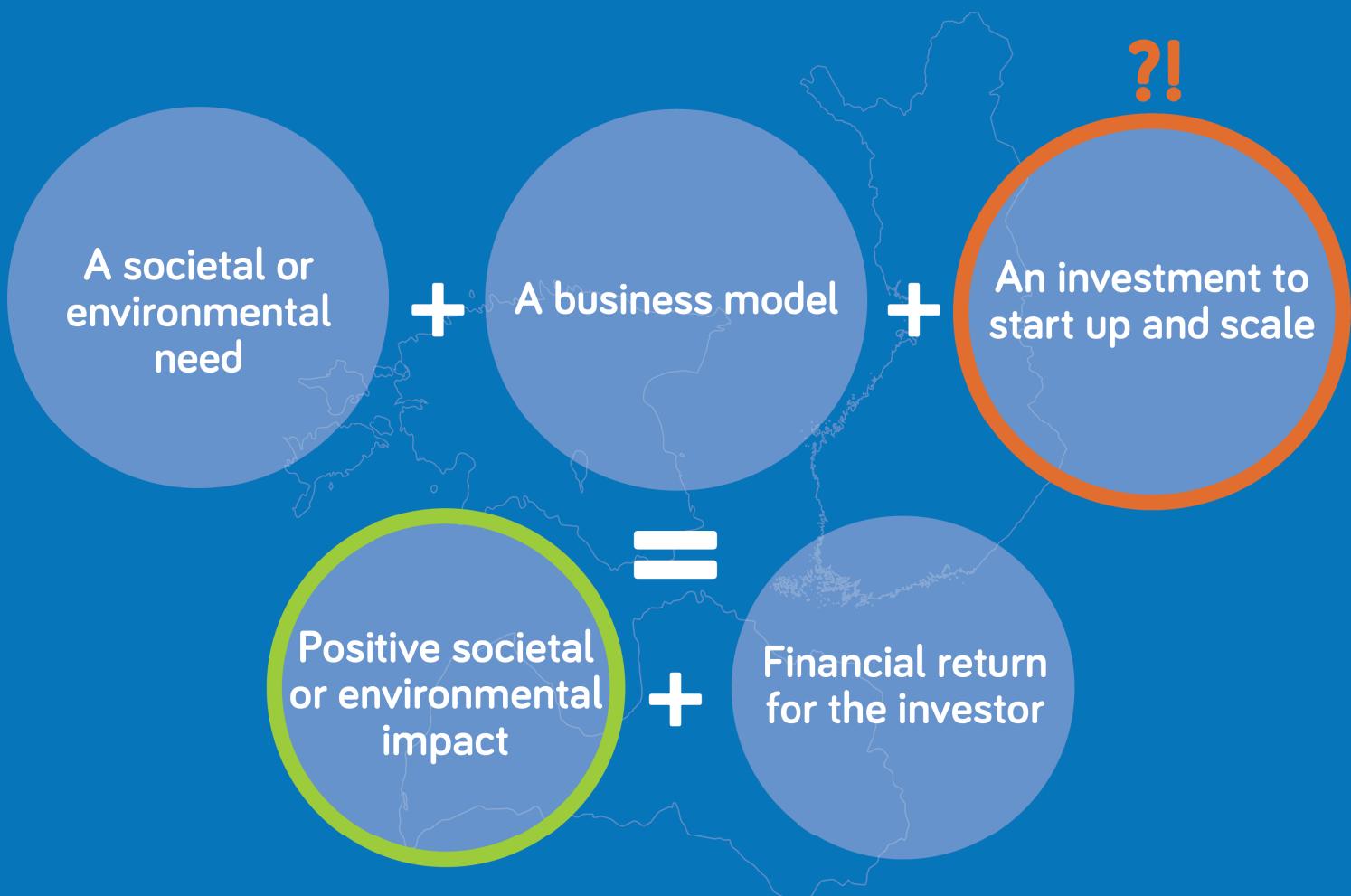




Discussion paper on

# SOCIAL IMPACT INVESTMENT IN THE NORDIC-BALTIC REGION

Ideas and opportunities, needs and challenges  
using examples from Estonia, Latvia and Finland



**This publication has been supported by** the Nordic Council of Ministers' Office in Estonia in the framework of the project "Social impact investment regional cooperation plan for Estonia, Latvia and Finland" in 2017-2018.

**The project aimed** to map out the current situation and create a joint action plan for quicker development of the social impact investment ecosystem. It was implemented by the Estonian Social Enterprise Network, the Social Entrepreneurship Association of Latvia and the Finnish Association for Social Enterprises.

**The authors of the publication are** Jaan Aps (general chapters and Estonian section), Madara Ūlande (Latvian section) and Kimmo Lipponen (Finnish section). The content of the general chapters was jointly agreed on mainly based on data from stakeholders' involvement activities, including an international seminar in Riga in March 2018.

The authors are responsible for any errors or omissions. As the field is quickly emerging and available information is rather fragmented, the authors would be grateful to receive any additional information or suggestions to update the publication with.

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# Introduction

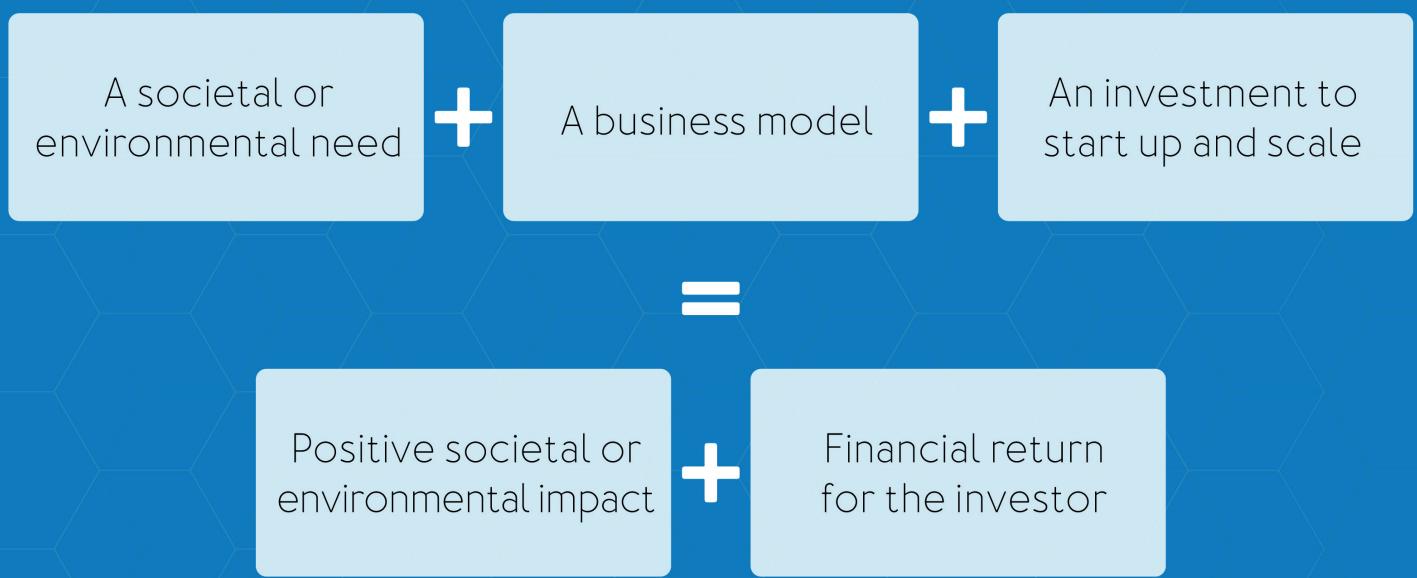
to the discussion paper

## INTRODUCTION TO THE DISCUSSION PAPER

To address social, economic and environmental challenges in the Nordic-Baltic region, new approaches are needed. One such method is **social impact investment**. It enables stakeholders to start up and scale up enterprises that tackle societal challenges with the help of sustainable business models.

**Social impact investment means the provision of financing to enterprises addressing social needs with the explicit expectation of a measurable societal impact and financial return.<sup>1</sup>** In most cases, the investees are social enterprises that operate by providing goods and services to the market in an entrepreneurial and innovative fashion and use their profits primarily to achieve social objectives.<sup>2</sup>

### How are social impact investments built up?



<sup>1</sup> The definition presented here is a slight variation of a definition provided by the OECD (<http://www.oecd.org/sti/ind/social-impact-investment.htm>)

<sup>2</sup> It is a part of the definition of a social enterprise provided by the European Commission ([http://ec.europa.eu/growth/sectors/social-economy/enterprises\\_en](http://ec.europa.eu/growth/sectors/social-economy/enterprises_en))

