Startup and Scaleup

Impact Europe's response to the public consultation

March 2025

As a network of impact investors, Impact Europe will focus this contribution on issues affecting impact and social enterprises, from startup to scaleup stage, particularly on access to finance and the reporting burdens imposed by investor data requests to comply with EU regulations.

We recognise the same challenges affecting them as outlined in this call for evidence. Hence, we welcome the initiative to develop a strategy aimed at improving framework conditions for EU startups and scaleups. In addition, we would like to emphasise the need to consider the unique circumstances of impact and social enterprises in the development of the strategy.

Impact-driven and social enterprises play a crucial role in advancing the EU's goals of sustainability, competitiveness, and innovation. However, their distinct business models present unique challenges. Their core mission is to deliver measurable social and environmental solutions, often addressing underserved issues or populations. While some balance impact and profit, others—such as social enterprises—prioritise impact over financial returns. Social enterprises, in particular, reinvest profits to achieve their social goals and often adopt democratic or participatory ownership structures, with a strong focus on social justice.

Examples of innovative and impactful enterprises financed by impact investors:

The Cartier Women's Initiative spotlighted BioZeroc, a climate-tech start-up leveraging biotechnology and scalable process technology to develop carbon-negative construction materials, aiming to revolutionize the concrete industry by creating limestone from sand and aggregate using bacteria, thereby significantly reducing CO_2 emissions.

An example of an impact company is Powerful Medical, which leverages AI to improve cardiovascular diagnostics. By enhancing accuracy and accessibility in emergency care, the company not only reduces misdiagnosis but also strengthens healthcare inclusion, demonstrating how impact-driven businesses create both social and economic value. (*funded by CB ESPRI, a social impact management firm in Slovakia*).

Connecting Past and Future Policies for Social Enterprises

Due to varying or lack of recognition in national laws and policies, social enterprises face persistent challenges stemming from fragmented national regulations, which hinder their ability to expand across Member States, access public procurement opportunities, and secure financing, access tax exemption etc.

Read Impact Europe's **recommendations** on how EU authorities can leverage public procurement to drive positive social and environmental impact by making it more accessible to social and impact enterprises.

To address these barriers, we urge the European Commission to ensure stronger alignment between the Startup and Scale-up Strategy and past efforts supporting social enterprises, such as the EU's Social Economy Action Plan and the Council Recommendation on developing social economy framework conditions at the Member State level. Rather than duplicating efforts, the Commission should integrate these initiatives, recognising the unique characteristics of social enterprises and reinforcing existing actions to bridge the funding gap and address other regulatory barriers. Strengthening coherence between past and future policies is essential to creating a more supportive and effective ecosystem for social enterprises.

Bridging the Financing Gap: Public-Private Partnerships for Impact

Impact and social enterprises face challenges in accessing finance due to their unique business models and limited recognition by mainstream investors. Impact investors—who seek both measurable social and environmental outcomes and financial returns—play a crucial role in bridging this financing gap. They understand the mission and challenges of these enterprises, offering tailored financial solutions such as patient capital, catalytic funding, etc. Beyond funding, some even help enterprises expand their networks, enhance their impact measurement capabilities, and build long-term resilience.

Impact investors include funds, foundations, banks, corporate impact actors, pension funds, and insurers, high-net-worth individuals, etc. Private equity and venture capital fund managers make up 44.8% of the European impact investing market.[i] Impact fund managers struggle with fundraising due to limited awareness of their unique investment model —distinct from both sustainable investing and philanthropy[ii]—especially when targeting social impact solutions, and operating in emerging European impact markets, such as CEE countries.[iii]

Overcoming these challenges is key to closing the financing gap for impact and social enterprises at various stages of development, from startup to scaleup.

Given the role of impact investors in advancing policy objectives, public institutions—including the European Commission and the EIB Group, particularly the EIF—have been essential partners and co-investors. EU funding programs (e.g. SIA, EFSI, ESF, EaSI, and most recently InvestEU, etc) have significantly contributed to the growth of impact investing in Europe by providing repayable finance (e.g. loans, debt guarantees and equity investments) and capacity-building grants. They have enabled market scaling, supported first-time funders, and de-risked and crowded in private investments through co-investment opportunities and guarantees from the EIF. As a result, EU funds deployed as financial instruments have successfully leveraged capital, driving positive social and environmental impact that would not have been achieved otherwise.

Blending EU grants with repayable finance has been crucial for many impact funds. Grants can support fund capacity building, reduce costs, or serve as catalytic capital. A strong example is from the German Financing Agency for Social Entrepreneurship (FASE), which funds early-stage social enterprises that often struggle to secure growth capital—commonly referred to as the "valley of death." These enterprises require small-ticket investments, which are typically too costly for most investors. Thanks to the **EU's transaction cost support grant** for small start-up investments under the **EaSI programme**, FASE has been able to mobilise risk capital investments under €500,000—precisely the financing needed to support early-stage growth and bridge the financing gap at this critical stage.

For further insights, explore Impact Europe's case studies on how EU funds have supported the impact investing market in **Portugal**, **Germany**, and **Spain**.

To enable the continued growth and development of the impact investing ecosystem across the EU, **additional funding must be allocated to InvestEU**, as it has already committed most of its budget two years before the programme's end. It is particularly important to prevent gaps in EU funding caused by mandate changes or transitions between budget periods to ensure a sustainable funding stream for social and environmental impact initiatives.

