Private investor readiness to invest in impact organisations in Estonia

BALTIC INNOVATION AGENCY

2022

This project is co-funded by the European Union.

Contents

Acknowledgements

This analysis report is part of the project: 'Kick-starting the nascent social finance market in Estonia' (SoFiMa). The project consortium includes Baltic Innovation Agency, Tallinn University, Võru County Development Centre, and the Estonian Social Enterprise Network. The project is also supported by AS SEB Bank and by Buildit Accelerator.

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

Disclaimer: The European Commission support for the production of this publication does not constitute an endorsement of the contents, which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Executive Summary

To our knowledge, this analysis serves as the **first mapping of investors' views on impact investing in Estonia**, which is explained by the **early development phase of the impact investing market** in Estonia. However, the last few years have shown **fast growth** and increased interest from the side of investors to be active in this field. The analysis presented in this document focuses on the readiness of Estonian investors, **both institutional and individual angel investors**, to invest in impact organisations and factors affecting investment readiness and actual investment decisions. 40 business angels participated in the survey carried out among the Estonian Business Angels Network (EstBAN) members and, in addition, 10 meetings and interviews were carried out with the representatives of investment funds and organisations.

BUSINESS ANGELS

- **Estonian business angels already have some experience with impact investing**: 60% of respondents have made impact investments, and the majority have invested in impact organisations in Estonia. Two-thirds of those with some experiences with impact investments have made 2-5 impact investments and invested 10 000 – 50 000 euros.
- **Business angels have an increasing interest in impact investing**: all respondents said they are (potentially) interested in making impact investments in the future.
- **Most angels are willing to invest 10 000 – 50 000 euros** in impact organisations in the upcoming three years (40%), while 25% are willing to invest more than 50 000 euros.
- **Sectoral investment preferences related to SDG fields** include primarily Affordable and Clean Energy (55%), Industry, Innovation and Infrastructure (42.5%), and Responsible Consumption and Production and Climate Action (35%).
- **Business angels prefer investing in the startup and seed stage:** 85% and 55% prefer those stages, respectively.
- **There is a clear preference for making equity investments**: 92.5% of the respondents are willing to make equity investments, followed by quasi-equity/convertible notes (67.5%). There is less interest in providing debt financing (22% are open to this).
- **The majority of business angels** (57%) are willing to invest in impact organisations **only on the same terms as in the case of traditional investments.** However, 43% are willing to accept lower financial returns if a clear social and/or environmental impact is delivered.
- **The main difficulties in making impact investments** include evaluating investment opportunities (62.5%), finding investment opportunities with a skilled management team (55%), and finding investment opportunities matching the investor's profitability criteria (45%).
- **Most business angels have also provided other forms of support** to the investees, including donations (50%) and mentoring (42.5%). In the future, the angel investors are less willing to make donations and more interested in providing mentorship to investees.

INSTITUTIONAL INVESTORS

- **There are already several funds and financial intermediaries active in Estonia that specifically focus on impact investing**, such as Limitless, Good Deed Foundation Impact Fund, Grünfin, and the Little Green Fund.

- On the impact investing spectrum defined by the European Venture Philanthropy Association (EVPA), **most of the financing can be found on the Investing *with* Impact part.** At the same time, there are not many actors supporting Investing *for* Impact.

- Impact investing is **getting more relevant for the traditional investment funds** as well, and they have already incorporated some principles of impact investing in their activities. However, currently, this has not been done based on any formalised methodologies but rather by building upon the 'Gut Feeling' of individual investment committee members. This is predicted to change in the future as **impact investment principles are expected to become clearly reflected in formal investment guidelines and documents.**

- As a result of the discussions and interviews with institutional investors, we can conclude that **Estonia's Impact Investing landscape is expected to expand and mature significantly in the near future**.

MAIN CONCLUSIONS

Based on both the survey carried out among business angels as well as interviews with the institutional investors, conclusions can be made on some **key topics** that are relevant to **support the further development of the impact investing field in Estonia**:

1. There is a **need for a consensus in terms of the terminology used** – what is understood as impact investing and what kind of investments into what kind of organisations are considered impact investments.

2. As impact investing can be considered a growing trend, there is a **danger of 'impact washing',** which is already a problem in more developed markets. To combat this, the terminology used needs to be complemented with **high-quality impact management and measurement frameworks and tools**.

3. To facilitate higher and deeper engagement of investors in impact investing, there is a need for **more ecosystem activities targeting also 'traditional' investors**. The majority of business angels outlined the need for (1) more information and research on social enterprises and (2) pitching and matchmaking events with social enterprises/ impact organisations. The representatives of investment funds further stressed the need for awareness-raising and specific training on impact investing.

4. Last but not least, a crucial factor for increasing the investors' interest in impact investing is **developing a sufficient deal flow of good investment opportunities**. This calls for more and stronger social enterprises/impact organisations willing to engage investments. Impact-investment-focused **investment readiness programmes** are one of the measures that can help existing impact organisations to improve their capacity to engage investors.

1. Introduction

The analysis presented in this document is focused on the readiness of Estonian investors (both institutional and individual angel investors) to invest in impact organisations and factors affecting investment readiness and actual investment decisions. The analysis was carried out by Baltic Innovation Agency in the context of the project 'Kick-starting the nascent social finance market in Estonia' (SoFiMa), co-financed by the European Commission Programme for Employment and Social Innovation (EaSI). The current study complements the 'demand side' analysis carried out in the context of SoFiMa by Tallinn University, focusing on investment needs and readiness amongst Estonian social enterprises.[1] The study by Tallinn University was carried out in parallel to the analysis of impact investing presented in this document. The results of both studies will be used, in cooperation with the SoFiMa partnership, to pave the way for setting up new social finance/ impact investment instruments in Estonia.

To our knowledge, this analysis serves as the **first mapping of investors' views on impact investing in Estonia**. This is explained by the early development phase of the impact investing market in Estonia. However, the last few years have shown fast growth and increased interest from the side of investors to be active in this field. In any case, the analysis presented in this document provides some relevant insight on the disposition of the investors related to making impact investments; however, it needs to be complemented by other and more comprehensive studies in the future.

