction levels; 6) testing the specific target group or beneficiaries to see if there has been any progress in their situation; 7) statistics; 8) the MEL system ('Monitoring, Evaluating, Learning'); 9) calculations, and collecting data and statistics; 10) a comparison with previous periods of evaluation; 11)

In addition, another recent study ordered by SmartCap (subsidiary of the joint venture between KredEx and Enterprise Estonia) and carried out by Ernst & Young (EY)[64] is relevant to be reflected upon in the context of this feasibility study. The EY study focused on **Estonian green technology companies whose activities potentially contribute to reducing or solving environmental problems**, forming a specific sub-group of impact organisations that are at the focus of the feasibility study. The study was conducted in early 2022, and included in-depth interviews with 23 green technology companies and 11 capital providers. The goal of the study was to map and assess capital shortcomings and the need for additional capital for existing Estonian green technology companies. A key result of the study is that **hardware-focused green companies currently struggle the most with engaging external capital.** The study shows that the business model of such companies is generally perceived as less attractive and too time-consuming by investors. It is much more difficult and expensive for such companies to start production or scale up than for software companies.

The participants in the EY study were technology-intensive companies with business models aligned with engaging investments and external funding. The preferred sources of external capital to be engaged included VC funds (15 companies out of 23), business angels (13 companies), public funding (competitive funding by European Commission, Estonian Environmental Investment Centre, etc.; 12 companies), bank loan (7 companies). While the participants in this study were, in general, more investment ready than organisations participating in the Tallinn University study, public funding and grants remained important for the respondents of the EY study as well due to the high R&D-intensiveness of their activities.

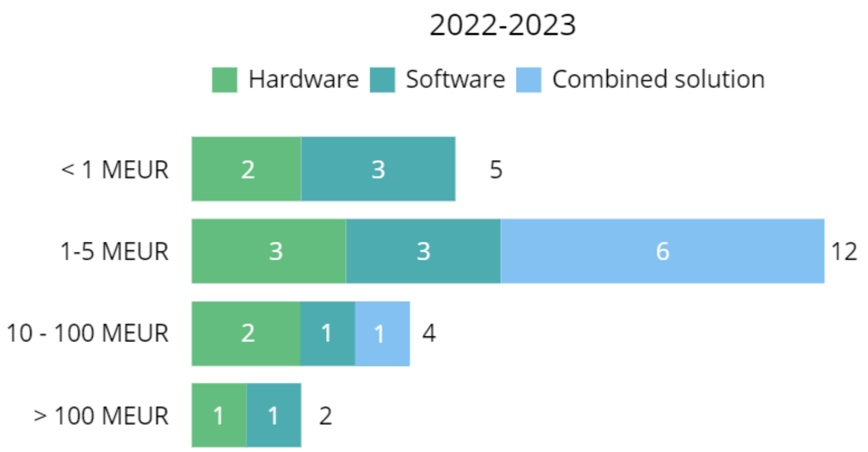


Figure 10. Additional capital demand of greentech companies in 2022-2023, n=23. Source: Ernst & Young[65]

interviews and analysis; 12) using the footprint calculator; and 13) direct in-person feedback during sales of the organisation's service or product. Source: Tallinn University (2022), "Investment needs and investment readiness amongst Estonian social enterprises". Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont; p36.

[64] Ernst & Young (2022), "Analysis of capital needs of the Estonian green technology companies". Summary of the study (in Estonian) is available at: https://smartcap.ee/study-greenfunds-100-meur-could-be-directed-first-and-foremost-to-hardware-companies/?pageNumber=1.

[65] Ibid.

Regarding the need for additional capital, the majority of the respondents aimed to engage funding in the sum of 1-5 MEUR. The general conclusion was that the need for additional capital increases with reaching the next level in the development phase of the company. Companies focused on hardware/ physical products need the most additional capital, and the companies with combined solutions (software + hardware) need additional financing primarily for the hardware component. 61% of the participants rated the availability of the capital to be average (22% found the availability of capital to be good and 17% bad). The respondents outlined that **access to external capital is the most complicated in the business idea stage** (difficulties in finding financing for validating the solution). While access to capital improves with reaching the growth and scale-up stages, the **hardware companies generally struggle with accessing external capital in all development stages**.

The participants in the study also pointed out that the low readiness of Estonian society to start using green technologies and solutions is a significant obstacle to bringing them to the market. According to entrepreneurs, this is illustrated by the slowly changing regulatory environment, and by the lack of social and regulatory pressure on end-users and companies to be more environmentally friendly.

In sum, it can be said that there is room for improvement in terms of access of Estonian social enterprises and impact organisations in different sectors to existing financing measures. In addition, this type of organisations could benefit from additional measures that take into account the specific situation on the market and future development perspectives.

2.2 Supply

PUBLIC SECTOR DRIVEN FINANCING: GRANTS, SOCIAL IMPACT BONDS AND OTHER INITIATIVES

The OECD policy review on Social Entrepreneurship in Estonia (2020)[66] outlined several conditions in Estonia that provide fertile grounds for the development of social entrepreneurship and social enterprises in the country. These include a dynamic civil society and existing welfare traditions, membership of the EU, and the recent reform of the municipal governance transferring greater competences and resources to local authorities. The Network of County Development Centres (15 centres i.e., one per each county in Estonia) provides specific support services and counselling to NPAs in addition to companies.

On the other hand, there are a number of challenges in the ecosystem, including the lack of a coherent policy framework to support social entrepreneurship and impact organisations. There has been no unified vision of social entrepreneurship and innovation in Estonia, although various documents and development plans exist that are relevant in this perspective. These include the long-term development strategy "Estonia 2035", "Development Plan for Research and Development, Innovation and Entrepreneurship (RDIE) 2021–2035", "Coherent Estonia Development Plan 2021-2030", and the program "Community Estonia".

Moreover, the OECD policy report outlines that “social enterprises, in particular in the form of non-profit associations /…/, and foundations do not have access to public business support programmes and financial schemes”.[67] A **limited amount of public financing is available through the National**

[66] OECD (2020), “Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review”, OECD LEED Papers, 2020/02, OECD Publishing, Paris.
[67] Ibid.; p8.

Foundation of Civil Society (NFCS) which is the main state financed organisation providing grants to the civil society (grant size per one project is generally up to 25 000 EUR or less).[68] The NFCS provides grants to the NPAs and foundations, but does not support other forms of social enterprises. On the other hand, **Enterprise Estonia**, the main agency for supporting business development in Estonia, **only supports private limited companies**. Organisations focusing on delivering environmental impacts can apply for grants by the **Environmental Investment Centre** (EIC); both companies and NPAs can apply for EIC grants. In addition, the **State Shared Service Centre** coordinates a programme offering some small-scale funding to initiatives working on community development and services (applications are submitted to development centres/ associations of municipalities in respective county).[69]

In 2022, some positive developments can be outlined regarding solving the range of problematic issues discussed above. The Ministry of the Interior, in cooperation with a variety of ecosystem partners, has committed to start preparing a **Social Innovation Action Plan** to ensure coherence and coordination in the field and support social entrepreneurship in Estonia. In the context of the Social Innovation Action Plan, the following topics will receive particular attention:

- creating a mechanism (potentially a fund) for supporting innovative initiatives
- setting up novel financing opportunities
- removing the current restrictions from the existing financial instruments targeting the business sector and civil society (i.e., NPAs and foundations could apply for business support measures and limited companies to civil society measures if their activities are in line with the goals of the financing instrument)
- creating a supportive tax environment for philanthropy
- facilitating the development of a more supportive ecosystem for social innovation[70]

An important initiative in the ecosystem is the plan to establish a **Competence Center for Social Innovation** in Estonia. The initiative is coordinated by the NFCS, in cooperation with the Ministry of the Interior, Ministry of Social Affairs, the State Shared Service Centre, Tallinn University, Võru County Development Centre, and Social Enterprise Estonia (in the framework of a joint project supported by the European Commission). The main aims of the competence centre are to develop social innovation in Estonia and create synergies in the ecosystem.

Social innovation is also a relevant topic in the context of **Accelerate Estonia** [71] set up in 2019 by the Ministry of Economic Affairs in collaboration with various partners. The initiative aims to generate disruptive innovations to tackle 'wicked' policy problems. During its pilot phase, Accelerate Estonia aims to fund the development of business plans and prototypes in eight priority public policy areas, including social welfare, the labour market, circular economy, health, construction, energy transition, the real-time economy and life environment.[72] Several initiatives among currently running projects are focused on mental health issues, and one of the initiatives supported is developing a solution for companies to comply with the EU sustainable financing taxonomy.

[68] https://kysk.ee/en/.
[69] https://rtk.ee/meede-kohaliku-omaalgatuse-programm.
[70] Presentation by Raivo Küüt, Undersecretary for Population Facts and Civil Society of the Ministry of the Interior in the SoFiMa Roundtable with policy makers on 16 February 2022.
[71] https://accelerateestonia.ee/.
[72] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris.

In addition to grants provided by the Estonian state, funding for civil society organisations and social enterprises is also available via **international funding opportunities**. For example, grants for civil society actors are available in Estonia via the **Open Estonia Foundation** (OEF) that coordinates the **Active Citizens Fund** in partnership with the Network of Estonian Non-profit organisations (NENO). This funding originates from the EEA and Norway Grants programme, funded by Iceland, Liechtenstein and Norway and amounts in total to 3.3 MEUR in Estonia in the period of 2019-2023. As Estonia is a member of the EU, Estonian social enterprises are also eligible to apply for competitive funding in the EU available via e.g., Horizon Europe, EaSI, LIFE programme, etc. Here, the financial and organisational capacity of the potential applicants sets limits for many potential applicants, particularly in case of larger projects that also require co-financing from the project partners.

Regarding other **relevant smaller-scale initiatives**, for several years, the Good Deed Foundation and NFCS have been jointly running a **social enterprise incubator, NULA**. Up to three best initiatives in the NULA competition can receive financial support worth EUR 25,000 from the NFCS (the funding is only available to NPAs and foundations). In addition, **Ajujaht** (Brain Hunt), Estonia's largest start-up competition, includes a special social enterprise award, which was introduced in the 2009/2010 competition, given out also in 2012/2013 and then annually since 2015/2016. The competition is run in collaboration with the NFCS, Estonian Social Enterprise Network (ESEN) and SEB Bank.

Social impact bonds (SIBs) are one of the specific measures used in many countries to solve a specific social issue in collaboration between the government, the private sector and third sector actors. As the public sector is the partner issuing a contract with other partners, it therefore has a central role in setting up SIBs. Estonia currently has no SIBs in place, although there have been discussions on setting up such measures as well as a pilot project carried out. In 2014, the Good Deed Foundation in cooperation with Social Enterprise Estonia initiated a feasibility study and cost-benefit assessment for launching Estonia's first social impact bond model. Decreasing juvenile delinquency with an 'Aggression Replacement Training' programme was identified as the most suitable area for Estonia's first social impact bond project. Furthermore, in June 2015, four private persons and organizations confirmed their interest in investing in SIBs.[73] Unfortunately, the pilot never materialized into reality due to obstacles related to public procurement. Based on the current social economy development stage in Estonia, it might be that the market is not yet ready for SIBs (lack of experience with social innovation, lack of social investors, lack of capable SEs).

PRIVATE SECTOR FINANCING AND IMPACT INVESTING

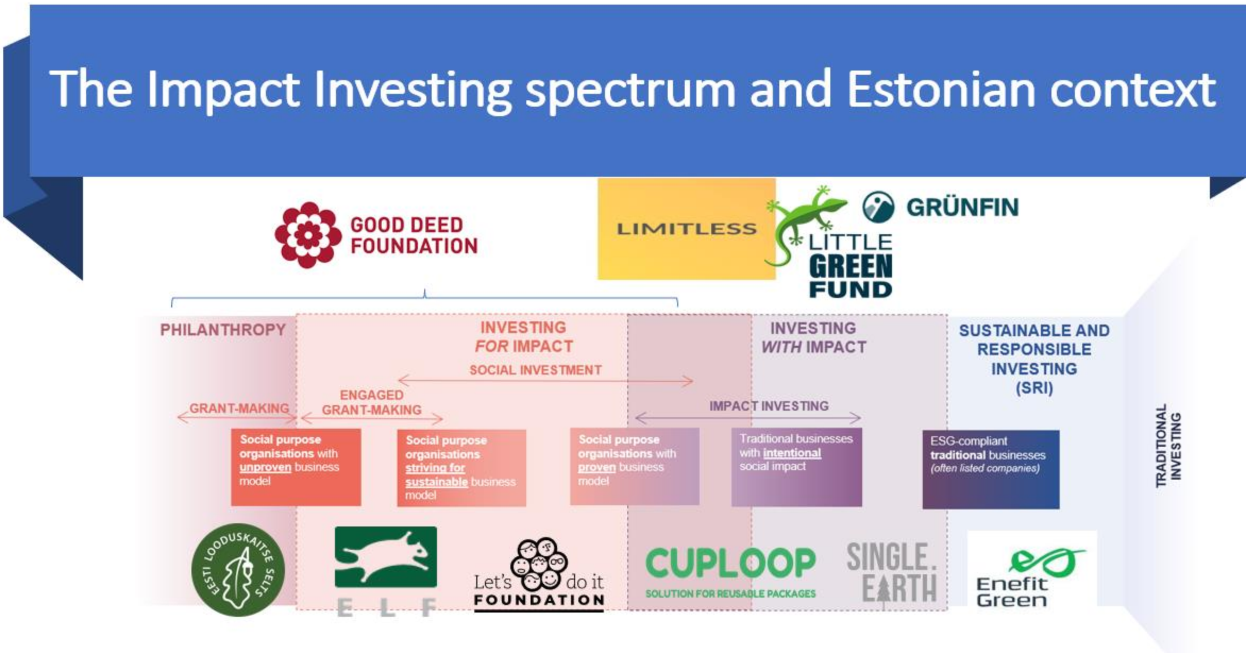
Investment funds

The impact investing market is still in the **early development stage** in Estonia. However, the last three-four years have shown considerable developments in the field, and several impact-focused funds have emerged. At the time of preparing the SoFiMa project, there was only one venture philanthropy fund in Estonia, the **Good Deed Foundation Impact Fund**[74] (please see case study in Annex 1). The Good Deed Foundation (GDF) currently also runs a complementary Education Fund, supporting initiatives that solve acute problems in the general education sector. The total fund size (two funds combined) is four million euros. In addition, at the end of 2019, the **Limitless Fund** (please see case

[73] Good Deed Foundation (2015), "Feasibility study on implementing Social Impact Bonds in Estonia", https://www.heategu.ee/sib-eng.
[74] https://www.heategu.ee/en.

study in Annex 1)[75] was set up as a promising new initiative, targeting social innovation start-ups at the seed stage in Central and Eastern Europe. Limitless is fully operational currently and invests in scalable products and services addressing responsible consumption and production, digital health, and digital education. Limitless offers financing to its investees based on the revenue sharing model.

