

# Feasibility analysis

**Setting up a new Baltic impact fund  
and capacity building programme**



Co-funded by  
the European Union

**REACH FOR  
CHANGE**

**BÍA** Baltic  
Innovation  
Agency

 **IMPRIMATUR  
CAPITAL**



Co-funded by  
the European Union

**Impact  
Baltic**

**REACH FOR  
CHANGE**

**BIA** Baltic  
Innovation  
Agency

  
**IMPRIMATUR  
CAPITAL**

The report was written by Mart Veliste (Baltic Innovation Agency) and Toby Moore (Imprimatur Capital Fund Management). Interviews were carried out by Mart Veliste, Anna-Lisa Aavik, Merey Beisembayev and Carmen Helena Hallimäe from Baltic Innovation Agency, Marta Bergmane and Jurga Kupstyte from Reach for Change Latvia and Toby Moore from Imprimatur Capital Fund Management. The visualisation of the report was done by Katerina Nikitina from Reach for Change Latvia.

In case of any questions on the report, please reach out to Baltic Innovation Agency (Lai 30, Tartu, Estonia) at [mart@bia.ee](mailto:mart@bia.ee).

This report is part of the Impact Baltic project co-funded by the European Union through the European Social Fund + (ESF). Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Commission. Neither the European Union nor the granting authority can be held responsible for them.

# Table of contents

**4** General overview of the project

**6** Introduction

**8** Methodology

**12** Demand-side analysis

**28** Supply-side analysis

**31** Annexes

# **General overview of the Impact Baltic project**

Impact Baltic is a European Social Fund + (ESF) project aimed at laying the foundations for a new impact fund, specifically targeted at and enabling increased access to tailored finance for social enterprises across the three Baltic states. In parallel, the project also seeks to foster increased demand for such financial instruments by piloting a capacity development programme that aims to prepare a greater number of social enterprises in the region for accessing alternative forms of financing. The ultimate goal is to enable Baltic social enterprises to access finance to develop and scale their business model and impact. Key project activities:

### 1. Mapping and Analysis

The project starts with a set of analytical tasks necessary to inform the set-up of the new fund and the design of the Investment Readiness programme. This will include both a detailed market assessment of the Baltic social finance landscape, a demand and supply side analysis, and a survey of existing investors. Two study visits will also be conducted to other notable pre-existing European social impact funds.

### 2. Establishment of the New Impact Fund

Based on the findings of the analysis phase, partners will make a series of strategic decisions based on the likely objectives, size, legal structure, and other key aspects of the new fund. A detailed strategy and an MOU with interested potential impact investors will be drawn up by the halfway point of the project, with fundraising and eventual launch then becoming the main focus for the remainder of the project period.

### 3. Investment Readiness Programme

In parallel to the above, partners will recruit a total of 20 Baltic social or impact first enterprises (including startups) to participate in a new transnational capacity development programme. Delivered over five months, enterprises will gain access to regular online training sessions covering a range of topics such as business modelling, market approaches and financial literacy. The programme will furthermore connect them with regional investors through virtual panel discussion sessions, with those then demonstrating the highest potential also being invited to pitch for funding at an in-person Demo Day event towards the end of the project.

The project runs for 30 months from 01.01.2025. to 30.06.2027.



# Introduction

One of the oft-cited challenges of the impact sector in the Baltics is the lack of suitable funding instruments. Therefore, the ambition of the Impact Baltic project is to contribute to solving this challenge in two ways. First, to establish a new impact investment fund to fill the market gap. Second, to launch a capacity building programme called the Investment Readiness Programme aimed at social enterprises (SEs) and impact startups to support their growth and investability.

Therefore, with this research, the consortium set out to collect input from sectoral social entrepreneurship associations as well as from the enterprises themselves to understand the realities and challenges in more detail. Furthermore, desk research was carried out to identify how to best “supply” the future funding and how easy in legal, financial and business terms it is to set up a suitable investment fund in the Baltics. Both of these insights will be used for the design of a new impact fund and the Investment Readiness Programme.

The report begins by introducing the methodology used. The first content chapter introduces the main insights gained from interviews with social entrepreneurship associations and enterprises. The final chapter presents the results of the legal analysis.

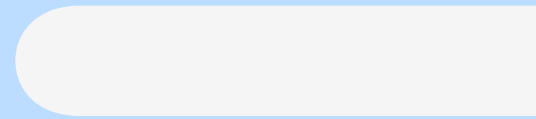
This report should be seen as part of a series of analytical activities carried out by the Impact Baltic project. An “Impact Investment in the Baltics: Market Analysis” report was published in September 2025, while an additional study will be conducted among the Baltic investor community. Together with the findings of this report, they will jointly inform the establishment of a new impact investment fund and the Impact Readiness Programme in the Baltic region.





# Methodology

# Demand-side analysis



The goal of the demand side analysis is to understand the realities and challenges that Baltic social enterprises (SEs) and impact startups face when trying to grow and attract investment. The analysis explored their capacity-building and financing needs to become investment-ready. In essence, for the Impact Baltic project, the purpose was to gather input for the design of the new impact fund and the Investment Readiness Programme to ensure they respond to the actual needs of the beneficiaries.