Methodology

Methodologically, the analysis included two parts. First, an online survey was carried out among the members of the Estonian Business Angels Network (EstBAN). EstBAN has 250 members, out of whom 40 completed the survey (the response rate was therefore 16%). The survey was open for the participants from mid-November to mid-December 2021. The survey consisted of 16 questions, the majority of which included closed (multiple-choice) questions. This was a conscious choice in terms of the survey design to ensure that answering the questionnaire does not take too much time resulting in lower response rates. Second, 10 meetings and interviews with institutional investors were carried out (at the end of 2021 and the beginning of 2022) to complement the survey results with additional qualitative information. The interviews also allowed for a broader discussion of the investors' general understanding of social entrepreneurship and the development of the social economy in Estonia.

In sum, the analysis focused on the following topics:

- The investors' existing experience in investing in impact organisations and wider experience in providing financing for organisations mainly focused on achieving a particular social or environmental impact vs. maximising profits;
- Willingness to consider investing in impact organisations in the future;
- Factors that both positively as well as negatively affect the general willingness to invest in impact organisations;

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

- Self-positioning of the investors along the 'finance-first – impact-first' continuum[2], i.e., what kind of a balance between financial returns and achieving a certain social or environmental goal/impact do the respondents personally pursue;
- General risk/return profile that the investors look for regarding investments in impact organisations;
- Preferences regarding investees: legal form, maturity, the field of activity (various sub-themes of under social/ environmental/ cultural impact), etc.
- Preferred forms of investment (e.g., debt financing, equity, quasi-equity)
- What kind of additional resources/tools, skills, and information regarding impact organisations and social economy is needed in the investors' opinion to increase their interest in impact investing and to allow for better investment decisions, allow for a broader discussion of the investors' general understanding of impact organisations and development of the social economy in Estonia

Key definitions

The following key definitions were used and communicated to the participants of the study:

- **Impact investing** refers to investments made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.[3]
- **An impact organisation or social enterprise** is an organisation that has an explicit goal to deliver positive social and/or environmental impacts via its business activities. Such enterprises seek to earn income from sales of their products and/or services while maximising benefits to society and/or the environment. They also explicitly measure the impact achieved based on pre-defined KPIs.

The definition of an impact organisation or social enterprise was a somewhat simplified version of the definition used in the Tallinn University study on social enterprises (which, in turn, is in line with the definition used by the European Commission).[4] In the current study, we omitted the two specific indicators used in the demand side study regarding the percentage of income earned from the sales of the organisation's products or services and the percentage of profits used for social purposes. This, as well as the decision to use the term 'impact organisation', was a conscious choice based on the estimation that the uniformly understood definition of a social enterprise is still a 'work in progress' in Estonia and Europe and when approaching the Estonian investors, focusing on 'impact' (societal and/or environmental) is more favourable than overly emphasising the 'social' (a somewhat problematic term in Estonia, also considering Estonia's Soviet past. [5]

[2] European Commission (2019) A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets. Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union, p.35.

[3] In line with the Global Impact Investing Network (GIIN) definition of impact investing (https://thegiin.org).

[4] Tallinn University (2022): 'Investment needs and investment readiness amongst Estonian social enterprises'. Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont; p 9. https://www.tlu.ee/sites/default/files/INVESTMENT%20NEEDS%20AND%20INVESTMENT%20READINESS%20AMONGST%20ESTONIAN%20SOCIAL%20ENTERPRISES.pdf.

[5] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris; p 18.

2. Impact investing in Estonia – brief market overview

The impact investing market is in the **early development stage** in Estonia; however, the last three-four years have shown considerable developments in this field, and several impact-focused funds have emerged. As the current analysis concentrates on private investments, an overview of the main opportunities for impact organisations and key players in the field of impact investing is provided below.

At the time of preparing the SoFiMa project (2019), there was only one venture philanthropy fund in Estonia, the **Good Deed Foundation Impact Fund**[6] (GDF). The GDF currently also runs a complementary Education Fund, supporting initiatives that solve acute problems in the general education sector. The total fund size (two funds combined) is 2 million euros. In addition, at the end of 2019, the **Limitless Fund**[7] was set up as a promising new initiative, targeting social innovation start-ups at the seed stage in Central and Eastern Europe. Limitless is fully operational currently and invests in scalable products and services addressing responsible consumption and production, digital health, or digital education. Limitless offers financing based on the revenue sharing model to its investees. After 2019, some new initiatives related to impact investing have emerged. This includes **Grünfin**[8]**,** an Estonian-German female-founded startup that runs an investment platform focused on sustainable, values-based investments for European consumers. The company raised €2M for its launch at the end of 2021. In addition, the **Little Green Fund**[9] is focused on cleantech, Greentech, and sustainability-related equity investments. The Little Green Fund usually invests up to €50,000 into the first rounds of promising clean-/greentech companies. Some additional impact-focused funds and instruments are currently being developed.

Most of the initiatives mentioned above are **backed by successful startuppers**, alumni of, e.g., Bolt, Skype, Wise, and others. The vibrant start-up scene in Estonia, with more unicorns per capita than any other country in the world,[10] has definitely had and continues to have positive spill-overs to the impact investing field. As impact investing is becoming increasingly important in the international start-up community, Estonia is not left untouched by this movement. As demonstrated by the current analysis results, impact investing is also a topic of increasing importance among business angels and traditional institutional investors.

Regarding other opportunities in the private investment market for impact organisations, Estonia's leading crowdfunding platform, **Hooandja**[11], is primarily focused on supporting projects with social and cultural goals. The funding available through this platform remains quite limited, though. In addition, there is an **increasing number of incubators and accelerators** that have a substantial impact element or focus. These include, e.g., NULA, Ajujaht, programmes run by Startup Estonia, CleanTech Estonia, Buildit Accelerator, etc.

Having discussed the supply side, some insights on the demand side also need to be given (please see the more thorough analysis on the social enterprises in Estonia by Tallinn University)[12]. The **exact**

[6] https://www.heategu.ee/en

[7] https://limitless.fund/

[8] https://www.grunfin.com/

[9] https://www.littlegreenfund.com/

[10] EU Innovation Ecosystem Leaders Group "Action Plan to Make Europe the new Global Powerhouse for Startups", 2021

[11] https://www.hooandja.ee/en

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

number of impact organisations/social enterprises in Estonia is not known, but it can be estimated that the total number still remains somewhat limited. The studies by European Commission (2019)[13] and OECD (2020)[14] have identified somewhere between 120-125 social enterprises in Estonia. However, as outlined in the recent study by Tallinn University, "accurately mapping the number of social enterprises is a task which can often prove difficult within the Estonian context, due to various reasons such as self-identification biases which can lead to under-or over-estimations." The Tallinn University research team identified 385 organisations that could be categorised as social enterprises and to whom direct participation invites were sent in the context of their study (91 complete answers were received).