After 2019, some additional initiatives related to impact investing have emerged. This includes **Grünfin**[76]**,** an Estonian-German female-founded startup that runs an investment platform focused on sustainable, values-based investments for European consumers. The company raised €2M for its launch at the end of 2021. Another initiative, the **Little Green Fund**[77] is focused on cleantech, greentech, and sustainability-related equity investments. The Little Green Fund usually invests up to €50,000 into the first rounds of promising cleantech and greentech companies. Some additional impact-focused funds and instruments are currently being developed.



Author: Rene Tõnnisson based on EVPA Impact Investing Spectrum

Figure 11: The Impact Investing spectrum in Estonia in 2022

Figure 11 outlines **the position of the existing Estonian impact investment funds across the European Venture Philanthropy Association (EVPA) Impact Investing Spectrum.**[78] The figure shows that the impact investing spectrum is, in principle, covered in Estonia by different actors. However, **most of the financing can be found in the Investing *with* Impact** section, while there are not many actors supporting the **Investing *for* Impact** section (currently the Good Deed Foundation represents this part of the spectrum).

Most of the initiatives mentioned above are **backed by successful startuppers**, alumni of, e.g., Bolt, Skype, Wise, and others. The vibrant start-up scene in Estonia, with more unicorns per capita than any

[75] https://limitless.fund/.
[76] https://www.grunfin.com/.
[77] https://www.littlegreenfund.com/.
[78] EVPA (2019), "Investing *For* Impact. EVPA impact strategy paper".
https://evpa.eu.com/uploads/publications/EVPA_impact_strategy_paper.pdf

other country in the world,[79] has definitely had and continues to have positive spill-overs to the impact investing field. As impact investing is becoming increasingly important in the international start-up community, Estonia is not left untouched by this movement. As demonstrated by the results of the analysis carried out by Baltic Innovation Agency (BIA) among investors in Estonia[80], impact investing is also a topic of increasing importance among Estonian business angels and traditional institutional investors.

Based on interviews and discussions with representatives of investment funds carried out in the context of the BIA study, it can be concluded that **Estonia's impact investing landscape will expand and mature significantly** in the near future. The existing funds´ investment strategies will need to be adapted and changed to reflect the impact dimension more clearly. Most of the older funds are currently already making impact investments, however, they are looking at impact investing on a 'gut feeling' basis. However, in the future, those aspects are expected to be **clearly reflected in formal investment guidelines and documents.** It was also indicated in the interviews that during the coming years, more efforts need to be put in Estonia into awareness raising and specific training on impact investing to make it clearer what exactly is covered by this term, which kind of business models and approaches are available and suitable to Estonian context and what are the **methodologies and tools** suitable **for assessing impact on both *ex-ante* and *ex-post* basis.**

Regarding the development of the venture capital market, the Estonian state also has its role to play. SmartCap is the key player in this context, being registered with the Financial Supervision Authority as a small fund manager which manages the state Venture Capital Fund and GreenFund. **GreenFund** is a new initiative through which equity investments in the amount of **100 million euros** are planned to be made until 2026 alongside private investors. While the GreenFund is not planned to have an explicit impact focus, it will create new opportunities for 'green impact' companies and investors. The recent study procured by SmartCap and carried out by EY[81] outlined substantial interest from the side of investors in green technologies, however, as already marked above, the biggest gap in terms of need for support as well as investor interest remains for greentech companies developing hardware/ physical products. Therefore, the study recommended GreenFund to focus its investments primarily on hardware companies. The more detailed terms and conditions for GreenFund are currently being developed. SmartCap plans to select the private funds to co-invest with in the near future and make first investments already in 2022.

Business angels

In addition to investment funds, **business angels** are an important stakeholder group in the investing field. In the context of the 'supply-side' study on impact investing in Estonia conducted by BIA, a survey was carried out among the members of the Estonian Business Angels Network (EstBAN), the key national business angel network uniting in total 250 angel investors investing in Estonia. The survey results provide an overview of the experiences, interests, and future outlooks of 40 (potential) impact investors among the EstBAN members.

Out of the total pool of respondents, **60% had existing experience with making impact investments** in Estonia or elsewhere. Two-thirds of those with some experience with impact investments had made 2-5 such investments and invested 10 000 – 50 000 euros. The interest of

[79] EU Innovation Ecosystem Leaders Group "Action Plan to Make Europe the new Global Powerhouse for Startups", 2021
[80] Baltic Innovation Agency (2022). "Private investor readiness to invest in impact organisations in Estonia".
[81] https://smartcap.ee/greenfund/.

Estonian business angels in impact investing is increasing: all respondents said they are (potentially) interested in making impact investments in the future. Regarding **future investments**, 40% plan to invest 10 000 – 50 000 euros in impact organisations in the upcoming three years. 27% plan to make impact investments in the sum of up to 10 000 euros and 25% are willing to invest more than 50 000 euros in impact organisations. In terms of **sectoral investment preferences** in line with the United Nations Sustainable Development Goals, 55% of the respondents indicated an interest in **Affordable and Clean Energy** and 42.5% in **Industry, Innovation and Infrastructure**, 35% of the survey respondents were interested in Responsible Consumption and Production and Climate Action. These are the fields that the angels are also probably more acquainted with in making 'traditional' investments.

Regarding the **stage of investments**, the Estonian business angels surveyed had a stronger interest in the **start-up stage** (85%), followed by **seed** (55%) and **growth** (37.5%) **stage.** The preferred form of making impact investments for the vast majority (92.5%) of the business angels participating in this study was taking **equity** in investees, followed by **quasi-equity/convertible note** (67.5%, i.e., 27 persons). The investors are less interested in providing **debt financing** and participating in SIBs (the latter can also be explained with no experience with SIBs as such instruments have not been used in Estonia so far).

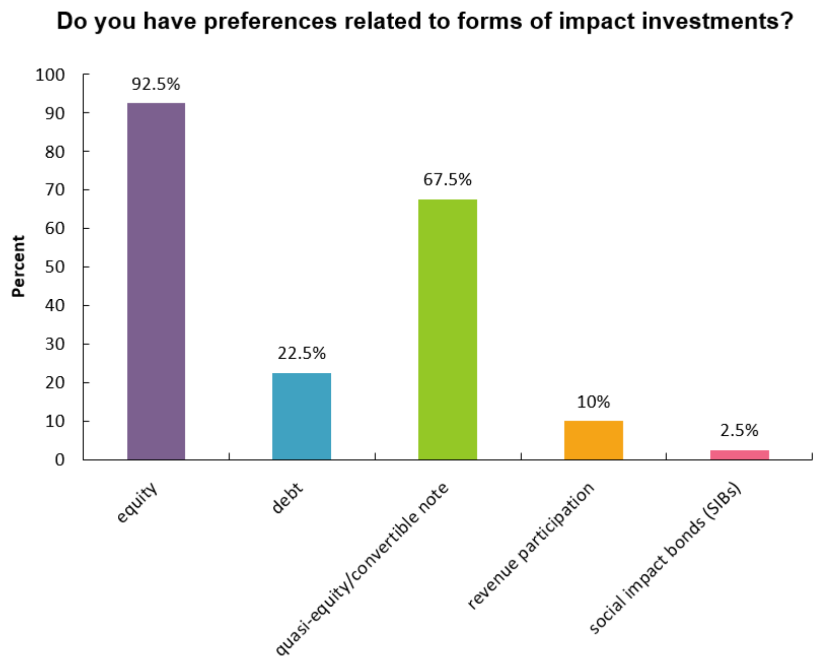


Figure 12: Preferences of Estonian Business Angels in terms of forms of impact investment

The survey also tried to clarify the positioning of the business angels involved in the study along the **'finance-first - impact-first' continuum**, i.e., what kind of a balance between financial returns and achieving a certain social or environmental goal/impact do the respondents personally pursue. The key point to be outlined here is that the **majority**, i.e., 57% of the respondents (23 persons), are willing to invest in impact organisations **only on the same terms as in the case of traditional investments.** This indicates that most business angels welcome impact organisations as potential investees but are not willing to make changes in their existing ('traditional'-investment-focused) investment strategies and put a specific emphasis on impact investments. However, on the other hand, two fifths of the respondents are also **willing to accept lower financial returns** if a clear social and/or environmental impact is delivered.

The business angels were also asked to outline **the main difficulties in making impact investments.** These include evaluating investment opportunities (62.5%), finding investment opportunities with a skilled management team (55%), and finding investment opportunities matching the investor's profitability criteria (45%).

The study carried out by BIA outlined some **broad-scale conclusions** based on information gathered from **both business angels and representatives of investment funds** in Estonia, which are relevant to support the development of impact investing in Estonia in the coming years:

- There is a **need for a consensus in terms of the terminology used** – what is understood as impact investing and what kind of investments into what kind of organisations are considered impact investments. Although certain definitions of course already exist, there is still some vagueness and uncertainty in this domain.
- As impact investing can be considered a growing trend, there is a danger of 'impact washing', which is already a problem in more developed markets. To combat this, the terminology used needs to be complemented with **high-quality and user-friendly impact management and measurement frameworks and tools**.
- To facilitate higher and deeper engagement of investors in impact investing, there is a need for **more ecosystem activities targeting also 'traditional' investors**.
- Last but not least, a crucial factor for increasing the investors' interest in impact investing is developing **a sufficient deal flow of good investment opportunities**. This means that the investment readiness of impact organisations needs to be improved.

Other private sector financing: debt funding and guarantees, crowdfunding

Looking at the contribution of **banks** to sustainable social economy in general, a recent study by Estwatch (2020)[82] outlined that there is still considerable room for development. In Estonia, **KredEx**[83] has been providing **loan guarantees** for companies, housing loan guarantees, and an extraordinary small loan guarantee as a temporary countermeasure to help dealing with COVID-19 difficulties. KredEx had a specific instrument for a guaranteed start-up and micro loan in Estonia between 2008-2013. The KredEx guarantee helped reduce risks for banks and therefore opened financing opportunities for starting businesses who otherwise had trouble securing initial capital from banks. The start-up loan was intended for investment and working capital for small and medium-sized enterprises and self-employed persons who had been operating for up to 3 years. Loans of up to 64,000 EUR were provided. The loans were issued by five commercial banks (Swedbank, Nordea Bank, SEB, Credit Bank and Marfin Bank). The measure was financed from the European Union Social Fund in the amount of 6 million euros in 2008-2013.[84]

So far there is no dedicated guarantee fund for social enterprises in Estonia, however, social enterprises are welcome to use the existing general guarantee instruments for companies. In addition to banks and KredEx, the **Good Cooperation Savings and Loans Association** takes deposits and

[82] Estwatch (2020). "Sustainable banking in Estonia. Assessing and comparing Estonian banks on the sustainability of their investment and financing processes", https://www.estwatch.ee/raport-vastutustundlikkus-eesti-panganduses/?fbclid=IwAR2nlj7D4qLyVx3NtClAVYjBv61ZpkZuGSEVmCzjRnfnKPtRZG6FWqZOUS0.
[83] KredEx is a foundation set up by the Ministry of Economic Affairs and Communications in 2001 with the aim of providing financial solutions based on the best practices in the world. Enterprise Estonia and KredEx merged at the beginning of 2022, and the legal name of the new organisation is the Estonian Business and Innovation Agency. The final merger will take place in the course of 2022 (https://kredex.ee/en/who-we-are/sa-kredex).
[84] https://kredex.ee/en/node/1545.

lends money to ecologically and socially responsible projects in Estonia (both NPAs and companies can apply for the loan). The maximum loan amount is limited to 10 000 euros. The **Rural Development Foundation**[85] issues guarantees to banks for credits granted to farmers and other entrepreneurs in Estonian rural areas as well as loans to enterprises and NPAs that "enable the creation or maintenance of jobs in rural areas or improve or maintain the quality of life in rural areas." In addition, **SEB bank** has set up a green microloan for businesses for purchase of solar panels and electric car charging stations.[86]

Currently two financial institutions provide microfinancing to Estonian companies with the support of EU funds. **Finora Capital**[87] offers microloans in the range of 3000 - 25 000 EUR. This financing is provided through the EaSI programme and financed with European Investment Bank and European Investment Fund resources. The maximum loan sum is dependent on the monthly revenue of the company. The duration of the loan is between 6-36 months and interest rate starts from 1.25%. No collateral is required. The instrument is promoted as flexible (repayment schedule) and fast in terms of obtaining the funding. It can be used for starting a business, acquisition of fixed assets, financing of current assets and for making other small investments.

