WHAT DO WE MEAN BY

'Social Investment'?

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About the author

Phil Caroe is Director of Social Finance at Allia where he leads the development of retail products to raise finance for social ventures. Since joining in 2009 he has worked on the issue of over £100 million of bonds. Phil spent three years developing Retail Charity Bonds, a ground-breaking platform to raise unsecured loan finance for charities through bonds listed on London Stock Exchange, and is currently managing a major investment programme for Scottish Government in affordable housing.

After graduating from Cambridge University Phil flirted with the idea of a career in academia, staying on to do an MPhil in psychology and theology. He realised though that he wanted to do something more practical than spending his life reading, thinking and writing, and started his career in a think-tank working on communications and policy. Phil still likes to read, think and write however when he gets the chance.

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What do we mean by 'social investment'?

Last year, in an article for Pioneers Post,[1] I kicked off a debate about the language we use when talking about investment in organisations for positive social outcomes. It was becoming increasingly clear to me how much confusion there is out there – not only a variety of different terms being used, but also the same terms being used by different people to mean different things. And when it comes to promoting an idea, confusion is never a good thing. Whenever we want to create a new movement, build awareness and change behaviours, we need to be to communicate clear concepts effectively.

The article and the ideas put forward were something of a 'straw man' – not a claim to have the solution, but a construct to invite discussion and refinement. Off the back of the article, we created an online survey to gather people's views and get a sense of whether we were on the right track. It was encouraging to see that the majority of respondents to the survey were not only positive about the need for this discussion but also, on the whole, about the direction it's going. As one person commented, a few years ago nobody wanted to talk definitions, we just wanted to get on with it. But now that more is happening and more mainstream institutions are getting involved, it feels like the right time to step back and think about it again.

This report picks up the key points that came through the survey and subsequent discussions with a number of friends and colleagues in the sector, and sets out a more comprehensive proposal as the basis for further discussion. Each section is reproduced as a post on the Allia website at www.alllia.org.uk and we would welcome your feedback and comments.

Ultimately, the aim is to find consensus in a short guide to act as our 'touchstone' and help us all communicate more consistently and effectively.

Thank you to everyone who has been part of this conversation, and particularly to Dan Gregory for his comments and challenges on early drafts of this report.

1 www.pioneerspost.com/news-views/20150907/defining-moment-what-social-investment

Shared language

You know what a tree is, right? It's a fair bet you also know what I mean by a dog, or a house, or a chair. We both associate the same concept with these words, which allows me to take a thought that's in my head and recreate it in yours. Without this shared understanding, communication would be impossible. If I used the word 'tree' to mean a place to live, it wouldn't matter how consistently I talked about tree-prices and the need for more affordable tree development. You'd still think I was nuts. It's a ridiculous example, but it proves the point that shared understanding matters.

We also need shared concepts that are sufficiently specific. Imagine if we only had the word 'animal' to refer to a living thing. If I told you I have three little animals, you wouldn't know if I was talking about hamsters or children. But at the same time our concepts can cope with being a little fuzzy. If I told you I have three hamsters (which I don't), it wouldn't really matter which particular breed of hamster they were. You wouldn't be able to pick out my hamsters in a line-up, but you would have received the essential information I wanted to convey about my choice of pet. A shared concept isn't the same as a definition.

To get back to the point, some responses I've had to this project have argued against imposing definitions. We shouldn't define 'social investment' because we want to allow room for flexibility and growth. And I agree. On reflection it perhaps wasn't helpful to talk about 'definitions' in the Pioneers Post article. I don't believe we need to treat social investment as a scientific classification with a set of defining characteristics that allow us to state objectively whether something is or isn't a social investment. Definitions are useful in science and in legislation when you need to establish clear boundaries that rule things in or out. But they're not necessary in ordinary conversation.

What I suggest we need is not so much a definition as a shared understanding. It can cope with being a little fuzzy at the edges, so long as we share the same core concepts behind our words.

"What I suggest we need is not so much a definition, but a shared understanding."

What are we trying to achieve?

