Social Investment Funds

Firstly Consider:

* Important to realise that a loan is NOT income – it will need to be paid back, often with interest.
* What are the interest rates?
* Does the constitution allow the organisation to take out loans and if so what type?
* How will the loan be paid back?
* Who will they get loan from? Lots of organisations/investors e.g. Charity Bank, individuals
* What will use loan for?
* Have they got robust financial systems/processes and the expertise in place to manage the loan?
* Are the trustees confident in understanding the repayment terms and conditions of the loan?
* Are all the trustees happy to take out a loan? Likely that an investor might want to get involved with the organisation to help and also monitor performance – would have to be discussed with the investor.
* Ensure organisation likes and trusts the investor and is aiming for same thing as the investor.

Benefits of social investment for charitable organisations:

• Can offer more favourable terms then a loan from a high street bank;

• Fill financing gaps for innovation and growth e.g. purchasing a building or buying key pieces of equipment;

• Help funds a project that wouldn’t appeal to donors;

• Can help to develop sustainability and autonomy.

There are 3 main types of Social Investment

1. Debt

Secured/Unsecured loans/Overdrafts/Bridging loan;

Repaid with interest;

Can be high-risk for organisations in the start-up phase.

2. Equity

Shares issued in exchange for capital;

Less commonly used in charity finance as many legal structures don’t allow organisations to issue shares or distribute profits.

3. Quasi-Equity

Allows investor to benefit from future revenues of an organisation through a royalty payment which is a fixed percentage of income;

Often linked to income of the organisation not shares/profit;

Investor may gain nothing if the organisation does not perform.