The analysis consisted of interviews with Baltic social enterprise associations and focus groups with social enterprises and impact startups. The interviews with associations were conducted to get a sense of the sector as such and to gather broad perspectives from those who work with impact-driven entrepreneurs daily. Furthermore, the goal was also to identify and define the most suitable target group for the fund and Programme.

The focus groups were conducted to get first-hand insights from the potential beneficiaries. The enterprises invited to the focus groups were selected based on a predefined list of criteria of the most suitable “investment candidates”:

- Type of organisation: Social enterprise or impact startup
- Focus: Impact-oriented, active on the market, seeking to scale or have already scaled
- Revenue: Earning at least some revenue (business model validated)
- Maturity: Operating for at least 2 years
- Sectors: Education & employment, health & care, food value chains & agriculture, circular economy & climate action, energy decarbonization.

The interviews were carried out as follows:

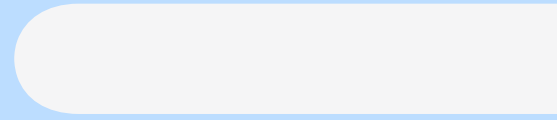
<b>Date</b>	<b>Interviewees</b>	<b>Format*</b>
07.05.2025	Sustainable Business Estonia	Virtually, in Estonian
09.05.2025	The Latvian Social Entrepreneurship Association	Virtually, in English
30.05.2025	The Lithuanian Social Business Association	Virtually, in English
26.09.2025	4 Latvian social enterprises & impact startups	On-site, in Latvian
03.10.2025	4 Estonian social enterprises & impact startups (5 participants)	On-site, in Estonian
06.10.2025	6 Lithuanian social enterprises & impact startups	Virtually, in Lithuanian

\*Native languages were chosen for focus groups to enable broader participation and nuanced discussions.

Interview questions were drafted based on the initial goals of the report, while also keeping in mind some knowledge gaps that remained from earlier research. The European Commission's Better Entrepreneurship Policy Tool's questionnaire on Social Entrepreneurship was also consulted when designing the questions. For the focus group, the phrasing of questions was formulated so that they would be without jargon and easily understandable to the interviewees. The questionnaire used for the social enterprise associations is available in Annex 1, while the focus group questionnaire is available in Annex 2.

Note on data limitation. Any research endeavour has its limitations. In the case of this report, the limited sample size can be seen as a limitation. With more time and resources, additional focus groups could have been carried out to capture more insights from social enterprises and impact startups. Nonetheless, the insights gathered have helped inform the setup of the new fund and the structure of the Investment Readiness Programme. Especially when combined with the Market Analysis carried out earlier in the project.

# Supply-side analysis

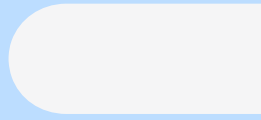


The goal of the second part of the analysis was to identify how to best “supply” the future funding. For this purpose, desk research was carried out by ICFM on how easy in legal, financial and business terms it is to set up a suitable investment fund in the Baltics. The analysis investigated the licensing and registration requirements for the fund in Estonia, Latvia and Lithuania.



# **Demand-side analysis**

# Input from sectoral organisations



At the start of the analytical activities of the Impact Baltic project, interviews were organised with the social enterprise associations in each Baltic state: Sustainable Business Estonia (formerly Social Enterprise Estonia), the Latvian Social Entrepreneurship Association and the Lithuanian Social Business Association. Input from these interviews has already informed the project's market analysis<sup>1</sup> published earlier. For the purposes of the current report, only aspects that relate to funding and capacity building are covered.

## Funding landscape

Regarding the general funding landscape, in all three countries, the overall sentiment was that the interest among the investor community towards social enterprises has been low, with a few exceptional investments here and there. While in Latvia the social entrepreneurship ecosystem has been benefiting from state-provided grants, it is not the case in the other two Baltic states. In Lithuania, there was a feeling that financial organisations still do not understand what a social enterprise is. While not explicitly explored in the interview with the Estonian representative, other studies have shown the Estonian situation to be akin to the Lithuanian one.

In all contexts, there was a feeling among the interviewees that the funding landscape, both public and private, has, in general, gotten more difficult in recent years. There was also a bit of pessimism amongst the interviewees towards the future, as the actors felt that the social economy as such seems to now be on lower on the EU's agenda due to reallocation of funding and cuts.

There was a call for more diversified funding sources to solve growth challenges in the sector. Indeed, studies such as the Alternative Finance Roadmap<sup>2</sup> have shown that there is a limited number of dedicated social finance instruments in the Baltics. One of the interviewees especially mentioned

---

<sup>1</sup> Veliste, M., Aavik, A., Hansen, T., Beisembayev, M., Bergmane, M. (2025) Impact Investment in the Baltics: Market Analysis. [https://drive.google.com/file/d/18Li8GWIFLEpmF-ZZjJ3GprNRIPCw\\_kCO/view](https://drive.google.com/file/d/18Li8GWIFLEpmF-ZZjJ3GprNRIPCw_kCO/view)

<sup>2</sup> Veliste, M., Mackevičiūtė, R., Vērpēja, K., Beisembayev, M. (2023). Alternative Finance Roadmap. <https://bia.ee/wp-content/uploads/2024/03/IBESI-Alternative-Finance-Roadmap-High-Resolution-12-March-2024.pdf>

the lack of blended finance and the use of convertible notes as a challenge. They were seeing the need for a patient capital instrument in the region, i.e. money that would prioritise sustainable growth and have a longer time horizon for expecting impact results and financial returns.

