Guide to Social Investment

WHAT DO WE MEAN BY SOCIAL INVESTMENT?

If you're reading this, it's probably because you've heard the term 'Social investment' and wondered what it means.

It means investment in for the voluntary sector, where those investing expect to get their money back and in the process make a difference to society. This investment can be in the form of a loan, or the purchasing of shares in a company set up specifically to run the project

Social investors providing this money may include: specialist banks, individuals, charitable trusts, as well as organisations and funds that have been specifically set up to make social investments.

Each has different reasons for doing what they do but what all social investors have in common is:

1) They expect to get their money back, often with interest
2) They want to see positive social change take place as a result of their investment

Social investment is not a grant or a donation (although some social investment opportunities may include an offer that is part loan, part grant). It is money provided to enable your organisation to generate more income or be more effective. In other words, it's a means to an end. This might be by:

- growing your business,
- putting in place better systems,
- ultimately doing more social good,
- and repaying the investment in the process.

IS SOCIAL INVESTMENT RIGHT FOR MY ORGANISATION?

Organisations may need investment for a variety of reasons, which broadly speaking can be grouped into four main sections:

- Getting Started: to raise money for a new start-up
- Keeping Going: to support existing activities
- Buying Assets: to buy buildings or other equipment
- Scaling Up: to grow and expand

It's always good to have money in the bank but that doesn't mean that taking money or investment from other people is necessarily the right move for your organisation. Investment does come at a cost and you have to decide whether the potential benefits outweigh this. It should however lead to greater sustainability and social outcomes.

WHY MIGHT INVESTMENT BE MORE APPROPRIATE THAN GRANTS?

Despite the obvious advantages of grants, there are also some reasons why taking on an investment alongside a grant or instead of one may be in the long-term interests of your organisation.

Flexibility: Investors are likely to be more flexible than grant funders about what you do. If you find your business plan isn't working, an investor is likely to be happy if you change your business model to one that's more likely to succeed.

Active involvement and support: Investors are more likely to want to get actively involved to support your organisation. This can be useful, especially for start-ups.

Less restricted: Social investment tends to be less restricted to particular projects and outcomes than conventional grant funding, giving your organisation freedom to use it most effectively; it can also mean less distraction chasing grants.

Business discipline: Social investment can also help organisations increase their effectiveness through requiring them to improve their financial and business processes, and to be very clear on their priorities and objectives

READY OR NOT?

One of the most widely discussed phrases in social investment is **'investment readiness'**. The question behind the phrase is not a complicated one: 'is your organisation ready to take on an investment?'

What makes this slightly trickier is that different investors may have very different ideas about whether or not an organisation is ready or not. There isn't a single way of judging whether your organisation is investment ready but some broad areas that might be covered include:

-The people in your organisation- e.g. skills in key areas – finance, marketing, business development, governance

-What you do, who your customers are – business strategy/market potential, what products are offered, how you differ

-How you do things, how well you do them and how you know – vision, capacity, resources, track record, social impact

-How you manage your finances – systems in place, knowledge of financial procedures, cashflow status

TYPES OF INVESTMENT ñ DEBT & EQUITY

DEBT - An investor puts some money into your organisation and they want to get that money back, often with interest. The first questions to consider with all debt-based products are:

a) Will you be able to repay the loan? and

b) What will happen if you can't repay the loan?

Types of debt-based investments include:

Secured loans – These work a lot like a mortgage on a house where an investor provides a loan against an asset (often a building or equipment) as collateral. If you don't repay the loan, the investor may have the right to take possession of the asset to sell and recover the debt

Pros: Interest rates may be lower than unsecured loans

Cons: Risk of losing your building or asset if you can't repay the loan

Social consideration: Can social investors offer you a better deal than a high street bank?

Unsecured loans – an investor provides your organisation with a loan that isn't secured against an asset. You repay it on an agreed basis, often with an agreed amount of interest on top. If you don't repay the loan, the investor can take you to court to recover the debt.

Pros: You don't need to own an asset to get one.

Cons: Interest rates are likely to be higher than a secured loan, as it is more risky.

Social consideration: Is the investment helping you create more social value and do more good?

EQUITY

An investor put some money in your organisation in exchange for part-ownership of the business. The investor gets a right to share in any dividends which are paid out from profits. They may also sell their shares in the business to someone else as the business grows and those shares become valuable. This type of investment is best known from the TV show Dragon's Den.

It is important to note that most charities and social enterprises cannot and do not sell shares and therefore cannot and do not distribute profits to shareholders*. But Community Interest Companies (CIC) Limited by Shares, community benefit societies and some other co-operative and company structures can enable some organisations to issue shares and pay dividends within certain guidelines: this means they can still be recognised as social enterprises with a social purpose.

*Some charities will also have a CIC that is limited by shares as trading subsidiaries.

FURTHER INFORMATION

An expanded guide to social investment can be found here.

For further information regarding social investment opportunities or for help in applying for investment, contact:

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