LHV Bank also has a microloan instrument, set up with the European Investment Fund guarantee. The guarantee's purpose is to promote the availability of funding for vulnerable segments of the population wishing to set up or develop their own company; assist micro enterprises whose collateral is of insufficient value to be able to take out a regular loan, and simplify financing solutions for developing companies. The loan instrument is meant for micro enterprises in their growth phase. The loan can be used for the development of business, for example, purchasing equipment or machinery, obtaining working capital or making other small investments. The loan sum can be in the range of 5000 – 50 000 EUR for a period of 1-6 years. Interest rates start from 6% + Euribor.[88]

Based on the meetings with representatives of Estonian banks during the implementation of the SoFiMa project, it seems that commercial banks would primarily be willing to provide specific support to social enterprises if there were (state) guarantees in place to reduce their risk. The new InvestEU programme that consolidates the European Commision´s s investment activities in 2021-2027, also provides opportunities for creating new guarantee funds in Estonia

Regarding other opportunities in the private investment market for impact organisations, Estonia's **leading crowdfunding platform**, **Hooandja**[89], is primarily focused on supporting projects with social and cultural goals. The funding available through this platform remains quite limited, though. There are no specific impact-crowdfunding/ investment platforms in Estonia, however, the social enterprises registered as companies can, in principle, also use **Funderbeam** and **Fundwise** that are traditional crowdinvesting platforms available for Estonian companies. In 2022, the team behind Hooandja and Fundwise also set up a specific crowdfunding platform for projects in support of Ukraine, **Toeta.me**.[90] In terms of philanthropy, banks are also important players. Swedbank operates a purely philanthropic donation platform, Armastan Aidata (I Love to Help),[91] through which it is possible to donate for social

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[85] https://mes.ee/en/rural-development-foundation.
[86] https://www.seb.ee/en/business/financing/green-microloan.
[87] https://finoracapital.eu/mikrolaen/.
[88] https://www.lhv.ee/en/micro-loan.
[89] https://www.hooandja.ee/en.
[90] https://toeta.me/.
[91] https://www.armastanaidata.ee/.

causes relevant for individuals or organisations making the donation. SEB Bank also has a philanthropy programme, focused on supporting children.[92]

Support for the development of investment readiness

As outlined in the study on the 'demand' side of social finance by Tallinn University,[93] the investment readiness of social enterprises in Estonia can be considered relatively low, which also means that there is not enough deal flow for investments. The study concluded that *"*Investments would need to come with a slow return of investment expectations as the organisations are not looking for fast growth or large-scale expansion. Instead, the 'Social Return on Investment' (SROI) should be directly linked to measuring created impact. Currently over half of organisations do not measure their societal impact, but this factor is also linked to the lack of any necessity to do so."[94]

A recent OECD study (2020) also outlined a need for services that would develop social entrepreneurial capacity and skills in Estonia. At the time of conducting this study, there was a lack of programmes and support services available for social enterprises (especially those with a NPA legal form; the existing programmes included NULA social incubator and the Brain Hunt start-up competition that offered a special social enterprise award). One of the conclusions of the study was that "it is important to diversify the type of capacity building and skills development programmes (i.e., accelerators, workshops, short courses) while better linking them to the provision of finance and funding opportunities."[95]

Since the OECD study, new initiatives have appeared to fill that gap, including programmes that seek to support the creation of social enterprises and develop impact management skills. For example, within the SoFiMa project, **two incubation programmes were carried out in Tallinn and Võru county**. Both programmes lasted for 6 months and consisted of workshops occurring every 2-4 weeks. The programmes piloted slightly different methodologies, with the one in Tallinn using individual mentors while the one in Võru opted for specific assignments for the teams. An overview of the topics covered in the Tallinn programme included is provided in Figure 13.

[92] https://www.heategevusfond.ee/
[93] Tallinn University (2022): 'Investment needs and investment readiness amongst Estonian social enterprises'. Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont.
[94] Ibid., p46.
[95] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris.

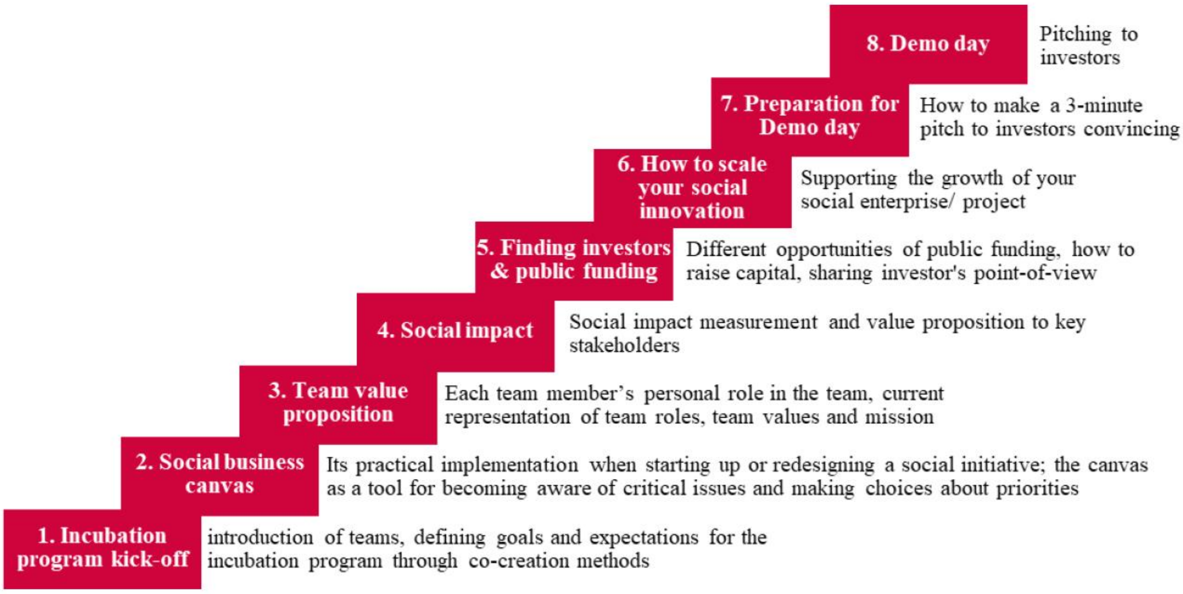


Figure 13: Methodology of the Tallinn University incubation programme as part of SoFiMa

Due to the limited number of social enterprises in Estonia, both programmes had to accept teams with different maturity levels. This caused situations where some workshops were more relevant to more advanced teams and vice-versa. One of the key lessons learned from both programmes was that it is important to even out the maturity differences early in the incubation program. Both mentorship as well as individual assignments were deemed as useful tools for keeping the teams motivated and progressing. Physical networking meetings of the Võru programme were also considered very valuable. Participants of the Tallinn programme also found that in the future it would be beneficial to have the possibility to consult experts of different fields in order to get advice on more explicit topics during the program. Organisers of both programmes found that there should have been more post-programme support, either additional consultations or a dedicated financial instrument for the graduates of the programme.

Tallinn University will repeat its incubator programme in Autumn 2022. **The Social Enterprise Incubator** is meant to make participating organisations investment-ready through a series of workshops accompanied by individual expert mentoring for each team. The programme focuses on transitioning from testing the idea to scaling up the business, developing long-term impact and funding strategies as well as managing the growth process.[96] The programme also enables teams to meet investors and pitch their idea. The topics include:

- Social business canvas, team value proposition
- Social impact: What is your strategic value proposition to key stakeholders?
- How to find investors and get public funding?
- How to scale your social innovation?

Tallinn University also offers a **MA programme on social entrepreneurship**. The programme promotes entrepreneurship and innovation in the social and health sector, environmental protection, urban development, rural development and community development. The programme is meant for practising social entrepreneurs or students who are eager to develop their own social enterprise. It utilises a project-based learning method which gives the MA programme a strong practical

[96] https://www.tlu.ee/en/tuitions/social-entrepreneurship-incubator.

dimension.[97] The lecturers of the Tallinn University Social Entrepreneurship MA programme also organise an annual **Summer School** aiming to provide the participants with a unique educational experience and opportunity to understand some of the latest developments in social entrepreneurship and social innovation. The Summer School is held in English for anyone wishing to develop their creativity and an impactful societal project during a week.[98]

In addition to programmes outlined above, there is an **increasing number of incubators and accelerators** that have a substantial impact element. In addition to NULA and Ajujaht competition, Cleantech Estonia has been running the EIT Climate KIC accelerator in Estonia and recently set up Beamline Accelerator focused on cleantech and greentech startups. The National Foundation of Civil Socitey offers some specific practical trainings on social impact.[99] There is also a range of smaller-scale (pre-)accelerator programmes carried out regionally and nationally. More trainings and support programmes can be expected in the next few years.

[97] https://www.tlu.ee/en/yti/social-entrepreneurship.
[98] https://summerschool.tlu.ee/social-enterprises-online/.
[99] https://kysk.ee/kutse-seminarile-sotsiaalse-innovatsiooni-planeerimise-ja-elluviimise-parimad-praktikad/.

III Feasibility assessment of potential new social finance mechanisms for Estonia

The sources of external funding currently available to social enterprises/ impact organisations in Estonia have been summarised in Table 1. There is room for additional players and new financial instruments to enter all categories.

Table 1: Impact-oriented financing opportunities available in Estonia

TYPE	KEY PLAYERS
Philanthropy/ donation platforms	**Armastan Aidata** by Swedbank
Grants	**National Foundation for Civil Society** (grants for civil society, currently not available for companies)**, Enterprise Estonia** (business development grants, currently not available for NPAs), **Environmental Investment Centre, Active Citizens Fund, State Shared Service Centre** *State grant mechanisms are expected to be revised so that barriers related to the legal form of the applicant are removed.*
Social impact bonds	No
Venture philanthropy funds	**Good Deed Impact Fund** (focused on scaling the impact delivered by supported organisations) **Good Deed Education Fund** (explicitly focused on education initiatives)
Angel investors	**EstBAN** members make both traditional and impact investments
Impact investment funds/ companies	**Limitless fund** (thematic focus: sustainability, digital health, digital education), **Little Green Fund** (thematic focus: cleantech, greentech, and sustainability)
Crowdfunding/ crowdinvesting	**Hooandja** (philanthropic platform; no specific impact focus but strong social/cultural focus), **Toeta.me** (dedicated to projects in support for Ukraine); **Funderbeam, Fundwise** (traditional crowdinvesting platforms, no specific impact focus)
Social banks (specific loan products for impact organisations)	No
Loan guarantee instruments, microfinance	**Good Cooperation Savings and Loans Association** (lends money to ecologically and socially responsible projects); **KredEx, LHV, Finora Capital** and the **Rural Development Fund**

The table above also shows specific gaps in impact-oriented financing in Estonia. To help closing the existing gaps, the SoFiMa consortium discussed the following alternatives in the light of its wish to give a contribution to the development of new financial instrument(s)advancing social entrepreneurship and impact investing in Estonia:

1. **Social Impact Bonds –** Estonia currently has no SIBs;
2. **Loan guarantees to impact organisations –** the current instruments cannot be considered sufficient in Estonia;
3. **Impact-oriented crowdfunding/-lending and matchfunding instruments –** there is no explicitly impact-focused crowdfunding/-lending and matchfunding instrument in Estonia;
4. **Impact investment funds** – existing investment funds do not cover all sub-fields of impact organisations evenly.

A more detailed overview of each alternative is provided on the following pages, taking into specific consideration also the competence areas, networks, organisational and financial capacity of the SoFiMa partners in order to make a positive change via setting up a new impact-focused financial instrument in Estonia.

Social Impact Bonds

- *Current situation in a nutshell*: Creating SIBs has been considered in Estonia but this has not resulted in any concrete instrument yet.
- *Potential focus of the new instrument(s) to be created:* the SIB instrument(s) need to, by design, focus on a specific social problem. Preliminary analysis of some perspective focus areas of SIBs in Estonia has been carried out in 2014. In addition to juvenile delinquency, the analysis also outlined domestic violence and mistreatment of newborns (parental misbehaviour) as areas where SIBs could be utilised.
- *Factors that support/complicate setting up the new instrument(s):* in terms of setting up SIB instrument(s), the public sector needs to take the lead role, defining the terms and conditions of the contract to be agreed with social partners and the private sector. Until this kind of an initiative is taken by the public sector (relevant ministries and institutions in their area of governance), it is difficult for other stakeholders to make significant progress in setting up a SIB instrument. On the positive side, once the public sector is ready to move on with SIB(s), a number of ecosystem actors can back the initiative as they have familiarised themselves with the logic of SIBs and can contribute to further developments related to such instruments.[100] Also, the experiences of Skill Mill (see case study in annex 1), a UK-based SIB initiative with an Estonian co-founder (Dr. Katri-Liis Lepik, who represents Tallinn University in SoFiMa), can be considered useful.