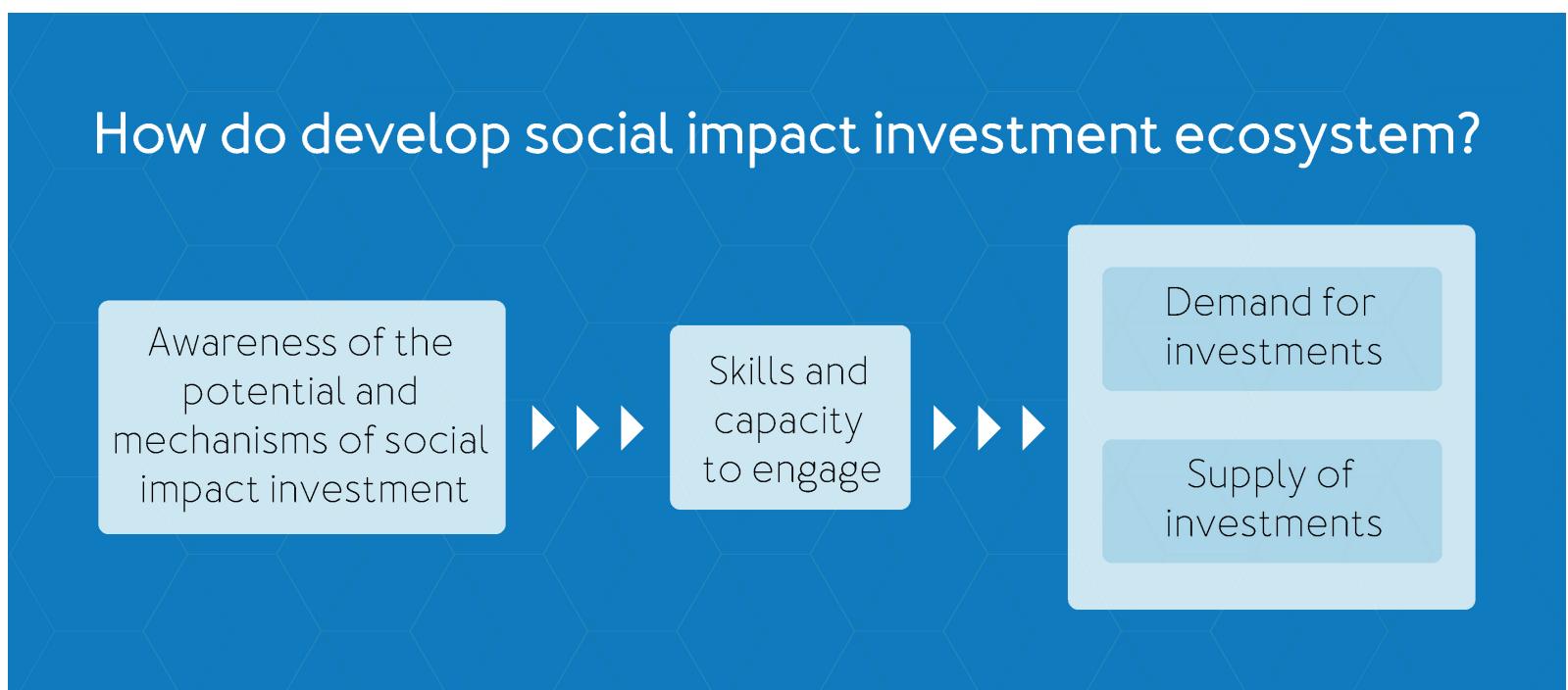
## *Introduction to the discussion paper*

The Estonian Social Enterprise Network, the Social Entrepreneurship Association of Latvia and the Finnish Association for Social Enterprises have partnered up with the help of the Nordic Council of Ministers' Office in Estonia in 2017-2018 to map the main challenges and opportunities related to social impact investment development in our region. The current publication is one of the first products of our partnership.

To more quickly provide information for the stakeholders' discussion while operating with very limited resources, **we chose a highly non-academic approach to compile this publication**. We wanted the ideas and opportunities as well as needs and challenges to reach stakeholders as quickly as possible in the form of this discussion paper.

The mapping was mainly based on describing the current experience of the partners, and we organized some additional activities to enable stakeholder involvement. The biggest stakeholder involvement event was the seminar "Social impact investment: Development opportunities in the region" that was organized in Riga on the 21 March 2018.<sup>3</sup>

**Our main findings have been identified and structured on the following illustration.** All the keywords simultaneously present the main opportunities and challenges related to social impact investment.



Our region is characterized by a low awareness about social impact investments. The stakeholders that have relative awareness usually lack the motivation, skills and capacity to engage effectively. There is also a low demand for and supply of investments as the communities of social enterprises and potential investors have not found each other yet.

**The objectives related to increasing the demand and supply of investments are mostly national. The main reason:** the immediate impact of social enterprises usually occurs on a local or national level.

**However, the activities to achieve the objectives like raising awareness while building up stakeholders' motivation, skills and capacity can and should be regional.** Any individual country currently lacks a critical mass of stakeholders and resources to speed up the development of the social impact investment ecosystem to meet societal challenges quickly.

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<sup>3</sup> The presentations from the seminar can be found on this link: <https://sev.ee/social-impact-investment/>

Thus **the identified challenges provide a clear roadmap for moving forward**. Cross-sector events and other involvement activities can be organized jointly to increase the awareness of stakeholders while bringing different viewpoints together. Both potential investors and social enterprises in need of investments can take part simultaneously, but the public sector must be involved as well. To make the events more creative and practical, the contents should be related to building up the skills and capacities of the participants.

**The current publication provides specific suggestions for those regional next steps.** Firstly, it outlines the main challenges and development opportunities that are shared to a certain extent by all countries in the region. Secondly, the publication presents brief country reports of Estonia, Latvia and Finland. The chapters follow an identical structure describing the general situation, mapping the main stakeholders and providing some case studies about existing social impact investment practices.

**All the stakeholders stimulated by this discussion paper are welcome to get in touch with the authors.** The contact details can be found on the reverse of the title page.

# National regional challenges, development opportunities

## NATIONAL CHALLENGES, REGIONAL DEVELOPMENT OPPORTUNITIES

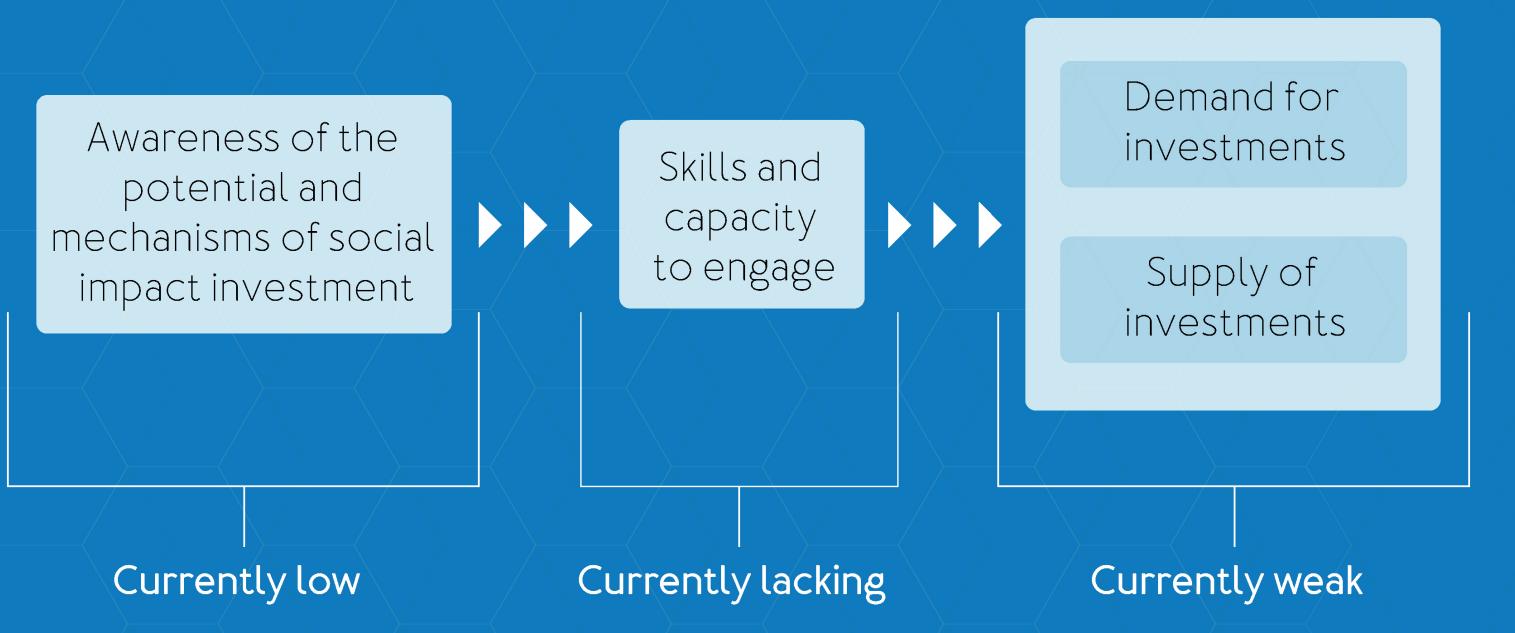
The chapter is directly based on the findings from the seminar “Social impact investment: Development opportunities in the region”, which was organized in Riga on the 21 March 2018.<sup>4</sup>

### Current challenges

The **current challenges** for developing social impact investment in the region fall into four main categories.

1. Low awareness about the topics and possibilities related to social impact investment
2. The potential developers of the social impact investment ecosystem lack skills and the capacity to take ownership and initiative
3. The demand side for social impact investment is weak
4. The supply side of social impact investment is weak

### The current challenges for developing social impact investment



<sup>4</sup> The presentations from the event can be found on the link <https://sev.ee/social-impact-investment/>

## 1. Low awareness about the topics and possibilities related social impact investment

- Low demand from the public sector and potential investors for the creation of societal impact. It is a general problem that also affects, for example, choices made in the framework of public procurement. Higher demand for societal impact would automatically create a higher need and demand for developing social impact investment. A related problem is the lack of expertise and tools associated with social impact measurement.
- Awareness about the concept of social entrepreneurship is low, though it is one of the prerequisites for understanding social impact investment. The root causes include the lack of a clear definition of social entrepreneurship as well as the existence of a relatively low number of social enterprises.
- The concept of social impact investment is mostly unknown among different relevant target groups and not known at all to the general public.
- There have been no systematic practices for social impact investment in our countries, including the lack of intermediaries between investors and investees. One of its consequences is also the lack of a critical number of success stories to show the potential of social impact investment.
- There is no stakeholder mapping available that would help potential to be discovered and bring stakeholder together, thought each of the countries do have a number of stakeholders who have some experience that would be highly relevant for developing a social impact investment ecosystem.

## 2. The potential developers of the social impact investment ecosystem lack the skills and capacity to take ownership and initiative

- The potential stakeholders of social impact investment don't have enough shared language / terminology, educational background and professional experience to engage in productive discussions. However, developing social impact investment mechanisms definitely requires a multidisciplinary approach (e.g. financial, legal, social sciences).
- In our societies, the sector roles are still perceived as mostly fixed ("public", "private"/ "for-profit", "third"/ "non-profit"). The developers of sectoral ecosystems generally work in silos. For example, the entrepreneurship ecosystem support measures that usually involve only for-profit companies, and civil society development support is exclusively reserved for non-profit organizations.
  - In most countries in our region, current legal forms also reflect traditional sector roles, and ministries of social affairs and the interior, rather than ministries of economic affairs, are working with social enterprise legal developments.
  - In conclusion, there is a lack of willingness on behalf of state institutions to rethink the traditional financing models, and of potential private investors to consider social enterprises as an investment opportunity.
- There are no organizations yet that have the capacity to become advocates for and intermediaries of social impact investment in their respective countries. A notable exception is SITRA in Finland in relation to social impact bonds.
- New intermediaries and players are needed who have the capacity to become advocates for and intermediaries of social impact investment in their respective countries. (A notable exception is

SITRA in Finland in relation to social impact bonds.)

