SOCIAL FINANCE
LITHUANIA

ANALYSIS OF THE SOCIAL FINANCE DEMAND-SIDE IN LITHUANIA:

Characteristics, financial needs and challenges of Lithuanian social business organisations

2022

Social Finance Lithuania is a two-year project funded by the European Commission, aiming to contribute to the development of the social finance market in Lithuania. This will be achieved by designing a financial instrument or instruments and building capacity in investment readiness to support social enterprises to develop and scale their businesses.

Consortia

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Introduction

Social business organisations represent the demand-side of the social finance market because they seek and receive investment and funding to start or further develop their activities. Thus, a sufficient number of promising and investment-ready social business organisations is the necessary condition for the development of the social finance market in a country. Nevertheless, Lithuanian social business organisations face a number of external and internal barriers preventing them from attracting and receiving investment, participating in more advanced financial instruments, or participating actively and consistently in the social finance market in general. This is the greatest threat to their financial sustainability.

This report aims to understand the social finance-related challenges and needs from the perspective of Lithuanian social business organisations. It complements the analysis of the social finance development looking from the supply-side perspective carried out in parallel to this study. Both of these reports and the assessment of the situation of social innovations and social entrepreneurship in Lithuania, and other deliverables of the Social Finance Project Lithuania, are funded by the European Commission[1].

The first section of this report describes the types of organisations that act as social business organisations in Lithuania. The second and third sections focus on these entities' financial strategies and financial situations. Challenges threatening the financial sustainability of Lithuanian social business organisations are listed in the fourth section. The fifth section overviews the key tendencies regarding impact measurement in social business organisations. Finally, key conclusions are formulated and related recommendations relevant to the development of the social finance market are formulated based on the insights emerging from the previous sections.

Various data collection and analysis methods were applied for the analysis of the social finance market demand-side. A survey of the social economy actors in Lithuania was prepared and circulated to social economy organisations with help from partners and stakeholders supporting the Social Finance project in Lithuania (further in this report referred to as the survey or project's survey). The survey was chosen as the main method because of the lack of information (e.g. previous studies) available on this topic. The results of the survey were verified and complemented by the findings of the literature review, 2 interviews with the key social business experts in Lithuania, 2 focus group discussions with social business organisations, and 2 case studies.

The term 'social finance' is also used as a 'catchall' to include impact investment - sometimes called social impact investing (SII) - and social investment methods and tools. Whilst focused on providing investment to social economy organisations, the expected outcomes (and motivations behind them) are very different:

Impact investing - these types of investments have the intended outcome of securing primarily a financial return for investors whilst gaining additional social or environmental impacts.

Social investing - is focused on the primary purpose of the organisation and investing in its ability to create a positive impact.

Whilst broadly the same, the intended outcomes of the investment are different. Later in this report, we will see that typically, the different types of social finance described above attract different types of investors that invest in different types of legal forms.

Regardless of the motivations, social finance has 3 key features:

1. Intentionality: objectives should be clearly articulated across financial, social and environmental goals where relevant.

2. Measurement: impact across all objectives should be measured.

3. Transparency: the organisation should share information on its progress and performance with a range of stakeholders.

Mapping of social business organisations in Lithuania

Social business organisations - the main subject of this report - are broadly defined as social economy entities that aim to achieve societal objectives by providing goods and services for the market. In other words, they combine societal goals with an entrepreneurial spirit.[2] [3] This definition is also used in the context of this report to identify social finance demand-side actors; the organisations seeking finance and investment described previously. The criteria mentioned in this definition are wide and inclusive. Thus, organisations meeting the definition of social business organisations could significantly differ from one another in their business model, legal forms, the sector in which they operate, size, development stage, and several other characteristics. This section aims to map, identify and describe entities operating as social business organisations in Lithuania.

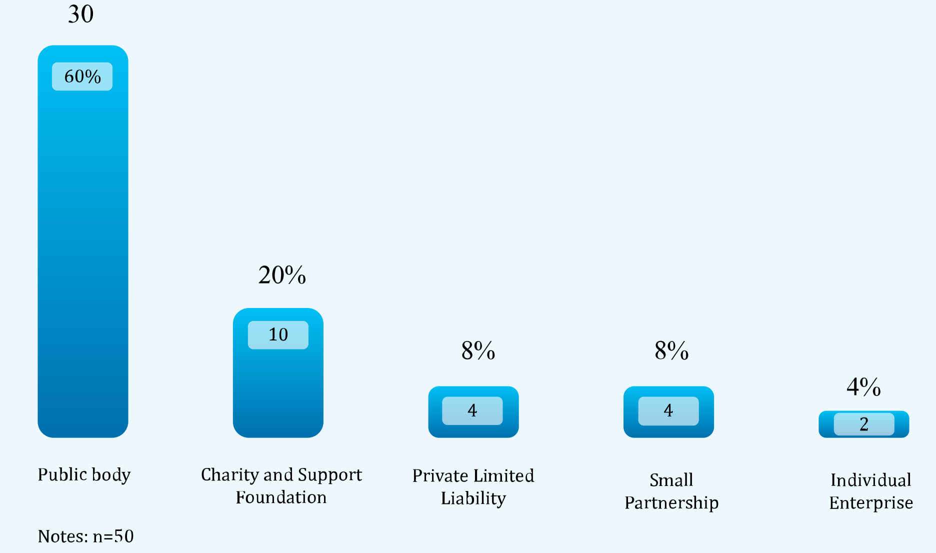
The consistent conceptual legal framework defining social business organisations (lit. "socialiniai verslai") does not exist in Lithuania. [4] [5] Therefore, there is much ambiguity and disagreement on which Lithuanian organisations could be perceived as social business organisations.[6] The general ideas and the broad definition of a social business organisation were presented in the Conception of Social Business adopted in 2015.[7] The Conception describes a social business organisation as "an organization with a social mission and a business model operating under market conditions"[8] [9]. The definition of a social business organisation presented in the conception is especially broad, inclusive, and depends on the interpretation. Moreover, the conception is a strategic document that does not have any regulatory power. Ideas to introduce the legal status that could be attributed to social business organisations in Lithuania were presented in the draft of the Social Business Development Law in 2019[10]. Nevertheless, this law has not been officially approved. The lack of a consistent conceptual framework (or *de jure* status) of social business organisations in Lithuania makes the mapping of these entities especially challenging.

The exact number of social business organisations remains unknown. There is no official register that would list all entities meeting the definition of a social business organisation. However, organisations that perceive themselves as social business organisations can join the social business platform managed by the Innovation Agency Lithuania.[11] **Based on the data collected by the Innovation Agency there were more than 120 social business organisations in Lithuania at the end of 2021.** Nevertheless, the actual number of social business organisations operating in Lithuania could be different. On the one hand, there might be social economy entities conducting a commercial

activity that have not joined the mentioned platform because they are not interested, not familiar with it or because they do not perceive themselves as social business organisations. To illustrate, only two-thirds (67%) of social economy organisations that responded to the survey agreed with the statement that their organisation can be perceived as a social business organisation even though based on their business models most of them integrate at least some features of the social business organisation. On the other hand, some organisations would need to be excluded from the Innovation Agency's database if stricter criteria defining social business organisations are applied.[12] Moreover, the number of social business organisations is constantly changing and lists do not necessarily reflect the up-to-date situation. According to experts working in this field, the number of social business organisations has been growing slowly but steadily over the last few years, which in turn has increased the demand for social finance. For example, based on some of the experts' insights the number of social business organisations in Lithuania currently can be close to 200 entities.[13]