Loan guarantees

- *Current situation in a nutshell:* KredEx has been providing loan guarantees for companies, housing loan guarantees, and a small loan guarantee as a temporary countermeasure to help dealing with COVID-19 difficulties. So far there has not been a dedicated guarantee instrument for social enterprises from KredEx nor commercial banks. Commercial banks have used EIF guarantees for microloans.

  Potential focus of the new instrument(s) to be created: New guarantee schemes in Estonia could make access to finance easier for social enterprises. Many starting social enterprises, especially those with an NPA legal form, do not have sufficient collateral to apply for loans on regular terms. Favourable loan conditions, such as reduced interest or minimum down payment, could improve

[100] For example, several partners of the SoFiMa consortium also participated in an URBACT project "Social impact bond development for improved public service delivery" (SIBdev) which focused on analysing how to use SIBs for improving public service offering in areas such as employment, aging and immigration. https://vorumaa.ee/heaolu/projektid/sibdev/.

the situation. The results of the Tallinn University Study among Estonian social enterprises indirectly indicate that there is future potential for loan instruments. According to a conclusion of the study, "long-term loans for investments for infrastructure and equipment could be provided by the banks to social enterprises, perhaps being guaranteed by the public sector (e.g., KredEx). As the organisations provide their services in various fields such as education, health, or social work, they often tend to fill up service or product gaps in the public sector domain. Their main customers are often the public sector organisations which pay for their services. Therefore, they are organisations for which the public sector has already carried out proper due diligence." [101]
- *Factors that support/complicate setting up the new instrument(s):* Setting up a guarantee scheme requires the commitment of banks or KredEx who could make use of the opportunities for financing such measures at the EU level. In short, new guarantee instruments could be feasible in Estonia, but the decision making needed to set this kind of an instrument up is out of the hands of the consortium members. Also, further research is needed to determine the best criteria for setting up guarantee funds in Estonia.

Crowdfunding/-lending and matchfunding instruments
- *Current situation in a nutshell:* The oldest crowdfunding instrument in Estonia, Hooandja, is a philanthropic platform that supports social and cultural projects. However, there is no specific impact dimension and the funding that is available is rather limited on average. Recently a similar platform focused on funding projects in support of Ukraine has been set up (Toeta.me). The existing crowdinvesting platforms (Funderbeam, Fundwise) do not have a specific impact focus, either, and it would be difficult for the majority of social enterprises to use these platforms for their financing needs (except for more investment-ready impact organisations that can provide similar return on investment as 'traditional' companies).
- *Potential focus of the new instrument(s) to be created:* an impact-oriented crowdinvesting platform could be created in Estonia. Regarding sectorial focus, it would most likely be more advantageous to have a broad coverage instead of focusing on a narrower set of sub-sectors (due to general limitations of the deal flow). The new platform could also make use of the principles of match-funding, i.e., engage investors that co-invest alongside the crowd in case the set targets have been met.
- *Factors that support/complicate setting up the new instrument(s):* Having discussed the perspective of setting up an impact-focused crowdinvesting platform with some key stakeholders on the market, including the team of Hooandja, the current view is that there is not enough deal flow for a specific impact crowdinvestment platform. In the current market situation, Hooandja manages to meet the needs of many social enterprises. The situation might change in the future as the market matures.

Impact investment funds
- *Current situation in a nutshell:* Several impact-focused investment funds have emerged in the last years in Estonia and some are still expected to emerge. The existing funds have different thematic priorities, and all sub-fields of impact organisations are not addressed currently. The investment funds usually prefer making equity investments (although examples of revenue-sharing models also exist). It is difficult to ensure sufficient deal flow from Estonia, i.e., a pool of enterprises meeting the investment criteria. For this reason, some funds are not geographically limiting their

[101] Tallinn University (2022), "Investment needs and investment readiness amongst Estonian social enterprises". Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont; p46.

investments to Estonia. On the other hand, this means that the investment readiness of Estonian impact organisations needs to be increased.

- *Potential focus of the new instrument(s) to be created:* The recent study ordered by SmartCap and carried out by Ernst & Young (EY)[102] outlined a specific gap in terms of investor financing in Estonia: **green technology companies working on physical products/ having a hardware-focus.** These are companies whose activities potentially contribute to reducing or solving environmental problems, and are generally more investment ready than Estonian impact organisations on average. Therefore, the study recommended GreenFund, a new investment measure by SmartCap with 100 MEUR available to be invested by 2026 alongside private investors, to target primarily hardware companies in greentech. While the GreenFund does not have an explicit impact focus, the financing available could be used to support setting up **a new 'green impact' investment fund.**
- *Factors that support/complicate setting up the new instrument(s):* In addition to the aspects outlined above, i.e., the public sector interest to support hardware-focused greentech companies, the SoFiMa consortium, Buildit and Baltic Innovation Agency are experienced in the investing market, with a particular focus on hardware. Buildit Hardware Accelerator was established in 2013 with Baltic Innovation Agency as one of the founders, being the first accelerator focused on hardware in Northern and Eastern Europe. It has by now carried out 15 accelerator programmes in Estonia and Latvia. Buildit has invested in more than 75 start-ups and attracted founders from more than 20 countries to set up their business in the Baltics. In terms of financial resources, Buildit is operating 4 investment funds with more than 7 million Euros under management and has made stable profit from its fund management activities. Environmental concerns, supporting circular economy and sustainable manufacturing already hold an important place in the Buildit agenda. There has also been a stable increase in the number of companies working on products contributing to positive environmental impacts entering the Buildit accelerator programmes over the years. Taking all these aspects into account, **Buildit and Baltic Innovation Agency are willing to take the lead in setting up a new green impact investment fund in Estonia** investing, in particular, in companies working on hardware products.

Conclusion on the preferred alternative for the new instrument

Having discussed the four alternative measures to close some specific gaps in the Estonian impact investment and social finance market, the SoFiMa partners find that work needs to continue in all these fronts to bridge the existing gaps. SIBs could be useful measures in addressing a number of social issues, additional loan guarantee instruments would increase the social enterprises´ access to funding, and in some years, focused impact crowdfunding and matchfunding instruments could make sense in the Estonian market. Regarding impact investment funds, once the market matures, there could also be enough deal flow in terms of investment ready impact organisations focused on delivering social impacts in various fields. However, in the context of SoFiMa, it is currently considered the most feasible option to go further with setting up an impact investment fund focused on organisations aiming to deliver **environmental impacts**, **focused on hardware solutions,** thereby addressing a clearly defined gap on the market. This is an area in which the SoFiMa partners (particularly Buildit

[102] Ernst & Young (2022), "Analysis of capital needs of the Estonian green technology companies". Summary of the study (in Estonian) is available at: https://smartcap.ee/study-greenfunds-100-meur-could-be-directed-first-and-foremost-to-hardware-companies/?pageNumber=1.

and Baltic Innovation Agency as investors but also other partners in terms of supporting activities) can make a meaningful contribution based on their background and experiences.

The investment strategy of the new fund, preliminarily titled the **Buildit Green Fund**, is further specified in a dedicated Memorandum of Understanding (MoU) to be signed by the stakeholders willing to commit necessary resources to set up the fund. The MoU will outline the preliminary investment strategy of the envisioned green impact fund, Buildit Green Fund, covering its key areas of vision, sectoral and geographical investment focus, types of investee organisations addressed, models of intervention, risks and returns profile, form and size of investment, co-investment strategy, non-financial support provided to the investees, outline of fund managers and commitment of the partners.

The Buildit Green Fund will also continue to collaborate with all partners included in the SoFiMa consortium. Although the other partners will not be directly involved in the fund management, their inputs remain highly valuable in terms of broader activities supporting social entrepreneurship and increasing the investment readiness of impact organisations in Estonia. Related to broader-scale ecosystem development, SoFiMa has also resulted in signing an **Agreement of Cooperation in Social Entrepreneurship and Innovation** by 23 private, public and non-profit actors in Estonia (please see chapter 4 for a more detailed overview of this agreement). One of the core focus areas of the agreement is development of financial instruments that support social innovation and impact, and in the context of this, the existing gaps in the social finance provision discussed above will continue to be addressed.

IV Sustainable development beyond SoFiMa

While the key deliverable for the SoFiMa project is the Memorandum of Understanding for creating a new financing instrument to support the development of impact organisations in Estonia, the project partners also see a need for broader-scale collaboration in the ecosystem of social entrepreneurship and innovation. To support sustainable development in this field beyond the SoFiMa activities, an initiative for signing a cooperation agreement between a wider range of public, private and third sector stakeholders was initiated by the SoFiMa consortium. As a result, on 10th of May 2022, the **Agreement of Cooperation in Social Entrepreneurship and Innovation** was signed by representatives of a variety of organisations in Estonia working in the field of social entrepreneurship and innovation, including ministries, universities, private sector partners and support organisations. The parties agreed to cooperate in four areas:

1) **Creating a shared vision** for social entrepreneurship and innovation in Estonia and implementing this vision in focused collaboration This includes securing a joint understanding on social entrepreneurship and innovation, related development needs, and collaborating actively to foster social entrepreneurship and innovation in Estonia.
2) **Continuous development of support programmes and measures for social entrepreneurship and innovation**. The organisations that have joined the agreement collaborate in the name of organising sectoral support programmes and development activities, including various conferences (e.g., Impact Day) and other events, training programmes, incubation and accelerator programmes, etc.
3) **Development of financial instruments that support social innovation and impact.** The organisations jointly work to develop financing measures to support impact organisations and social innovation in Estonia. This can include impact investment funds, debt instruments, guarantees or other risk sharing mechanisms, social impact bonds, innovation procurement mechanisms to foster social instruments, etc.
4) **Carrying out sectorial studies and analyses.** The organisations collaborate to carry out relevant studies and analyses, as well as introducing the results to the general public. Development of the vision for the field, creation of support programmes and financial instruments needs to build upon high quality data and be knowledge-based, implemented in collaboration of scientific partners and practitioners.

The **list of organisations** that have joined the agreement:

1. Baltic Innovation Agency
2. Environmental Investment Centre
3. Estonian Business and Innovation Agency
4. Estonian Business School
5. Forum of Responsible Entrepreneurship
6. Good Deed Foundation
7. Ministry of Environment
8. Ministry of Rural Affairs
9. Ministry of Social Affairs
10. Ministry of the Interior
11. National Foundation of Civil Society
12. Network of County Development Centre
13. Network of Estonian Non-profit Organizations
14. Põhjala Factory
15. SEB Bank

16. Social Enterprise Estonia
17. Tallinn City
18. Tallinn University
19. Tallinn University of Technology
20. Tartu City
21. University of Tartu
22. VIVITA Estonia
23. Võru County Development Centre

The activities related to the agreement will be coordinated by the Social Enterprise Estonia. The Cooperation Agreement will remain open for all interested parties to join in the future.

To celebrate the signing of the agreement and bring together the ecosystem, the Social Entrepreneurship and Innovation Development Day was organised by the SoFiMa consortium on 10th of May 2022. In addition to the signing ceremony, the event was used for sharing the experiences and lessons learned in the context of SoFiMa, introducing some important new initiatives (including the plans for the new financial instrument for impact organisations to be created as a result of the project and the Impact Day festival), for meeting with several social enterprises and networking. Similar events are planned to be carried out among the existing and potential signatories of the cooperation agreement in the future.

The next big ecosystem event – considerably larger in terms of scale – will take place on 7th October 2022, when the Impact Day is celebrated for the first time. Impact Day will be the largest sustainable business festival in the Baltics. Impact Day is initiated and coordinated by the Social Enterprise Estonia and jointly organised with all SoFiMa partners and a number of other key ecosystem actors. The goal is to bring together social and sustainable entrepreneurship actors (entrepreneurs, investors, governmental agencies, academia, etc.), to help to create new connections, learn about the sector's development, and exchange ideas.

ANNEX 1: Overview of selected good practices in Europe and in Estonia

1. ESIIF
2. Good Deed Impact Fund and Education Fund
3. INPULSE
4. Limitless
5. MAZE
6. Skill Mill

1. European Social Innovation and Impact Fund (ESIIF)

https://esiif.de/en/

Year created:	2020
Type:	Impact VC fund *(closed special AIF under German regulations)* based on mezzanine capital (quasi-equity).
Key stakeholders:	Joint venture between Financing Agency for Social Entrepreneurship (FASE), avesco Financial Services and the European Investment Fund.
Geographic focus:	European Union
Thematic focus:	Early-stage entrepreneurs focused on social innovation in sectors such as **education, health, inclusion** and the **environment**.
Core model/ principles of operation:	ESIIF is an impact fund that address the strategic financing gap for early-stage social enterprises located in Germany and other member states of the European Union. The ESIIF supports **proven business models that generate significant and measurable impact**, solving critical social and environmental challenges. Thanks to the EaSI guarantee (EIF) embedded in the impact fund (the first EaSI guarantee in Germany), first losses on the fund's investments in social enterprises are guaranteed for up to €3.2 of the total fund target volume. The focus is on startups wishing to **scale their successfully piloted models.** To receive investments, all target enterprises need to have successfully achieved a **proof of concept.** This generally means that the companies should be able to show some proof that their offer is accepted by the market: there are existing customers, revenue, letters of intent, etc. Early-stage enterprises are not eligible. **Two investment tranches** are available: junior and senior. The tranches are related to the risk profile and distribution waterfall (senior investors get their money first, junior investors after the senior investors have been paid).