Another essential aspect that needs to be pointed out is that the most widely used **legal form** for a social enterprise in Estonia is a non-profit organisation. Although non-profit organisations in Estonia can earn income from the sale of goods and services, such a legal form is problematic for investors as equity investments cannot be made in this type of organisations. Many social enterprises select the non-profit legal status as some key public financing programmes that support activities with societal and environmental impact only accept non-profit organisations as applicants. At the same time, the organisations that have selected to operate in the legal form of non-profits are not eligible for the measures of Enterprise Estonia, the principal agency for supporting business development in Estonia – Enterprise Estonia only supports private limited companies. There is also a group of impact organisations/ social enterprises (35% in the Tallinn University study[15]) registered as private limited companies. Some organisations also function in a way that there are two parallel legal entities, both a non-profit organisation and a private limited company, and the first deals with activities that are considered to be more on the non-profit side while the other focuses on business activities.

3. Analysis results

Focus and target groups of the analysis

The current analysis focused on **Estonian business angels as the primary target group**. The rationale behind this was that in addition to addressing the limited number of impact-focused funds, there is also a need to better understand the views of more 'traditional' investors. For impact investing to become 'mainstream', the mindset of the more conventional investors is fundamental - particularly given that these actors still manage the majority of financing available in the Estonian investment market. Therefore, we carried out a survey among the members of the Estonian Business Angels Network (EstBAN), the key business angel network in Estonia. EstBAN has 250 members, 10% of which are foreign investors. There are 7% women among the EstBAN members. In 2021, EstBAN members made in total 762 investments, investing 29.9M euros into startups, which is an all-time high. From the total amount, 13.5M accounted for angel investments, 14.9M was invested through funds, and 1.45M euros was invested through crowdfunding.[16] The current survey results provide an overview of the experiences, interests, and future outlooks of **40 (potential) impact investors among the EstBAN members**.

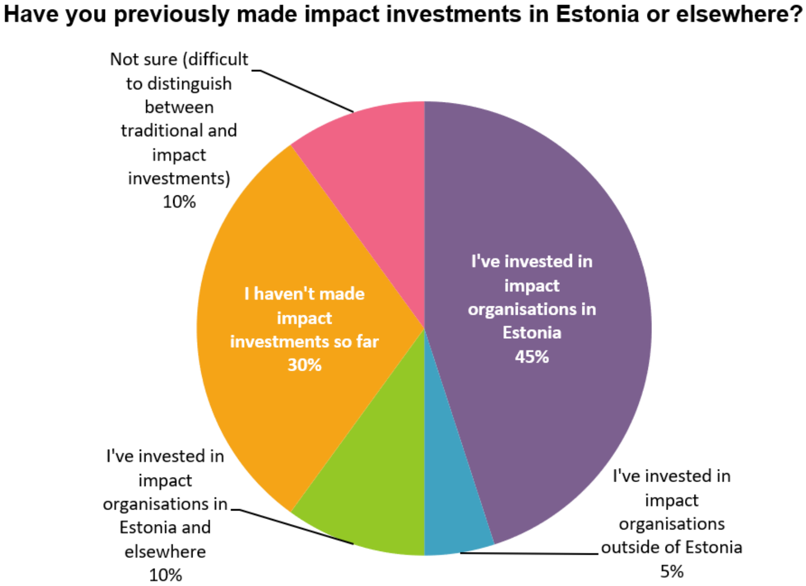
[13] European Commission (2019), "Social enterprises and their ecosystems in Europe. Updated country report: Estonia". Author: Katri-Liis Reimann. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny
[14] OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris.
[15] Tallinn University (2022): 'Investment needs and investment readiness amongst Estonian social enterprises'. Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont.
[16] EstBAN annual review 2021. Available at: https://estban.ee/wp-content/uploads/2022/03/Kungla-Graafika-EstBAN-Annual-Report-2021-1920x1080px.pdf.

In addition, **ten meetings and interviews** were carried out with a set of **institutional investors**, including Buildit Invest, Change Ventures, Cocoon Ventures, Good Deed Foundation, GrünFin, Limitless, Superangel, Taavet&Sten, Trind VC, United Angels/Specialist VC to get additional insights on their views on impact investing.

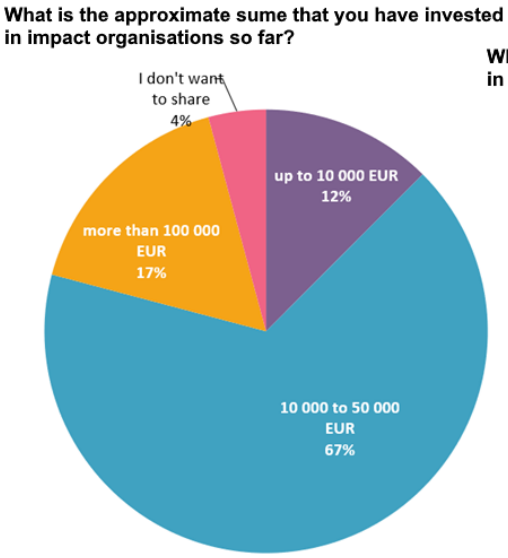
I Survey among Estonian business angels

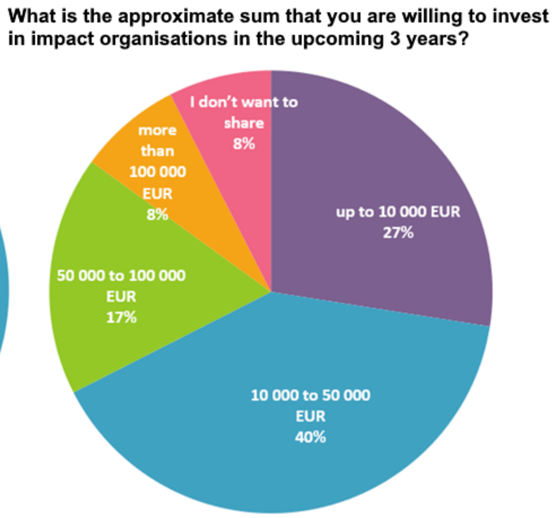
Analysis results

To start with the discussion of earlier experiences of the business angels with making impact investments, **60%** of the survey respondents, i.e., 24 angel investors, **had previously made impact investments in Estonia or elsewhere**. The majority (22 persons) had invested in impact organisations in Estonia. Four persons outlined that it is difficult to distinguish between traditional and impact investments. Therefore they are not sure if they have made investments that could be categorised as impact investments. This illustrates some unclarity in the market regarding what is and is not considered an impact investment.