For the Impact Baltic project, the interviews reaffirmed that the efforts put into establishing a new impact-oriented investment fund would help fill a market gap where the current private investors largely do not explore the space and where the future of already nascent public funding is uncertain. In terms of fund design, the main suggestion was to consider doing so-called patient investments.

## Capacity building

Regarding capacity building, two main bottlenecks were shared by the associations. First, the business side of things can often be lacking among Baltic SEs where non-profit models are still prevalent. It is hard to find social enterprises that have both a strong business model and an impact framework. While at the same time, business angels and VCs are clearly and understandably looking for companies with strong business plans. Therefore, as one of the interviewees put it: "Social enterprises still require guidance on how and what to sell." Beyond business models, basic business management skills are also frequently seen as lacking among SEs, especially in their financial planning.

Secondly, those who have relevant skills and a decent starting point often hit the barrier of how to sustain the growth. The business models also need to be sustainable over the long term. On the one hand, it is about the lack of skills on how to scale and growing the company. On the other hand, it is also about having the necessary financial support to scale, which the ecosystem is currently lacking. But in the view of one of the interviewees, there can at times also be a lack of ambition to scale among the founders, and after the startup phase, momentum seems to stagnate.

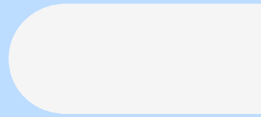
Mission-driven people can be content with the localised impact that they are making and not think about scaling as one would in the traditional startup world. But this is problematic, as sometimes the enterprise needs to grow for it to have longevity. For example, it was pointed out that many SEs are dependent on a single person; therefore, they have high risks of failure should the person get ill or experience burnout. The latter is also a known issue in the non-profit world.

It indicates that SEs might also benefit from training and guidance on how to grow a team and how to delegate tasks and responsibilities.

Interestingly, one of the interviewees also referred to the recent European Social Enterprise Monitor surveys, where Baltic SEs self-report a lack of available funding sources as a key barrier. In their view, there are funding sources available, but the question is whether the SEs have the necessary skills to acquire or understand such funding. This implies that a capacity-building programme, such as the planned Investment Readiness Programme that would explain the different funding sources and available options, together with their pros and cons, could be very beneficial for the sector.

All in all, these interviews reconfirmed many of the assumptions that the Impact Baltic project consortium had already been operating with. Perhaps most importantly, the discussions helped frame whom to invite to the focus group interviews in the next research stage. It became clear that many SEs are microenterprises working on a local community level, often registered as non-profit associations and relying on grant funding. In other words, many SEs are not really investment-ready, either due to limited operations or ambitions. Therefore, the consortium needed to draft concrete criteria for whom to approach for the focus groups for the input for setting up a new impact investment fund and Investment Readiness Programme to make sense. In other words, it was important to focus on more mature SEs who were seeking to grow as well as include impact-driven startups to the interview pool, as the “Impact Investment in the Baltics: Market Analysis” report also indicated potential in that segment.

# Input from potential beneficiaries



A key component of this study was gauging the perceptions of social enterprises and impact startups, who could be the future participants in the Investment Readiness Programme and the investees of the new fund being developed. The interviews mainly explored aspects of financial and non-financial support. While the participants came from different growth stages, sectors and geographies, some common themes emerged that are worth considering when taking the next steps in the project.

## Funding

The participants across the focus groups had had varied experiences with different funding sources. Some had only used rewards and grants; others had also used loans and investments. Some had been bootstrapping while others had made use of everything available to extend “their runway”, i.e. to keep the lights on while building the business and developing a product or service. Therefore, some participants had embraced typical startup approaches and were seeking venture capital, while others were local community-focused entities maintaining grant-based operations. Despite these different backgrounds, some common remarks on preferred funding sources, mistrust towards investors and ideal investor profile emerged.

## Preferred funding sources

While the pros and cons of different funding sources for enterprises have been discussed in length elsewhere, it is nonetheless relevant to note some of the comments made by the participants when it came to different forms of funding, as it illustrates the current thinking among the impact community.

For example, several participants had taken the strategic approach of bootstrapping to avoid external financing in order to retain ownership as well as content independence. The flexibility of not being accountable to others was also appreciated, showing that financing decisions are also mission-driven.

*“Perhaps the fact that we have not involved funding has allowed us to proceed at our own pace. In the meantime, we can take a few quicker steps and then take a*

*step back when we feel that processes need to be improved, because providing high-quality service and customer experience is very important to us."*

Regarding other funding sources, grants were the most used as well as preferred funding source. In the Lithuanian and Latvian discussions, the transition from project-based activities to sustainable operations emerged as an important inflexion point. For those who were from a non-profit background, the reliance on grants stemmed from them being the most trusted, well-known and "safest" funding source. However, the participants were also aware that grant dependency creates a vicious cycle - founders become too operationally consumed to think strategically, which prevents them from developing sustainable business models, keeping them trapped in constant grant-seeking.