- Existing social enterprise networks and advocates who are working with social impact investment need serious capacity building and resources to tackle this issue effectively. They are working with the issue, but since there is so much work to be done and very few resources, and the sector itself cannot yet cover the costs, it is difficult and challenging to really develop something and tackle it properly.

### **3. The demand side for social impact investment is weak**

- As leaders, many social entrepreneurs are not ready to involve investors. They:
  - Perceive themselves as leading non-governmental organizations, not social businesses.
  - Are used to grants and have no prior experience with investments.
  - Are averse to risk and the potential loss of control that are related to involving outside investors.
  - Lack some of critical skills that are needed to lead an organization to be invested into and scaled up.
- As organizations, many social enterprises have not been built up to enable investments
  - As most social enterprises have been registered as non-profit organizations, they are not allowed to pay dividends, i.e. no equity investments are possible due to legal restrictions. There is some practice of non-governmental organizations setting up limited liability companies, but they usually remain sole owners.
  - Investors do not perceive social enterprises as investable in a classical sense as many of those organizations are small, local and/or at an early stage in their development.
  - Most social enterprises have business models that are not yet financially self-sustainable nor scalable. In addition to sales income, an important share of their earnings is generated, for example, from grants and donations, or their activities are dependent on volunteer work.
- For-profit enterprises that may have the potential to become social businesses are not involved in social entrepreneurship and social impact investment discussions.

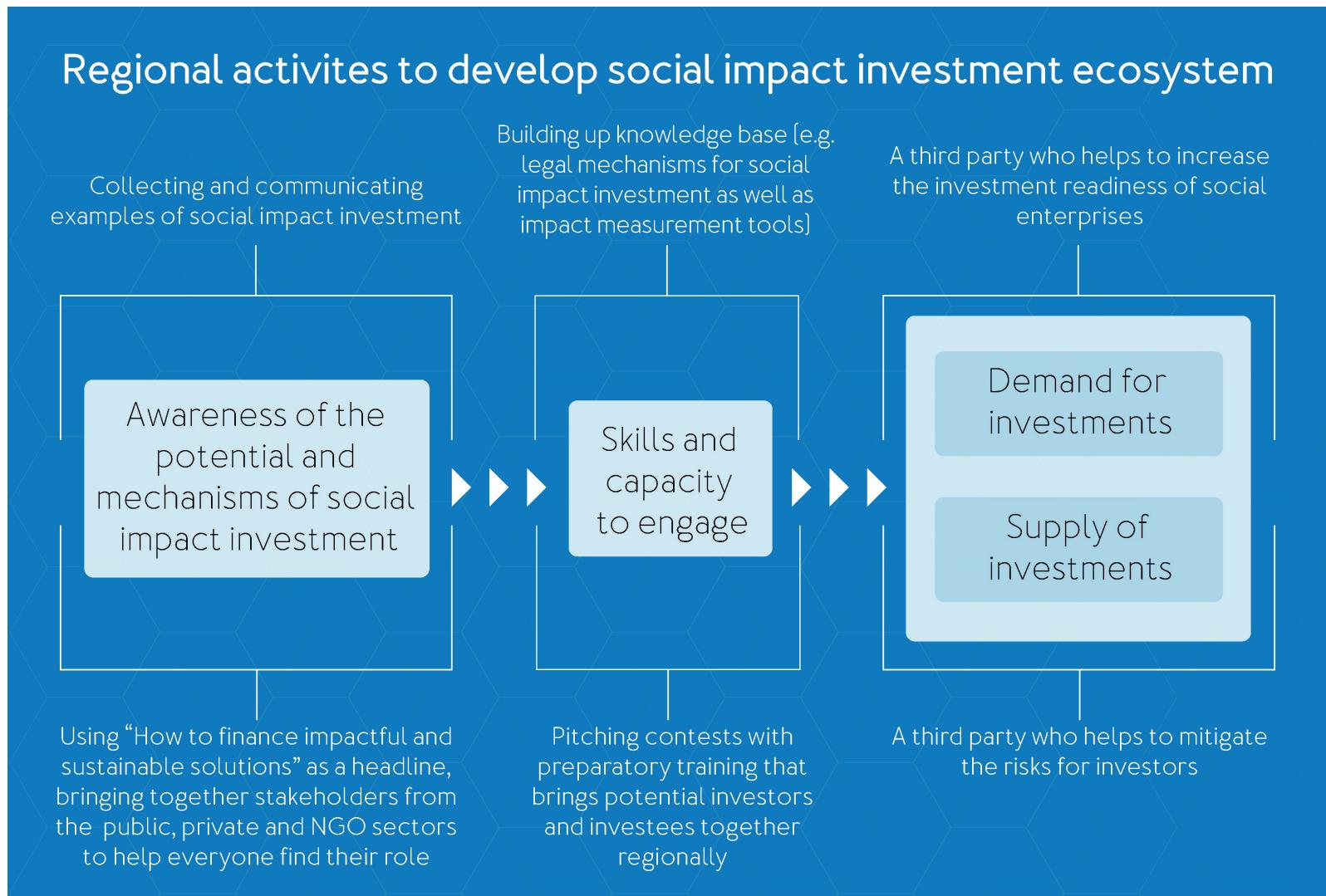
### **4. The supply side of social impact investment is weak**

- Traditionally, investments have been made in vehicles based on expected financial return. Blended investment (i.e. financial return + societal impact) is not an intuitive concept for investors who have kept their investments and charitable donations separate.
- Social enterprises are perceived to lack investment readiness. This is due to objective factors (see the challenges related to demand for investments), a traditional view of legal forms (e.g. banks give loans to non-profit organizations only in exceptional cases) and simply a lack of awareness about the potential of the social enterprise sector
- Globally, the number, volume and diversity of national and international social impact investment funds are growing steadily. However, the trend is not influencing our region. National funds are not developing for the reasons listed in this document. International funds do not reach our region

for a variety of reasons, for example, the region is not among the priority regions, or the market is perceived to be too small for developing social impact investment.

## The outline for regional cooperation

While most objectives for developing social impact investment are national, many of the activities to achieve these can and should be regional. The concept for regional cooperation that targets main development needs is presented on the following illustration.



Examples of **the actions towards network building and communication that can be taken regionally** include creating a visible map for the regional social impact investment ecosystem and practicing cross-border marketing of the concepts of social entrepreneurship and social impact investment. There are also many tools (e.g. investment mechanism descriptions; impact investment methodologies) that regional stakeholders can share with each other.

**National, regional and global success stories about social impact investments should be collected and disseminated to support national and regional discussions.** The stories should reflect different aspects of social impact investment, for example, scale, sustainability and impact.

Persons with different backgrounds should be attracted to the sector to diversify the current profile of social enterprise leaders and capacity-building efforts should be directed at them (e.g. coaching them to grow their organizations).

**A discussion should be started about creating an ecosystem that naturally mixes social and economic value.** Some important choices about communication messages must be made, for instance, to which stakeholders the main message would be “impact first”, and when it is crucial to stress “business first”. The discussion should be highly participatory to enable stakeholders to “learn the same language” for how to speak about social impact investment. The concept of “blended return” (i.e. financial and societal return) should be communicated.

**There could be a number of practical activities** that help to simultaneously increase awareness about the concept of social impact investment while building up the capacity of grass-root level stakeholders. **These include increasing investment readiness through training (incubator pilot).**

Also important is **establishing an intermediary who understands all three sectors** and can coordinate work in multidisciplinary teams. One possible form of an intermediary would be a central organization that brings stakeholders together from all three traditional sectors while preparing social enterprises to become investment ready.

As one of the key words for both supply and demand is risk, there needs to be a third party who helps to mitigate risks, especially for investors.



# ESTONIA:

snapshot of the current situation

## ESTONIA: SNAPSHOT OF THE CURRENT SITUATION

In Estonia, there is no legal standard structure for social enterprises, thought there are some state-level documents that do mention social enterprise as a concept [e.g. The National Development Plan for Civil Society 2015-2020 by the Ministry of the Interior, the Well-Being Development Plan by the Ministry of Social Affairs 2016-2023, the decision of the Governments Office to establish a task force for the public sector and social innovation 2016-2017]. The most commonly referenced example of defining social enterprise is related to the membership criteria of the Estonian Social Enterprise Network (ESEN). This is primarily defined by the need to have a clear societal purpose. The other important aspect is having a financially sustainable business model [i.e. financial model based on sales income].

**Registering as a non-profit has been a default option for social enterprise in Estonia.** There are also a few limited liability companies identifying themselves as social enterprises. A solution used by some social entrepreneurs has been combining two organizations [e.g. a non-profit association and a limited liability company] to form one social enterprise. The motivation is to achieve more favourable taxation conditions and take advantage of both business and civil society development grants for investment needs.

In spring 2014, the ESEN, in collaboration with Statistics Estonia and the Network of Estonian Non-profit Organizations and with the support of the European Commission, compiled **the results of the first-ever statistical overview of the Estonian social enterprise sector**.<sup>5</sup> The results showed that between 2009 and 2012, the sector's total entrepreneurial income increased on average by 18% per year and the number of new social enterprises increased on average by 7% per year. Also, there was a steady increase in the jobs provided by the social enterprises. A considerable part (66%) of the average total income of social enterprises is earned by engaging in entrepreneurial activities. Approximately one third of social enterprises provided social welfare services. An average social enterprise is a micro-organization with 1-4 employees.