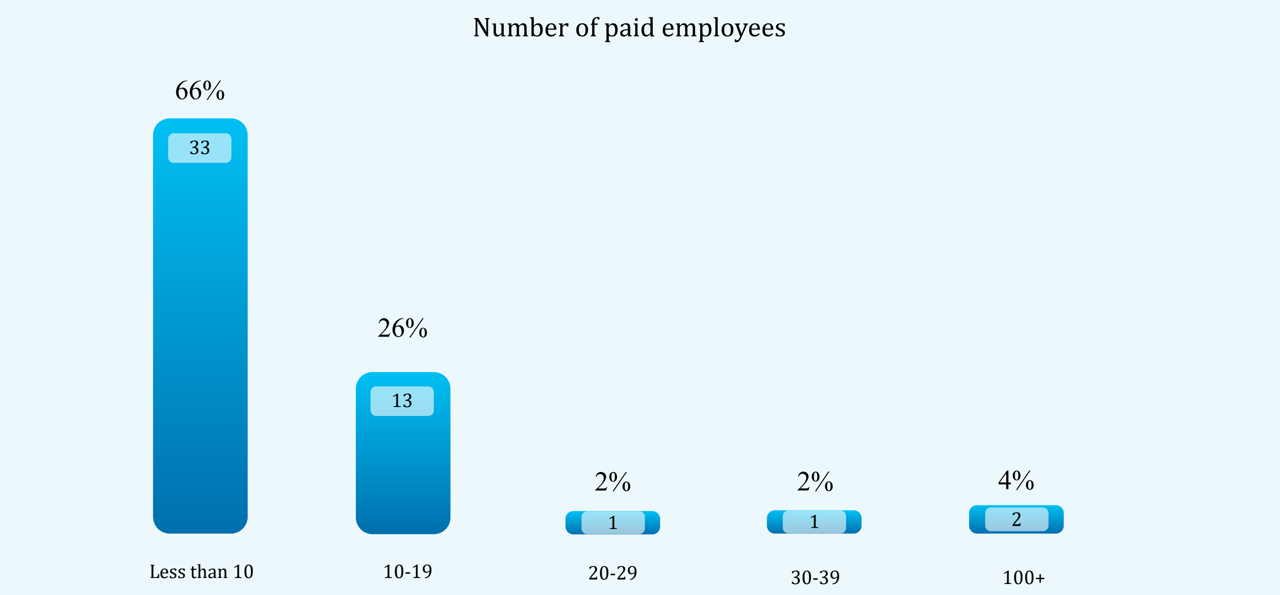
Entities that *de facto* operate as social business organisations in Lithuania apply different operational strategies and have different legal forms.[14] Regarding operational strategies, all social business organisations can be distinguished into two general groups: non-governmental organisations (NGOs) and companies (enterprises). Social business organisations that operate as NGOs can be defined as non-profit organizations applying business models. Lithuanian NGOs can be registered under three different legal forms: a public establishment (lit. viešoji įstaiga), an association (lit. asociacija), or a charity and support fund (lit. labdaros ir paramos fondas). In contrast to NGOs, social business organisations that operate as companies can be described as for-profit entities whose main purpose is to create some social benefits. A private limited liability company (lit. "uždara akcinė bendrovė"), a small partnership (lit. "mažoji bendrija"), and an individual business organisation (lit. "individual įstaiga") are the three most popular legal forms of companies in Lithuania.[15] Fundamental differences between social business organisations operating as NGOs and social business organisations operating as companies regarding their relationship with trading and profits show that their social finance strategies and support needs also vary significantly. Moreover, organisations holding specific legal forms are regulated by different laws and rules that also determine their financial strategies and opportunities. Consequently, there might be the need to develop separate financial instruments adjusted to the needs of NGOs and the needs of companies.

An absolute majority of Lithuanian organisations operating in the social economy sector are NGOs. More specifically, the public establishment is the most common legal form in use for Lithuanian social business organisations [16 17]. The results of this project's survey only confirm this tendency. Almost two-thirds (60 %) of social business organisations that responded to the survey are registered as public establishments. In contrast, social economy actors that operate as companies remain an exception in the Lithuanian context. For instance, only a bit more than one-tenth (12%) of the survey respondents have the legal form of a private limited liability company or an individual business organisation.



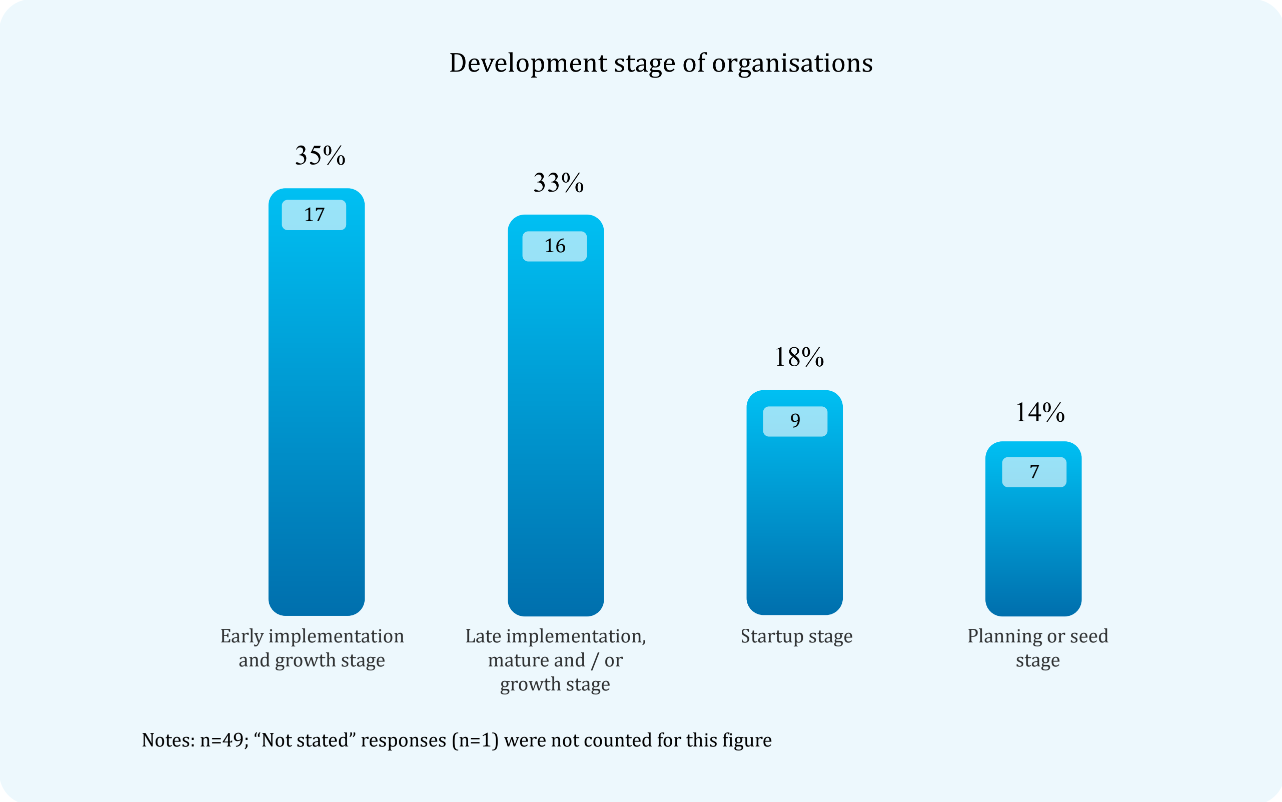
The most common characteristics of Lithuanian social business organisations also reveal the potential for financial opportunities or potential challenges that they might face. Even though there are some exceptions, **the typical Lithuanian social business organisation is a small and young organisation providing social or educational services, and operating in one of the largest cities.**[18]

The majority of Lithuanian social business organisations are very small (also sometimes referred to as micro) organisations with just a few employees. For example, two-thirds (66%) of the organisations that responded to the project's survey had less than 10 paid employees. While only less than one-tenth (8%) of respondents answered that their organisation had more than 20 employees. The small size of most social business organisations is one of the key factors that should be taken into account while developing the social finance market in the country, particularly their ability to 'absorb' support and capacity to act on this support (for more details see the chapter on challenges preventing the financial success of Lithuanian social business organisations below).