*"The most important thing is stable operations. When you can plan activities for at least a year ahead without fear that maybe we won't get funding this year."*

Grants were also appreciated in cases where product or service development is done in an uncertain field that investors and banks do not dare to enter. However, the bureaucracy attached to grant funding as well as the share of own contribution were also seen as a potential barrier once a company has reached a certain growth stage.

But some participants had chosen a different growth pathway to reach their impact goals. Some had initially started as a non-profit but then switched deliberately to the startup route to achieve profitability, sustainability, and scale.

*"The main reason we chose profit is to have a sustainable business, because if we don't have profit, we don't have a business. Social business is still business, and without the business part, the impact rarely happens."*

In the Estonian focus group, awards were seen as the best form of funding with no strings attached, but that is by no means a sustainable funding strategy for an enterprise.

### **Mistrust and disappointment in the investor community**

Mistrust towards investments and investors was shared in all three focus groups. In the Latvian case, there was a prevalent perception of investors representing an "old-school business shark" mentality that strongly clashes with mission-driven enterprises. Similar remarks as "becoming a VC slave" were also

voiced in other focus groups. The milder comments indicated a perception that many investors prioritise financial returns over social mission, raising fears of losing control over the quality and integrity of impact work done by the social enterprises. This had been the reinforced experience of some participants who had previously interacted with investors, which can likely be attributed to the fact that those were traditional investors without much understanding of impact.

There was also disdain towards the exit strategies of investors. A feeling that once you take on an investment then you become the product and can be sold to someone else.

*"You get married to one but then end up with someone else!"*

*"Their marketing is great – friendly and let's do it! If you're already doing something with AI, they will try to make you look good and sell you to someone else. We are that product. It bothers me that business models often end up being changed at the cost of the customer experience. When we talk about impact, if you go to satisfy the interests of investors, you may end up making things worse for your customer or beneficiary base."*

There was also scepticism towards "impact investments". Some had experienced that while on paper the ESGs were respected then the questions from the investors were the same as from traditional investors. This is reflective of the broader notion of "impact washing" that has been talked about in the impact community in recent years.

Lastly, those who were generally receptive to taking on investments were voicing disappointment that the investor money seems to be predominantly in AI or software, but not in physical products and green innovation.

For the Impact Baltic project, these insights signal the need to also build trust among the business community. In that sense, it is vital that there is an Impact Readiness Programme preceding the fund and that efforts are made to make such capacity and community building a long-term part of the fund strategy. Because otherwise, even if a great financial instrument is designed and raised, the negative perceptions can be hard to break. Furthermore, it also underpins the need to be clear and transparent in the impact strategy of the future fund, as otherwise the intentions can be perceived as not sincere.

## Ideal investor

The interviews also explored the notion of an “ideal investor”. To summarise, then an ideal investor for Baltic social enterprises and impact startups would be one that:

1. Is aligned with the enterprise’s mission. - For the participants it was important that the investor would respect the organisation’s mission and approach, without pushing for compromises that could undermine impact quality.
2. Is patient. - Someone who understands that social ventures require longer timelines.
3. Has sector-specific knowledge - Closely related to the previous points, it was several times mentioned that an ideal investor should have sector-specific knowledge and the ability to understand the unique challenges of the field. Someone who would like to jointly tackle the social or environmental problem with the investee, and with whom one could have mutual trust to navigate the impact space.
4. Provides mentorship and connections, not just the capital. - If the other conditions are in place, it would also be desirable if the investors actively provide guidance, act as quasi-team members, and support strategic decision-making. Furthermore, the ability to advise on measuring social impact, navigating other investor relationships, and managing growth challenges would be highly valued.

The participants perceived such alignment between mission and profits to be rare among investors in practice. And likely such high standards are also unrealistic (and perhaps verge more towards philanthropy than investments), but the ideal profile indicates what potential investees in the Baltic impact field value. Because so far, the investment cases have been few, not only due to challenges in sustainable business models but also because the social enterprises do not seek out investments as much as they could, as reported by European Social Enterprise Monitor surveys. For the Impact Baltic project, these findings give food for thought on what kind of investor the future fund would be.

### More on patient capital

It is worth further deliberating on the notion of ‘patient capital’ as that emerged as a theme across the focus groups and discussion moments. The participants

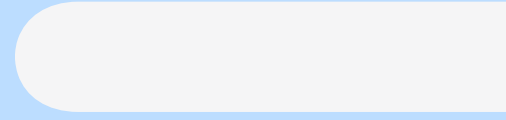
indicated that they would prefer investors who would value sustainable growth over short-term financial returns, avoiding “money-hungry” or opportunistic behaviour. Notably, one participant shared how when she attended an international business event then the companies working in her sector in other geographies had been able to grow thanks to the patient capital from family offices. Such family offices and patient capital are still few and far between in the Baltics. And in a way, it can put local impact companies at a competitive disadvantage globally. One participant even made the distinction between typical investment capital and patient capital:

*"Most investment funds have five or ten-year cycles - they close the fund and need to get their money back. But an evergreen fund directly reinvests, reinvests, reinvests, so they don't have that time pressure. They don't care when returns come, if they come - they think a bit differently."*

Another participant from a different focus group suggested that an ideal fund would be one where the fund itself would have several layers of risk appetite. They saw the added benefit of having a fund that would partially take more risks over a longer time horizon in one of their investment streams. The idea was seconded by a further participant who also said that they would like the opportunity to borrow money from a fund, as their business is capital-heavy and it is hard to raise such funds considering the small ticket sizes of local business angels and loan interest in traditional banks.