**In Estonia, social enterprises can access different forms of investments but it is fragmented and rarely tailored specifically for the needs of social enterprises.** The following paragraphs about social impact investment draw both from expert knowledge of the Estonian Social Enterprise team as well as the conclusions of a recent study commissioned by the Government's Office.<sup>6</sup>

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<sup>5</sup> "Social Entrepreneurship In Estonia" [Quarterly Bulletin Of Statistics Estonia 1/15, 2015], <https://sev.ee/wp-content/uploads/2017/06/kvartalikiri-sotsiaalne-ettevotlus-eestis.pdf>

<sup>6</sup> "Analysis of Social Enterprise Support System" [Centre for Applied Social Sciences, University of Tartu, 2017], [https://riigikantselei.ee/sites/default/files/content-editors/Failid/kaust/sotsiaalse\\_ettevotlus\\_tugisysteem\\_rake.pdf](https://riigikantselei.ee/sites/default/files/content-editors/Failid/kaust/sotsiaalse_ettevotlus_tugisysteem_rake.pdf)

## *ESTONIA: snapshot of the current situation*

Traditional business support mechanisms typically exclude legal structures of non-profit associations and foundations, which are the most common legal choices for social enterprises. Estonia has a vibrant and well-developed start-up scene, but social innovation is not a systematic part of it. As a notable exception, the main business idea competition in Estonia has rewarded social enterprise start-ups in a separate category over the years.

Enterprise Estonia the largest institution within the national entrepreneurship support system. It provides **over 70 measures, none of which is dedicated to developing social entrepreneurship**. A regulation of the European Parliament and of the Council rules out supporting non-governmental organisations from these measures. In any case the measures of Enterprise Estonia are being reformed to focus on quickly expanding and export enterprises, characteristics that rarely define social enterprises dedicated to satisfying local needs.

**There are no loans nor other financial instruments offered especially for social enterprises.** For non-governmental organisations, the usual practice is to take small loans using a guarantee from private persons. There have been some exceptions when the organization has been able to offer its real estate (e.g. a building) as a guarantee.

**The practices of other entrepreneurship financiers differ.** On the one hand, the Estonian Unemployment Insurance Fund rules out the possibility for someone who is unemployed to get start-up support for establishing an enterprise as an NGO (although in their case there are no restrictions from the EU). On the other hand, the support measures for creative industries also include non-profit organizations as eligible.

Then there are many measures where social enterprises are in principle eligible, like regional development measures, for example, LEADER, which is especially relevant for community-based social enterprises. However, these measures are not explicitly designed to invest in social enterprises.

**The public services market is not only unfavourable but even harmful for the growth and development of social enterprises offering public services.** Most public service contracts are awarded for the cheapest offers, while in most tenders the criteria use team qualifications (based on CVs) as the proxy for quality and impact. While in many areas (like IT development) the contracts allow the winners to have a healthy profit margin, social sector tenders usually require winners to subsidize their budgets with grants, overwork and volunteering. As most social enterprises have the mission to help their target group, many play along with the rules, resulting in negative long-term consequences for their teams and organizations.

**The single most important financial supporter for social enterprises has been the National Foundation of Civil Society.** As its name indicates, it provides support only for public benefit non-governmental organizations (i.e. non-profit associations and foundations). It is important to note that non-profit social enterprises who are registered as private companies or founded by private companies or public sector are also ineligible for the support of the foundation. Its support has reached the social enterprise sector in two ways.

- In the past, there have been special calls for developing social entrepreneurship and public services (business plan development and its implementation, always in separate calls).
- Currently, there are two capacity-building calls per year. One is dedicated specifically to strengthening the financial sustainability of the applicants, and investments are eligible. However, the maximum size of the grant is 12,000 euros for nation-wide organisations and 9,000 euros for local organisations. Physical investments are allowed once a year.

Currently, the Social Innovation Incubator established by the National Foundation for Civil Society and the Good Deed Foundation is running its fourth round. Annually it hosts 6-7 incubants, and 3 investees selected from them receive 25,000 euros per investee.

A very recent development is the Impact Fund by the Good Deed Foundation. While the fund targets high-impact organizations for scaling up no matter whether they are social enterprise or not, the foundation views the fund as a strategic initiative that will help prepare investment-ready organizations in the longer term.

As a trend, social enterprises have begun to utilize the possibilities of crowdfunding, as the main Estonian crowdfunding portal is very successful. One example: a social enterprise that offers mindfulness programs mainly for schools and kindergartners received support to develop a mindfulness mobile application and a handbook for parents [the sum was 11,068 EUR].

## Case study: achieving impact with mini-investment grants for social enterprises

In 2012-2015, Olympic Casino Estonia and the Estonian Social Enterprise Network (ESEN) gave the members of the ESEN an investment grant of 3,000 euros twice a year. The grant was a part of Olympic Casino's corporate social responsibility strategy. While the ESEN appreciated that the cooperation might have been perceived as controversial, it decided to give the opportunity to those members whose values would be in accordance with receiving the support from gambling profits. The ESEN also wanted to avoid double standards, as hundreds of Estonian social, educational, cultural and sports initiatives apply for support from the Council of the Gambling Tax. However, the ESEN acted as a voluntary intermediary and accepted no payment for its coordination services.

The mini-investment grant was crucially important in building up a case for social impact investment in Estonia and all stakeholders acquired invaluable experience without taking any big risks. The details of each investment are provided in the table below. The main conclusions of the process were the following:

- **Creating an opportunity to apply specifically for investments creates an opportunity to build up social enterprise investment readiness both in terms of attitudes and knowledge.** While the grant application was brief (a maximum length of two pages), it required the applicant to present key performance indicators in terms of increased sales income and societal impact. The first rounds of the competition included quite many weak applications that asked for nice-to-have support (e.g. renovating a workplace kitchen corner) or presented unrealistic financial projections. However, the later rounds consisted of much stronger applications.
- **As the following table illustrates, even a sum as small as 3,000 euros was able to create lasting positive change in all cases but one.** On the one hand, the high success rate was based on the low risk of the investment and the relatively high organizational maturity of the applicants. On the other hand, it demonstrates the strategic potential of social impact investment – what if the sums were much higher and combined with non-financial support?
- **To enable investing into grass-root level organisations, it was important to create an investment mechanism with minimum administrative burden.** The total length of the application was a maximum of two pages as it was designed as a modifiable PDF document. It included an investment budget and had to be accompanied by the latest annual accounts. In some of the rounds, the three most promising applicants were invited to live pitch their investment case. When the investee was chosen, the investment was awarded to them on site as a part of due diligence. While each of the investees had to physically show what had changed in their organization and be able to communicate the results, no financial reporting (e.g. invoices) were requested from them.

*ESTONIA: snapshot of the current situation*

- To ensure that such investment schemes are maintained for the long term, they should not rely only on the goodwill of one socially responsible company whose CSR strategy and communication needs may change relatively quickly. On the one hand, Olympic Casino Estonia wanted a high variety of investment cases for their communication but about 35% of Estonian social enterprises are dealing with the employment of the disadvantaged, and this clearly reflected in the profiles of the applicants. On the other hand, the company decided to focus their sponsorships and partnerships more narrowly, and the grant was one of the activities that was cut down.

Year	Name of the social enterprise	Enterprise in a nutshell	Purpose of investment	Outcomes of the investment
2012	<b>Tagurpidi Lavka</b>	The enterprise purchases and sells local Estonian farmers' products in Tallinn at a fair price.	Redesigning the electronic order system to enable products to be brought to Tallinn twice a week so that the clients are supplied all week with raw milk, meat and fish.	The investment helped to reach more local farmers as the increase was from 44 to 79 in 2011-2013. The increase in orders was 74% during the same time period.
2012	<b>Johannes School and Kindergarten at Rosma</b>	The school uses a Waldorf school syllabus to teach the children in Rosma village, Põlva Rural Municipality.	Renovation of rooms to create 10 new kindergarten places. The total investment was 16,000 euros [sources included donations, own reserves and a small bank loan].	10 new kindergarten places and two new jobs were created. Annual net income of the organisation increased.
2013	<b>Estonian Blind Masseurs Association</b>	The enterprise recruits and trains visually impaired people to become masseurs on the open labour market as well as at the association's own centre.	Interior works and furnishing for the rooms in their newly renovated training and massage centre	The association's capacity of offering refresher training courses increased from 6-8 training sessions per year to 10-20 training sessions per year.
2013	<b>Solve et Coagula</b>	The enterprise provides sheltered employment for the disadvantaged, e.g. persons living with psychiatric illnesses and addictions. The main area of production is related to woodwork.	Renovation of rooms and increasing their safety, e.g. a new electricity system, ventilation, LED lamps. Also some other small items like new work clothes.	The enterprise needed to move to another space so it lost the items that were not possible to take along. However, back then it was an important development for the enterprise, and it is still successfully operating.

2014	<b>The Estonian Print and Paper Museum</b>	A private museum-studio and the only print-related heritage institution in the whole region. It offers a variety of services [e.g. training] and products [e.g. unique notebooks from recycled materials].	The purchase, transportation and renovation of two important pieces of equipment [e.g. a binding machine].	As a result of the investment, a new employee was hired. Now it was possible to start accepting international wholesale orders. Concerning the notebooks, the time from order receipt to final product completion shortened from three days to one day. In 2015, the export figures increased 200% compared with the previous year.
2014	<b>Randvere Work Learning Centre</b>	The enterprise provides a number of social and labour market-related services.	Purchasing a sewing and embroidery machine with automatic programs.	Two new workplaces were created for two persons living with psychiatric illnesses [they work 10 hours per week]. While the sales income increased only 10% [2014 vs 2015], the selection of products diversified, the volume of separate orders increased and the orders became more stable. Most importantly, the enterprise is now able to offer more variety of activities according to the needs of the disadvantaged.
2015	<b>Merimetsa Support Centre</b>	The enterprise provides sheltered employment for people living with mental disabilities and psychiatric illnesses. It provides public services as well as runs its own handcraft workshops and textile production unit.	The purchase of equipment for woodwork workshop [e.g. electrical and safety equipment].	As a result of the investment, the enterprise was able to create new sheltered workplaces for 5 persons.
2015	<b>Looming Hostel</b>	Looming is an eco-friendly hostel with a unique interior and atmosphere. By running their business in an environmentally friendly way and organizing additional activities they wish to reduce ecological footprint of people visiting/living in Tartu.	The investment co-financed renovation of new rooms to increase the number of beds at the hostel.	10 new diverse sleeping places [including a family room] were created. The occupancy rate increased in 2016 compared with the previous year as well (e.g. 13% in July).

