Social Investment Jargon Buster

A

Asset – Something valuable that an organisation owns, benefits from, or has use of that is recorded on its balance sheet. Tangible assets could include property, vehicles, equipment etc.

B

Base case – this is a scenario for the financial return on an investment which is considered reasonable and feasible, based on an organisation's financial forecasts. Base case returns are usually somewhere between the low and high (or best) case scenarios.

Bridging loan – a loan to assist with daily running costs as an organisation waits for other funds to arrive (e.g. a grant payment or new contract).

C

Capital – wealth in the form of money or other assets (e.g. property) that are owned by an organisation and can be made available for a specific purpose.

Capital gain – a profit from an investment or the sale of assets like a property. The capital gain is the increase in value or wealth to the organisation or individual

Capitalisation of interest / interest roll-up – Interest on a loan is charged but not paid out in cash. Instead it is added to the balance of the outstanding loan that needs to be repaid in time.

Cashflow – a cash flow forecast shows the total expected expenditure (costs) and income (revenue) over the year, usually on a monthly or quarterly basis. It is an essential tool for understanding what the availability of funds will be during the year and planning to ensure there is sufficient money available each month / quarter to cover the expenditure.

Community shares – the sale of shares in social enterprises serving a community purpose. This type of investment has been used to raise money to finance shops, pubs, community buildings, renewable energy projects, local food schemes, along with a host of other community based ventures. Shares are usually priced at a relatively low amount (e.g. £10) to enable all sections of the community to buy shares if they wish. Shareholders have a stake in the enterprise and decisions are usually based on a 'one member one vote' system. See also 'crowdfunding'.

Cornerstone Investment - the first (or principal) investor in a fund or project whose commitment to invest gives confidence to others to invest.

Coupon – the amount of fixed interest payable on a debt. This usually describes the level of return the lender can expect to receive over the life of the investment.

Crowdfunding – raising money to support a project or organisation from a large number of people, often through websites called 'crowdfunding platforms'. Crowdfunding can raise money in the form of debt, equity (shares – see also 'community shares') or donations. Individuals often donate or invest small sums of money but collectively raise larger sums.

D

Debt – a sum of money that is owed or due. Usually in the form of a loan but it could also be an overdraft or other financial borrowing facility.

Debtor – a person or organisation that has borrowed money. Also known as a borrower.

Default – the failure to pay interest or make repayments on a loan when due. Default occurs when a debtor is unable to meet the legal obligation of debt repayment or other requirement.

Development capital – investment that enables an organisation to build capacity, for example by purchasing property or other assets, or developing new products and services that in turn will generate income in the future.

Dividend – a sum of money repaid regularly (usually annually) by a company to its shareholders from its profits. It is a form of distributing profits.

Due diligence – an investigation or assessment of a potential investment opportunity. Due diligence serves to confirm and understand all aspects of a potential investment and the organisation that is going to be managing the investment or contract prior to entering into an agreement.

E

Equity - A type of investment in which an investor owns shares in a company.

Exit – The method by which an investor 'cashes out' or withdraws from an investment**.**

F

Facility – different types of financial support (e.g. loans, overdrafts etc.) to support the operations of an organisation.

Financial returns – the anticipated 'income' expected from an investment. Usually calculated as low, base and high case scenarios. See also 'base case'.

Fund – a collective investment scheme that provides a way of investing money alongside others who have similar objectives. Investors' monies are pooled and invested in line with the fund's investment criteria. The investments are made and monitored by a fund manager who charges a fee to the investors for this service. Fund management is generally a regulated function.

G

Gearing ratio - a general term describing a financial ratio that compares a company's level of equity (or other form of capital) to the level of funds borrowed (debt) by the company.

H

I

Interest – the fee paid by a borrower to a lender as the cost of borrowing money. Interest is typically calculated as a percentage of the amount borrowed.

Investment readiness - Investment readiness programmes help social enterprises and charities acquire the skills and knowledge they need to raise and manage external investment. Usually supported through grant funding.

J

K

L

Liability – An organisation's legal debts or obligations arising during the course of its operations. Liabilities are settled over time through the transfer of money, goods or services.

Liquidity – the ability to buy and sell investments e.g. bonds or shares, usually via an exchange.

Loan – a sum of money that is borrowed and has to be paid back over an agreed term, usually with interest.

Loan forgiveness – Writing-off a portion of one or more loans to a financially troubled organisation by its lender(s).

M

N

O

P

Payment by results – providers of services receive payment in arrears based on the achievement of agreed results and outcomes. Payments under Government contracts are often structured this way. See also 'Social Impact Bond'.

Patient capital - Loans offered on a long-term basis (typically 5 years or longer) and on 'soft' terms (e.g. capital/interest repayment holidays and at zero or below-market interest rates).

Principal – the amount of money borrowed via a loan before any interest is calculated.

Profit and loss account / statement – financial statement summarising the income (revenues) and costs incurred during a specific period of time, usually quarterly or annually.

Provision – the value of the investment is reduced in an investor's accounts if it is not performing well or the borrower is unlikely to be able to repay the full value of the loan. A provision needs to be prompted by an event that causes the investor to believe it is not going to recover the full value of the investment.

Q

R

S

Secured loan – a loan that is backed by property (in the case of a mortgage) or other assets belonging to the borrower. The value of the assets is usually equal to or higher than the value of the loan. If the borrower is unable to repay the loan the lender can take possession of and sell the asset(s) the loan is secured against to recover the cost of the loan.

Social impact - there is no standard definition of social impact, but it can be defined as the effect on people that happens as a result of an action or inaction, activity, project, programme or policy. In social investment the social impact is the social outcomes, return or benefit expected from the investment alongside the financial return.

Social Impact Bond (SIB) – a contract between a service provider (usually a charity or social enterprise) and a public sector body or Government department in which a commitment is made to pay for the delivery of a service on the basis of the results and social outcomes achieved. The service provider raises social investment to fund the delivery of services. The social investors are repaid if and when prescribed social outcomes are achieved. A Social Impact Bond is a type of 'payment by results' model.

Social Investment – the use of repayable finance to achieve a social impact and financial return.

Special Purpose Vehicle (SPV) – a subsidiary company created for a specific purpose or activity. An SPV is legally separate to its parent organisation so can still fulfil its obligations if the parent company is dissolved or goes bankrupt.

T

U

Unsecured loan – a loan that does not take security over the borrower's assets. The risk for the lender is greater and therefore interest rates are usually higher than for secured loans.

Underwriting – a commitment to provide financial support if other sources are not secured.

V

W

Working capital - the funding required to cover operational costs and manage the timing differences of income and expenditure. Working capital can be used to support an organisation while it raises money or generates income to cover its costs in the longer term or can be a short term arrangement like a bridging loan or overdraft facility.

Write-off - the value of the investment is permanently reduced in an investor's accounts if the borrower is not able to repay the full value of the loan.

X

Y

Yield – The income return on an investment. This refers to the interest or dividends paid and is usually calculated annually.

Z

Sources: Big Society Capital, Knowhownonprofit, Civil Society Finance, Investopedia, Esmee Fairbairn Foundation