For the Impact Baltic project, it raises a question whether it would be, on the one hand, possible to tap into the funding of family offices and other such big players and secondly, whether the investments made by the fund itself could also be, even if just in part, “patient”. This can be further explored in the coming months when conversations are started with potential lead investors and limited partners.

# Non-financial support



The focus groups also collected input on the soft support that social enterprises and impact startups need. The purpose was to collect insights that could inform the set-up of the Investment Readiness Programme developed within the project.

## Preferred form of support

A key message across the focus groups was a strong preference towards tailored 1-on-1 support, whether as mentoring or even more broadly as just relationship building with different actors. One of the Latvian participants brought an example of an accelerator they had participated in, where participants could select their own mentors on topics relevant to them. An Estonian participant emphasised that they had not received the answers they needed from previous acceleration programmes – they were seeking very specific expertise on service licencing – and a generic training session would never be able to address such questions. Another participant shared how, for them, the trickiest part has been to find and reach the right customers, and for this, you need to know the people who can open relevant doors. Similarly, when asked in which area the enterprises need non-financial support the most, several participants' first reaction was legal advice, preferably from someone who could also understand the market and current standards. Considering that legal support is always very specific to the company and context, it could not be part of a structured training programme.

For the companies that had already been part of accelerator programmes, the prospect of another set of mandatory training courses was not too exciting. This is a relevant insight considering that the Investment Readiness Programme will likely be intended for entrepreneurs who already have some experience and market traction. The participants pointed out that the “problem” of some accelerator programmes is that the training sessions have been made too broad to cater to all the sectors and growth stages of the programme's participants.

It was also mentioned that sometimes the training sessions are too complicated, or the topics are introduced at the wrong time (a mismatch between the session and the company growth stage). The sentiment was that such sessions can just be wasted time as the company will not retain the input if it is not relevant to their needs at the time, and the founders do not know how to operationalise the knowledge.

All in all, the participants would much rather attend mentoring sessions, networking and peer exchange sessions than theoretical training. Peer learning from other experienced social entrepreneurs, who have successfully grown their enterprises, was also suggested as something more tangible than a training session. This so-called “reflective capacity-building” was seen as more beneficial to founders who are otherwise tied up with operational work to have time to think about strategy. Several participants shared examples of how the main benefit they had gotten from previous programmes was the networks and connections facilitated by those programmes. For the design of the Investment Readiness Programme, it implies on the one hand that the trainers used in the programme should also become networking nodes for the participants as well as have personal practical experiences to share.

## **External and international validation**

In all three contexts, external connections and validation were emphasised by the participants. Interviewees who had taken part in other training programmes noted that for them, the most beneficial were moments of interaction with international actors, as those had provided crucial momentum. Participants mentioned how recognition from international accelerators, EU projects, or global companies provided both confidence and credibility. The external perspectives helped enterprises to “think big” and out of the box of the local Baltic context.

One participant also suggested that the Investment Readiness Programme could perhaps collaborate with large corporations that could put forward some challenges for the startups to solve. Another participant agreed and said that such pilot collaboration helps to increase credibility among other potential customers and becomes a strong communication asset. For the Impact Baltic project, therefore, it is worth considering using experts and investors outside of the Baltics as trainers and mentors.

The interviews also touched upon the potential of investor interactions as a form of soft support. Estonian participants appreciated the idea of meeting investors in a more relaxed setting where the goal is not to pitch for funding but rather to connect and interact freely. As one participant put it, “to appreciate that the investor is also a human being.” Similarly, participants in the other groups valued meeting impact investors from other European countries to understand opportunities. One participant noted that these connections provide grounding and courage, showing “you’re not alone fighting windmills.” In Lithuania, the role of business angels was also seen as a crucial connector to institutional funding. In this light, the Impact Baltic project’s plan to organise informal sessions with investors as part of the Programme seems to be on the right track.

## Training topics

Although it was mentoring and tailored support that the participants felt most strongly about, some training topics were also suggested in the focus groups. Participants in Estonia saw that they would have benefited from hands-on guidance on which software tools to use for accounting, logistics, process planning, etc. A starting entrepreneur has a lot of things to figure out at once, and sometimes too much energy and time tend to be wasted trying to find the right tools and learning how to use them. Expert and peer recommendations here are much appreciated. Another topic that was mentioned explicitly was AI training, e.g. “how to make AI work for you”. Therefore, practical guidance on how AI can help prepare initial marketing materials, analyse legal texts, or simplify data analysis could help save time and resources for the companies.