## Case study: social impact bond as a litmus test for identifying systemic challenges<sup>7</sup>

In 2014, the Good Deed Foundation in cooperation with the Estonian Social Enterprise Network and the Praxis Centre for Policy Studies initiated a feasibility study and cost-benefit assessment for launching Estonia's first social impact bond model initiative. The year-long project involved mapping the readiness of Estonia's public sector, investors and NGOs to implement the novel financing model and prepare the impact, financial and legal framework for the first model.

After consulting with officials and specialists and analysing the issues raised, three potentially suitable problem areas were identified – juvenile delinquency, domestic violence and mistreatment of newborns (parental misbehaviour). After the assessment against established criteria, the decrease in juvenile delinquency was selected as the most suitable area for Estonia's first social impact bonds project.

By engaging specialists and officials and analysing the established criteria, the choice was narrowed to two potential programs: ART (aggression Replacement Training) and MultifunC (Multifunctional Treatment in Residential and Community Settings). Interested parties existed for both ART and MultifunC.

Based on mapping results, ART was chosen as the most suitable intervention for the first model. ART is a cognitive-behavioural intervention program for training social skills such as empathy, anger management and problem-solving, and supports the making of ethical decisions. The main target group for ART are children and youth, but the program has been successfully applied to adults as well.

In the United States, ART is one of the evidence-based programs which has resulted in measurably lower recidivism among youth participants. A knowledge-based version of the program, developed further by Norwegian specialists, has been applied in Europe and Russia. In those countries, surveys have focused on direct impact assessment, i.e. measuring changes in the youth's attitudes, skills and behaviour patterns after completing the program.

While the feasibility study didn't result in starting the first Estonian social impact bond, the process was invaluable as the tool to educate stakeholders and point out systemic challenges that need to be overcome in parallel to developing social impact investment ecosystem in Estonia.

### Mapping and selection of problem areas to be tackled by social impact investment

- Availability of data required for the selection of a problem area. One of the main challenges in mapping the problem area was related to the availability of the data. This means that data is either unavailable or that information on the single target is gathered by different agencies using different methods. Another problem is that systematic performance evaluation of services is not yet applied in Estonia. This makes analysis complicated and time-consuming as it requires manual processing of the data provided by different agencies.
- Implementation of the model in a field that falls in the area of responsibility of multiple state actors. One of the first steps should be the mapping of all stakeholders associated with the specific problem. In order to get a full overview of the field, its status quo and main problems, including only one main partner is not enough. It is important to understand which agency deals with which aspect of the problem. Detailed mapping of the field in the early stages of the project enables smoother communication in the later stages. Also, early inclusion of the state helps to prevent situations where the chosen problem is not a priority for the government at the time or the administrations responsible for the social issue do not have the capacity to take on new projects.

<sup>7</sup> The case study is directly drawn from the report "Feasibility study on implementing Social Impact Bonds in Estonia: Final Report and Lessons Learned" (Good Deed Foundation, 2015)

## Mapping and selection of interventions

- Preference for evidence-based programs in Estonia. In the case of international social impact bond projects, third-sector organizations have often developed novel programs by themselves, engaging various parties and different service providers. In Estonia, the state currently has strong preference for evidence-based programs with proven effectiveness. This results in limited flexibility because the program must be implemented according to established protocols in order to obtain results. It also results in potentially higher set-up costs related to purchasing licenses, translating program manuals and importing program-related knowledge. For example, the Scandinavian version of ART is a knowledge-based program that can be imported at a lower cost, but as the program does not include a uniform impact assessment method, the cost of its development must be added.
- Ensuring the quality and sustainability of the intervention piloted through the SIB programme. In cases where interventions based on the ART method are critical for the Estonian state in the long term and the effectiveness of the ART trainers increases over time, then the state should consider opportunities for continuing with the intervention after the SIB programme. This is critical for developing the skills and competencies of the ART trainers. Furthermore, the Norwegian experts stressed the need to create a local centre of competence that would train new ART trainers and provide supervision and master trainer training for existing trainers.

## Mapping of service providers

- Simultaneous application of several EU-funded programs and the limited scope of the sector in Estonia. Analysis done by the Estonian Social Enterprise Network established four eligible service providers, one of whom declined due to ongoing large-scale commitments. Although the list of potential service providers is not final, finding capable service providers and excellent trainers could be problematic in a situation where several programs are launched and extended simultaneously. Therefore the timing of the launch of the social impact bonds as well as a good relationship with service providers are essential.
- Limited experience with implementing evidence-based interventions. Estonian organizations have only limited experience with implementing evidence-based interventions and impact assessment. Many organizations use story-telling to describe the impact of their activities, but actual impact is not systematically measured. For this reason, the role of the mediator of social impact bond model increases. The task of the mediator should also be to engage a research organization and improve service providers' capabilities (including measuring impact).

## Mapping of investors

- Low investment volumes and lack of charity foundations infrastructure. After consulting with investors and their representatives a conclusion was reached that the duration of the first projects should be shorter time-wise and the total investment in the project should stay around 200,000 euros. Low investment volumes and the lack of supporting infrastructure of foundations might become a limiting factor for engaging in larger long-term projects. A continuous dialogue with investors should be maintained to raise awareness on impact investing further.
- High risk awareness of investors. Social impact bonds are a new and innovative financial instrument that involves several parties from different sectors who have had no previous cooperation in investing in social change. Investors have difficulties assessing the risks involved and thus they rate the risks as high. It is important for the investors to see that the project will be carried out by a capable team and the payout is based on solid agreements with the state. Therefore, it is important to create trust between the parties involved and discuss the readiness of the state to guarantee a

proportion of the investment in the first SIB projects.

## **Impact framework**

- Creating a detailed model of impact. In a situation in which Estonia has limited experience with developing evidence-based models and there is a lack of impact measurement experts, creating a detailed impact model with research methodology and protocol is a challenge. It is important to establish contacts with universities and state institutions who are familiar with the research methodology and also interested in engaging in the field of impact assessment. To ensure the quality of the impact model it is necessary to create a task force and engage existing experts as advisers to help ensure the quality of the research methodology.
- Establishing target levels for reduction of recidivism. In a situation where the ART program has not yet been launched and the effectiveness of programs similar to ART have not been previously measured in Estonia it is difficult to set target levels. It is especially difficult in regards to a decrease in recidivism since there are a very few evaluations done in that field in the world. The evaluation methods are more often used to measure the increase of psycho-social skills, not changes in criminal behaviour. It is important to set conservative goals and to use combined results indicators which are comprised of change in recidivism and other changes in psycho-social skills compared to the control group.
- The cost of impact measurement. Performance analysis may become rather costly as the measurement methods are resource-consuming and might therefore increase investment needs. It is important to consider opportunities for cooperation with other state agencies and specialists. This factor is important in regards to the project's sustainability. In order to pre-evaluate and invite participants to the program, cooperation with organizations and specialists already involved with the target group (e.g. the Social Insurance Board, the police, hospices, special schools) should be established.

## **Financial framework**

- Inconsistency and unavailability of data. Similarly to the mapping of the problem area the collection of data was challenging due to the discordance in their availability. The analysis was based on different sources – this included prior studies, national databases, agency-based knowledge and expertise. Regardless, it was necessary to rely on numerous assumptions due to the limited availability of the data.
- Assessing and pricing the added value created for the state. As a result of the development and implementation of the SIB model, the state acquires a considerably better overview of the problem area and the need to gather specific data (including quantified costs and impact assessment) which the state would probably not have gathered itself at such scale. As a result of detailed impact and effectiveness measurement during the pilot project, the state will hopefully begin to conduct similar measurements and implement the same principles in financing other problem areas.
- Long -term financing and scaling of the program after SIB. An ART program covering 128 persons of a target group of around 1,400 (i.e. 9%) does have a limited reach. If the same program were later to be applied to the whole population, the anticipated impact and effect would be much higher due to the elimination of one-off expenditures. Therefore, it is important to consider and discuss with the government the programs scalability and sustainability after the SIB project.

## Legal framework

- Limitations of the state budgetary policy. The limited duration of the program was set due to the state's budget policy according to which the state can take on obligations for four upcoming years, which might become a limiting factor in upcoming larger and more long-term projects. It is important to start discussions on opportunities to create supporting legislation for the social impact bond model.
- The legal framework for the model should be developed at the starting phase of the project. Development of the project's legal framework was initially planned for a later phase, but senior officials voiced concerns about the possibility of implementing the model according to Estonian law as soon as the very first meetings. As a result, input from the representatives of the Ministry of Finance and lawyers was sought during the initial phase of the project. Both parties assured that SIB model is feasible, but it needs further analysis. Thorough analysis indicated that a public procurement is needed to launch the bonds. Announcing a new procurement requires thorough preparation on behalf of the interested state agencies which in the context of Estonia might take roughly a year starting from the finalization of the implementation study.



# LATVIA:

snapshot of the current situation

## LATVIA: SNAPSHOT OF CURRENT SITUATION

Social impact investment and social entrepreneurship are still rather new concepts in Latvia, yet are developing quickly, raising interest from all sectors and all level stakeholders.

**The Social Enterprise Law** was adopted on October 12, 2017 and will come into effect April 2018. The law stipulates that a social enterprise is a limited liability company with a special social enterprise status. In order to obtain this status, the company must fulfil certain criteria, among which is an obligation to have a positive social aim as the main purpose of the company, as well as a restriction on profit distribution to company owners. Profits must be either reinvested in the company or invested in reaching the social aim.<sup>8</sup> Amendments and changes in other laws will follow the Social Enterprise Law, including changes in the Public Procurement Law which will include social enterprises as reserved contract subjects.

It is estimated that around **up to 200 social enterprises** operate in Latvia. However, there are no official statistics on the size of the sector and little research has been done that would clearly specify the characteristics of the industry. There are no statistics available on the aggregate annual turnover of social enterprises, but it is likely not significant. Turnover of individual enterprises varies widely from a couple of thousand EUR annually to a couple of million EUR, depending on the size and the scope of the enterprise. It should be stressed that most social enterprises are relatively new, having been established only within the last 3 to 7 years, and usually do not employ more than five people.