We also call for a **larger budget allocation for social impact investments in the next EU Budget (2028–2034)**, as the sector faces the most significant funding gap due to lower expected returns or a perceived high-risk profile. Moreover, the EIF's mandate for social impact investing must be maintained and expanded in future funding programmes. Likewise, the next European Social Fund programme should **continue to strengthen the social impact investing market through grants and financial instruments.**

Finally, future EIF financial instruments could play a key role in **actively encouraging cross-border investments within the EU,** ensuring that capital flows to regions where it is most needed and closing the funding gap for high-impact enterprises. Meanwhile, at the national level, the EU should support National Managing Authorities and Promotional Banks in deploying EU funding programmes like ESF+, encouraging them to implement alternatives to grants—such as repayable or blended finance—to **strengthen the social finance ecosystem in each country.**

Strengthening the ecosystem of finance providers like impact investing, microfinance, and social ethical banking is crucial for fostering inclusive finance, ensuring sustainable funding for impact startups and scaleups, and driving innovative solutions to today's social challenges.

Unlocking untapped capital sources to impact investing

Public sector support has been essential to the growth of the impact investing ecosystem in the EU. However, scaling it further requires **unlocking the untapped potential of philanthropic and retail capital, as well as institutional investors** such as insurers, savings institutions, and pension funds.

We welcome and encourage the European Commission and the EIB Group to accelerate their efforts in mobilising these capital sources to finance Europe's sustainable transformation, competitiveness, and innovation. The EIB Group, particularly the EIF, could take on a stronger role in **addressing key barriers—such as risk and return concerns—that currently hinder philanthropic and institutional impact investments.** Developing flexible solutions, including tailored financial instruments, capital pooling schemes, and co-investment facilities, could significantly enhance capital mobilisation for impact.

At the same time, despite growing retail interest in impact investing, available products in Europe remain limited. Regulatory changes to UCITS and EuSEF could help expand the successful **French 90/10 Solidarity Fund model** and scale it across the EU, directing more capital towards social enterprises and impact funds.

By advancing these initiatives, we can ensure that any investor—whether institutional, philanthropic, or retail—has the opportunity to generate positive impact and contribute to the greater good.

For a deeper dive into these recommendations, read our full response to the EU's Savings and Investment Union consultation and explore Impact Europe and Philea's **joint position paper** on how EU policies can unlock philanthropic impact investing.

Impact Category under SFDR

Addressing Fundraising Challenges

As noted earlier, impact fund managers account for nearly half of the European impact investing market. A key solution to their fundraising challenges is the creation of a **distinct impact category under the Sustainable Finance Disclosure Regulation (SFDR).** This would increase their visibility, reduce confusion with other investment strategies (such as responsible, sustainability, and transition investing), and provide clear and accessible impact data. It would also help institutional and retail investors identify opportunities that align with their values and investment goals, leading to more informed decisions.

Reporting burdens

An impact category under SFDR would also help alleviate the disproportionate sustainability reporting burdens faced by impact and social enterprises. While these enterprises already provide detailed reports on their positive impact, they are increasingly subject to data requests from investors and business partners focused on negative externalities. These requirements, stemming from SFDR and the Corporate Sustainability Reporting Directive (CSRD), are often designed for large, listed companies and fail to align with the size and mission of impact-driven businesses.[iv]

The introduction of EFRAG's Voluntary Sustainability Reporting Standards for Non-Listed SMEs (VSME) partially addresses this challenge, offering a more proportional approach. However, its success depends on widespread adoption by investors and business partners. If implemented effectively, VSME would streamline reporting, reducing unnecessary compliance burdens.[v]

However, the issue remains for impact and social enterprises. Unlike conventional businesses, these enterprises do not primarily seek to mitigate negative externalities—they exist to create positive social and environmental impact. Measuring, managing, and reporting this impact is integral to their mission, not an administrative burden. However, when reporting requirements become misaligned with business models and enterprise size, they shift from a strategic tool to a compliance exercise, diverting scarce resources from core activities.

To support impact enterprises, smarter regulation is needed—one that allows them to report data relevant to their mission rather than comply with rigid, one-size-fits-all requirements. **An impact category under SFDR could enable this by ensuring impact funds report on meaningful indicators, leading to more relevant data requests for their portfolio companies**. Aligning this approach with the European Commission's goal of reducing administrative burdens would foster a regulatory environment that supports the growth of startups and scaleups while maintaining transparency and accountability.

For a deeper dive into these recommendations, please refer to our recent **SFDR Position Paper** and the Opinion piece **"Rethinking Regulation to Foster Impact-Driven Innovation".**

About Impact Europe

Impact Europe (formerly EVPA) is the investing for impact network. We gather capital providers along the full continuum of capital (foundations, impact funds, banks and financial institutions, corporate impact actors, public funders) to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet. Together, we rally people, capital and knowledge to accelerate, scale and safeguard impact. More information at www.impacteurope.net

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[i] See Gaggiotti, G., Gianoncelli, A., and A. Venturato (2024) "The Size of Impact – Main Takeaways from the European Impact Investing Market Sizing Exercise", Impact Europe, December.
[ii] See the distinction between sustainable, transition, and impact investing on pages 7 to 9 at Impact Europe (2024), "The Case for Impact: Enhancing EU's SFDR Framework - Position Paper", December.
[iii] Smialowski, S. And J. Bour (2024), Social Economy Takeaways from Torino, Opinion, Impact Europe, January; Bour, J. And K. Kolarova (2024), Insights from InvestEU: Financing Europe's Future, Opinion, Impact Europe, February.
[iv] Smialowski, S., Kolarova, K. And J. Bour (2023), Experience of Impact Funds with SFDR, Impact Europe, November.
[v] Smialowski, S. (2025), Is the Final VSME Tailored for Impact?, Impact Europe, January.