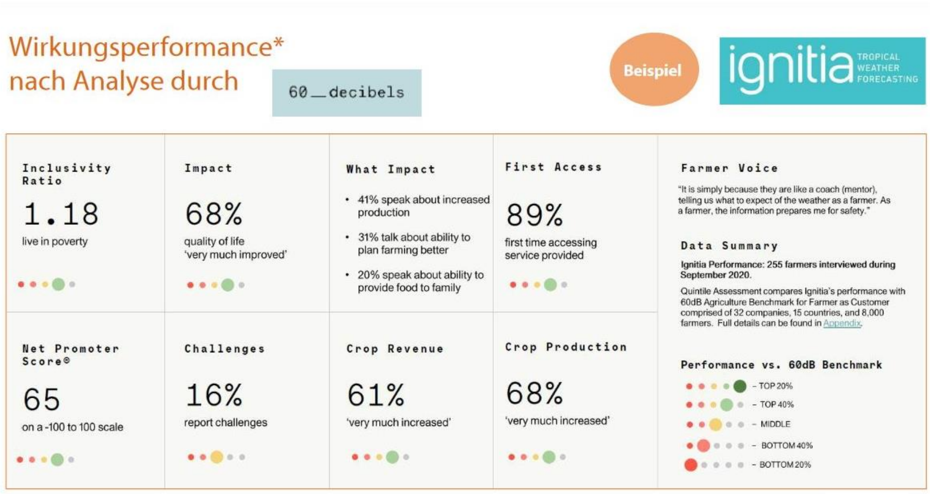
<table>
<tr><td></td><td>Senior investors receive a lower margin as their investment is more secure; junior investors risk more/ receive a larger margin.</td></tr>
<tr><td>Specifics of financial instrument/ funding provided:</td><td>The ESIIF fund was closed as of April 30, 2022, having reached a volume of EUR 12.4 million.
Max. €3.2 M guarantee protection to investments is provided by the EIF (the EaSI guarantee; covers default investments up to €3.2 M).

The fund provides mezzanine capital in the size of €100k to €500k to investees (quasi-equity: on the balance sheet added to equity, legally debt). The interest rate paid by investees is on average 9% (there´s also a catch-up feature: it may be difficult to start paying the interest from the beginning, i.e., first year, in that case the company can start paying later but the total IRR has to be at the agreed level). Investment maturity is between 5-10 years normally.

The ESIIF investors include professional and semi-professional impact investors in Germany. This includes all types of potential impact investors (VCs, business angels, family offices, etc). All investors except EIF represent the private sector. Minimum ticket size is €200k (based on ESIIF experience, this can be considered relatively large ticket. For a new fund, it might make sense to lower this sum). Related to the German regulations, FASE/ESIIF is very much bound to Germany in terms of the investors involved (in principle, it is possible to include investors from elsewhere in the EU but it´s a very complicated procedure).

The fund targets a diversified portfolio of investments into ca 60 social enterprises; 10 investments have been made so far.

Avesco Management GmbH serves as fund manager (management partner); the management fee is 2.5%.</td></tr>
<tr><td>Impact management:</td><td>ESIIF team finds that impact measurement always requires an individual approach to the companies and the goal is to keep the model as simple as possible. On average, 3-5 KPIs are defined per company. Target group feedback is an important part of the model. An example of the impact management/ benchmarking approach based on Ignitia, a tropical weather forecasting company from Sweden (https://www.ignitia.se/), is provided in the image below.


</td></tr>
<tr><td></td><td></td></tr>
</table>

ESIIF CORE MODEL OF OPERATION

Source: https://esiif.de/en/

2. GOOD DEED FOUNDATION
GOOD DEED IMPACT FUND
GOOD DEED EDUCATION FUND

https://heategu.ee/impact-fund
https://www.heategu.ee/educationfund

GOOD DEED IMPACT FUND

GOOD DEED EDUCATION FUND

Year created:	The Good Deed Foundation was established in 2003, the Good Deed Impact Fund was created in 2018 and the Good Deed Education Fund in 2019
Type:	Venture philanthropy funds
Key stakeholders:	The Good Deed Foundation is Estonia's first and only venture philanthropy organisation. The foundation and its funds are supported by various individual philanthropists and several companies from Estonia, including Wise and Bolt.
Geographic focus:	Estonia
Thematic focus:	Impact Fund supports launching and scaling impactful initiatives that solve pressing problems in Estonian society. This includes complex issues related to **social inequity, public health, education and environment**. The Education Fund is looking to support initiatives that solve acute problems in the **education sector**. The main issues the Education Fund addresses are: the quality of school management, decreasing the lack of teachers, and learning how to learn.
Core model/ principles of operation:	IMPACT FUND The Impact Fund works with a small number of impactful initiatives at one time providing both financial and non-financial support from a dedicated team and pro-bono experts, aiming for a positive and lasting impact. The fund works with initiatives preparing to scale and initiatives in the start-up phase (vs preparing to launch). The fund provides the initiatives support from piloting to impact measurement, regarding people, communication and strategy development. The fund is looking for initiatives that: • solve pressing problems in the Estonian society • are committed to impact measurement and have (potential for) high impact • have a strong team • have a working financing model • benefit from capacity-building **Key principles of operation** **Emphasis on measuring impact -** As investments aim to solve societal problems, the fund has taken a decision to focus on initiatives that are

committed to measuring their impact.

Multi-year support period - To be a meaningful partner to investee organizations, the fund supports **up to six initiatives** at the same time, each initiative for several years.

No restrictions regarding what the funding is used for - Although the main targets and uses of the funding are agreed upon, there are no strict restrictions. Funding can be used for example for strengthening the team, paying salaries or evaluating impact.

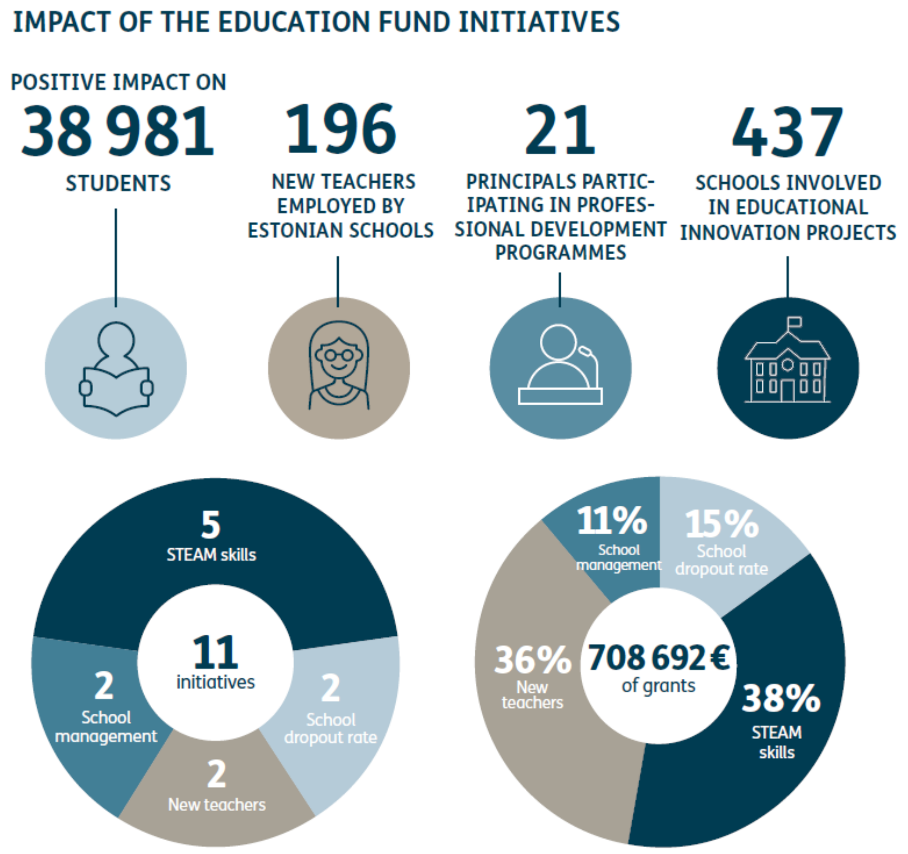
Non-financial support – the investees also benefit from the time and know-how of the foundation's team and experienced professionals.

Capacity-building - Financial and non-financial support is aimed at building organisational capacity and is backed by a belief that it will help the portfolio organisations achieve their mission and become financially and organisationally sustainable.

Involvement of networks
The fund involves experts from different fields (for example, Fontes for HR issues, or members of the Estonian Bar Association for legal advice).

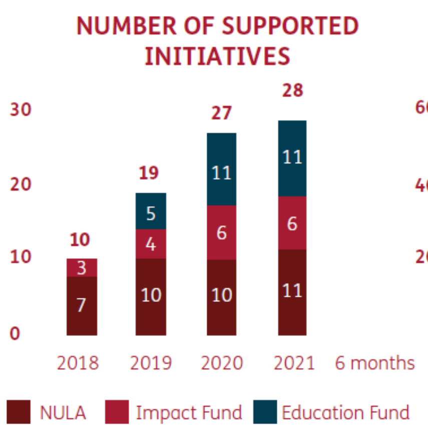
EDUCATION FUND

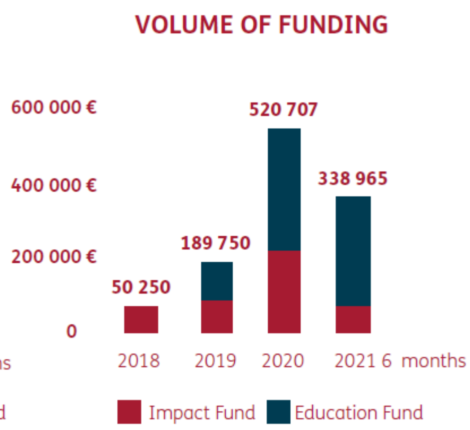
The Education Fund looks to support initiatives that have the potential to influence the current Estonian education system in a positive manner. The fund is backing initiatives that are scalable and/or innovative, based on scientific knowledge, and have an approach for financial sustainability. While the Impact Fund aims for multi-annual support (usually 3-5 years), the Education Fund may also provide one-time financing to the initiatives supported. The Education Fund is also offering non-financial support to

	help strengthen the organisation in the following dimensions: social impact and organisational resilience, including communication, legal matters and fundraising capacity. 
Specifics of financial instrument/ funding provided:	Impact Fund size: **€ 1 million** (400 kEUR in 2018-2020, 600kEUR in 2021-2023) Education Fund size: **€ 1 million** in 2019-2021, **€ 2 million** in 2022-2024
Impact management:	The Impact Fund supports initiatives that are committed to investing in impact measurement and management and implementing them into day-to-day operations. The fund measures both the initiatives' impact on their target beneficiaries, as well as the number of people the initiatives reach. It is important that the initiatives generate **positive measurable impact** and continue to serve a growing number of people. Impact assessment is perceived as the only way to determine whether the desired social change has been achieved. The fund strives to contribute to social purpose organisations' capacity for evaluating their impact as the foundation team believes that the proven positive impact will be the main argument for contributing to social initiatives in the future, both for philanthropists and public sector. Based on practices of Estonian initiatives, the fund has described four levels of assessment, involving both start-ups and already active social enterprises.