In 2016, The Ministry of Welfare in cooperation with ALTUM, a state-owned development finance institution, launched **a grant programme**, whereby funds from the European Social Fund are allocated to prospective social enterprises. It is the first and only kind of programme so far whose results and impact will be significant factors in the formation of social entrepreneurship in general. The 12 million EUR program will run until 2022 and will potentially create a basis for a future long-term comprehensive support system for social enterprises. Available grants vary from 5,000 up to 200,000 EUR, depending on the experience and financial data of the social enterprise.

Other **business support instruments** (including municipality business support) are available, which can also be used by social enterprises if they are registered as business companies. There is no official discrimination against social enterprises, nevertheless, within the framework of “regular” business support instruments they are treated like any other business company and the social impact does not play any crucial role in the evaluation process.

Other **smaller private social impact financial instrument initiatives** – such as the Otra Elpa charity shop chain mini-grant support mechanism for social enterprises (up to 3,000 EUR for one social entrepreneurship idea development). These initiatives are fragmented yet serve as a good first step

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<sup>8</sup> See the Social Enterprise Law English version here: [http://ej.uz/SElaw\\_Latvia](http://ej.uz/SElaw_Latvia)

## LATVIA: snapshot of current situation

for smaller enterprises which are not yet ready for bigger investments.

At the moment there is **a very cautious interest** about social impact investment and social enterprises from other private sector stakeholders and private investors. Reasons for their reservation include lack of successful business cases among social enterprises, a small market and the fact that they cannot see where they can profit as investors.

## Case study: how to analytically map national social impact investment stakeholders

To increase investment readiness (demand side development):

Target group	Challenges and opportunities	What needs to be done
Social enterprises up to 2 years old	<ul style="list-style-type: none"><li>Most social enterprises, regardless their age or products/services provides, need investments in one or another form</li></ul>	
Social enterprises 2-5 years old	<ul style="list-style-type: none"><li>Reasons for needing the investment: want to expand the territory they are working; want to develop new services or products; want to scale their work; want to digitalize their work; want to grow their revenue</li></ul>	
Social enterprises older than 5 years	<ul style="list-style-type: none"><li>What they need investments for: equipment; building renovation and/or construction; long term non-material equipment; workforce expenses</li><li>Most social enterprises would need financial investments from 10,000 to 50,000 EUR</li><li>Most social enterprises are ready (only for) investments in the form of a donation or grant. Only a few are ready for a loan or equity investments</li><li>Most social enterprises have tried to get investments in the form of a grant or a donation as NGOs, but it is difficult and is getting even more difficult because of the lack of funding for NGOs and strong industry competition. Some are definitely planning to apply for an ALTUM social entrepreneurship support grant</li><li>As the main obstacles mentioned for obtaining/attracting investments: low understanding in general about what social entrepreneurship is; low capacity and no resources to invest in working with potential investors; no knowledge about how to approach investors and where to look for them</li><li>Most social enterprises have expressed the need for a strong intermediary or a support organization/system that could assist them with attracting investors</li></ul>	<ul style="list-style-type: none"><li>Increase knowledge, skills, and competencies around investment readiness</li><li>Matchmaking and networking activities with existing and potential investors</li><li>Professional help, assistance and/or consultations to prepare investment proposals</li></ul>

## To increase availability of investments (supply side development):

Target group	Challenges and opportunities	What needs to be done
Ministry of Welfare and ALTUM financial support instrument for social enterprises	<ul style="list-style-type: none"> <li>• Social enterprises are not yet a separate, established sector; therefore, it is difficult to find potential “good” candidates for the program. There is not yet the critical mass to call this a “sector” and treat them as a whole</li> <li>• There exists a so-called grantrepreneurship attitude among potential grant receivers. Very little solid business and financial plans in the grant applications</li> <li>• Need more applications/interest from the “business world”</li> <li>• Different roles, management models and everyday operation practices of the Ministry of Welfare and ALTUM as well as legal framework and European Social Fund rules and regulations makes the program administration and implementation process rather challenging and expensive.</li> <li>• ALTUM is motivated to develop more financial instruments for social enterprises, if and when they see that this program is successful and on high demand.</li> <li>• Existing program provides only financial support, not skills and knowledge support that would be combined with the money social enterprises receive. With money alone it is difficult build a new sector.</li> <li>• Developing entrepreneurship development financial instruments is challenging the Ministry of Welfare since it is not their area of expertise. Therefore, the Ministry does not see a future for this program under the Ministry of Welfare.</li> </ul>	<ul style="list-style-type: none"> <li>• Work with social enterprises (demand side) to increase the business capacity and skills</li> <li>• Continue building effective and goal-oriented partnerships between stakeholders, exchanging information and best practices.</li> <li>• Inform ALTUM and the Ministry of Welfare about potentially profitable social enterprises and social impact investment sector developments.</li> <li>• Joint marketing, media and communications activities in order to promote the sector and success stories.</li> </ul>
Private investors – business angels / LatBAN	<ul style="list-style-type: none"> <li>• The private investor ecosystem is rather fragmented, based on private initiative and networks.</li> <li>• Cautious understanding and interest about social entrepreneurship and social impact investment.</li> <li>• There is an existing pitching/project presentation system within the Latvian Business Angel Network (with a couple of tens of investors joined) about how to bring investment-ready projects to their member network. Also open to social enterprises if they comply with their rules and criteria. Open to further cooperation.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue building effective and goal-oriented partnerships between stakeholders, exchanging information and best practices.</li> <li>• Inform LatBAN and private investors about potentially profitable social enterprises and social impact investment sector developments.</li> </ul>

Latvian diaspora abroad	<ul style="list-style-type: none"> <li>Ready to invest in Latvian enterprises and social impact in Latvia</li> <li>Estimates by the people and stakeholders who have been working with diaspora representatives are that investments available up to 20,000 EUR [too small for technological start-ups, but suitable for many social enterprises]. Nevertheless, this is an informal observation and further work is needed to establish a more concrete numbers and mechanisms to access these private investments.</li> <li>No well-functioning systemic network yet</li> <li>Do not yet understand the needs and interests of social enterprises, need more information.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to strengthen the cooperation with European Latvian Association [an association for Latvians living abroad], work on joint events and project ideas</li> <li>Create promotional and informational publications and communications materials in order to inform and educate both social enterprises and also potential investors</li> </ul>
Other (venture capital, banks, etc.)	<ul style="list-style-type: none"> <li>Cautious and reserved interest in the social enterprise sector. Do not consider social enterprises as a separate “sector” yet.</li> <li>Stereotypes and prejudices about the work, management, profitability of social enterprises</li> <li>Low trust that social enterprises can be commercially viable</li> </ul>	<ul style="list-style-type: none"> <li>Develop and strengthen partnerships and cooperation, invest in advocacy activities</li> <li>Educate and inform potential partners and stakeholders about potentially profitable social enterprises and social impact investment sector developments.</li> <li>Communicate success stories, show the financial and social impact.</li> </ul>

## Intermediaries

Target group	Challenges and opportunities	What needs to be done
SEAL (Social Entrepreneurship Association of Latvia)	<ul style="list-style-type: none"> <li>The only national-level organization for social enterprises – knows the industry and the market, already serves as the connection point and cooperation platform</li> <li>Not enough resources and capacity to take on the role of being the social impact investment intermediary in a serious and 100% dedicated way (because the primary function is advocacy and member capacity building; extra/new focus requires extra/new resources)</li> <li>At the moment has strong motivations and sees a clear need among social enterprises to keep working with this topic</li> </ul>	<ul style="list-style-type: none"> <li>Build organizational capacity</li> <li>Keep serving as a contact and cooperation-building platform, also pay attention to the social impact investment sector</li> <li>Invest in national and international-level networking and contact making</li> <li>Create promotional and informational publications and communications materials in order to inform and educate both social enterprises and potential investors</li> </ul>
LatBAN (Latvian Business Angel Network)	<ul style="list-style-type: none"> <li>Cautious and reserved, but interested in social impact investment, but more in the future perspective. There are no concrete plans about how to tackle this in the short term.</li> <li>Has a pitching/project presentation system about how to bring investment-ready projects to their member network. Also open to social enterprises if they comply with their rules and criteria.</li> <li>Fragmented, each of their members are interested in something else, no joint focus or strategy.</li> <li>Willing to share knowledge and expertise with the new social enterprises, involve social enterprises in their existing activities and events.</li> </ul>	<ul style="list-style-type: none"> <li>Continue and strengthen existing cooperation, exchange information</li> <li>Inform LatBAN and private investors about potentially profitable social enterprises and social impact investment sector developments.</li> <li>Joint events with the social enterprise community, activities specially targeted for social enterprises.</li> <li>Existing events and investment process promoted to social enterprises.</li> </ul>

<p>European Latvian Association [an association for Latvians living abroad]</p>	<ul style="list-style-type: none"> <li>• Network and platform for Latvians living abroad – good resource for contacts to potential private investors.</li> <li>• No system for information exchange yet among their members – at the moment they are working on building an online platform.</li> <li>• High motivation for social impact investment in Latvia, willingness to work together.</li> </ul>	<ul style="list-style-type: none"> <li>• Join event in 2018</li> <li>• Continue and strengthen existing cooperation, exchange information</li> <li>• Inform about potentially profitable social enterprises and social impact investment sector developments.</li> <li>• Work on developing the first social impact investment success cases, communicate these stories among their audiences.</li> </ul>
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## Case study: Samaritan Association of Latvia in search of an investment

Legal form: Association [a form of a non-governmental organization]

Web page: [www.samariesi.lv](http://www.samariesi.lv)

Social media: [www.facebook.com/samariesi/](http://www.facebook.com/samariesi/)

The Samaritan Association of Latvia (SAL) is one of the largest social enterprises in Latvia, employing more than 700 paid employees and involving more than 300 volunteers. Even though the legal form of SAL is still a non-governmental organisation (NGO) which, according to the Latvian legal system, is a non-profit organization with very limited business activity, its actual operations and management structure is more similar to a business structure, and its members consider the organization a social enterprise. SAL is a certified provider of social services, a medical and educational institution that provides medical and care services to representatives of various social exclusion groups (seniors, young people with intellectual disabilities, endangered children and women, etc.), and also creates and maintains targeted separate units for social services, such as the Māras Centrs crisis centre for children and women, the social care centres in Riga and Ventspils, group apartments and night shelters, and the Pārsla boarding house. In 2015, the SAL's Mobile Care at Home service was recognized as one of the top ten European social innovation projects.

