What is social investment?

Social investment is the use of repayable finance to help an organisation achieve a social purpose.

Charities and social enterprise can use repayable finance to help them increase their impact on society, for example by growing their business, providing working capital for contract delivery, or buying an asset.

Social investment is repayable, often with interest. Charities and social enterprises may generate a surplus through trading activities, contracts for delivering public services, grants and donations, or a combination of some or all of these. This surplus is then used to repay investors.

Social investment is not suitable for everyone, and it should be considered alongside other options. It's important to look at the range of finance options available to your charity or social enterprise before deciding.

Social investment is not a grant or a donation.

Borrow

Blended – part grant, part loan

A package of funding that is a mixture of investment, that needs to be repaid and a grant that doesn't need to be repaid. For example, a grant of £20,000 alongside a loan of £50,000 that needs to be repaid over 5 years with 10% interest

Charity bonds

A tradable loan from a group of social investors to a charity or social enterprise over a fixed period of time with a fixed rate of interest. For example, if you issued a £2million bond over 5 years at 2% interest in 2017, you would pay the social investors £40,000 interest each year and repay the £2million in 2022

Loan

Investment secured against an asset, such as a mortgage. The loan is repaid with (usually) an agreed amount of interest on top.

Unsecured loan (incl. overdrafts)

An investment that is not secured against an asset (a building or equipment). An investor provides your organisation with a loan and you repay it on an agreed basis, usually with an agreed amount of interest on top.

Shares

Community shares

A withdrawable, non-transferrable equity investment into a cooperative or community benefit society. It is a form of equity because the investors get a share of the organisation.

Equity investment

An investment in exchange for shares in your organisation. For example, an investor pays £10,000 to own 10% of your organisation. Equity investors receive a share of any profits paid out by your organisation and get to have a say in how it is run, proportionate to the amount they invest

Other

Quasi-equity

An investment that reflects some of the characteristics of shares but without your organisation offering up equity. Rather than paying back a set amount each month, your repayments are typically based on the performance of the organisation – such as profits or income. For example, you receive an investment of £50,000 and agree to pay the investor 2% of your annual income for 5 years.

Crowd-funded investment

An investment that is raised via an online platform and not secured against an asset (a building or equipment). A 'crowd' of individual investors put (mostly) small amounts towards a loan to your organisation and you repay it on an agreed basis, usually with interest on top.

Social Impact Bonds

A Social Impact Bond (SIB) is a payment-by-results contract where social investors pay for your organisation to deliver a service – for example, helping homeless people to find a home – and the Government repays the investors with interest if the service is successful.

Social Investment Tax Relief

Social Investment Tax Relief is a tool that can be used in combination with other products.

A tax break for individual investors into charities and social enterprises. Investors get 30% of the cost of their investment off their next income tax bill so, provided certain conditions are met, if an investor makes a £100 investment into your organisation, they can claim £30 back. Investors can't sell their shares or have their loan repaid for 3 years, although they can receive interest on loans.

Social property funds

Funds managed by a specialist firm, who raise money from investors, and then use the funds to buy property that can be used by a charity to deliver its services. The charity leases the property from the social property fund.

For more information about social investment, please contact:

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