There are three elements that add weight to impact evaluation:
· **Fidelity of intervention** – describes how well the service and its elements are described and the extent to which the intervention is delivered as it was intended.
· **Reliability of data collection and analysis** – describes the process of data acquisition and impartiality of the people collecting and processing information.
· **Amount of data** – the sample size of several hundred participants is needed for a reliable and valid analysis. In case of small sample groups, data from several groups need to be collected on the same basis over a longer period, to allow for generalization of the findings

Additional information:



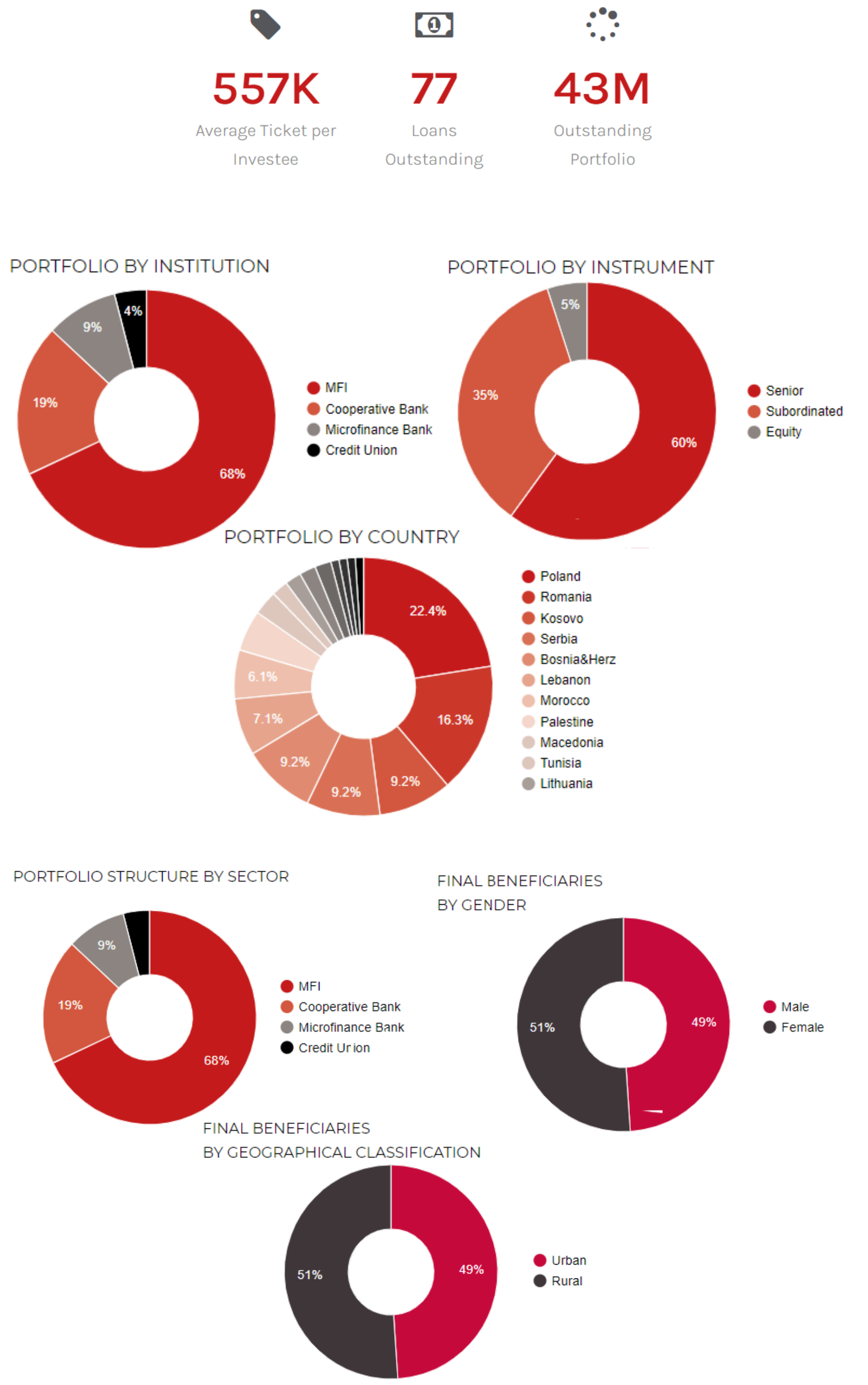


3. INPULSE

https://www.inpulse.coop/

Year created:	1985; the first financial instrument established in 2006
Type:	Impact investment fund manager (cooperative limited company registered under Belgian Law) that runs several investment instruments focused on **social investments and microfinance** (resources provided to financial institutions who provide financing to end users).
Key stakeholders:	Inpulse´s majority shareholder (65%) is Groupe Crédit Coopératif, member of the French BPCE group, the second biggest banking group in France. Solidarité Internationale pour le Développement et

	l'Investissement (SIDI) owns 35% of the shares.
Geographic focus:	Different instruments have different geographic focus. The instruments running at the time of the case study: 1) **CoopEst** – countries from Central and Eastern Europe up to Caucasus 2) **CoopMed** - countries on the southern and eastern shores of the Mediterranean, with the exception of Lybia and Syria 3) **Helenos** – member states of the European Union, Albania, Kosovo, Iceland, Montenegro, Northern Macedonia, Moldova, Norway, Serbia, Switzerland, Turkey 4) **Soficatra** – EU member states 5) **FEFISOL II** – Sub-saharian Africa
Thematic focus:	Inpulse has two key investment priorities, focused on supporting 1) **Social and financial inclusion** - addressing projects and institutions with a strong social and environmental impact in their region/country, in particular for the benefit of the most vulnerable groups of the population. 2) **Energy transition & Energy efficiency projects -** focused exclusively on solutions promoting energy transition, i.e., the production of clean energy, green mobility, improvement of energy performance, etc. (currently a dedicated instrument is under development, but expertise and assessment tools have been developed) In terms of United Nations sustainable development goals, Inpulse primarily addresses **SDG1**: No poverty, **SDG5**: Gender equality, **SDG8**: Good jobs and economic growth, **SDG10**: Reduced inequalities and **SDG17**: partnerships for the goals.
Core model of operation:	Inpulse´s team (offices in three countries: Belgium, Poland and France) currently runs four active investment vehicles with a total **aggregate investment capacity of EUR 82.5M**. As of December 2020, Inpulse had granted loans to 42 partner institutions in 17 countries for a total outstanding amount of EUR 43M. Inpulse´s **investees/ funding partners** are international development financial institutions, social and ethical banks, mutual insurance companies and responsible investment companies. More than half of the outstanding portfolio is dedicated to support **small and medium-size microfinance institutions (MFIs)** that are strongly involved in the local development of disadvantaged areas. Inpulse's MFI partners serve vulnerable groups excluded from financial services (for example, most of the cooperative banks that CoopEst finances in Poland are located in semi-urban and rural areas, where they are often the only financial institutions providing access to credit). The **average loan size to final beneficiaries is EUR 2581**. The aggregated numbers and key indicators across all three instruments:



Choosing the investees/financing partners is a 2-step procedure:

- 1st step (investment principle) – this includes checking the eligibility rules at the level of the fund, initial KYC and global impact appreciation (not assessment), as well as preliminary discussion on tentative terms of investment
- 2nd step includes full Due Diligence (Anti Money Laundering (AML)/financial/operational/ ESG) and finalising the negotiations on the exact terms of investment and agreeing on impact objectives, as well as agreeing on what non-financial support might be necessary (if Inpulse or the investee has access to Technical Assistance)

	The full project proposal goes to the Investment Committee and in case of positive decision on both sides, Inpulse can finalise the investment decision after a last AML check.
Specifics of financial instruments/ funding provided:	**<u>CoopEst</u>** Despite the development of financial markets, micro, small and medium enterprises as well as low-income individuals in CEE still experience difficulties in accessing proper financing. This is especially problematic for start-ups and for accessing long term funding. The mission of CoopEst is to **foster the development of a socially-rooted financial sector in Central and Eastern Europe and the Caucasus** (CEEC). CoopEst is the first financial instrument to combine primary European social economy investors and ethical banks with development finance institutions (DFIs). IFC (World Bank Group) subscriptions allowed CoopEst to launch its operations in 2006 and was followed in 2009 by EIF (EIB Group) which is today the second largest shareholder. **Size**: Current investment capacity is EUR 25.4 M. **Type of services**: Subordinated and senior loans enabling partners to leverage further funding. **Targeted institutions**: MFIs, cooperative banks and credit unions in growth phase. **Area of intervention**: Countries from Central and Eastern Europe enlarged to Caucasus. **<u>CoopMed</u>** Built on the success and track-record of CoopEst, CoopMed **develops social finance in the Middle East and North Africa** (MENA region). Through its activities CoopMed aims to: • Foster **job creation and economic opportunities** through the support of local financial actors • Support **initiatives for economic development** promoted by the **local civil society** • Fight climate change by promoting **green and innovative initiatives** • Promote **all forms of social economy initiatives**: cooperatives, social, green and micro entrepreneurship. CoopMed applies a strong social performance policy with the support of a dedicated technical assistance facility. **Size**: Current investment capacity is EUR 17.3 M. **Type of services:** Financial Support - subordinated and senior loans in local currency (in EUR/USD if possible). Technical Assistance - Capacity building, financial engineering, SPM and impact evaluation.

Targeted institutions: MFIs, local banks and mutual companies to finance the social economy sector, especially through the financing of cooperatives and social businesses.

Area of intervention: Countries on the southern and eastern shores of the Mediterranean. Lybia and Syria will be integrated to the zone of eligibility once international sanctions will be lifted.

Helenos

Unemployment and social exclusion, uncertainty about the future, refugee crisis: the situation of a significant portion of the European population is worrying. In this context, and based on Inpulse´s 15+ years of experience of financing microfinance in Europe, Helenos was launched in 2018. It is the **1st private equity fund for inclusive finance in Europe**. Its goal is to strengthen the capital base of financial intermediaries targeting micro, small and social enterprises.

Helenos provides **equity, subordinated and senior loans** to support economically sustainable and socially oriented institutions. Helenos is supported by the European Commission's Programme for Employment and Social Innovation (**EaSI capacity building investment**).

Size: Current investment capacity is EUR 12.3 M.

Type of services: Equity and subordinated loans enabling financial intermediaries to leverage further funding

Targeted institutions: MFIs, cooperative banks, credit unions and financial intermediaries targeting social entrepreneurs in a growth phase

Area of intervention: Members states of the European Union, Albania, Kosovo, Iceland, Montenegro, Northern Macedonia, Moldova, Norway, Serbia, Switzerland, Turkey

Soficatra

Provides **quasi-equity support** to **cooperatives** in the EU. Main shareholders: CFI (IT), ESFIN (FR), P&V Insurance (BE), GLS Bank (DE)

FEFISOL II

FEFISOL II is the successor fund of FEFISOL I that was active from 2011 to 2021 on Africa. FEFISOL II will cover the same geographical area with a stronger focus on Sub-Saharan Africa.
The fund is dedicated to financing African rural microfinance institutions and agricultural entities sourcing from small-holder farmers in Africa.
The FEFISOL II Fund is designed to respond to the crucial issues of financing vulnerable populations in rural areas in Africa, and more particularly the financing of the agricultural sector.
FEFISOL II will be implemented in more than 28 African

	countries and should eventually support 110 microfinance institutions or agricultural companies and cooperatives sourcing from smallholders, most of which are Fair Trade or organic certified. Two other funds are currently in preparation: • **ImpaktEU** - this will be the impact-first successor fund for CoopEst and HElenos which will cover the entire EU as well as the candidate countries, and provide a mix of debt (90%) and equity (10%) financing. The total fund size will be 100 MEUR (close-end fund) • **GreenEU Fund** – this fund will be dedicated to climate resilience and renewable energies in EU + MENA region. targeting projects developed by SMEs (50% debt/50% equity). (close-end fund). The total fund size is planned to be 110 MEUR and there are two legs of investment: 100 MEUR for supporting SMEs with their initial phase in development and 10 MEUR for higher risk equity financing. Technical assistance forms the third leg.
Impact management:	The concept of impact is present throughout Inpulse´s investment process, from ex-ante integration of sustainable development objectives within the investment criteria of all instruments, and ex-post reporting on environmental and social impact. Inpulse promotes sustainable investments via applying the **ESG approach** which integrates **social, environmental and governance dimensions**. Inpulse´s impact management methodology is aligned with the best practices of the sector, namely the Universal Standards of the Social Performance Task Force (SPTF), the IRIS guidelines by the Global Investing Network (GIIN), the European Code of Good Conduct for Microcredit Provision, the SPI4 Green Index and the 2XChallenge initiative. The impact and sustainability principles are translated into practice through an ESG Management System to assess, select, monitor and report (4 steps approach) applied in all Inpulse´s investments.  **1) Assessment**: to exclude institutions engaged in activities, practices or countries with high ESG risks - **negative screening -** Inpulse verifies that the potential investee doesn't breach its exclusion list as well as local and international policies.

2) Selection: during due diligence, all potential investees are required to complete a **Social Scorecard** which evaluates the most relevant ESG indicators to score its non-financial performance/ESG sustainability. Based on this **positive screening**, Inpulse´s decision-makers can approve investments and set up impact objectives (reflected as social "soft" covenants in the legal documents).

SOCIAL SCORECARD
Developed in-house, the Social Scorecard has been conceived as a social performance management tool to help Inpulse´s decision-makers take investment decisions aligned with the social missions of Inpulse´s funds. The main purpose of the Social Scorecard is to provide an immediate overview of a potential investee's social performance by **visually highlighting strengths and weaknesses on a multidimensional dashboard across four main categories**. The dashboard has a number of graphs and diagrams that generate an investment score through automatic data processing. The scoring method is based on a system of weights which generate a final score (SPA Final Score) between 0 and 100. The rating system is designed to test the consistency of operations with the stated social mission of the client. No indicator is intrinsically more valuable than another.

3) Monitoring: to track performance, progress and compliance all along the investment period, Inpulse´s investees are required to complete an **ESG Smartsheet on annual basis**. This is based on relevant quantitative and qualitative indicators, focused on gender, environment, social outreach, governance and SDGs analysis. Thanks to this information Inpulse is also able to identify main weaknesses and put in place tailored technical assistance when available.