In 2017, SAL decided to open a new fourth-generation social service centre. There is already a building for this purpose, but it needs serious renovation. For that, SAL needs approximately 4 million EUR, which is not possible to acquire from the organization's internal resources. Therefore, SAL decided to approach commercial banks in order to receive a loan for renovation expenses. Even though SAL has been operating for more than 25 years and its yearly turnover exceeds 5 million EUR, when negotiating with banks, SAL has come across several obstacles:

- Overall general stereotypes about the work, principles and management of an NGO. There is the widespread perception, even among financial institutions, that an NGO is more like a hobby club rather than a serious entity, and therefore it cannot undertake such a serious financial commitment. To challenge this view, the director of SAL had to rely on his personal communication skills to explain the work of SAL and to convince banks that SAL can be a serious and reliable partner.

- Banks had a very hard time understanding the motivation underpinning an NGO. Since the classical motivation for a person when they come for a loan is to gain profit for themselves, this is considered the only valid motivation, and anything else seems suspicious and not trustworthy. Banks are worried that anything less than a motivation to gain as much money/profit as possible can change and vanish at any time and that it will be left with a bad loan that it cannot get back.
- The question of responsibility. For an NGO, because of its management structure and decision-making body [member assembly], its position in terms of taking responsibility in the eyes of the bank is much weaker than in the case of a for-profit company owner being the main decision maker for the company. Banks are concerned that if members change the director [who has signed the loan agreement and had the motivation to go through with the project], the new director might not be as motivated, and therefore no one will really bear the responsibility for paying back the loan.

At the moment of publishing this report, SAL is in the final stages of negotiating with two different banks and hopefully will have a decision in the coming months. SAL is also in the process of establishing a limited liability company and registering it as a legitimate social enterprise according to the Social Enterprise Law of Latvia, which would take over part of its social service operations.

### Case study: the experience of BlindArt with a new investment scheme

Legal form: limited liability company with a social enterprise status

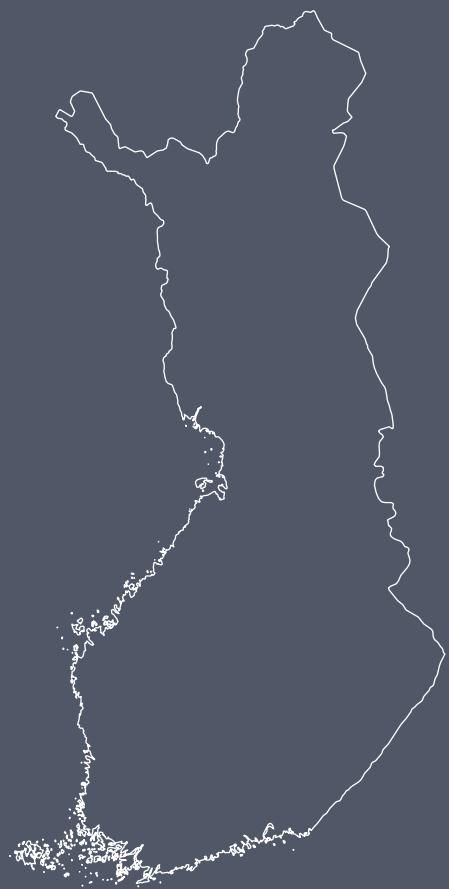
Web page: [www.blindart.lv](http://www.blindart.lv)

BlindArt is a social enterprise from Riga, Latvia [existing as a project from 2007, legally established as a limited liability company in 2017], that has been helping people with vision problems and blindness to integrate into society, creating meaningful design products with added value. Involving more than 300 people with visual impairments, BlindArt offers a wide range of activities, creative workshops, exhibitions and original products - fairy tales, paintings, porcelain plates, interior design elements and fashion accessories. So far, BlindArt has reached an audience of more than 240,000 people, thus strengthening the equivalence of the project target group with society as a whole.

In December 2017, BlindArt received 20,000 EUR of social entrepreneurship grant funding from the ALTUM development finance institution. Funding has been granted through Social Entrepreneurship Support, a European Social Fund project, which has been implemented by the Ministry of Welfare in cooperation with ALTUM. BlindArt matched the grant funding with 10,000 EUR from its own resources, and it will be used to develop a new series of products – design products made by people with vision problems and blindness. Grant funding will be used to cover materials, salaries, marketing and other expenses, and eventually will enable BlindArt to develop and expand its social business as well as maintain steady income growth.

Main challenges BlindArt has identified in the process of obtaining the ALTUM investment are:

- complicated bureaucratic obstacles during the grant application process, for example, creating complicated four-year money flow predictions and financial calculations which are almost impossible to do for a newly established enterprise; obtaining documents from various state databases which could otherwise be accessed from a central database, etc. BlindArt worked with financial consultants and experts to prepare all the documents because it realized that in its case, it cannot prepare all the documents with organisers' existing knowledge and skills
- finding a business model that can ensure both social impact as well as sufficient income to maintain and develop the business.



# FINLAND:

snapshot of the current situation

## **FINLAND: SNAPSHOT OF CURRENT SITUATION**

Finland has a long tradition of dynamic collaboration between the public, private and third sector, which form a solid basis for our welfare society and social economy. Finland also has a lively start-up scene with a lot of knowledge on how to accelerate start-ups and scale-ups into major international players in the digital economy. In addition, Finland has extensive and unique nation-wide databases concerning, for example, people's health and well-being, which hold a huge potential for uncovering key insight towards a better understanding of social issues and the fostering of social innovation.

The social enterprise movement has caught up fast in Finland, and according to current research [e.g. ETLA 2015] we have almost 20,000 social enterprises in the country. Since there is no specific legal form for social enterprises in Finland, the group consists of a variety of limited companies, cooperatives, foundations and registered associations. In 2014 the social enterprises formed their own advocacy organization, the Finnish Association of Social Enterprises, ARVO.

In the [social] impact investment area there has been increasing activity throughout recent years. In particular, the major innovation fund Sitra has been concentrating effort on impact investment ecosystem development with its partners. It has been, for example, running the Impact Accelerator Program with tens of social enterprises, most focusing on new forms of social innovation and solutions. As a part of its impact investing ecosystem building, Sitra has developed impact modelling and measurement, and Finland is now one of the top European countries in developing impact-focused initiatives like social impact bonds. We have also placed strong emphasis on measuring the societal impact of the various initiatives [e.g. Measures of Good, an initiative coordinated by ARVO] and using digital tools to further utilize our unique databases.

In promoting the Impact Investing market, Sitra has examined, among others, the requirements for establishing funds for investment in SIB, Impact Venture and impact loan funds as well as the fixed-term use of state guarantees for activating investors. Based on the findings, it was determined that, in the current stage of market development, it would be most effective to make a targeted promotion to increase public sector expertise in purchasing results as well as accelerate the formation of impact ventures as sellers of results.

By increasing the number of companies aiming to achieve measurable social and/or environmental benefits by engaging in financially sustainable business, it is thought that the market will attract an increasing number of private equity investors, thus also paving the way for the establishment of private equity funds focusing on impact investing.

According to a recent study, the Finnish investment field appears to have adopted responsible investment as a part of the basic principles of investment activities, but impact investment still results in its own challenges for capital investors. Currently, the impact is primarily evident as

## *FINLAND: snapshot of current situation*

a by-product of long-term investment activities and it is not necessarily utilized as a part of the equity stories or investment strategies. This is largely due to the development stage of the impact investment ecosystem in Finland.

According to the study, however, the transition to impact is gradually occurring through responsibility. Impact can be seen as an extension of responsibility, which is supported by both the interviews of institutional investors and the survey results conducted on capitol investors. The majority of capital investors are currently operating in the area of responsible investment and are also moving toward being impactful.

Despite the positive developments, there are several factors limiting the further development of social impact investment. First of all, deeper cross-sectoral collaboration between all three sectors (public, private, and civil society) is needed. Social enterprises and other impact actors could be key players enhancing this cooperation.

Secondly, we desperately need concrete examples of using new funding instruments balancing the risk, financial returns and societal impact. Because of the early development phase of the sector, there is also very little general information, data or statistics about investment needs of the social (impact) sector.

In some areas, for housing investments for disadvantaged groups, for example, there is a national system for financial support (the National Housing Institute, NHI). Different kinds of group home solutions are financed through this mechanism. NHI is also aiming to steer the quality of housing with its mechanisms. However, at the moment the majority of investments are made with private money, so the steering mechanism is getting weaker. Also, it is only binding for the not-for-profit sector, which doesn't have the capital to invest private money (see also the KVPS case study in this publication).

There are three main funding possibilities for services providing societal impact in Finland.

### **1. Grant funding**

- Lottery funds (+1 billion euros annually). Other public funding by the government and municipalities.
- Philanthropic funding of foundations and corporations. Donations by individuals.
- Channeled to non-profits.

### **2. Selling of services**

- Earned income from business activities. Sustainable and market driven.
- Possible for all organizational forms. Utilizes loans and other forms of risk capital.
- Impact orientation in public procurement (a total of 35 billion euros annually) the key success factor in the future to secure societal impact.

### **3. Hybrid models**

- Business development should be made possible through grants.
- Scaling and replication of activities through selling of services providing societal impact.

- The risk management of impact actors is two-fold:
  - Provides multiple funding sources to mitigate risk
  - Risk of falling between the cracks because of unclear rules and stricter control of funders.

In all funding scenarios investment (or ‘grant receiving’) readiness is required: organizational form and organizational capacity, as well as competence development need to support and build further understanding of combining societal impact and financial success.