Two-thirds of those with some experience with impact investments had made **2-5 impact investments** (16 persons) and invested **10 000 – 50 000 euros**. Seven persons had made one impact investment so far, and one person had experience from more than five impact investments. Four persons had invested more than 100 000 euros, and one respondent preferred not to share the sum invested. **All respondents,** i.e., 40 persons said that they are **(potentially) interested in making impact investments in the future** (32 persons had a clear interest in this, and eight confirmed their potential interest).

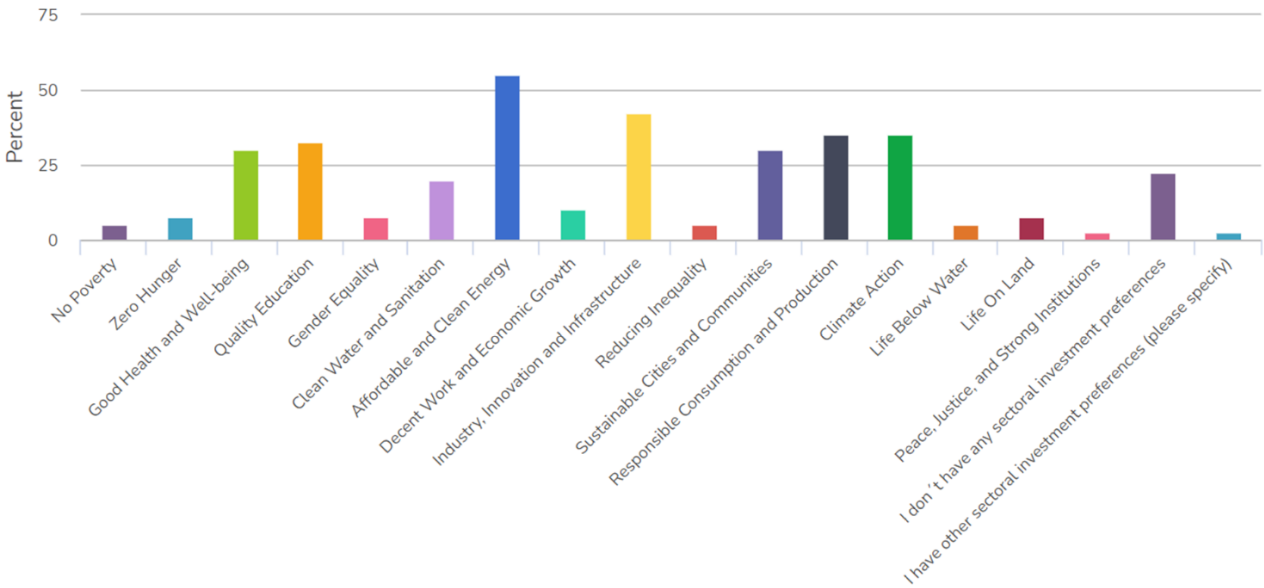




Regarding future investments, **40%** (16 respondents) plan to invest **10 000 – 50 000 euros** in impact organisations in the **upcoming three years**. 27% (11 respondents) plan to make impact investments in the sum of up to 10 000 euros and 25% (10 respondents) are willing to invest more than 50 000 euros in impact organisations.

In terms of **sectoral investment preferences** in line with the United Nations Sustainable Development Goals, **55%** of the respondents (22 persons) indicated an **interest in Affordable and Clean Energy** and **42.5%** (17 persons) in **Industry, Innovation and Infrastructure.** 35% of the survey respondents (14 persons) were interested in Responsible Consumption and Production and Climate Action.

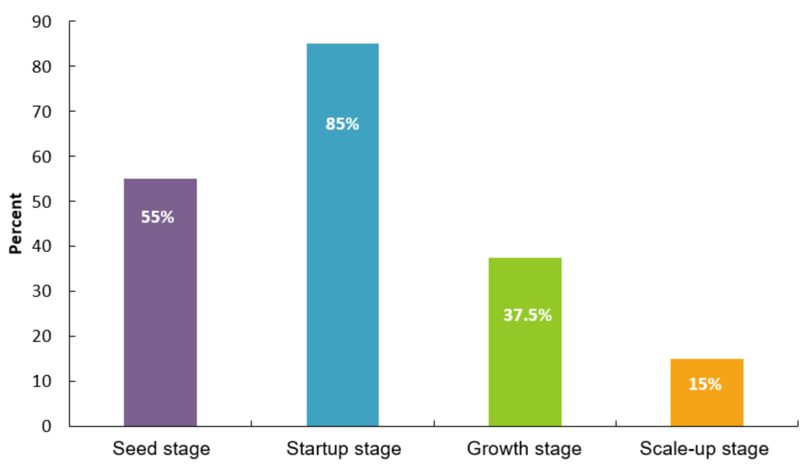
Do you have any sectoral investment preferences (in line with the United Nations Sustainable Development Goals)? If so, which SDG fields do you prefer investing in?



An assumption can be made that the more prominent interest in environment-related topics is related to the increased importance of these topics in the last years (related to wide-scale initiatives such as the European Green Deal) and a growing number of Greentech companies (sufficient deal flow from the perspective of investors). Also, Greentech companies are perhaps more on the radar of 'traditional' investors than social enterprises in the field of, e.g., work integration. For the same reason, higher interest in Industry, Innovation, and Infrastructure can be explained as investors have more knowledge and experiences related to this topic than in other impact fields.

Regarding the **stage of investments**, the Estonian business angels surveyed had a stronger interest in the **start-up stage** (85%, 34 persons), followed by **seed** (55%, 22 persons) and **growth** (37.5%, 15 persons) **stage.** Six respondents (15%) were also interested in **scale-up stage** investments.