SOCIAL SMART SHEET ("TRIPLE S")
Inpulse has developed a specific social performance monitoring tool, the Social Smart Sheet (Triple S). The Triple S identifies key social performance indicators outlined in the Universal Standards of Social Performance (SPI4) and the Global Impact Investing Network (IRIS catalogue). The tool is divided into **four key dimensions:**
1) social mission;
2) products and services;
3) outreach and access;
4) staff treatment.
The Social Smart Sheet consists of a **matrix of 30 indicators (quantitative and qualitative)** conceived to mark the social dimension of operations. Together, these metrics cover the full

	spectrum of social performance, from analysis of the institution's declared objectives to the efficiency of their systems, on through to their products and whether they are likely to positively influence the life of their clients and employees. Based on the Triple S, Inpulse can monitor and report on its investments. **4) Reporting**: **Impact Reports** are published annually by Inpulse to disclose the non-financial results of the funds under management. In line with SFDR Directive, Inpulse provides transparent information (incl. quantitative data) in terms of environmental and social responsibility of its financial products. An additional dimension in impact analysis focuses on **detecting social changes.** Thanks to Technical Assistance funding, Inpulse is able to publish **in-depth impact studies** that track social changes in the life of final beneficiaries. To this end, Inpulse collects/analyses data related to the household living conditions of final targeted beneficiaries, offering a more objective window into their experiences for a given product. The ultimate objective is that the clients integrate these processes into their systems, and thereby improve their services while enhancing the overall level of social performance. IMPACT STUDIES: EXAMPLE An impact study was conducted with a Lebanese MFI (CoopMed client) on a sample of 150 final beneficiaries by submitting two repeated measures (over 12 months) of a questionnaire centered on household characteristics (revenue, consumption, health, education, assets, social integration). The collected data provided indications of trends and patterns of social change in the living conditions of the clients' households. The choice of the methodology ("within-subject" comparison) reflects Inpulse´s prioritization of efficiency and integration with its core business (investments). The detailed impact studies will be mainly conducted if there is a need for Technical Assistance financing and the investee (usually MFI) is interested and willing to engage in the process. The impact study reports are publicly available if the financing body and the beneficiary both agree to this. Technical Assitance is currently funded by AFD (CoopMed Fund) and by the management company (Helenos). Regarding impact approach, there will be more focus on ex-ante impact evaluation in the future. This is already applied in Helenos and will also be implemented in the new funds.
Partners:	Inpulse has strong connections with leading microfinance and social economy networks and multiple partnerships with successful stakeholders, which ensures a sound understanding of the market that Inpulse invests in.

Inpulse Impact 2020

4. LIMITLESS

LIMITLESS

https://limitless.fund/

Year created:	2020
Type:	Limitless is the **first focused impact investment company in Estonia**, offering primarily **revenue-based financing.**
Key stakeholders:	The fund was created by Wise alumni Marge Maidla and Jorma Laiapea backed by investors (incl. Skype & Wise alumni)
Geographic focus:	Estonia & Baltic States (but in principle ready to invest globally)
Thematic focus:	Limitless invests in scalable products and services addressing **sustainability (SDG12), digital health** or **digital education.**
Core model/ principles of operation:	Limitless was created as the founders saw that social enterprises and impact organisations in Estonia and the Baltic States lacked funding opportunities.

	Limitless is specialised in **revenue-based financing**. This means that the company prefers not to take a stake in investee company and it rather takes a percentage of the monthly revenue that the business makes during a specific time span. Revenue-based financing was selected because this is perceived as a 'founder-friendly' solution, considered more favourable by the regional impact start-up founders compared to equity investments (some start-ups are not willing to give away equity or just don't feel comfortable with this type of investment). To be considered for investment, companies need to be able to show some existing revenue (minimum ca 2000 EUR monthly revenue over the last 6 months). High-quality team (skills, commitment, long term goals) is one of the key things as well as the impact perspective – how well has it been thought through, measurability of impact. Limitless supports the teams in impact management and defining the KPIs. Strategic goals and plans for scaling (how to scale, which markets are targeted) are also important. The fund portfolio currently includes: Reverse Resources · KIRA · dreamsville nilus · dermtest ALPA KIDS · Ari · Roofit.solar aino
Specifics of financial instrument/ funding provided:	Ticket size for investors starts from 50 000 EUR. The revenue-based financing is legally structured as loans. Limitless offers loans that the beneficiary will pay back from its revenue – this means monthly payments and the payment sum is proportional to the revenue earned (in months with less revenue the payment is also smaller). The average amount of financing provided is 50 000 to 150 000 EUR, but the sum can also be bigger. The loan does not have an interest rate but 3-5% of the revenue is paid back to Limitless each month. The percentage depends on the revenues and costs of the company, and a mutually satisfactory agreement is negotiated with each company. The loan period is usually ca 5 years. All of the above applies in the context of Estonia, in case of companies outside Estonia the terms may be different. All investees have also the possibility to pay back the loan before the end of the loan period.

Impact management:	Limitless has a **self-developed impact framework** which helps the team to evaluate which will be the impact of the potential investee company in the future. SDGs have a role in this but they are not at the central place; rather the SDGs help to understand the field addressed by the company (in which they aim to deliver the impacts). What is more important is the metrics side of the framework, the KPIs – e.g., X tons of water saved, Y people getting a better education, etc. As Limitless is still quite young, no impact audits have been done so far. Impact measurement and management is based on the numbers provided to Limitless by the investee company (numbers that they are able to provide based on reasonable efforts and time spent). Limitless then tries to look at research already done related to this field and if there are some results that can be applied in the context of this company, trying to push the company to measure the right things. It's more complicated to measure social impact compared to environmental impact. Scientific proof requires significant time and money and it make take more time to achieve the impacts. Impact measurement updates are done based on startups' own set timeline. KPIs will be agreed case-by-case with the investee, looking at the specifics of this company. There is no pre-defined number of KPIs, the company itself may track more things but for Limitless there may be 1-2 core KPIs. Limitless aims to have an impact management framework that is optimal in terms of not taking too much time and money away from product/service development.
Other:	The fund offers non-financial support to the investees in mainly two fields: 1) there is a strong focus on impact management – support is provided as much as necessary (some investees need less support, others more) 2) other key topics of the company such as marketing, team management, etc. Limitless does not take as strong of a role in the investee company as equity investors, but is still committed to help its investees if needed. As of June 2022 the fund has invested all of its funds and is now working with its portfolio enterprises.

5. MAZE X Accelerator + MSM Fund

https://maze-impact.com/
http://mustardseedmaze.vc/

Year created:	2013 (current impact VC fund launched in 2019)
Type:	Accelerator and impact VC fund (convertible equity).

	The main investor is EIF via the Social Impact Accelerator scheme (fund of funds).
Key stakeholders:	The accelerator is run by MAZE, the fund is a 50/50 joint venture between MAZE (Portugal) and MustardSeed (UK-based fund manager).
Geographic focus:	Europe
Thematic focus:	Early-stage impact startups using technology to solve social and environmental challenges (such as climate change, inequality) while generating attractive financial results.
Core model of operation:	ACCELERATION MAZE X is a **4-month impact start-up accelerator** targeting European entrepreneurs. MAZE X works with only **10 startups a year** to ensure maximum and hands-on support throughout the 4 months of the programme. The four-month programme follows a customized approach supported by a sprint work methodology to back each startup in the specific growth challenges they face. During the 16 weeks of acceleration work (remote, except for 1 joint Discovery Week in Lisbon) the teams will receive hands-on customized support to tackle the main growth challenges they are facing. This support entails: - Weekly one-to-one status update with the MAZE X team - Weekly group meetings amongst the cohort - Individual expertise clinics with the experts and advisors - Network connections and introductions - Workshops and talks In the months after the end of the acceleration, the startups will participate in the International Roadshow and will enter the ongoing support provided to the alumni. In past editions, the international roadshow entailed the founders' participation in Web Summit, GAN Summit and ChangeNOW. **Access to Corporate Pilot Opportunities.** The pilots focus on go-to-market by working directly with large corporates to assess product/market-fit with the possibility of commercial outcomes. In each cohort of 10 startups, MAZE X's corporate partners (PLMJ law firm and BNP Baribas bank) will select two to design and implement a corporate pilot within their organisations. MAZE´s team will work alongside the startups to help them learn about the challenges of a big corporate and to design the best pilot approach. The four months of acceleration includes working together on defining the best metrics to measure the progress of the pilot ensuring that both startups and the corporate extract the most out of this experience and put you on the road for a prosperous relationship in the future. FUNDING/INVESTMENTS in the acceleration stage There are **zero cost** for the startups participating in the acceleration programme and participation is **equity-free**. Admission to the acceleration program does not result in direct investing in the startups. Investment decisions are made by the accelerator-related Impact Fund – MSM Fund. Investment by the MSM Fund in MAZE X's startups is not guaranteed since the eligibility criteria between the accelerator and the fund are not 100% aligned. Some companies may be accepted to the accelerator even if it is

	unlikely that the company would later on qualify for an investment by the fund (highly impactful companies with lower financial return expectations; accepted for acceleration if MAZE X can add significant value. The fund looks for more agility in investees when making investment decisions). The accelerator programme is financed by corporate partners (2 foundations and 3 corporates) based on 3-year agreements. The annual budget is ca €300-400k.
Specifics of financial instrument/ funding provided:	MSM Fund is a **€45M early-stage impact VC fund -** €38% funded by the EIF, and 62% funded by private investors. Fund management: there are 3 managing partners; the fund management fee is 2%. A contribution of own money is committed to the fund by the management team (0.5%). The fund aims to reach 20% IRR (20/80 split). MAZE receives the performance fee (carried interest 20%) that is tied with impact measurement, if at least 60% of the impact targets are met. If less, the funds earmarked for the performance fee are given to charity organisations. Investment focus is more concretely on European early-stage impact ventures between pre-seed and series A. Investments into one company are in the range of €50k to €1M; normally ca €500k. The fund can also make follow-on investments to investee companies. The goal is to invest in 30 to 35 ventures altogether (26 invested in so far).
Impact management:	As an impact startup accelerator, MAZE X looks at metrics that corroborate how revenue and impact are mutually reinforcing. This is called the **lock-step model**. MAZE selects only those companies that inherently tackle social and environmental challenges. The general logic is that the more they sell their products, the larger is the impact. Due diligence and impact measurement are important elements of the process. For each company, 1 or 2 indicators/ impact metrics are established to track impact. MAZE uses the **Impact management project** (IMP) methodology (https://impactmanagementproject.com/) for impact management. Impact profiles of investee companies, outlining the assessment according to the IMP methodology, are available online in pdf-factsheets – https://msm.vc/portfolio/ . **Student Finance impact profile** *Source: https://msm.vc/wp-content/uploads/2021/04/Student-Finance-1pager.pdf*

Impact Management Project assessment

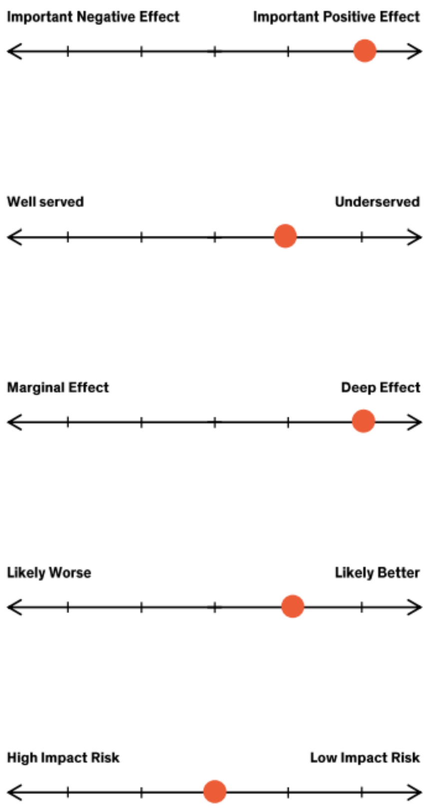
What: By providing ISAs aimed at up-/re-skilling students in order to employ them in high-salaried jobs as quickly as possible, StudentFinance is contributing to important positive outcomes related with employability and better wages.

Who: StudentFinance targets students on the lower-end of the socio-economic curve, who are underserved by traditional financing options. The frequency of student default is correlated with the amount borrowed, with more than 33% of loans less than $5k in default, which is in contrast to the less than 15% of defaulted loans in excess of $35k.

How much: Within the next three years, StudentFinance plans to integrate up-/reskilled students in the job market. In addition, it aims at enabling a salary increase after completing the boot-camps, demonstrating a deep effect in the beneficiaries' financial situation.

Contribution: The relationship between each ISA and each job integration, allows for a strong outcome contribution of StudentFinance, i.e., the outcome happens because of StudentFinance. In addition, given the limited availability of outcome-based financing for students, we consider the contribution of StudentFinance towards the outcome to be significant.

Impact Risk: External risk might occur as the regulation for ISAs can become stricter due to abusive practices from other ISA providers. There could be an unexpected impact risk if students who benefit from ISAs are employed by high-polluting companies, which is unlikely but possible and outside of StudentFinance's control.