As the recently published report on the role of SMEs in the social and health sectors by the Ministry of Economic Affairs and Employment points out, small businesses are crucial for local livelihood and a key source of innovative solutions. ([http://item.fil/artikkeli/-/asset\\_publisher/selvitys-pienten-ja-keskisuurten-sote-yritysten-menestys-on-pitkalti-tulevien-maakuntien-kasissa](http://item.fil/artikkeli/-/asset_publisher/selvitys-pienten-ja-keskisuurten-sote-yritysten-menestys-on-pitkalti-tulevien-maakuntien-kasissa))

The funding of such local actors, however, is challenging compared to the privately owned and equity-funded larger corporations, especially when smaller local entities in the planned new system for social and health services have higher start-up costs, lower budgets for marketing and a weaker ability to utilize economies of scale in supporting functions. Such financial bottlenecks must be solved to secure a multifaceted service ecosystem. In addition, so far, the actions taking expected societal impact into account in public procurement and regulations have been very limited.

### Case study: The role of Sitra as an intermediary in developing impact investment

Sitra has focused very much on social impact bond model during last three years for mainly two reasons: there is a significant sustainable gap in the Finnish Government’s budget and most Finnish municipalities are struggling with financial problems and many of the promotive and preventive opportunities for strengthening well-being are not used due to lack of money for up-front investments.

In Finland the SIB model offers the public sector a financially risk-free opportunity to achieve results and impact as well as realize the long-term implementation of promotive and preventive activities where well-being is concerned. It is also a tool for systemic change. The public sector can use it to develop its procurement procedures, moving towards the acquisition of results and impact. The central government and local authorities make approximately EUR 35 billion in procurements each year. A significant percentage of this amount goes to services. The purchase of impact, therefore, also means more productive use of billions of euros in tax revenue.

In Finland, there are currently five SIB projects (theme funds) underway or set for launch:

- Promoting occupational well-being in the public sector [TyHy-SIB]; public sector employer organisations as a bonus payer. Started in 2015.
- Rapid employment and integration of immigrants [Koto-SIB]; Ministry of Economic Affairs and Employment. Started in the beginning of 2017. The biggest SIB in Europe and the second biggest in the world in terms of fund size.
- Promoting the well-being of children, families with children and youths; municipalities /regional authorities. To start.
- Promoting employment; Ministry of Economic Affairs and Employment. Will start in Autumn 2017.
- Supporting self-care for senior citizens; municipalities/regional authorities. Will start by the end of 2017.

## *FINLAND: snapshot of current situation*

The planning process is also underway for an SIB for the prevention of type 2 diabetes. It can be estimated that the financial benefit/savings potential offered by the SIB model to the public sector will be substantial, totaling as much as hundreds of millions of euros over the next 5-15 years.

Sitra's goal is also to otherwise support the promotion of public sector SIB projects so that the public sector will be able to finance ways to increase outcomes and impact instead of merely making payments. This requires, among other things, the involvement of service providers using the same logic. To this end, Sitra piloted the Impact Accelerator concept, which is an intensive, eight-week training and mentoring programme. At this stage, the Impact Accelerator is aimed at companies and for-profit organisations which promote Finnish well-being by developing their operations around the prevention of youth marginalisation or loneliness among senior citizens as well as the promotion of immigrant integration. The goal of the accelerator is to improve participants' competencies in the areas of effectiveness and revenue generation and help them grow and gain better opportunities for seeking external funding.

## Case study: KVPS Foundation and its investment challenges

The Service Foundation for People with an Intellectual Disability [KVPS in Finnish] develops and provides services all over Finland. Their aim is to find individual solutions and to create high-quality services to support people with intellectual disabilities or special support needs and their families.

The Service Foundation for People with an Intellectual Disability was founded by Inclusion Finland KVTL, which is a non-governmental organization aiming to promote equal opportunities in society for people with intellectual disabilities and their families.

They receive funding from the grant center of the Department of Social and Health [STEA]. The grant funds of STEA are originally from so-called lottery funds.

### **What do they do?**

- Work to promote a good life for people with intellectual disabilities and their families by lobbying decision-makers and legislators. Cooperate in advocacy work with NGOs and other parties involved in the field.
- Promote a person-centred approach to people with intellectual disabilities. Advocate their full citizenship rights. Carry out development projects and organize various kinds of training.
- Offer a wide variety of respite care services to cater for the different needs and situations of families and people with special support needs. Support parents in coping with their situation and make it possible for carers to have short breaks and days off.
- Acquire apartments for young people and adults with intellectual disabilities who wish to live on their own. Develop group housing for people with special support needs.

### **Challenges vs. NHI- model (see the country report earlier)**

- Adaptations for flats are financed by individual allowances through Kela (Kela is an independent social insurance institution supervised by the Parliament)
- At the moment, there is a significant need for digital investments considering support systems as well as digital platforms and information systems. These must be in place in a few years because of reforms in social and health care.

- There is not so much discussion about the investments in HR or innovation. STEA [lottery, slot machines] distributes money for innovation to NGOs. Investments are needed to implement the UNCRPD goals in housing, employment, participation and freedom of choice.
  - There is a marked trend that the health and social sector is privatized and centralized by three to four big companies. For years, they have been buying up smaller companies. Last year, they moved to buying larger companies. They are making significant private investments and they have large capital behind them. These companies are owned by private multinational investors.
  - There has been quite limited amount of private investments into innovation. Public-private partnerships should be developed further.

### **What are the current barriers to accessing private financing for social services?**

- It's rather easy to get bank loans for investments, particularly for housing. Of course, very small NGOs may have difficulty in this area.
- Other private funds are not generally available. In Finland, there is very little experience of using private funds/donations supporting the social sector. This is an area to develop further.

### **Trends and solutions**

The need for loans in Finland for the sector is probably increasing. Actions are being taken in the housing sector but other areas of innovation have not been as well considered.

In many areas, many people with disabilities still live with their parents, including with aged parents. Waiting lists are another factor. At the same time, a good number of flats are available. More emphasis should be placed on what kind of investments are made in relation to housing. At the moment those investments, not the needs of people, guide the direction of the development of the sector. In this situation the development of services and the sector is in the hands of private investors.

- Accessible, low [rental] cost, individual flats are needed

More sources of funding should be made available for the non-profit sector to support local solutions and communities.

- Digital platforms and information systems
- Mainstream solutions which also support the social sector, like employment

What is needed to make that happen?

- Awareness of what persons with support needs require
- Investments towards issues arising from the needs and hopes of people
- Investments in innovation

## Case study: SOS Children Villages Finland and its model of financing

The goal of SOS Children's Villages Finland is to help underprivileged children and youth as well as increase the well-being of families in Finland and other countries.

SOS Children's Villages has been active in Finland since the 1960s. The SOS Children's Villages idea was well received in Finland and the organization's activities have continued in recent decades. At present, SOS Children's Villages supports children, young people and families in 13 locations in Finland.

SOS Children's Villages runs a variety of programs in Finland. Children who can no longer live with their families can be cared for by foster families. Family rehabilitation units provide help for families that face problems in taking care of their children. The goal is to strengthen the entire family and prevent family breakdown. In addition, young people can live in special apartments where they are guided on their path to an independent life with the help of professionals. For several years, SOS Children's Villages Finland has also been supporting development co-operation programs in developing countries.

In response to the refugee crisis of 2015, SOS Children's Villages started providing care for children and young people who arrived in Finland without parental care. They live in small group homes and receive all the support they need. SOS Finland also collaborates with other organizations to advocate for the rights of refugee children.

### **1. Description of the organizational and business model**

SOS Children's Villages in Finland consists of a foundation and a registered association. The foundation is responsible for the actual children's villages in Finland and development cooperation in selected partner countries. The registered association represents civil society and supports the foundation in its work.

SOS Children's Villages has been working in Finland since 1962 and is part of the global **SOS Children's Villages** network, which is active in more than 130 countries.

The foundation was established in 1989 and is active on more than 10 sites. Headquartered in Helsinki, the foundation employs almost 300 employees. The majority of the employees work locally supporting children, youth and their families.

The business activities consist mainly of the selling of services.

### **2. Main client and target groups**

#### **Main clients:**

- Local municipalities

#### **Target groups:**

- Families in need of support
- Children and youth in need of family-based care
- Youth in need of extended care
- Unaccompanied minor refugees entering the country

### 3. Funding of activities

- Current funding sources: sales of services, fundraising, grants, other [2017]
  - Sales of services 65%
  - Fundraising 22%
  - Grants 2%
  - Return on investments 9%
  - Other sources of revenue 2%
- Growth as strategic goal needs funding
  - » *Main business activities:*  
Growth requires sizable investments in facilities: foster care and family rehabilitation require adequate space
  - » *Non-profit activities:*  
Growth requires external funding in addition own investments
  - » *International activities*  
Growth requires external funding, e.g. for own financing of Ministry for Foreign Affairs-supported programs
- Further development of core services requires additional funding.
- Risk management requires stronger asset base.
- At the top level the bottleneck of funding is the non-synchronized timing of revenues and costs:
  - » The income flow is uneven, e.g. legacies are difficult to project vs. costs, which are more fixed and easier to forecast.
- Fundraising.
  - » Strategic goal is to cover one third of investments through fundraising. The goal is extremely challenging.
- Return on investments.
  - » The agreement with the fund manager allows funds to be utilized basically during one day/ year.

Other third parties or intermediaries are not used as of today; future plans exist.

# ANNEX:

“Greatest Hits” of international reports and analysis on social impact investment

## ANNEX: “GREATEST HITS” OF INTERNATIONAL REPORTS AND ANALYSIS ON SOCIAL IMPACT INVESTMENT

About social impact investment in general:

- “[A Recipe Book of Social Finance](#)” by the European Commission;
- “[Venture philanthropy and social impact investment – A practical guide](#)” by the European Venture Philanthropy Association;
- “[Achieving impact for impact investing. A road map for developed countries](#)” by FASE, McKinsey and Ashoka;
- “[Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance](#)” by the European Venture Philanthropy Association;
- “[Social Impact Investment: Building the Evidence Base](#)” by the OECD.

Specifically about social impact bonds:

- “[Social Impact Bonds: The Early Years](#)” by Social Finance;
- “[Social Impact Bonds: State of Play & Lessons Learnt](#)” by the OECD and the European Commission;
- “[Social Impact Bonds: An Overview of the Global Market for Commissioners and Policymakers](#)” by Social Spider;
- “[A technical guide to developing social impact bonds](#)” by Social Finance.