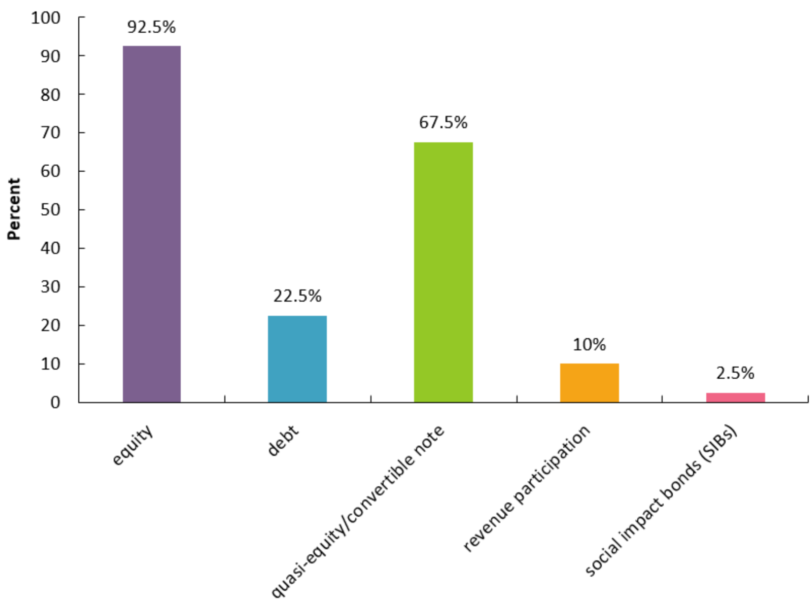
What stage of impact investments are you interested in?



The preferred form of making impact investments for the vast majority (92.5%, i.e., 37 persons) of the business angels participating in this study is taking **equity** in investees, followed by **quasi-equity/convertible note** (67.5%, i.e., 27 persons). The investors are less interested in providing **debt financing** (although 22% are willing to make investments in this form).

The relative unpopularity of revenue participation agreements and social impact bonds (four and one person interested in such mechanisms, respectively) can be explained by the fact that such instruments are not yet widely used in Estonia. Therefore investors have limited or no experience and less information about such investment options. Revenue sharing is used by the Limitless Fund and Beamline accelerator, while currently no social impact bonds have been implemented in Estonia.

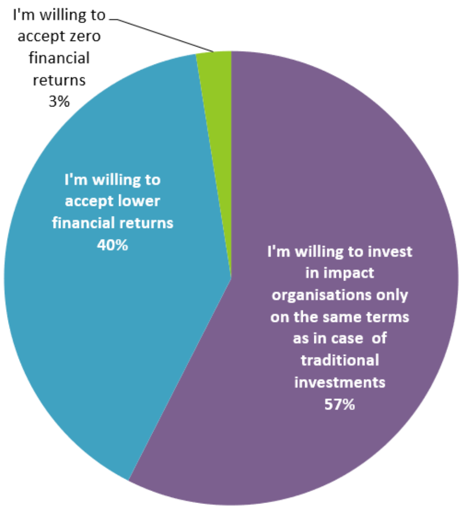
Do you have preferences related to forms of impact investments?



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

However, in addition to this group, **43%** of the respondents (17 persons) are also **willing to accept lower financial returns** if a clear social and/or environmental impact is delivered. Regarding the extent up to which the financial returns can be lower, 10-25% lower return was acceptable for eight persons, up to 10% lower return for three persons, and 25-50% lower for three persons. One person was also willing to accept zero financial terms if considerable social and environ-mental impact is delivered by investees.

What kind of a balance between financial returns and impact do you prefer?



We also asked the business angels what they consider to be the **main difficulties in making impact investments.** The key issue outlined here is difficulties in **evaluating investment opportunities** (62.5%, i.e., 25 persons), likely to be related to less experience in making impact investments and limited knowledge about impact organisations.

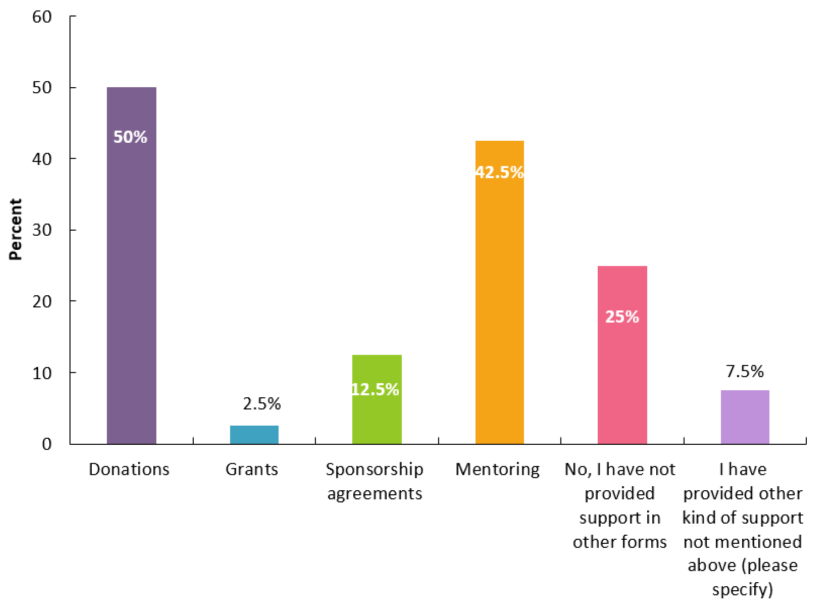
What do you consider to be the main difficulties in making impact investments?

Value	Percent	Responses
Evaluating investment opportunities	62.5%	25
Finding investment opportunities matching my profitability criteria	45.0%	18
Finding investment opportunities matching my scalability criteria	30.0%	12
Finding investment opportunities matching my impact criteria	22.5%	9
Finding investment opportunities with a skilled management team	55.0%	22
Issues related to impact management and measurement	20.0%	8
Understanding social enterprises (types, operational models)	17.5%	7
The legal form of the impact organisation(s) that I would like to invest in does not allow investing (NGOs, Foundations, etc.)	7.5%	3

The second biggest challenge is finding **investment opportunities with a skilled management team**, as outlined by 55% of the respondents. This is perhaps not *a priori* related to impact organisations but instead reflects the universal issue in any kind of investments as the involvement of a strong team is considered crucial in making investment decisions in general. The third issue standing out is **finding investment opportunities matching the investor's profitability criteria** (45%) which suggests that the respondents associate impact investments with somewhat lower profitability. On the background of this range of difficulties mentioned lies also the general issue of the relatively limited number of impact organisations ('deal flow') that the investors could potentially invest in at all.