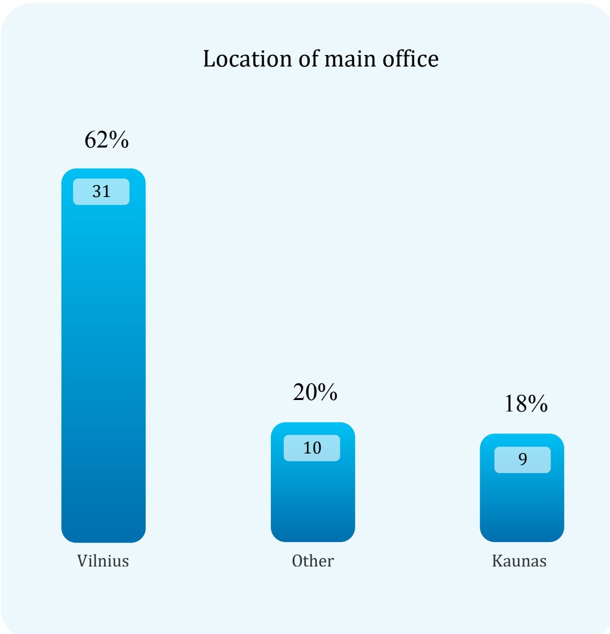


Most Lithuanian social business organisations have been established just a few years ago and, thus, still are in the early stages of development. For example, more than one-third (34%) of the organisations that responded to the survey were established less than 4 years ago (i.e. between 2019 and 2021). Moreover, only one-third (32%) of the survey respondents claimed that their organisation had already reached the late implementation and mature stage of development. All other organisations claimed to be in the seed/planning, startup, or early growth stages of development. It means that even some of the organisations that have been in the market for more than 4 years have not reached the mature stage yet.

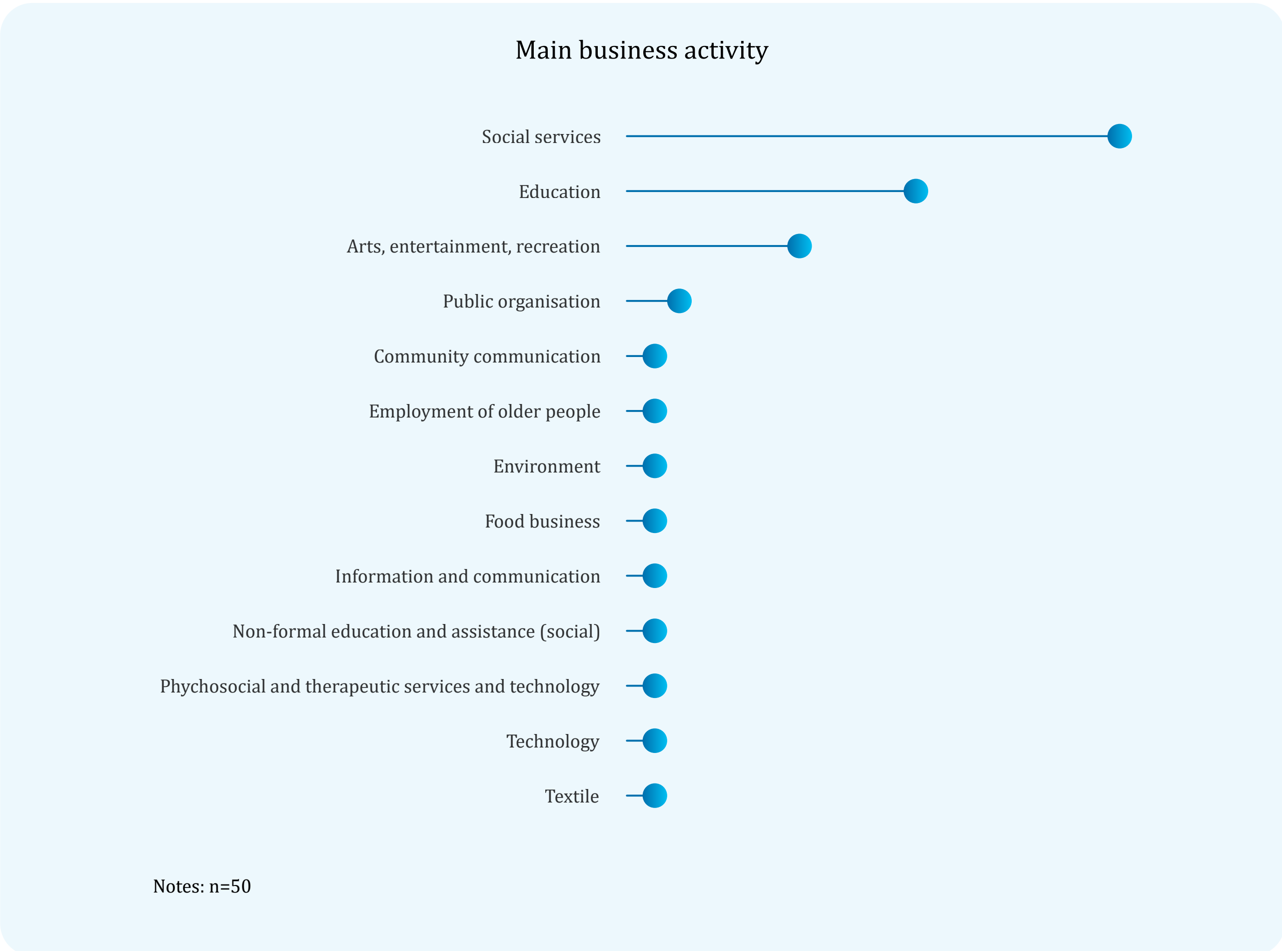
Notes: n=41; "Not stated" responses (n=9) were not counted for this figure