Before getting into the question of which words we should use and what they should mean, it may be helpful to take a step back and ask first what it is that we want to achieve when thinking about repayable finance. Ultimately it is of course all about creating positive social impact, but in terms of the strategic priorities to make that happen it seems to me that there are four main objectives:

1. Supporting charities and social enterprises

For many people involved in this discussion, this is probably going to be their primary focus. We want to help more organisations in the 'social sector' to use repayable finance where appropriate to grow and become more sustainable so that they can continue or increase their social impact. The meaning of social sector is, of course, itself fairly contested and fuzzy at the edges, but let me suggest that we are essentially talking about organisations which have been established in response to a desire to address particular social issues and which maintain that desire at the core of their existence.

This kind of support may be as simple as helping organisations to develop business strategies, work issues through with their trustees and come to a point where they are able to take on a commercial loan from a high street bank. Or it could mean helping them connect with socially motivated investors. All of it is finance that is helping them deliver their mission, though there may be varying reasons behind the investments. It may help the investees however to understand the objectives and expectations of potential investors and they may choose or need to seek finance from investors who are more philanthropically motivated.

2. Providing capital to positive impact companies

The boundary of the social sector is a hazy place. But I would suggest that there are companies which sit firmly outside those boundaries, being fully commercial and for-profit, but whose activities are directly creating positive impact. I don't imagine for example that you'd find Tesla Motors qualifying for membership of SEUK. I don't know either the extent to which Elon Musk is driven by a desire to tackle climate change or whether he just spotted a great business opportunity, but there's no doubt that the company has the potential to make a significant impact in reducing global carbon emissions.

So while these companies couldn't be called social enterprises, providing capital to such companies (perhaps bearing in mind the caveat of Dan Gregory's M>R test[2]) would certainly seem to be a legitimate strategy for making the world a better place.

2 http://commoncapital.blogspot.co.uk/2015/05/mr.html

3. Preferring investment in responsible companies

While I remain open to being persuaded otherwise, I don't think every company can, needs to be, or even should be a social enterprise or a positive impact company as described above. For a healthy functioning society we need ordinary companies that provide services, employment and business to others. But every company can, should and – many would argue – needs to be responsible. There is a strong case to be made that acting in ways that are good for stakeholders, society and the environment is more than just ethically right. It not only makes the business more effective and sustainable, it is also an essential part of dealing with the problems of climate change and inequality that pose threats to the global economy.

Investing in companies that act responsibly will have some direct social benefit as those companies grow, while also adding pressure on less responsible companies to up their game. But it's also a fundamentally sensible and necessary long-term financial strategy.

These three objectives are all distinct but, I would argue, all valid and important. Some investors will be agnostic across the three categories and be concerned only with potential impact; others may have a specific policy objective for the social sector. But either way, if all of the above is to happen, then we need a fourth objective of getting more investors to think about the effect of their investing and the opportunities to have positive effect, as well as looking at it simply from a financial risk/return perspective.

4. Changing investor attitudes and behaviours

This is a question of culture shift. We need to influence people's attitudes and values so that subsequently they change their behaviours. Adding social impact as an additional filter is the relatively easy part – and judging by the number of mainstream fund managers getting into impact investing, there's clearly already a growing desire for investments that meet all your financial criteria as well as giving you a warm glow. I mean, who wouldn't want that? That being said, there will always be a fair degree of dissonance between attitudes and behaviour given the energy required to make any kind of change.

The harder, but necessary part, is convincing people that the return may not be the most important thing about an investment. Seeing objectives 1, and in many cases 2, met will sometimes mean that investors will have to be prepared to take a potentially less than optimal financial position (take a look for example at Michael Etzel's helpful article[3] for the Stanford Social Innovation Review). This is quite different from just adding a social impact filter, it's a wholly different philosophy of the fundamental purpose of investing: where the primary goal is what the investment achieves, and the financial return is the by-product.

3 http://ssir.org/articles/entry/philanthropys_new_frontierimpact_investing

The great conflation

The reason why I think we're so often in a muddle is because different people use the same terminology to refer to different elements from these four objectives. Here are some of the problems I see:

1 and 2 get mixed – as a result, charities and social enterprises who thought that 'social investment' support meant objective 1 feel let down/betrayed when they see 'social investors' working with commercial companies in pursuit of objective 2.

