

The Potential for Developing a Social Impact Investment Market In Latvia

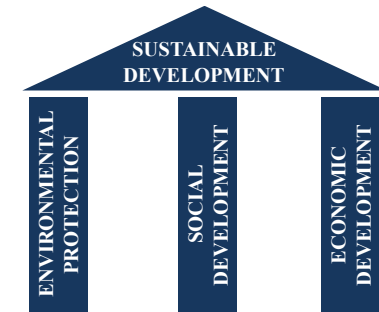
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Background of the research

- Social Impact Investment has evolved as a new innovative form to address evolving social and environmental problems
- Emerging awareness about Social Impact Investment in Latvia
- Social Impact Investment potential has not been studied in Latvia before

The Pillars of Sustainable Development



Source: UN definition, picture by authors

Research question and hypothesis

What are the main challenges and gaps that need to be addressed for the Social Impact Investment market development in Latvia?

The research is based on hypothesis that the Social Impact Investment market in Latvia is either fragmented or does not exist.

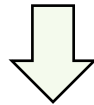
Methodology

Cross-sectional method

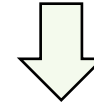
- Semi-structured interviews with:
 - key stakeholders of the SII ecosystem in Latvia
 - representatives of the SII intermediaries in the UK
- Quantitative data gathered through publicly available sources

Comparative design method

- Potential SII ecosystem in Latvia benchmarked to the most developed SII ecosystem in the UK



OECD SII Market Framework for the
UK and Latvia



Assessment of the scale of readiness
of 'demand', 'supply' and
'intermediaries' dimensions in Latvia

Social Impact Investment Ecosystem in the UK



SOCIAL NEEDS

UK priorities: old-age care, education, improvement of services for persons with disabilities, support for families with children, criminal justice, social exclusion, employment and housing

DEMAND SIDE

- SEs
- Charities
- Cooperatives
- Mainstream business

INTERMEDIARIES

- Big Society Capital
- Social Finance
- Social Stock Exchange
- Charity Bank
- Triodos Bank
- and other

SUPPLY SIDE

- Central and Local Governments
- Institutional investors
- HNWI & family offices
- Foundations
- Corporates

ENABLING ENVIRONMENT

- Social Investment Taskforce launched by HM Treasury (2000)
- Development of social investment infrastructure and regulations
- Dedicated finance and investment team set up by Cabinet Office (2012)
- Launch of Big Society Capital, supported by the Government (2012)
- Social investment tax relief scheme (2014)

Social Impact Investment Ecosystem in Latvia



SOCIAL NEEDS

LV priorities: reduction of poverty, improvement of services for persons with disabilities, support for families with children and foster families, and focus on support to improve availability and quality of the social services.

DEMAND SIDE

- SEs
- NGOs
- Religious organisations

INTERMEDIARIES

- Social Enterprise Association of Latvia
- New Do(o)r
- DOTS

SUPPLY SIDE

- Municipalities
- LatBAN & other private investors
- Grants & donations
- ALTUM
- LIAA
- Commercial banks

ENABLING ENVIRONMENT

- Law On Local Governments (1994)
- Regulatory legislation for SEs (from Jan 1, 2018)
- EU Financial support program for SEs (2016- 2021)
- Regulation on favourable public procurement for SEs (under revision)

Social Impact Investment Ecosystem in Latvia: main conclusions

Demand side

- Limited number of SEs and a lot of NGOs active in impact sector
- Demand side lack business focus and understanding
- Majority stay small and rely on external financing

Supply side

- Diverse mix of participants – from private investors to government
- Indeed limited cooperation with impact businesses so far
- Important to look for alternative forms of financing after the EU fund period

Intermediaries

- No intermediary to serve the traditional role of a mediator
- Several organizations serve the role of info provision with focus on demand side
- One intermediary could emerge to serve the info role to all stakeholders

Enabling Environment

- Understanding and appreciation of impact businesses only emerging
- Institutional and legal base for the SEs is currently being developed
- Government can play critical role in SII market development

Recommendations for further Social Impact Investment market development in Latvia

- Mentoring and support to SEs on business aspects
- Society's education on the role of impact businesses
- Development of simplified intermediary to link the various stakeholders
- Look for new financing models to support impact businesses
- Clear legislation system to define roles and responsibilities
- Central and local governments involvement to enable SII market

To summarize:

- Social Impact Investment market does not exist in Latvia yet
- Awareness and interest about the potential of Social Impact Investment is raising
- Development of social enterprises is the primary prerequisite for social impact investment market development