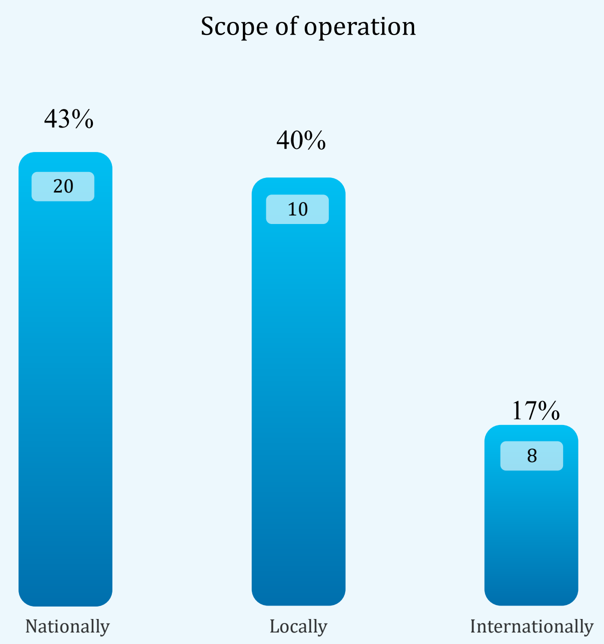
Lithuanian social business organisations are generally concentrated in the largest cities such as Vilnius and Kaunas.[19] For example, fourth-fifths of the organisations that responded to the survey had the main office in one of these two cities. This suggests a need for hackathons, acceleration programmes and other interventions targeted at the promotion of social entrepreneurship ideas in smaller Lithuanian cities and regions. This suggestion is supported by the relevance and success of recent initiatives organised to facilitate the establishment of social business organisations in these regions.[20] For example, 30 new social business organisations were established during the last year in the regions of Klaipėda and Panevėžys as the result of the combined hackathon and acceleration programme “Turn on the impact” (lit. “Įjunk poveikį”)[21] that was implemented by the Lithuanian Innovation agency and their partners. Until these interventions achieve their objectives and the geographical distribution of social business organisations in the country becomes more even, the demand for social finance remains higher in the largest cities that have the highest concentration of demand-side actors.



Social services and education are two key areas of Lithuanian social business organisations' activities. As could be expected, social or economic integration of vulnerable groups, social care, emotional support and other social services are the most common activities. For example, more than 40% of organisations that participated in the survey operate in the areas of social services. It could also be predicted that more social business organisations providing social services or products have already been established - or will be soon established - as a reaction to the current Ukrainian refugee crisis. Education is another field where a relatively large number of Lithuanian social business organisations implement their activities. Many organisations that aim to solve education-related challenges were established during the last three years as a response to the global pandemic and rapidly increased demand for educational innovations. However, the question of whether all organisations that deliver educational services create social impact and should be perceived as social business organisations remains open for discussion.[22] There are few Lithuanian social business organisations that focus on environment-related activities, even though environmental sustainability potentially is one of the key goals of the social economy organisations. To illustrate, only one organisation involved in the survey implements environment-related activities.



The share of nationally and locally operating social business organisations seems to be similar. Based on the survey results, 40% of respondents work nationally while 38% are based in their communities (i.e. operate on the local level). The financial strategies of social business organisations are more likely to be successful if they are compatible with the scope of their activities. National organisations are usually more likely to get national funding. They are also more likely to attract private investors or collect private donations regardless of the region in which the potential investors or donors are located. In contrast, local organisations are more likely to 'be interesting' and get revenue from investors, donors, citizens, or government institutions located in the same region and working with the same communities.



Notes: n=47; "Not stated" responses (n=3) were not counted for this figure

Social business organisations' financial strategies: sources of revenue

The mapping and description of Lithuanian social business organisations presented in the previous chapter only confirm their hybrid nature. Most of them combine the features of both: commercial businesses and NGOs (i.e. non-profits). Because of this hybrid nature, social business organisations can gain revenues from a variety of sources and these sources can be grouped into commercial and non-commercial. In the case of commercial revenue sources, social business organisations apply business-based logic to get income. It refers to the exchange of services or something of value between social business organisations and other entities (private purchasers, government institutions, investors, etc.). In contrast, the logic of the non-commercial revenue sources is "borrowed" from the non-profit sector. Social business organisations receiving income from non-commercial sources are not obliged to think about the profit or financial return. The most common types of commercial and non-commercial revenue sources are presented in the table below.

Table: Commercial and non-commercial social business organisations' revenue sources

Commercial revenue sources	Non-commercial revenue sources
• Business activities (selling goods or services to customers, contractual agreements to supply goods and services to other organisations or government institutions, sponsorship: receiving income in return for advertising) • Debt (loans and other lending instruments) • Investment (private investment, business angels, venture and other forms of investment capital) • Crowdfunding • Membership fees • Own financing	• Grants/ project funding • Donations or tax support in a form of donations (e.g. 1,2% income tax support available in Lithuania)

Most Lithuanian social business organisations are highly dependent on non-commercial revenue sources. Many social economy organisations receive a major part of their income from grants and public project funding rather than their business activities.[25] To illustrate, the largest share - more than 43% - of the surveyed respondents named grants as their organisation's key source of revenue. Moreover, more than four-fifths (81%)[26] of the surveyed organisations that managed to raise funding from external sources during the last two years received grants and project funding. There are different types of programmes that present grants and project-based funding opportunities to social business organisations. The funding can be provided by Erasmus+, EEA and Norway grants and other European programmes such as LEADER programme,[27] by EU investment funds in Lithuania, as well as by national financial programmes[28] such as NGO development fund and similar programmes. Social business organisations tend to apply for funding opportunities that have relatively lower qualification requirements and administrative costs. For instance, many social business organisations do not apply for the funding of the LEADER programme simply because they perceive that application and projects' administration costs would be too high.[29]

Even though much less significant when compared to grants and project funding, **donations also remain an important source of revenue for the 'typical' Lithuanian social business organisation.** To illustrate, more than half (51%) of surveyed organisations that raised the funding received at least some private donations during the last 2 years. Donations can be made by private individuals or some other organisations. Moreover, Lithuanian citizens who pay taxes can donate up to 1.2

per cent of their income tax for a particular organisation that under the Law on Charity and Sponsorship is eligible for such support. This donation scheme has also become an important source of income for some social economy organisations during the last several years. This 1.2 per cent income tax could be expected to become a more significant source of revenue for the Lithuanian social business organisations (that have the legal status of an NGO). The new version of the law regulating the allocation of the 1.2 income tax states that income tax could be allocated only to NGOs (i.e. schools and other public establishments funded by the government cannot apply for this funding anymore). However, not all social business organisations are eligible or have opportunities to receive donations. First, only social business organisations that have a legal status of an NGO (i.e. a legal form of an association, a public establishment or a charity foundation) can receive donations. Social business organisations that have a status of a company rely only on commercial revenue sources. Second, large or well-known NGOs have better opportunities to attract private donations.

The core logic behind social entrepreneurship is based on the idea that social challenges can be solved by implementing business activities. **Nevertheless, for most Lithuanian social business organisations business is just their "side activity" next to non-commercial activities.**[30] Only less than half (39%)[31] of survey respondents claimed that business activities are the main source of revenue for their organisation. Furthermore, few organisations plan to depend mostly on their commercial activities. For example, 58 % of surveyed organisations projected that business activities will bring only less than half of their revenue during the upcoming years. This supports the view that currently, most Lithuanian social business organisations operate more like NGOs that integrate some elements of social entrepreneurship (i.e. Non-Profit organisations that generate (some) revenue from business activities) rather than social business organisations (i.e. social enterprises) in the strict sense that generate most of their revenue from bussiness activities (see the Figure below).

