# talking social impact investment

The term 'social investment' covers the different types of financial activity used to create social impact. There are three main types of social investment:

## Debt Finance

Debt finance usually takes the form of loans, both secured and unsecured, as well as overdrafts and standby facilities. Generally these require a borrower to repay the amount borrowed along with some form of interest, and sometimes an arrangement fee.

## Equity Finance

Equity investment usually takes the form of shares issued to an investor in exchange for capital. Unlike debt, equity finance is permanently invested in the organisation. The organisation has no legal obligation to repay the amount invested or to pay interest. Equity investors usually invest in organisations that they believe will grow.

## Quasi-Equity Finance

A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of income. However the investor may gain nothing if the organisation does not perform.

For a voluntary sector organisation to decide whether social investment is right for them, it is important to understand the key terms:

[ **bridging loan** ] finance to cover short-term cashflow shortfalls.
[ **Community Development Finance Institutions (CDFIs)** ] finance from small social investment providers.
[ **community investment** ] selling shares to people in the community to create a co-operative enterprise.
[ **equity investment** ] finance from the sale of your shares.
[ **grant** ] finance which expects no financial return.
[ **growth / development capital** ] finance to help an organisation or project grow.
[ **overdraft facility** ] secure agreed credit when your account reaches zero.
[ **patient capital** ] suitable for big social or environmental impact project.
[ **philanthropic capital** ] used by foundations and philanthropists to create social benefits.
[ **pre-funding of fundraising** ] loans which help meet short-term fundraising targets.
[ **quasi-equity / revenue participation** ] combining some of the benefits of equity and debt.
[ **secured loan** ] using your tangible assets to raise funds.
[ **social impact bonds** ] investment from the private sector.
[**standby or underwriting facility**] secure credit to use if or when income drops.
[ **venture philanthropy** ] high-engagement grant-making.
[ **working capital facility** ] finance to support dips in cash flow.