SOCIAL INVESTMENT JARGON BUSTER

A document outlining some of the common language found within the social investment industry. Some of this sits across the finance and the voluntary and social sector worlds, as well as uniquely to the work BD Giving does. Most definitions have been sought from Big Society Capital's Glossary and adapted for our use (see here https://bigsocietycapital.com/glossary/). Where other sources have been used, they have been detailed, or have been developed by BD Giving staff. If you wish, you can this as a tool to better understand our work within Barking and Dagenham.

A

An asset class: a grouping of investments that have similar characteristics, such as risk levels, and are subject to the same laws and regulations.

Assets: The various resources that an individual or organisation owns (such as property, land, equipment etc).

B

Balance sheet: a "snapshot" of the assets and liabilities of an organisation at a single point in time.

Blended capital: provides a mix of grants with loan finance to provide a range of flexible finance that can potentially cancel out some of the perceived or unknown risk of providing the finance to the lender. It offers flexibility with discipline and can be appropriate for riskier types of capital investments.

Bond: A loan that entails a promise to repay a borrowed amount by a particular date at an agreed upon, along with a fixed-coupon payment (the annual interest rate paid on a bond).

C

Capacity building: Helping organisations and people become stronger so they can grow resources, improve systems, and learn new skills.

Capital: The amount of cash and other assets held by an organisation.

Cash flow: An organisation's total expected outflows and inflows over the year. A cash flow forecast is important in understanding where there will be shortages and surpluses of funds during the year and planning for ways to resolve these.

Co-investment: investment in a project or fund alongside and often on the same terms as other investors.

Community shares: a way for community businesses and co-operatives to raise money by offering investment opportunities to their members. When members invest, they receive a share of the organisation. These shares can be withdrawable.

Community Steering Group (CSG): a group of local people who give their time and ideas to make Barking & Dagenham Giving's community-led investment fund a success, now and for future generations.

D

Debt finance: Investment with the expectation of paying it back. Debt finance usually takes the form of loans, as well as overdrafts. Generally, these require a borrower to repay the amount borrowed along with some form of interest, and sometimes an arrangement fee (which is for the lender and administration of their processes).

Deprivation: An area which is lacking in important quality services such as education, health and finances, resulting in a lowering in the quality of life, in comparison to other areas. Barking and Dagenham uses the government's Index of Multiple Deprivation (IMD) as a tool to compare standards across the borough, London and nationally.

Development capital: Money which enables organisations to invest to build capacity, for example by purchasing property or other assets, or developing new products and services.

Diversification: spreading your investments around to lower your risk - not putting all your eggs in one basket.

Due diligence: a review of an organisation's business documentation, (financial, policies, governance, etc) usually by the lender, in order to prevent harm to both parties involved in a transaction.

E

Endowment: a legal structure for managing a financial investment. Often in the form of a donation to a non-profit organisation, such as a charity or university, which uses the income it generates for good work.

Equity: in finance terms, the monetary value of the ownership of an investment

Equity investment: investment into an organisation in exchange for a share of the business, i.e. the investor offers money to the business in return for a share in the company - a piece of the pie.

ESG: stands for environmental, social and governance. These principles that can be used to measure the sustainability and ethical impact of an investment or an organisation.

F

FCA: abbreviation for Financial Conduct Authority. They regulate the financial services in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.

Fixed income: bonds, bills, and interest-bearing notes that pay a specific interest rate over the life of a loan.

Fund: a way for people to combine their money and invest together.

G

Gentrification: the process by which a place, especially part of a city, changes from being a deprived area to a wealthier one, potentially changing the makeup of the community. This can include the improvement or replacement of buildings. Note: this word is now sometimes used in a disapproving way, but was originally considered positive (source: Cambridge Dictionary).

Grant: a gift of money with no expectation of paying it back. Sometimes, there are certain 'conditions' or requirements attached to the money. In other cases, there are not.

Grantmaking: is the awarding of grants (money that is not expected to be paid back) in an effort to address community needs or achieve social good.

Green bonds: A bond specifically created to be used for climate or environmental projects only.

H

Hedge fund: a type of fund focused on absolute, rather than relative, performance. It is allowed to short stocks (sell stock before you own it) and can use financial leverage.

I

Impact: means the changes to the world we expect to see because of an investment. This could be numbers of people helped, the amount of change or the creation of things that make the world better. This is not exclusive to investment or finance.

Investment Policy: a strategic document that outlines how an organisation will manage their investment assets (the “Portfolio”), with often a set of financial (and sometimes impact) objectives and boundaries.

Investment Portfolio: is a collection of financial investments like stocks, bonds, and funds. Snowball was the first addition to Barking and Dagenham’s investment portfolio.

L

Liability: a financial obligation or debt to another party entered in an organisation’s balance sheet.

Liquidity: how fast you can get your money back from an investment without paying a fine for taking it back.

Loan: a sum of money which is borrowed and must be paid back, usually, but not always, with interest.

P

Participatory grantmaking: people who are affected by funding decisions choose how that money is spent. At BD Giving, residents of Barking & Dagenham decide how to use the money for their area.

Participatory investing: an approach to investing which ensures communities that have been historically excluded by traditional investment structures hold meaningful decision-making power over how money is invested, the design of the process, how that’s implemented, and the desired outcomes.

Patient capital: another name for long term capital or money. With patient capital, the investor is willing to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to wait in anticipation of bigger returns down the road.

Place-based Investing: investments made to create positive change locally, focusing on the needs of communities in specific places.