Figure: Different types of organisations based on their main motive of return

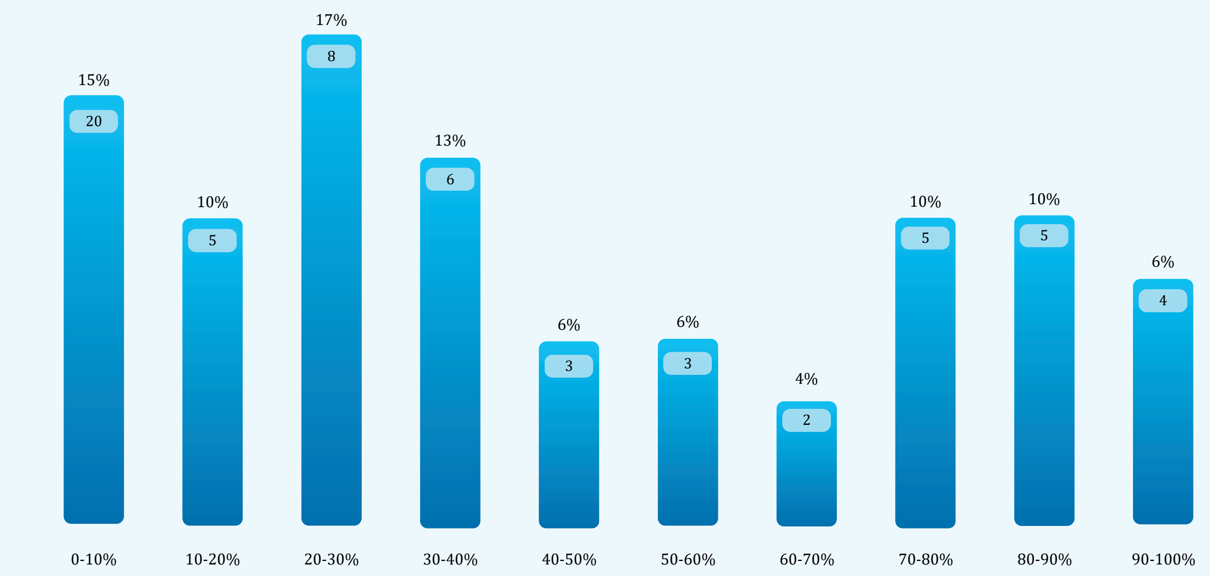
All other potential revenue sources are especially rare compared to the above-discussed grants and project funding, donations, and business activities. **Social business organisations that generate at least part of their revenue by raising investment remain an exception in the Lithuanian context.** For example, just over one quarter (28%)[32] of the surveyed organisations claimed that investments, loans, or crowdfunding are their most or second to most important source of revenue. When asked about the source for the raised funding over the last two years only 7 out of 37 (19%) respondents mentioned crowdfunding. The same number -7- respondents signed sponsorship agreements, 6 attracted impact investment, and 5 received some business angel and venture capital funding. Incubator and accelerator funding seems to be the rarest source of revenue for Lithuanian social business organisations. Only 3 of the surveyed organisations received this type of funding during the last 3 years.

There is no strong evidence to predict that without the additional interventions the financial strategies of Lithuanian social business organisations are likely to change fundamentally in the near future. The answers to the survey indicate **that grants, project funding, and business activities are likely to remain the key sources of revenue. Nevertheless, it could be expected that the significance of commercial activities will grow at least slightly during the next years.** For example, based on the survey data, 25 respondents projected that business activities will be the main source of revenue in their organisation during the next two years. It is 7 more when compared to 18 organisations that perceive business activities as their main source of revenue already right now. Experts notice similar tendencies when social business organisations start focusing more on their commercial activities over time.[33] The situation when an NGO that was previously dependent mostly on project funding and grants turn to business strategies and starts or further develops its commercial activities when project funding is coming to an end is quite common in the Lithuanian context.[34]

Sources of revenue

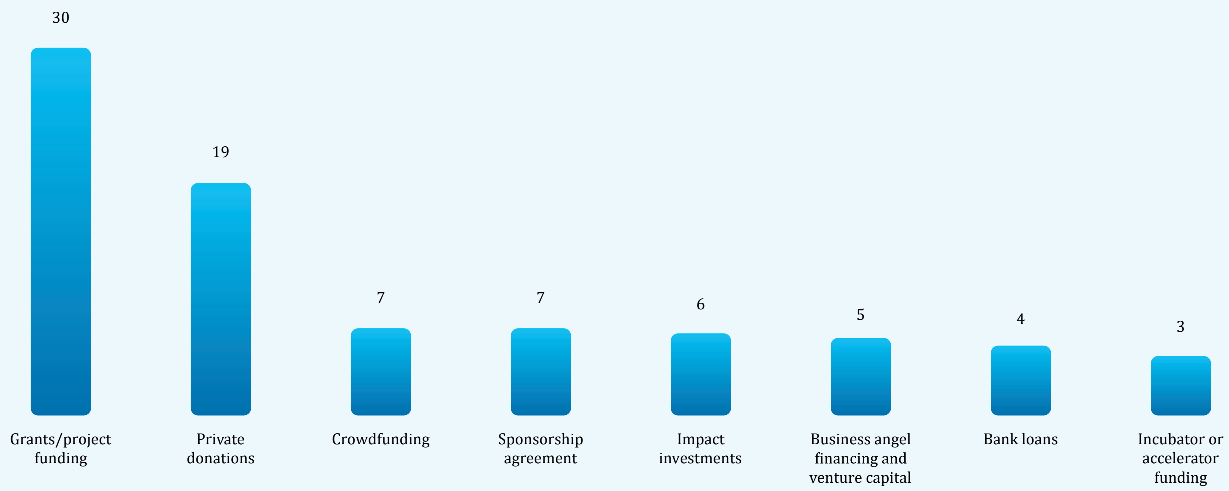
Notes: Respondents were asked to rank sources of revenue in the order of importance

Projected revenue from business activities (sales)



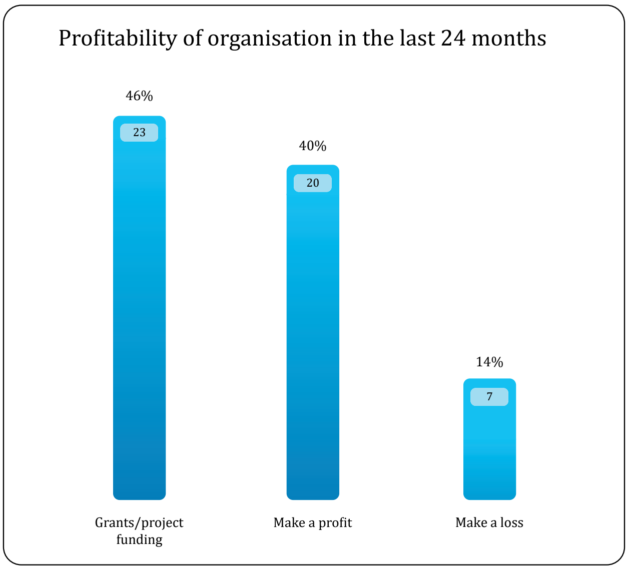
Notes: n=48; “Not stated” responses (n=2) were not counted for this figure

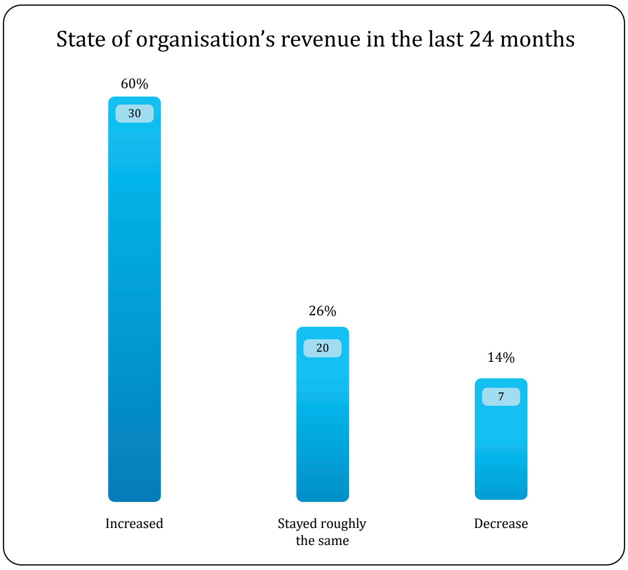
Sources for raising funds



Notes: Multiple responses(n=50)

Financial sustainability and success of Lithuanian social business organisations





The overall financial situation of most Lithuanian social business organisations can be described as relatively stable but not promising for the rapid development of social entrepreneurship in Lithuania. The survey's results indicate that the majority of social economy entities manage to generate the amount of income needed to maintain an organisation and cover operating expenditures. It is partly determined by the relatively small size and low financial needs of a typical social business organisation in the country. To illustrate, the annual revenue in one-third (32%) of the surveyed social business organisations was especially small - lower than 10,000 Eur. This means that large sums of revenue are not necessary to fund the basic activities of these organisations. Only 14% of the surveyed organisations made a financial loss during the last 2 years. Moreover, more than half (60%) of the surveyed social business organisations managed to increase their revenue during the last two years.