Focus setting was also a topic that reoccurred across the conversations. Multiple participants emphasised that narrowing their focus - whether geographic, product, or customer – had been crucial for their growth. Others talked about having needed to do multiple pivots in just a few months. In addition to setting a clear strategic focus, assistance was also sought for designing the pitch decks in order not to be too confusing or overly detailed in the wrong places. In this light, a participant emphasised that there can never be too much pitching training, and clearly articulating your business plan and ideas is vital throughout the business lifetime. For the Investment Readiness Programme, it means that training sessions or mentoring on how to set the focus in the right place should be included as a key topic.

Beyond the explicitly mentioned topics, it was clear from the focus groups that social enterprises and impact startups struggle to at times navigate the funding landscape. This could already be seen above in the segment on mistrust towards investors. But it also goes beyond trust to just not understanding the field sufficiently. The participants were looking for guidance on investor relations. For example, the interviewees shared:

*"We raised our first rounds as a convertible note while having no idea what it meant. We were told that this is standard [and we just accepted it]."*

*"I would like to understand the different paths to raising capital. I like to make decisions where I understand something."*

This highlights that the Investment Readiness Programme needs to put special care into explaining and guiding the participants through different funding opportunities and strategies to enable the social enterprises and impact startups to make informed funding decisions.

Lastly, similarly to the interview with the sectoral agency, the Latvian participants raised the founder dependency as a critical operational bottleneck. The participants saw a need for structured support to help founders recognise points of dependency and develop processes to reduce operational risk. The Programme designers should reflect on whether this is something that could also be addressed in the programme.

### **Note on impact**

The interviews also explored the notion of impact and how the participants operate with it, and what type of support they could need in this area. The measurement approaches used by the participants also varied dramatically based on the sector, business model and growth stage. Across the interviews, the participants acknowledged the difficulties in defining, quantifying, and systematically tracking social impact. The gap between obvious social value creation and the ability to prove it in terms that investors or public sector partners would accept was highlighted. In some cases, adequate measurement was seen as extremely complicated if not impossible.

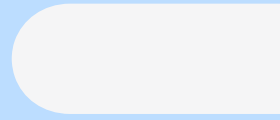
At the same time, there was also a feeling of disappointment, especially among those working with sustainability. There was a sentiment that funds, and corpo-

fations are just ticking boxes for their internal reporting and do not, in practice, care about the impact offered by a social enterprise or startup. There was also a feeling that CO<sub>2</sub> reduction metrics do not matter any more as the paradigm has shifted and from “greenwashing” to an era of “greenshaming” where actors want to distance themselves from publicly working with sustainability. In some of the participants' experiences, “cost-efficiency” had become a new trend in events and investor interactions. Nonetheless, the enterprises would be interested to learn about practical frameworks and tools that allow social enterprises to monitor and report their impact in a credible and understandable format.

## **Programme structure**

The interviews also gauged the participants' preferences towards the setup of capacity-building programmes. Overall, the perspectives were varied, considering that the founders were thinking that such a programme could be fitted into their schedules. Some preferred morning hours, some the end of the workday, and others weekends. In the Estonian focus group, there was a consensus that such a programme should rather be shorter and more intensive than to drag on for too long. A similar approach was appreciated in Latvia. There, the idea emerged of an intensive 3+ days training period which could be followed up with mentoring rather than having monthly or weekly sessions, which risk participant drop-off. The message was a bit different in the Lithuanian focus group, where the sweet spot was seen to be somewhere between 3-6 months with meetings once or twice per week. As these inputs were inconclusive, further deliberation and analysis of the best practices of other training programmes is needed to design an efficient structure for the Impact Readiness Programme. However, one thought that can be taken into account already is the one that emerged in the Latvian focus group. All the participants there stressed that such capacity-building programs should serve the entire organisation, not just the founder, to avoid operational bottlenecks. Therefore, the possibility for team members to participate in different sessions of the program would be highly valued and should be considered in the design of the Impact Baltic program.

# Summary of the demand-side analysis



The goal of the analysis was to understand the realities and challenges that Baltic social enterprises and impact startups face when trying to grow and to collect useful insights for the design of the Impact Baltic project's new impact fund and the Investment Readiness Programme. The interviews brought several aspects for consideration.

- The findings show that the **financing decisions of social enterprises and impact startups are also mission-driven**. Different growth pathways are taken with conscious strategic choice. Some prefer to safeguard the impact by relying on bootstrapping and grants, while others see that the only way to achieve impact is to scale and seek external funding.
- **Mistrust and disappointment in the investor community were a surprisingly prevalent concern**. For the Impact Baltic project, this signals the need to also build trust among the community and to have community building as a long-term part of the fund strategy to break negative perceptions around investment funding. Furthermore, it also underpins the need to be clear and transparent in the impact strategy of the future fund, as otherwise the intentions can be perceived as not sincere by the impact community.
- **An ideal investor** in the eyes of the participants would be **aligned with the enterprises' core mission, have specific sectoral knowledge to understand the growth challenges, provide mentorship and connections in addition to the capital and provide patient capital**. For the Impact Baltic project, it raises a question whether it would be, on the one hand, possible to tap into the funding of family offices and, secondly, whether the investments made by the fund itself could also be, even if just in part, "patient". This can be further explored in the coming months when conversations are started with potential lead investors and limited partners.