In addition, we asked the participating business angels whether they have previously supported impact organisations in other forms than a financial investment. **Half of the respondents** (20 persons) have made **donations,** and **42.5%** have provided **mentoring** to impact organisations. A quarter of respondents have not provided non-financial support to impact organisations in the past. Three respondents outlined that they have provided other kinds of support not mentioned in the questionnaire – provision of various services by the investors' companies for free or at a lower cost was outlined here.

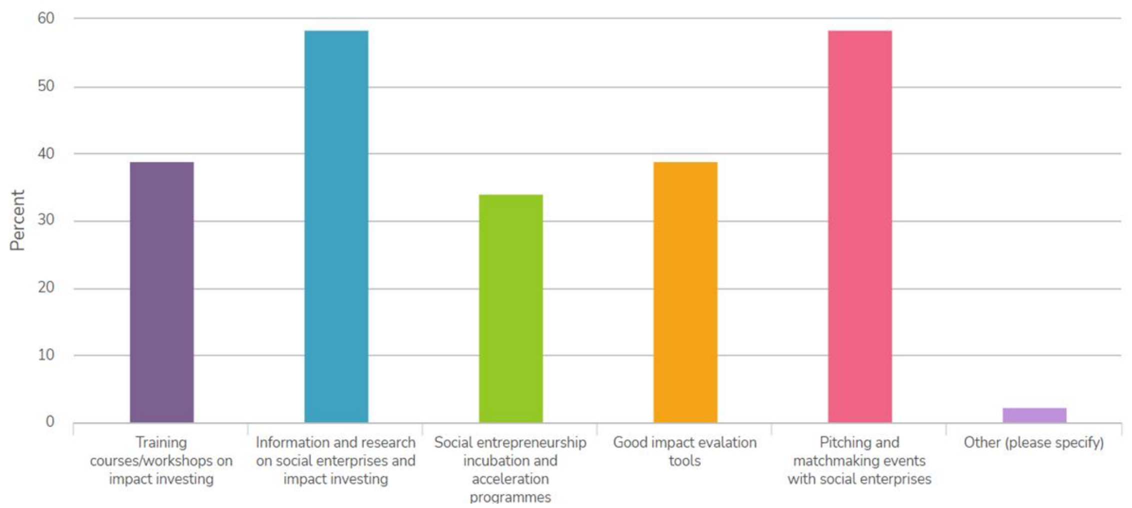
Have you previously supported impact organisations in other forms? If yes, please specify, how.



Regarding future interest related to the provision of non-financial support to impact organisations, the surveyed investors are **less willing to provide donations in the future** (37.5% of respondents are still willing to do that), and **more investors are interested in providing mentoring** to impact organisations (62.5%, 25 persons).

We also asked what is needed to increase investors' interest in impact investing and social enterprises in Estonia. **60%** (24 respondents) outlined the need for more **information and research on social enterprises and impact investing,** and **57.5%** saw the added value in **pitching and matchmaking events with social enterprises.** A considerable number of respondents also stressed the importance of training courses/workshops on impact investing (40%), good impact evaluation tools (40%), and incubation and acceleration programmes focused on social entrepreneurship (35%).

What is needed to increase investors' interest in impact investing and social enterprises in Estonia?



General comments on impact investing

The angel investors were also invited to share their thoughts and opinions on the topics covered in the survey. This opportunity was used by some of the respondents, and based on that, we can see some **sub-groups** emerging among investors in Estonia **regarding their views on impact investing** (supported by the additional interviews and broader contacts with the investor community).

1) For some investors, **impact investing is already a norm, a 'new normality'**. It has a firm place in the investment strategy and goes even as far that the investors don't invest in companies that don't have a precise impact dimension. At the moment, this group can be considered a minority, however, it is expected to grow in the future.

   "For me, it [impact investing] *has converted into a normal condition. I don't invest anymore in non-sustainable products. And even if I find a company I like and they aren't offering sustainable products, it has been rather easy to persuade them to think forward towards the circular economy. It has become a well-expected **new normality**."* (Respondent A)

2) Another group of investors is **open to impact investing, but it is not their priority,** and they still **expect the same financial returns** from all their investments. This is the biggest group among the angel investors surveyed (as outlined above, 57% of the respondents are willing to invest in impact organisations only on the same terms as in the case of traditional investments). Such investors consider the impact dimension an additional benefit and added value (which could make a difference if there are two potential investees offering the same financial return on investment, but one of them is additionally delivering significant societal or environmental benefits).

   *"For me, impact by itself is not the main investment criteria. It must show good potential in the first place. If it does that, then **being "impact" is an additional benefit.*** "(Respondent B)

3) The third group is still **struggling with the concepts of impact investing, social enterprises, etc**., outlining the need to have more clarity in the terminology and better communicate the meaning of the different terms and increase the general awareness among investors related to these topics.

   "Impact investments are not the same as social enterprises or non-profits or similar. There is a ***mismatch in terminology*** *resulting in investors thinking impact would have a lower return than non-impact. "*(Respondent C)

   This comment illustrates the problematics of emphasising social enterprises (who, in turn, are sometimes associated with non-profit organisations) in the context of impact investing. Another issue here is that 'traditional' companies that do not meet all the criteria in the European Commission's definition of a social enterprise sometimes have an important impact dimension. Therefore, some investors also consider themselves making impact investments when they are investing in this type of companies.