Nevertheless, the real numbers of financially unsuccessful social business organisations could be much higher than the survey suggests. Organisations that needed to discontinue operations due to experiencing financial difficulties may not respond to the survey. Moreover, according to experts, a considerable share of social economy organisations in Lithuania are not financially sustainable. These organisations are established and operate as "one project entities" - they stop their activities as soon as the project's funding ends.[35] Furthermore, just some organisations generate the profit that is necessary for the social business organisations' long-term financial sustainability, further development or can be allocated to reach higher social objectives. The largest share - 46% - of the surveyed organisations broke even during the last two years. While the share of organisations that managed to generate some profit was lower - around 40%. This indicates that **many Lithuanian social business organisations are still in a survival mode and lack finances so that they would be able to focus on the growth and further development.**

Challenges threatening the financial sustainability of Lithuanian social business organisations

The social finance market in Lithuania is still in an early development phase, and few social business organisations in Lithuania have achieved full financial sustainability and success. The analysis of the Lithuanian social business organisations' organisational environment and their financial situation exposed several main challenges preventing the financial success of these organisations. This chapter aims to identify and describe the key challenges and barriers. The key challenges are interrelated - one challenge can determine another one and vice versa. This means that all key challenges should be addressed at once to improve the financial sustainability of Lithuanian social business organisations. Lithuanian social business organisations face both internal and external barriers decreasing their chances to achieve financial success.

Internal barriers are directly related to the characteristics or strategies taken by social economy organisations themselves (e.g. what types of organisations dominate, what are their limitations and perspectives).

An especially **high financial reliance on public grants and project funding** is frequently defined as one of the fundamental challenges threatening the rapid development of Lithuanian social business organisations.[36] Grants and project funding could be useful as one of potential revenue sources. However, challenges arise when they become the central or sometimes even the only source of income for an organisation that aims to be a successful social business entity.[37]

- First, **grants and project funding cannot ensure the stability and continuity of activities**. The funding is provided just for a limited period of time - several months or years. Thus, there are many cases when organisations need to stop (part of) their activities as soon as the public funding ends. Alternatively, instead of the continuation and further development of the previous activities, social business organisations start new ones for which they get new project funding.

- Second, high reliance on public grants and project funding **threatens the self-reliance of social business organisations.** Their development and direction of growth are not fully in their own hands but are determined by external conditions such as the availability of public funds, the country's thematic priorities at the specific time, or government institutions' willingness to fund a specific idea.

- Third, **dependency on public grants and project funding is one of the key reasons why commercial activities are still perceived as "a side or nice to have" activity** in many Lithuanian social business organisations. If an organisation perceives grants and project funding as its prioritised source of revenue, it will allocate most of its resources and attention to the preparation of new project applications and fulfilling the requirements of already owned ones. This in turn leads to the insufficient attention paid to the development of its business activities or searching for commercial investment.

Some other financial challenges are related to the **dominance of the NGOs (usually registered as public establishment legal form) among social business organisations in Lithuania.**

- First, **the perception that entrepreneurial principles do not apply to NGOs is still common in Lithuania.** For many decades Lithuanian social challenges have been addressed only by NGOs operating as civil society non-profit organisations. Compared to this long tradition of the vibrant non-profit sector, ideas of social entrepreneurship are relatively new. The majority of Lithuanian NGOs still define themselves primarily as non-profits rejecting market mechanisms as something contradicting their identity.[39] Even NGOs that already integrate some elements of commercial activities often avoid expanding their "business side" because it does not comply with their understanding of how NGOs should operate.
- The second part of the challenge determined by the dominance of NGOs among Lithuanian social business organisations is more practical and related to the legal requirements associated with an NGO status. Based on the definition, the **entire generated profit should be reinvested into an NGO's main activity and cannot be distributed between its owners or investors.** This aspect is especially important when thinking about the possible financial strategies of social business organisations having the legal status of NGOs.

Small entities in the early stages of development that make up the majority of Lithuanian social business organisations face additional financial challenges. First, **small social business organisations often lack the human resources needed to create and implement sustainable financial strategies.**[40] Business development, receiving and making effective use of investment, or diversification of income sources often require significant human and time resources. The largest share - more than half (52%) - of survey respondents mentioned the lack of employees as a barrier to reaching their financial goals. Moreover, **most small organisations or organisations that have not reached the mature development phase are not yet ready for significant amounts of investment or funding.** For example, they might be not able to ensure the return of investment, have appropriate internal systems or meet the requirements of programmes where larger funds are available (eligibility). This reveals that a large share of Lithuanian social business organisations still need to grow and develop before they could be included in more advanced and complex financial schemes; they are not 'investment ready.

The financial success of social business organisations is also threatened by the **lack of skills and competencies.** Managers and employees of Lithuanian social business organisations often lack the experience and knowledge needed for the development and implementation of a sustainable financial strategy.[41] More than two-fifths (42%) of the survey respondents named the lack of financial or marketing skills among the barriers to reaching their financial goals. The majority of the surveyed organisations that did not apply for funding during the last two years claimed that they "do not know anything about it" (9 out of 13 organisations that did not apply for funding) or "did not know where to apply" (8 out of 13 organisations). Interviewed experts mentioned a few examples of Lithuanian social business organisations that, after consideration, decided not to apply for the funding of the Leader financial programme because the process seemed too complicated and they lacked human resources for it. Experts also confirm that strengthening social business organisations' competencies is one of the key success factors for social entrepreneurship development in Lithuania.

Another group of finance-related challenges could be perceived as "external ones" - they are partly affected but not directly determined by the specifics and decisions of social business organisations themselves.

There is **a lack of financial support mechanisms suitable for social business organisations.**[42] Almost half (46%) of surveyed organisations mentioned it among the key challenges. Some public financial instruments that work more as commercial revenue sources rather than grants (i.e. receiving organisations are required to return the loans or investment) are available in Lithuania. For example, Lithuanian entities can apply and get innovation vouchers, loans, refinancing, and funding from accelerations programmes for the development of their businesses. However, most of these instruments were initially designed for traditional commercial businesses. The specifics of social business organisations differ when compared to traditional business organisations. For example, their profitability is much lower, they might be required to re-invest a large part of their profit, and their customers could be government institutions and not private individuals.[43] Thus, an absolute majority of **social business organisations (esp. organisations that are registered as public establishments or foundations) are not formally eligible and cannot apply for these financial instruments.** For example, only entities that have a status of a company can get loans from Invega's financial programme "Startuok".[44] Financial instruments that are more adjusted to the needs of social business organisations are usually implemented as one-time projects (e.g. some of the acceleration programmes). Therefore, social entrepreneurs cannot be sure what public financial instruments will be available in the future. This complicates their financial planning processes.