- When it comes to non-financial support then a key message across the focus groups was **a strong preference towards tailored 1-on-1 support**, whether as mentoring or even more broadly as just relationship building with different actors. The participants would much rather attend mentoring sessions, networking and peer exchange sessions than theoretical training. Therefore, the design of the Investment Readiness Programme should also enable such tailored support. The focus groups also validated the idea of organising panel discussions with international impact investors, as meeting investors in such relaxed settings makes learning and understanding easier.
- **Some ideas for the training session topics could also be inferred from the discussion.** Practical guidance on how to make the most out of AI tools, as well as which software tools to use for accounting, logistics, process planning and other such standard operations, was seen as of great help. Focus setting was also a topic that reoccurred across the conversation and one that is a key condition for growth. It was also evident that social enterprises and impact startups could use further guidance to navigate the funding landscape. This highlights that the Investment Readiness Programme needs to put special care into explaining and guiding the participants through different funding opportunities and strategies in order to enable the social enterprises and impact startups to make informed funding decisions. Lastly, founder dependency emerged as a critical operational bottleneck for some enterprises and should also be potentially addressed in the capacity-building programme to ensure longevity of the undertakings.
- Lastly, the interviews also explored **the notion of impact** and how the participants operate with it and what type of support they could need in this area. The participants acknowledged the difficulties in defining, quantifying, and systematically tracking social impact and were open to learn more about practical frameworks and tools that allow social enterprises to monitor and report their impact in a credible and understandable format.



# Supply-side analysis

The following legal and regulatory analysis of investment funds' registration and compliance requirements in Estonia, Latvia and Lithuania identifies the main similarities and differences among the three jurisdictions. The review aims to indicate the optimal jurisdiction for registering a new fund to invest in social enterprises and impact startups from the Baltic region.

## Estonia

- **Dedicated VC fund regime:** Estonia has a formal *Limited Partnership Fund* (LPF) legal concept in its Investment Funds Act of 2004, as amended. LPFs must be registered in the Estonian Commercial Register. Depending on fund size, a **licensed** General Partner (GP; fund manager, with €500m+ assets under management (AUM)) or **registered** GP/fund manager (<€500m AUM) would be required. The Investment Funds Act sits within the Estonian Commercial Code.
- **Tax transparency:** Estonian LPFs are tax transparent in Estonian law. Following venture capital industry standards in Europe, fund investment profits are allocated to limited partners (LPs; investors in the fund) and taxed at the investor level rather than at the fund level.
- **Fund registration and regulator interaction:** the LPF needs specific entries in the Estonian Commercial Register and, depending on the GP/fund manager status (licensed or registered), the applicable Financial Supervision Authority (*Finantsinspektsioon*) compliance and reporting rules apply.
- **Legal support:** all the main law firms in Estonia, such as Cobalt, Ellex, Sorainen, Hedman and TGS Baltic, have experience in helping with drafting fund documents. In addition, fund template documents in English are available online.

## Latvia

- **No identical "LPF" statutory construct as in Estonia:** Latvia's Commercial Law includes the limited partnership concept (*komandītsabiedrība*), and has a Law on Investment Management Companies and a regulator, the Bank of Latvia, which governs managed funds. However, there is no stand-alone investment fund regime similar to the Estonia LPF. Consequently, fund managers either (a) set up a Latvian limited partnership and ensure compliance with the Bank of Latvia's investment fund rules, or (b) domicile the fund elsewhere in the EU, EEA or UK.
- **Tax transparency:** Latvian limited partnerships are tax transparent in Latvian law. Following venture capital industry standards in Europe, fund investment profits are allocated to limited partners (LPs; investors in the fund) and taxed at the investor level rather than at the fund level.

- **Fund registration and regulator interaction:** a Latvian limited partnership needs specific entries in the Latvian Commercial Register and, depending on the GP/fund manager status (licensed or registered), the applicable Bank of Latvia compliance and reporting rules apply.
- **Legal support:** all the main law firms in Latvia, such as Cobalt, Ellex, Sorainen and TGS Baltic, have experience in helping with drafting fund documents.

## Lithuania

- **Limited partnership available:** Lithuanian commercial law recognises the limited partnership (*komanditinė ūkinė partnerystė*) as a collective investment entity. However, there is no stand-alone investment fund regime similar to the Estonian LPF.
- **Tax transparency:** Lithuanian limited partnerships are tax transparent in Lithuanian law. Following venture capital industry standards in Europe, fund investment profits are allocated to limited partners (LPs; investors in the fund) and taxed at the investor level rather than at the fund level.
- **Fund registration and regulator interaction:** a Lithuanian limited partnership needs specific entries in the Lithuanian Commercial Register and, depending on the GP/fund manager status (licensed or registered), the applicable Bank of Lithuania compliance and reporting rules apply.
- **Legal support:** all the main law firms in Lithuania, such as Cobalt, Ellex, Sorainen and Motieka & Audzevičius, have experience in helping with drafting fund documents.

## Conclusion of the supply analysis

While Estonia has a specific Limited Partnership Fund provision within the Commercial Law, Impact Baltic project partner ICFM has 15 years' experience as a registered fund manager in Latvia, interacting with the Latvian Commercial Register, dealing with the Bank of Latvia as financial sector regulator and working with specific lawyers in all the main law firms capable of providing relevant legal advice.