Profit & loss account: also known as an income and expenditure account, it shows income earned for the year and deducts from it all expenses incurred in earning that income. This will show a profit (surplus) or loss (deficit) for the year, depending on whether income is larger than expenses or expenses have exceeded income.

Q

Quasi-equity investment: a mix of equity and debt investment. It lets an investor get a share of an organisation's future earnings through a percentage of sales. It's similar to equity investment but doesn't require giving out shares. Sometimes, it's called a 'revenue share agreement'.

R

Restricted funds: money (often grants) that can only be used for a specific purpose or project and cannot be used for other things. These can also be referred to as ring-fenced or earmarked funds.

Return: the amount of money you expect to get back from an investment, usually as a percentage gained over a set period of time.

Revenue: the total amount of money generated from a company's business operations.

Risk: When you invest money there is always a chance that you won't get the return you expected. Weighing that up is important before investing.

S

Secured vs unsecured debt: secured debt is a loan backed by something the borrower owns, like a house. If they can't repay, the lender can sell the asset to get some of the money back. Unsecured debt doesn't require backing from the borrower's assets but is often riskier for the lender.

Social enterprise: is a business with primarily social objectives whose surpluses (leftover money) are reinvested back into the business or in the community, rather than being driven by maximising profit for shareholders and owners, such as a Community Shop.

Social Impact: the positive or negative effect that an individual, organisation or project has on the well-being and welfare of a community or society as a whole.

Social Investment (1): using money to help people and communities while also making money back.

Social Investment (2): is the use of repayable finance to help an organisation achieve social impact. The investment can take various forms, commonly a loan, or debt type form with interest, and is often used to develop new or existing activities that generate income. The requirement to finance a loan usually means that the investment should not be used as a substitute for a revenue stream; if an organisation is not trading it may not have a way of repaying the money and therefore should not consider taking on social investment.

Social investment finance intermediary (SIFI): an organisation that provides, facilitates or structures financial investments for social sector organisations and/or provides investment-focussed business support to social sector organisations. For example, Barking & Dagenham Giving could be considered a SIFI.

Social Investor: asset owners, such as donors and foundations, who invest their money with the goal of achieving specific social objectives rather than earning a profit.

Social sector organisation: an organisation that exists primarily to deliver social impact; that reinvests the majority of surplus income to further its work in local communities; and that is independent of the local council and other governmental organisations. The social sector includes voluntary and community organisations, sports clubs, charities, social enterprises, cooperatives and mutuals. The social sector is also referred to as the third sector.

U

Underwriting: a commitment, for a fee, by a lender or investor to provide the money if other sources fail.

Unrestricted funds: money that can be used however and wherever an organisation needs to further its objectives.

Unsecured loan: a loan that is not secured by assets belonging to the borrower. As the risk for the lender is greater, interest rates are usually higher than for secured loans.

Company & Legal Structures

Community Interest Company (CIC): a special type of limited company which exists to benefit the community rather than private shareholders. They are regulated by the Charity Commission, and were introduced in July 2005 and designed specifically for those interested in establishing social enterprises. The CIC can have the structure of a CLS (company limited by shares), CLG (company

limited by guarantee - the majority of currently registered CICs) or PLC (private limited company).

CICs Limited by Guarantee - widely used for charities, community projects, CIC, social enterprises, clubs (including Community Amateur Sports Clubs (CASC), societies and other similar bodies. Most are not-for-profit companies, that is, they do not distribute their profits to their members but either their members can retain them within the company or use them for some other purpose. Most CICs in the UK are limited by guarantee.

CICs Limited by Shares - the company will have a stated amount of capital which is divided into a number of shares. Once a shareholder has paid the full nominal value of their shares to the company, they have no other liability. This structure is useful where the company is being backed financially by one or more outside bodies or individuals who can invest in it by taking shares. There is, however, a statutory dividend cap, restricting the payment of profits out of the company.

Community Benefit Societies: is a legal form for organisations that operate on a non-for-profit basis to benefit the community as a whole. They've been around for a while, however the terminology is relatively new. They were previously known as industrial or provident societies, but changes in 2010 required them to be registered as either co-operative or community benefit societies. They are governed by the Co-operative and Community Benefit Societies Act 2014.

Co-operatives: an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. It conducts its business for the mutual benefit of its members.

Company Limited by Shares: most private companies registered in the UK go by this legal structure. It's particularly popular as the company exists as a separate legal entity from the individual owner.

Company Limited by Guarantee: are the preferred vehicle for trading on a "not for profit" basis. Governed by a Memorandum and Articles of Association.

Charitable Trusts: In England and Wales, charitable trusts are a form of express trust dedicated to charitable goals. There are a variety of advantages to charitable trust status, including exceptions from most forms of tax and freedom for trustees not found in other types of English trust. They are established specifically for a charitable purpose that is for
public benefit. They attract a favourable tax treatment, operate principally under the Charities Act 2011 and are regulated by the Charities Commission.

Charitable Incorporated Organisations: an alternative legal form for a charity. It is a corporate body which is not a company incorporated under the Companies Acts; it is therefore not subject to company regulation. Neither its existence nor any charges it creates have to be registered at Companies House. Only has to register with the Charity Commission and is a legal entity that can enter into contracts in its own right.

Unincorporated Organisations: two or more persons bound together for one or more common purposes, not being business purposes, by mutual undertakings, each having mutual duties and obligations, in an organisation which has rules which identify in whom control of it and its funds rests and on what terms and which can be joined or left at will. It is not a distinct legal entity; it has no legal status separate from its members. There are no formal requirements to set up an association.