There are few cases of private social investment because the majority of Lithuanian social business organisations do not seem as promising investees for (potential) private investors. One-third (34%) of the survey respondents named the lack of investors among the reasons for not reaching financial goals during the last two years. Part of the reasons determining this challenge are related to the supply side itself. For example, despite the positive progress of the last few years, investors' interest in solving social challenges remains relatively low. Moreover, there is a lack of information and promotion programmes that might encourage potential investors to consider social impact investment.[45] Nevertheless, some of the reasons determining the lack of private investors' interest in social business organisations are more related to the demand side - the specifics of a "typical" Lithuanian social business organisation.

- As was already mentioned, private **investors are less willing to invest in organisations that operate as NGOs** because this type of investment is unlikely to generate any financial benefits. Based on the legal basis, NGOs can promise a return on investment. However, if any additional profit is generated, it should be allocated to implement the organisation's social objectives instead of increasing investors' financial benefits. There are some particular examples when Lithuanian social business organisations failed to attract private investment simply because of the legal form of a public establishment.

- **Investment into small organisations that only start the development of their business activities usually is perceived as especially risky.** Thus, private investors are unlikely to risk their funds if no external guarantees for the return of their investment (e.g. government warrants/guarantee schemes) are present. Moreover, the majority of small organisations are only able to receive small 'ticket-size' investments while **most investors are more willing to make fewer investments in larger amounts to reduce transaction costs.**

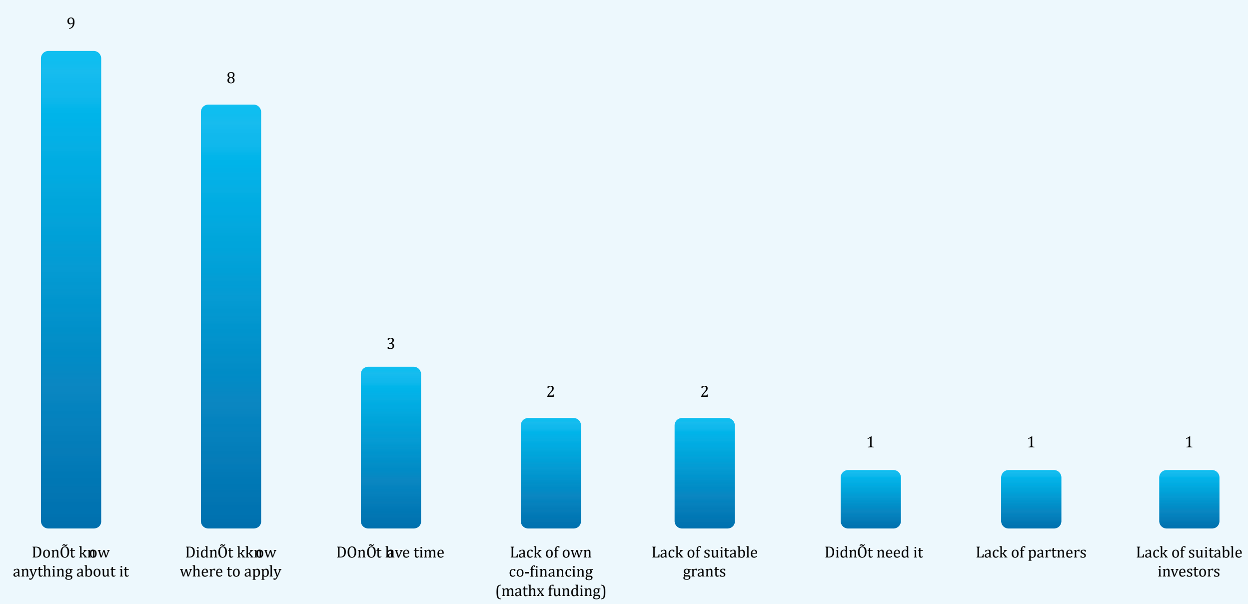
- Private investors or banks require at least some guarantees - or mitigation to reduce risk - that their investment will pay off. Therefore, **organisations that are financially not self-reliant, highly depend on one-time grants and project funding, and cannot present long-term business and financial plans are unlikely to be perceived as trustworthy investees or debtors.**

Public procurement of social business organisations' services remains rare in the country.[46] Both sectors where Lithuanian social business organisations are the most active - social services and education - usually are interpreted as a responsibility of the state. Thus, public procurement of social business organisations' services and products has the potential to become one of the key revenue sources for social economy organisations.[47] This might significantly contribute to the financial stability of social business organisations and in turn, make them more appealing to private investors.[48] In the case of the transfer of social services, social business organisations secure a stable and predictable source of revenue because government institutions become their "loyal" customers. Nevertheless, the goal to delegate at least 15% of public services to the social economy entities that were raised in Lithuania's development strategy 2014-2020 has not been reached until now. The slow process of the public services delegation is determined by both: the lack of government institutions' enthusiasm towards these processes and social business organisations' unreadiness to take over the services.[49]

Barriers to reaching financial goals in 24 months

Notes: multiple responses (n=50)

Reasons for not applying for funding in the last 24 months



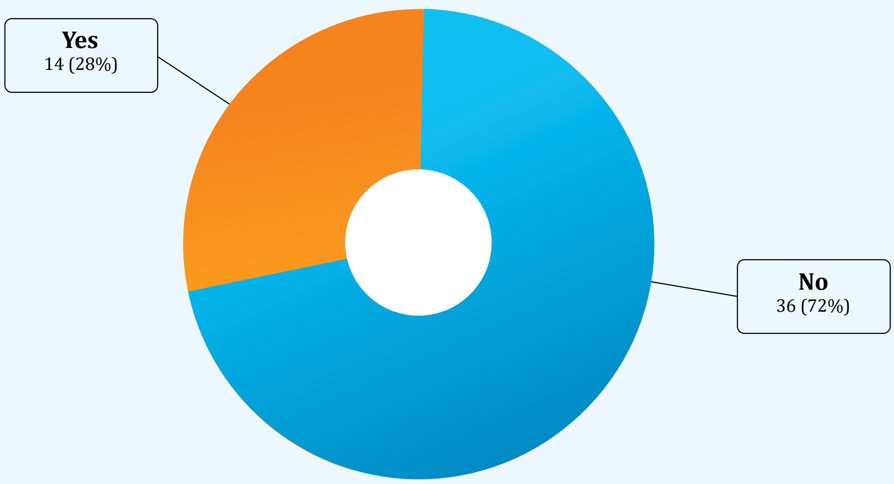
Impact measurement

Evidence about their social impact can help social business organisations achieve their financial goals. Social impact measurement can inform potential investors, customers or government institutions about the concrete achievements of a social business organisation and ensure access to financial resources as well as to important public and private markets for their services and products. However, **measuring and reporting social impact is only an emerging trend in Lithuania.**[50] Despite the positive progress noticed during the last several years, there are still very few social business organisations that consistently measure their social impact.[51] Just more than a quarter (28%) of surveyed social business organisations measure their social impact regularly.