Therefore, with similar fund management operating conditions (there are no significant differences in a fund providing a convertible loan or straight equity investment) and limited partnership tax transparency in Estonia, Latvia and Lithuania, in addition to ICFM's own operating experience in Latvia, Latvia is the preferred jurisdiction for a new venture fund to invest in impact startups from the Baltic region and with institutional fund investors from the region.

# Annexes

# Annex 1



## Interview questionnaire for social enterprise associations.

1. What are the main challenges that SEs currently face [in your country]?
2. How would you describe the current social finance landscape in the country and in the Baltic region?
3. How well does the current financial ecosystem support social enterprises at different growth stages?
  - a. Where is the biggest funding gap? Are the funding gaps more pronounced at the early, growth, or scaling stage? Are they sector-specific?
  - b. What type of instruments (form, ticket size, etc) are needed in your view?
4. In the next few years, which funding source - private investments, private philanthropy, or public grants - do you see playing the biggest role in supporting social enterprises? Why?
  - a. Do you see any differences in how these funding sources are developing in the Baltic region compared to other regions?
  - b. Are there any unique challenges or opportunities in the Baltic region?
5. Have you had any interaction with private investors (e.g. angels, VCs, family offices, etc)?
  - a. If yes, what have been their signals, what are they looking for in terms of investment opportunities (for/with impact, do they have impact metrics in mind)?
  - b. What were the key challenges or successes in securing their support?
  - c. What are the key factors that investors prioritize when considering social enterprises?
  - d. Are there specific impact metrics they focus on?
6. What would be the ideal profile of an impact investor for you as a representative of the sectors' SEs?
  - a. What type of industry knowledge or expertise do you believe would be most beneficial for investors to bring in order to support the social enterprises/ sector as a whole?
  - b. Are there key outcomes or impact metrics that you believe investors should prioritize?

- c. Can you identify what type of industry knowledge or expertise would be most beneficial for investors to bring in order to support the social enterprises/sector as a whole?
- d. Could you point out key outcomes or impact metrics that you believe investors should prioritize?

7. How do you (your organization) distinguish between social enterprises, impact startups, and other companies?

8. In which sectors or verticals do you see the most activity among social enterprises currently? Are they tackling issues in education, social welfare, sustainability, health, etc.?

9. What type of support programs will you be running in the next two years for social enterprises?

- a. Do any of these programs include components focused on investment readiness, such as financial literacy, pitch training, or investor matchmaking?

10. Have you conducted recent research regarding the supply and demand side of social finance? Do you know of any other relevant recent research?

# Annex 2



## Focus group questionnaire

### 0. Welcome & ground rules (10 min)

*Welcome, thank participants.*

*Explain purpose*

*Ground rules: one voice at a time, all views valid, confidentiality.*

*Explain consent from and have everyone sign.*

### 1. Introductions (6-8 min)

*The moderator goes first as an example.*

*Write the structure on a flipchart so participants can follow it easily.*

*1 min per participant:*

1. Your name and organization name
2. What is your product or service? (1 sentence)
3. Who are your main beneficiaries (main target group)? (1 sentence)
4. What is the impact you are creating? (1 sentence)
5. Who pays for your product/service? (1 sentence)
6. Your name and organization name once more (if it is repeated twice, people are more likely to remember)

### 2. Warm-up (10 min)

*Brief answers from everyone to get all participants talking*

1. Over the last year, what's one thing that helped your organization to grow, and one thing that got in the way/ made it harder?

### 3. Financing (40 min)

1. To grow your organization, what type of funding sources have you used? Why those?
2. Have you been able to get the kind of financial support your enterprise needs to grow? If not, what's missing?
  - a. If you could get funding to grow, what kind of financial support would be most useful for you? For example: a grant, a loan you pay back, or an investor who takes a share in your business? Why?
3. Have you had any interaction with private investors (e.g., angels, VCs, family offices, etc)?
  - a. When interacting with private investors, what parts of the process have been hardest to understand or navigate?
  - b. How did you get the lead? How did you prepare for the meeting?

*Transition question from financing to non-financial support.*

1. What would the ideal investor for your organization be like? Should investors get involved in mentoring and supporting your team, or focus mainly on providing flexible funding? Why?

#### **4. Non-financial support / capacity building (20 min)**

1. What kinds of support beyond money would be most useful for your organization at this stage in order to grow your organization?
  - a. What other areas do you see that you could use training and mentoring on (e.g., pitching training, impact measurement, business model, connections, etc.)?
2. Many organizations feel they're creating a strong social impact. How do you know your organization is making the impact you aim for?
  - a. What methods, tools, or indicators do you currently use to track your impact?
  - b. What parts of your impact are hardest to measure or track?
  - c. Are there things you'd like to measure but aren't sure how to?

#### **5. Capacity building programme design (20 min)**

1. Imagine a programme designed to help organizations like yours grow and become ready to attract investors. What should it focus on?
2. What formats would work best - workshops, mentoring, peer exchange, hands-on advice?
3. How could it be set up so that it fits into your daily work?

#### **6. Closing question (6-8 min)**

*1 min per participant:*

1. Looking back over everything we've discussed today, what is the single most important challenge your organization needs to solve in the next couple of months?