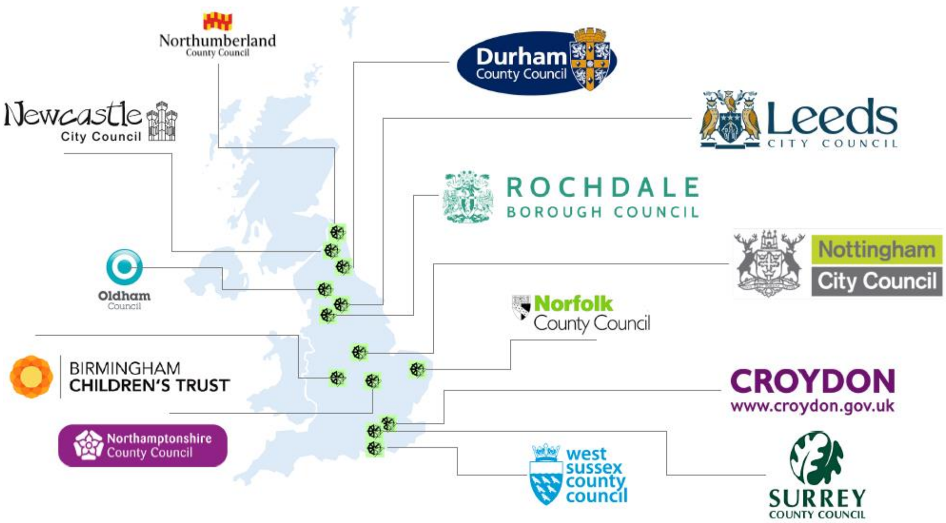
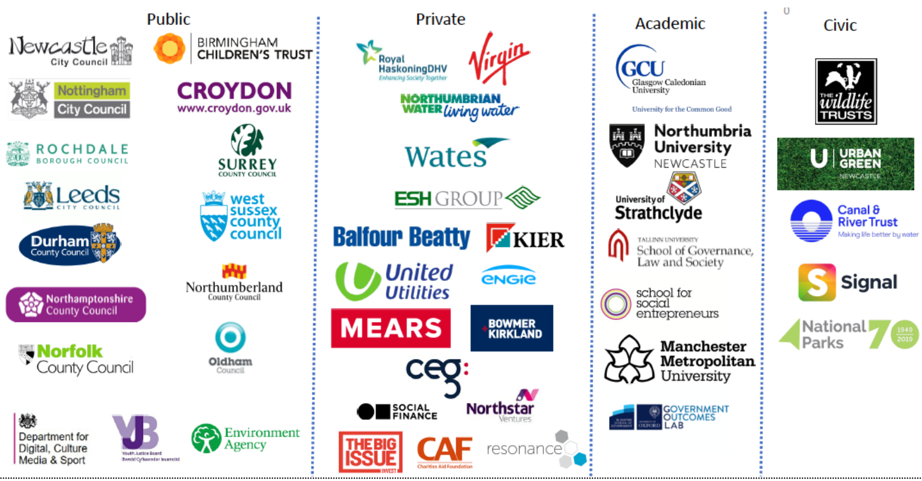
Partners: MAZE works in close partnership with Calouste Gulbenkian Foundation, the European Investment Fund, the European Venture Philantropy Association, the Edmond the Rothschild Foundations, BNP Paribas, Social Finance, PLMJ, among several others.

Other information: HISTORIC PERSPECTIVE

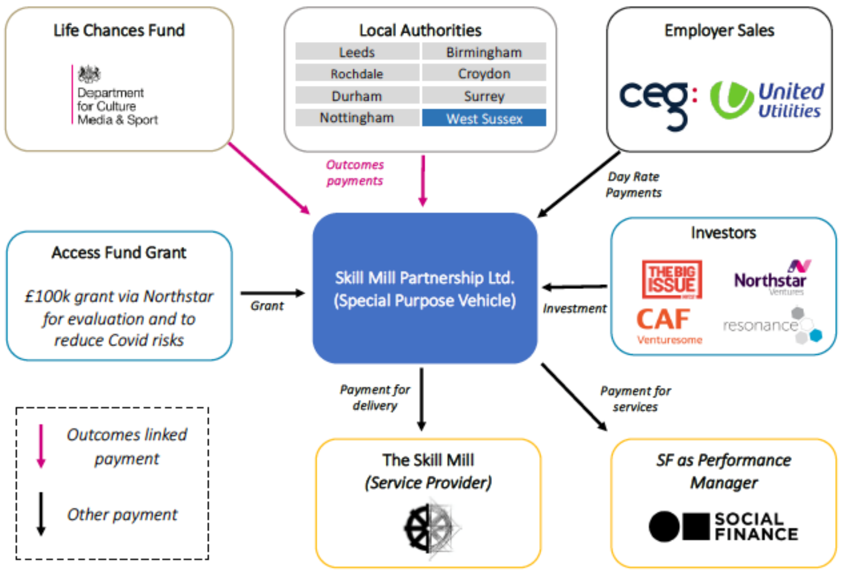
MAZE was launched in 2013 by the Calouste Gulbenkian Foundation, under the name of Social Investment Lab, with the goal of bringing the concept of impact investment into Portugal. They spent the first 3 years doing market building work – from implementing and managing the Portuguese Social Investment Taskforce, launching the first Social Impact Bond in Portugal, and supporting the Portuguese government to launch an 150M EUR fund aimed at funding social innovation in Portugal – structural funds from the EU were for the first time mobilised to invest in social innovation, making Portugal a pioneer in this matter.
In the years that followed, the Social Investment Lab became MAZE and develop the areas of work as market players, existent today.

6. The Skill Mill
financed by a Social Impact Bond

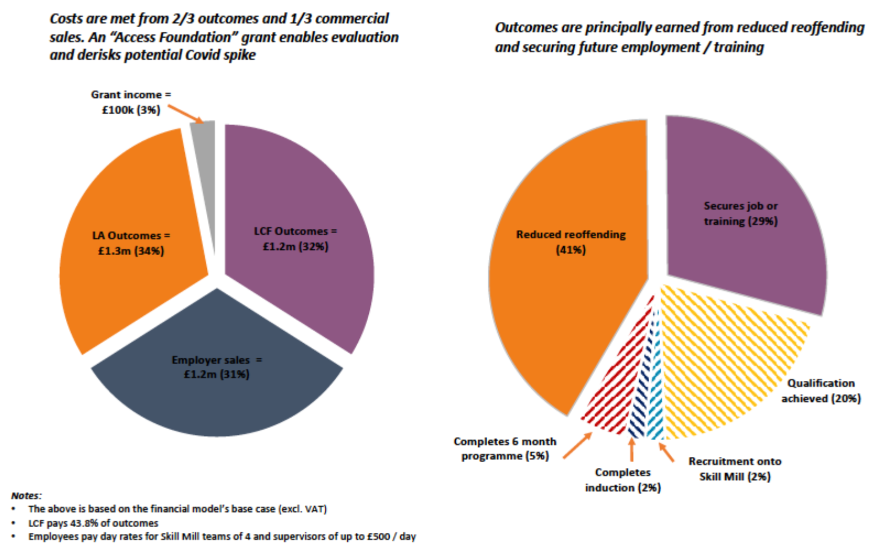
www.theskillmill.org

Year created:	2014
Type:	The Skill Mill is a multi-award-winning social enterprise which provides employment opportunities for young people aged between sixteen and eighteen. It employs only ex-offenders, actively reducing reoffending whilst increasing engagement, participation, employability and educational levels of the young people to increase their life chances.
Key stakeholders:	The key stakeholders in the Social Impact Bond are:  In order to deliver the expected social outcomes of the SIB, the following partnership is involved in the activities of Skill Mill: 
Geographic focus:	UK, Estonia

<table>
<tr><td>Thematic focus:</td><td>The SIB focus is on employment opportunities for young ex-offenders</td></tr>
<tr><td>Core model of operation:</td><td>The SIB model: payments will be made on successfully achieving the following outputs and outcomes:
• Recruitment
• Induction completed
• Qualification achieved
• Programme completed
• Job secured
• No reoffending in 12 months</td></tr>
<tr><td>Specifics of financial instrument/ funding provided:</td><td>



The SIB offers value for money for local authorities who only contribute 1/3 of the financing and 70% of their payments are for outcomes.



</td></tr>
<tr><td>Impact management:</td><td>The impact metrics has been fixed in the contracts of the Special Purpose Vehicle, Life Chances Fund and local authorities and lists the conditions of when payments will be made.
The Skill Mill as a social enterprise works to:
• Improve the flow of watercourses and contribute to the reduction of</td></tr>
</table>

flood risk.
- Increase engagement, participation, employability and educational levels of the young people and move them closer to long term sustainable employment.
- Reduce re-offending and increase community safety through engagement of ex-offenders in employment.
- Demonstrate to others the importance of innovative thinking and the benefits of moving away from existing high cost contracting to resolve water related issues.

The work of The Skill Mill is intimately connected with the UN Sustainability Development Goals. The focused work supports young men and women out of the criminal justice system, through paid employment, undertaking meaningful physical work and improving the natural environment. This aligns with the goals noted:

Goal 1 - End Poverty:
The Skill Mill works exclusively with young people who are disadvantaged in many ways. They are identified foremost by their behaviours which have brought them into the criminal justice system. These behaviours are overwhelmingly symptomatic of poverty. At The Skill Mill all the beneficiaries complete a poverty stoplight questionnaire which has been co-designed by Skill Mill and Poverty Stoplight Foundation in order that they can self-assess poverty indicators and develop an action plan to address the barriers. Furthermore, the paid job, skill development and qualifications contribute significantly to lifting the young people out of poverty with ripple effects into their families and communities.

Goal 3 – Good Health:
Employment on the scheme provides a structured environment where the combination of drug and alcohol are not acceptable. As such the ongoing work provides an opportunity for reduced drug and alcohol intake leading to direct benefits for the individuals concerned with positive follow-on impacts to their communities. The Skill Mill offers employment which is primarily outdoors and physically challenging. The combination of physical work in nature has demonstrable physical and mental health and wellbeing benefits.

Goal 4 – Quality Education:
Many of the individuals employed by The Skill Mill have not engaged with the education system. As such, the The Skill Mill provides a structured environment where basic qualifications are secured and with their experience provide a sound basis for ongoing employment.

Goal 6 – Clean Water and Sanitation:
The Skill Mill actively improve water quality by reducing pollution and eliminating dumping. The Skill Mill works within the Water Framework Directive and is a partner in the Catchment Area for Tyne and Wear.

Goal 8 – Good Jobs and Economic Growth:
The practice of regular routine work helps increase economic productivity and connects job creation with environmental improvement. As a social enterprise, The Skill Mill is a highly innovative organisation which is using economic activity to deliver material benefits to society at large and the individuals who it serves. This has been recognised at the Government level as a model to be adopted elsewhere. It reduces the number of youth not in

	employment or education. ***Goal 9 - Innovation:*** Through co-design and design thinking techniques between The Skill Mill and its partners there has been progress in developing innovative approaches to solving the problem of youth crime. The approaches have been recognised in the UK with a number of innovation competitions recognising the practice including The Environment Agency and the Youth Justice Board (England and Wales). The Skill Mill is a lead partner for the COST Association Action Multi-Disciplinary Innovation for Social Change. ***Goal 10 – Reduce Inequality:*** The Skill Mill empowers and promotes the social, economic and political inclusion of young people, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status with the excluded young offenders providing the individuals with means and confidence to positively engage with the society around them and engage with the wider labour market. ***Goal 11 – Sustainable Cities and Communities:*** The Skill Mill works with young people living in communities where economic decline and deprivation has been severe. The model has been recognised by Eurocities as an example of effective practice in Newcastle upon Tyne where the model began and now operating in many other cities in England. The work itself benefits communities by delivering services which improve the local environment, increase civic pride and care for public spaces and community assets. ***Goal 12 – Sustainable Consumption and Production:*** The Skill mill has an environmental management policy which has a goal for zero waste. All green waste is disposed of safely in municipal amenities sites unless it can be reused in the form of dead hedges etc. The Skill Mill is now supplying face masks which use only 100% natural materials, and there is no waste in the production process. The Skill Mill has a paperless policy and meets this 90% of the time. All unavoidable paper use is with recycled materials. The Skill Mill organises a separate project Edible designed to reduce food waste and has piloted this activity with a supermarket chain. ***Goal 13 – Climate Action:*** The Skill Mill is first and foremost an environmental services organisation. It provides services which care for the maintenance of local urban green spaces and also rural land maintenance. Work is undertaken to reduce flood risk arising from increased risk through climate change. The Skill Mill co-organises the annual World Cleanup Day which is a global event mobilising citizens, community groups, corporations and government bodies to participate in a day of action to highlight the issue of waste and especially single use plastic. During 2019 over 200 events were organised across the UK and included over 20,000 people. **Goal 14 - Life Below Water:** The Skill Mill has partnerships with a number of water friendly organisations including Northumberland Rivers Trust, Canal and River Trust, Thames Water, Severn Trent Water and Northumbrian Water. The Skill Mill provides services which contribute to protection against environmental degradation, overfishing, climate change and pollution.

	Goal 15 - Life on Land: The Skill Mill is committed to protecting natural habitats and managing woodland sustainably. Tree planting, habitat building, vegetation cleanups and litter picking are just a few of the activities which are frequently carried out across our teams. We are committed to connecting people to nature, and promote the protection of green spaces. ***Goal 17 – Partnerships for the Goals:*** One of the defining features of The Skill Mill is the scope and scale of the partnerships that have been developed in each location. Skill Mill has received recognition for the unique triple-helix approach to solving multiple social and environmental impact. In 2019 Skill Mill received the Children and Young People Now Partnership Working Award. The academic community, civil society organisations, corporations and citizens are all working together through The Skill Mill to support the development and co-design solutions to the social and environmental challenges.
Partners:	Partners in the UK include: The Skill Mill also has partnership networks in Estonia, USA, Japan, and in New Zealand
Other information:	**Awards 2021** • The Queen's Award for Enterprise: Promoting Opportunity 2021 – Winner • The Queen's Award for Enterprise: Sustainable Development 2021 – Winner • NatWest SE100 List 2021 • Social Enterprise UK Social Investment Deal of the Year 2021 – Finalist • Children and Young People Now Awards 2021 Youth Justice Award - Finalist

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