Most organisations measuring their impact use relatively simple methods and impact indicators. Questionnaires, qualitative interviews and informal polls were the three methods most frequently mentioned by the survey respondents who measure the impact on their organisations. None of the respondents mentioned the analysis of the statistical data. When asked about their impact indicators, survey respondents mostly listed indicators that are more suitable to monitor the outputs or short-term outcomes rather than longer-term outcomes and impact. For example, the number of users/customers and their satisfaction rate were the most frequently listed indicators. Achievements of beneficiaries, emotional well-being score, and target group's income change were also mentioned during the survey among used income indicators.
There are several reasons why the majority of social business organisations do not measure their impact:

- The first and most important barrier **is the lack of tangible incentives for social business organisations** to do it.[52] First, national laws defining and regulating the operation of various organisations that (potentially) can be active in the social economy field (e.g. the law of public establishments, or the law of small and medium business organisations) do not involve any requirements for social economy organisations to measure their created impact.[53] Second, organisations that measure impact do not get any benefits (e.g. some tax relief, financial benefits, or formal recognition). Thus, organisations are unwilling to allocate their time and resources to the activity that does not bring any tangible competitive advantage.
- Social business **organisations lack the human resources or competencies that are necessary for high-quality impact measurement.**[54] Various public organisations or NGOs organise training and development tools that might help social economy organisations to measure their impact but the added value of this training is not always understood by organisations themselves.
- In most cases impact measurement is impossible without the detailed statistical data available. However, **there is a lack of suitable and publicly available data that would allow social business organisations to measure and prove their created impact.** Even government institutions still rarely monitor the social impact of their interventions.

Do you measure your social/environmental impact regularly?



Notes: n=50

Conclusions and Recommendations

Conclusions	**Insights and recommendations relevant for the social finance market development**
The official and comprehensive register of Lithuanian social business organisations, or the legal label identifying relevant entities do not exist in a country. Thus, the detection and mapping of social finance demand-side actors are challenging. The approximate size of the social finance target group in Lithuania is around 120-150 organisations.	• Collaboration amongst entities working with Lithuanian social business organisations would ensure a more efficient process of the outreach and scouting of social business organisations that could be involved in social finance schemes and initiatives. A large number of Lithuanian social business organisations are registered on the Social Business platform managed by the Innovation Agency. Lithuanian Social Business Association (LiSBA) has information and contacts of its members and several active Facebook groups involve many social economy organisations. • The number of social business organisations is slowly but steadily growing, which in turn increases the demand and need for social finance in Lithuania.
Social business organisations in Lithuania significantly differ from each other in their legal form, business model, and other characteristics. The majority of Lithuanian social business organisations are NGOs (usually holding a legal form of a public establishment / viešoji įstaiga). Social business organisations that operate as companies (e.g. holding a legal status of a limited liability company or a small partnership i.e. UAB and MB) are rare.	• Fundamental differences that exist between organisations operating as social business organisations in Lithuania also determine their financing requirements, and the challenges and opportunities they face. Therefore, universal and 'one-size-fits-all' approaches such as financial instruments and strategies are not possible and are unlikely to be useful in the Lithuanian context. • There is a high risk that NGOs making up the majority of social business organisations in Lithuania would not be able to take advantage of financial instruments if they are fully based on "commercial business logic". For example, organisations registered as public establishments are required to reinvest their entire profit - it cannot be distributed to investors. • The development of the social finance market in Lithuania requires at least two types of financial instruments and support schemes: a) measures adjusted to the needs of social business organisations operating as NGOs as well as b) measures suitable for social business organisations operating as companies

A typical Lithuanian social business organisation is a small organisation that has not reached the mature development phase yet.	• The majority of Lithuanian social business organisations would not be ready to receive large sums of investment. Therefore, financial instruments that distribute funding through "small tickets" are especially relevant in this context • Regular large-scale acceleration programmes fostering the further growth of Lithuanian social business organisations are a necessary condition for the development of the social economy. Development of the social finance market should be coordinated with acceleration programmes and strategies. For example, activities aiming to increase the social business organisations' investment readiness could be an integral part of general acceleration programmes instead of independent separate programmes that currently exist. • Small organisations often lack the human resources needed to develop and implement sustainable financial strategies or to differentiate revenue sources. Consistent and longer-term support and consultations with intermediaries are necessary. • Funds decrease the transaction costs and require relatively fewer human resources and competencies from investors and investees. Therefore, they are usually perceived as a more suitable strategy to distribute financial resources compared to direct investment if the social entrepreneurship market in the country is still in the early phases of development
Representatives of social business organisations often lack the knowledge and skills necessary to ensure the financial sustainability of an organisation	• 'Investment readiness' programmes for social business organisations should include training and other activities for "the beginners" (i.e. training process should start with the introduction of the basics of social finance, and the content must be easily understandable for individuals who do not know the topic well). They should also build on principles of investment readiness such as robust systems and procedures, market knowledge, financial resilience and organizational culture often overlooked in accelerators and one-off training. • All financial instruments and other programmes should have especially detailed descriptions and instructions explaining their logic and how exactly social business organisations could take advantage of these instruments.

	• The application of the financial instruments should be as simple and intuitive as possible. If more complex and advanced instruments are designed, comprehensive assistance and experts' support for demand side actors interested in these instruments must be ensured. This is often described as 'pre-investment' support.
Grants and project funding remains the main source of revenue for many social business organisations in Lithuania. Business activities are often perceived only as complementary or "nice to have" activities instead of the main focus of an organisation.	• It is crucial to strengthen social business organisations' entrepreneurial skills and help them to develop their commercial activities to decrease their dependence on project funding and grants. • The development of social business organisations' sustainable financial long-term financial plans is one of the success factors that might increase their attractiveness to private investors.
Investment (e.g. social impact investment) into social business organisations is rare in the Lithuanian context.	• The development of the social finance market in Lithuania should start from the basics; current examples and practice are not sufficient to take as a basis. Choosing and adapting examples of good practice from other countries that have already reached significant progress in this area are likely to increase the effectiveness of the process. • Neither (potential) investors, nor investees (social business organisations) have much experience in social finance. Therefore, new financial instruments and schemes can be successfully applied only with the especially active involvement of experienced intermediaries. • Additional "safety cushions" and guarantees (e.g. state financial guarantees) are necessary to make social impact investment more appealing and less risky for private investors, especially in the early stage of social finance market development. • A strategy and action plan should be developed - with appropriate instruments - and resourced accordingly. This could include the establishment/resourcing of a national establishment for the development of the social finance ecosystem in Lithuania

There is a lack of public financial instruments adjusted to the needs and specifics of Lithuanian social business organisations (e.g. innovation vouchers, loans with guarantees).	• Existing financial instruments that are currently used only by traditional commercial business organisations could have complementary "sub-instruments" that could be developed to the specifics of social business organisations. Moreover, social business organisations are especially "vulnerable" during the first several years after establishment. Thus, they should have similar favourable conditions and get access to many various incentives, the same as traditional business startups in Lithuania. • The majority of the social business organisations (esp. the ones operating as NGOs) have relatively low opportunities to access traditional financial instruments that rely on well-known financing products such as public contributions, tax breaks, generated income, loans, equity, convertible bonds, and mezzanine/subordinated debt. Innovative financial instruments are more likely to be adjusted to specific social business organisation needs. Outcome commissioning, Social Impact Bonds (SIBs), development impact bonds, social impact incentives or revenue share agreements are examples of innovative 'pay-for-success' instruments.
The scope of public procurement of social business organisations' services is relatively narrow.	• Measures to facilitate access to markets through adaptations in the public procurement process might increase the financial sustainability of social business organisations, which in turn would increase their attractiveness to private investors.
Measuring and reporting social impact is only an emerging trend in Lithuania.	• If designed financial instruments require detailed reporting on social impact, social business organisations should receive support helping them to develop their impact measurement plan because their current competencies and experience in this area are unlikely to be sufficient.

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Footnotes

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[31] 18/46 of surveyed organisations

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