Esmée Fairbairn FOUNDATION

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

Bond / Charity Bond – a specific type of loan, usually an alternative to borrowing from a bank. The borrower is the 'issuer' or 'seller' of the bond and the lender is the holder. Interest on the bond is known as the coupon. Interest is usually paid at fixed intervals and the issuer of the bond agrees to repay the original loan amount at a specified time, this is known as maturity. Bonds tend to be more appropriate if an organisation is looking to raise a large amount of money.

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

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 cost – fixed, one-time expenses for the purchase of land, buildings, construction or equipment used in the production of goods, delivery of services or development of a project.

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 funds will be available during the year and if there is sufficient money available each month / quarter to cover the expenditure.

Collateral – the borrower pledges a specific asset or assets (e.g. property) as security against a loan. The collateral provides additional protection to the lender if the borrower is unable to repay the debt. See also 'Secured loan'.

Community Development Finance Institution (CDFI) – social enterprises that lend money to businesses and people who are unable to borrow money from high street banks.

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. Shares are usually priced at a relatively low amount (e.g. £10) to enable all sections of the community to participate. 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 other investors.

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 the 'crowd' 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 facility.

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.

Draw down – request for the release / payment of the funds. The funds are 'drawn down' through instalments or a single payment in full.

Due diligence – an investigation or assessment of a potential investment. Due diligence serves to confirm and understand all aspects of a potential investment or contract prior to entering into an agreement.

E

Equity – a type of investment in which an investor owns shares in a company with a financial return to the investor paid regularly on a discretionary basis through a dividend.

Exit – how 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.

Fees – Charges and expenses incurred as part of the investment agreement. Examples include arrangement fees (payable at the beginning), facility fee (e.g. the cost of having an overdraft facility for example) and early repayment fees (a penalty fee usually to compensate the investor for potential loss of interest payments).

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

First loss – investors who agree to bear the 'first loss' on an investment to provide protection to other investors. First loss investors are at a greater risk of losing their money and are usually offered a higher rate of return if the investment is successful.

Floating charge – a type of security arrangement over a range of assets held by a company rather than being fixed to one specific asset.

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.

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

Junior debt / subordinated debt – an unsecured debt or a debt with a lower priority over an asset than other 'senior' debts. If a borrower is unable to repay its debts or goes out of business the 'senior' debts are repaid first from available funds or from the sale of assets.
If there is sufficient cash left over, then the junior debt is repaid. Junior debt is therefore considered more risky and hence demands a higher financial return as compensation. See also 'senior debt'

L

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

Limited Liability Partnership (LLP) – a partnership in which some or all partners have limited liabilities. It therefore exhibits elements of partnerships and corporations but in an LLP, one partner is not responsible or liable for another partner's misconduct or negligence. Fund investments can be legally structured as a LLP.

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).

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

Quasi-Equity – an equity-style investment for organisations, such as charities, that do not have shares. Investors' repayments are directly linked to the performance of the organisation. See also 'Revenue Participation Agreement'.

R

Refinancing – to finance something again using a new loan or other form of investment. Refinancing is often used to replace an existing loan with a cheaper form of finance or consolidate existing borrowing.

Revenue Participation Agreement – this is a form of quasi-equity investment that allows both the investor and organisation to share the risk and reward of an enterprise or product. The repayment of investors' capital is a % of the organisation's revenues. More flexible than debt and used for organisations who are unable to offer shares (e.g. charities). If the enterprise does well the investor receives a return on the investment but if it does not there is no financial return. See also 'Quasi-equity'.

S

Secured loan / security – a loan that is backed by property or other assets belonging 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.

Senior debt / loan – a debt that takes priority over any unsecured debt or 'junior debt'. If the borrower is unable to repay its debts or the 'senior' debts have priority over any available funds or are repaid first from the sale of assets. See also 'junior debt'.

Social impact – there is no standard definition of social impact, but it can be defined as the effect on people, community or society 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 money to achieve a social impact and financial return.

Social Investment Financial Intermediary (SIFI) - an organisation that channels investment from investors to social sector organisations through social investments e.g. loans. SIFIs usually manage social investment funds. SIFIs also play a wider role in the sector e.g. by providing advisory services.

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.

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.

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.

Y

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