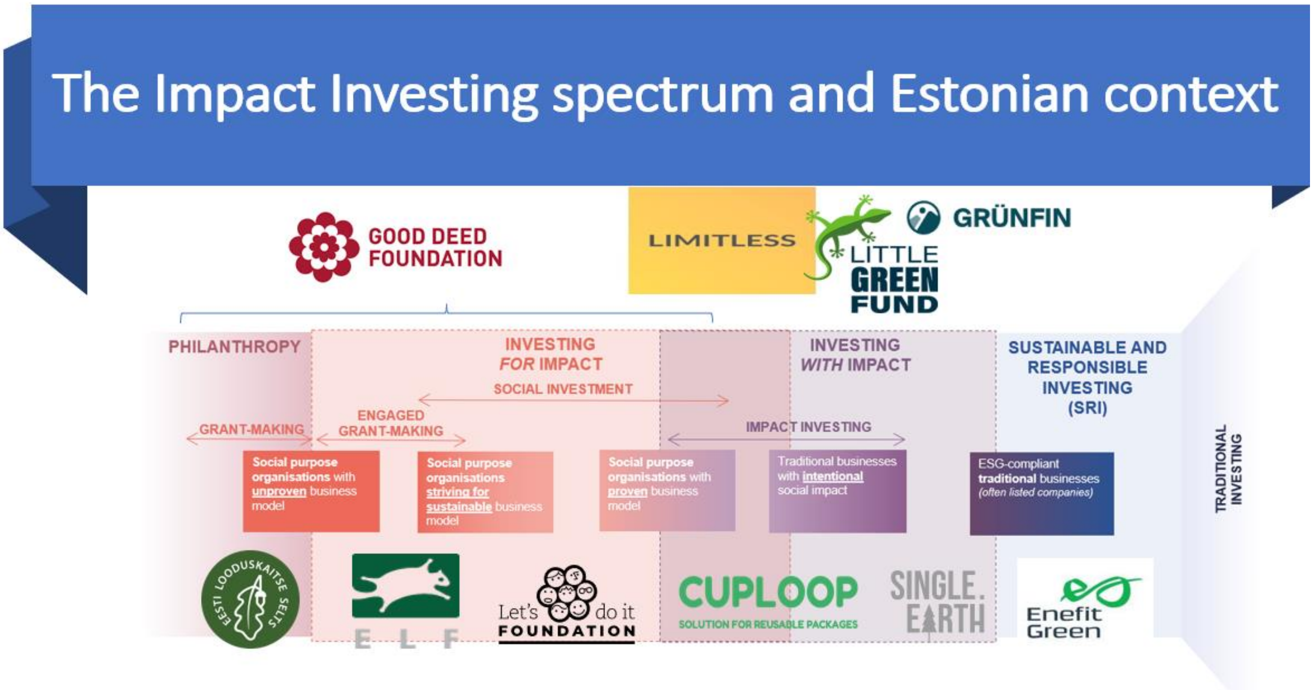
II Interviews with institutional investors

The aim of this section is to give an overview of the outlooks of impact investing amongst institutional investors in Estonia, based on the discussions, meetings, and interviews with the following institutional investors in Estonia, primarily representing startup investment funds: **Buildit Invest, Change Ventures, Cocoon Ventures, Good Deed Foundation, GrünFin, Limitless, Superangel, Taavet&Sten, Trind VC, United Angels/Specialist VC.**

Current Situation

As outlined in Chapter 2, there are already several funds and financial intermediaries active in Estonia that specifically focus on impact investing, such as Limitless, Good Deed Foundation Impact Fund, Grünfin, and the Little Green Fund. They have all been recently established and have already made a number of impact investments, mostly into startups with clear impact creation ambitions, but also to non-profits (mainly by the Good Deed Foundation Impact Fund). Based on the additional insights gathered in this analysis, we have prepared an illustrative figure that outlines **the position of the existing Estonian impact investment funds across the European Venture Philanthropy Association (EVPA) Impact Investing Spectrum.**[17] The spectrum differentiates between two approaches: investing *for* impact and investing *with* impact. The first approach, **investing *for* impact**, means that investors take the needs of the impact organisations that they invest in as the starting point and based on that, choose which financial instruments are most appropriate to support them. Investors for impact often invest in new solutions to pressing social issues, taking on risks that other actors in the market are not willing to take. Investors for impact invest smaller amounts, providing SPOs with in-depth non-financial support. On the other hand, **investors *with* impact** have access to larger pools of resources but need to guarantee a certain financial return on their investment alongside the intended positive impact they aim to generate. Investors with impact mainly have a role in scaling proven business models and making sure social impact considerations become part of all their investment decisions.[18]

[17] EVPA (2019). “Investing *For* Impact. EVPA impact strategy paper“. https://evpa.eu.com/uploads/publications/EVPA_impact_strategy_paper.pdf
[18] Ibid.



Author: Rene Tõnnisson based on EVPA Impact Investing Spectrum

The figure above shows that the impact investing spectrum is, in principle, covered in Estonia by different actors however **most of the financing can be found in the Investing *with* Impact** part (Limitless, Little Green Fund, and to some extent Grünfin fall into this category) while there are not many actors supporting the **Investing *for* Impact** part (currently the Good Deed Foundation represents this part of the spectrum). This is understandable as the recently established impact investing funds still have a return on investment as one of the key objectives combined with impact goals.

At the same time, discussions with the existing **more traditional investment funds confirm** that the principles of **impact investing are getting more relevant** and important for almost all actors interviewed during this study. The funds which have been created some 4-6 years ago do not usually have impact investing principles and aspects **in their current investment strategies**; however, this has not hindered those funds from considering impact as one of the investment criteria. Even if there are no formal requirements or specific guidelines to follow and assess impact, all the fund managers claim that while making investment decisions, they are taking into account the impact dimension of particular startups, for example, in terms of environmental or social impact. In most cases, this is **not done based on any formalised methodologies** but rather on the '**Best Understanding**' **and** '**Gut Feeling**' basis of individual investment committee members.

There is also a **variation in what is meant and understood by impact investing and impact as such** and which companies could be considered suitable targets for impact investments. However, there is a joint agreement that it is not only the financial return the funds are looking for but also some other aspects in terms of possible benefits to society and the environment that should be considered while making investment decisions. Most investors indicate that even if they have not actively participated in relevant discussions and trainings on impact investing previously, the topic is clearly relevant. They try to establish their own understanding of **what impact investing means for them** and how to better follow it on daily decision-making practices.

As the **main conclusion** of the conducted interviews, we can argue that **significant progress** in Impact Investing in Estonia has already been made **in terms of setting up a number of new, focused impact investment instruments and funds**. Furthermore, **more traditional funds are also aware of the**

impact investing aspects and have been trying to a certain extent to adapt and use some of them based on their best understanding, even if they are not being incorporated formally into their investment strategies.

Future Perspectives

During the interviews, all parties confirmed that impact investing will play a major role in Estonia in the near future, and the investment strategies will need to be adapted and changed accordingly. While most of the older funds are currently looking at impact investing on a "Best Understanding" basis then in the future, those aspects must be **clearly reflected in formal investment guidelines and documents.**

Some of the investors interviewed have indicated that they have just closed new funds or are about to close them, and **in several cases some impact investing aspects are now part of their formal investment strategy**. In most cases this is also linked to having **European Investment Fund (EIF)** on board as a Limited Partner, which has brought along the inclusion of impact investing aspects into the investment strategies. At the same time, those new funds have established their Environmental, Social and Corporate Governance (ESG) policies and are taking those into account in the investmentdecision-makingg process. Some younger funds are now also collecting data, monitoring the progress, and reporting some of the indicators related to UN Sustainable Development Goals (SDG), such as gender balance, etc. Even if this is not yet an impact investing strategy itself, it is an essential step toward creating more holistic investment strategies that focus more explicitly on impact creation.

It was also indicated that during the coming years, **more efforts need to be put in Estonia into awareness raising and specific training on impact investing** to make it more clear what is impact investing, which kind of **business models and approaches** are available and suitable to Estonian context and what are the **methodologies and tools** suitable **for assessing impact both *ex-ante* and *ex-post* basis.** At the same time, some concerns were also raised in the interviews about **'impact washing',** similar to the green washing, trying to avoid the situation where everybody claims to be active in impact investing while ignoring the term’s actual meaning.

As a result of those discussions and interviews during the study, we can conclude that **in the near future, Estonia's Impact Investing landscape is expected to expand and mature significantly**. It is likely that new funds will be entering the market with a clear focus on impact investing in addition to existing impact funds. At the same time, more traditional investors who have not focused so far on impact investments will adapt their investment strategies to include key aspects of impact investing. There will be much more financial resources devoted to organisations trying to make an impact with their activities. To support this process further, awareness-raising, networking, and training activities are needed on impact investing to secure that in the near future, it will turn into one of the critical building blocks of the Estonian startup ecosystem in particular and of the Estonian economy and society in more general.

4. Main conclusions

The results of the analysis carried out allow us to conclude that there is a growing interest in impact investing in Estonia. In addition to the emergence of several new impact funds and platforms in the recent years, the interviews with the representatives of 'traditional' investment funds and the survey among Estonian business angels confirmed that the investors are more and more thinking about engaging in impact investing, and some business angels are already active in this domain. As a result of the analysis, we can conclude that Estonia's Impact Investing landscape is expected to expand and mature significantly in the near future. This means the emergence of additional impact investing funds as well as impact investment principles becoming clearly reflected in formal investment guidelines and documents of the traditional funds. However, some topics need additional attention to support the further development of the impact investing field in Estonia. The following conclusions can be made based on the analysis presented in this document:

- There is a **need for a consensus in terms of the terminology used** – what is understood as impact investing and what kind of investments into what kind of organisations are considered impact investments. This needs to be aligned with the international terminology, e.g., EVPA, GIIN, and the European Commission. Although certain definitions of course already exist, there is still some vagueness and uncertainty in this domain. In addition to establishing clarity on the different terms used, there is an accompanying need to increase the investors' and the entire ecosystem's awareness of these terms.
- As impact investing can be considered a growing trend, there is a danger of 'impact washing', which is already a problem in more developed markets. To combat this, the terminology used needs to be complemented with **high-quality impact management and measurement frameworks and tools**. Good frameworks and tools are not overly complex and provide a clear basis to provide clear (quantifiable) proof of both investees' and investors' claims about being impact organisations or impact investors.
- To facilitate higher and deeper engagement of investors in impact investing, there is a need for **more ecosystem activities targeting also 'traditional' investors**. The majority of business angels outlined the need for (1) more information and research on social enterprises and (2) pitching and matchmaking events with social enterprises/ impact organisations. The representatives of investment funds further stressed the need for awareness-raising and specific training on impact investing.
- Last but not least, a crucial factor for increasing the investors' interest in impact investing is **developing a sufficient deal flow of good investment opportunities**. This means that in addition to increasing the awareness and know-how on the supply side, there is a need for developments on the demand side, too. This calls for more and stronger social enterprises/impact organisations willing to engage investments. Impact-investment-focused **investment readiness programmes** are one of the measures that can help existing impact organisations to improve their capacity to engage investors.

References

- EstBAN annual review 2021. Available at: https://estban.ee/wp-content/uploads/2022/03/Kungla-Graafika-EstBAN-Annual-Report-2021-1920x1080px.pdf.
- EU Innovation Ecosystem Leaders Group "Action Plan to Make Europe the new Global Powerhouse for Startups," 2021.
- European Commission (2019), "A recipe book for social finance. Second edition: A practical guide on designing and implementing initiatives to develop social finance instruments and markets". Authors: Eva Varga and Malcolm Hayday. Luxembourg: Publications Office of the European Union
- European Commission (2019), "Social enterprises and their ecosystems in Europe. Updated country report: Estonia". Author: Katri-Liis Reimann. Luxembourg: Publications Office of the European Union. Available at https://europa.eu/!Qq64ny.
- EVPA (2019). "Investing For Impact. EVPA impact strategy paper". https://evpa.eu.com/uploads/publications/EVPA_impact_strategy_paper.pdf
- OECD (2020), "Boosting Social Entrepreneurship and Social Enterprise Development in Estonia. In-depth Policy Review", OECD LEED Papers, 2020/02, OECD Publishing, Paris.
- Tallinn University (2022): 'Investment needs and investment readiness amongst Estonian social enterprises.' Authors: Katri-Liis Lepik, Eliisa Sakarias, Merle Praakli, and Lucas De Bont. https://www.tlu.ee/sites/default/files/INVESTMENT%20NEEDS%20AND%20INVESTMENT%20READINESS%20AMONGST%20ESTONIAN%20SOCIAL%20ENTERPRISES.pdf.
- The European Venture Philanthropy Association (EVPA) website: https://evpa.eu.com/.
- The Global Impact Investing Network (GIIN) website: https://thegiin.org.