1, 2 and 3 get mixed – research now says that 'impact investing' can deliver market rate returns (or even better!), a fact that commercial impact funds are keen to point out, so why should investors settle for anything less?

2 and 3 get mixed – so new funds are created with the currently trendy 'impact investing' label, when in reality they're just a fairly ethical fund with a bit of positive screening. I've even seen shares in Apple described as impact investments because someone put them in a low-carbon fund.

1 and 4 get mixed – so sometimes we talk about 'social investment' as investment for social reasons, while other times we use it to refer to investment raised by social organisations. But some 'social investments' look decidedly commercial, while commercial bank lending (even though it may be intended to support the social organisation) is generally considered not to count as 'social investment'.

What I aim to do in the next few sections is to unpick these tangles so that we can start being clearer about what we mean.

Estimating the size of the social investment market

One of the major problems around the meaning of 'social investment' is the entanglement of investor objectives and investee type. And this becomes seriously problematic when trying to neatly determine the size of the 'social investment market' on the basis of deals done.

To produce a figure, the obvious place to start is with all the lending by the 'social' banks: CAF Bank, Charity Bank, Ecology, Triodos and Unity. Clearly they all have a core social purpose. But do we include loans to charities from Co-op Bank or building societies? And what about other high street banks – do we just exclude them on the basis that they pay bonuses and therefore must be evil capitalists? Or could it be that even some people within mainstream commercial banks are motivated to provide finance and other forms of support to social sector borrowers because they genuinely want them to succeed?

Next, let's take community share offers. There's a reasonable argument that investing to save your local pier or football club is probably going to be socially motivated rather than financial. Investing in the local pub is maybe more questionable unless the number of pints of real ale poured can count as a social outcome. But – because it's way too difficult to do otherwise – maybe we should just assume that any investment in a community benefit society counts. What then about co-operatives? Maybe we should count them too, except for the Co-operative Group that is, which is clearly way too big and successful to be included. And maybe some of the more successful energy co-ops. And perhaps farmers' markets. After all, co-ops do exist to benefit their members, which isn't necessarily what I'd call social impact.

Finally, charity bonds. Let's include everything arranged by Triodos because, as we've said already, they're a nice bunch and will help people who might not be able to access the finance elsewhere. Eden Project raised the money it wanted through Crowdcube, but then again so did Kevin McCloud, and who's to say that all the investors getting 6% from their Eden Project bond are socially motivated? Then let's consider Retail Charity Bonds, the issuing platform which we at Allia set up. Last year the platform raised £27 million for Hightown Housing Association. Does that bond count because Hightown has a strong social mission, or does it not because most of the money came from mainstream financial investors and commercial funds rather than philanthropists and foundations? And if it does, what about other housing associations like A2Dominion that's done two retail bond issues each for £150m? Or even Cambridge University with its £350m bond? Where do we draw the line, if at all?

In their 'First Billion' report,[4] BCG suggested a clean divide between counting investments that are socially-motivated and those that are commercially-motivated (see the diagram with

4 www.bcg.com/documents/file115598.pdf

its neat little boxes). Big Society Capital has followed this same methodology with its own recent report putting the size of the market at £1.5 billion.[5]

Exhibit 1: BCG's five types of finance

BCG suggested that it's "easy enough" to distinguish one from the other, but I'm not so sure. Can we really infer motivation simply by looking at the terms of a deal? Couldn't some investors be both socially and commercially motivated? And just how socially motivated do you need to be to cross over the magic line into 'social investment'?

The major flaw of this approach is its subjectivity. If every researcher has to decide which box to put each investment in, we'll all come up with different figures. But perhaps more fundamentally we should question what benefit there is in counting up the value of social investment deals (other than to justify our existence as intermediaries).

To make our research meaningful we need to frame it in line with our objectives. To support objective 1 we should be looking at the scale of repayable finance being used by charities and social enterprises from every source, however motivated. This, what we might call the 'social finance market', is the big picture that really matters if we want to know how important repayable finance is to the sector and what the potential effect of providing better finance options or more investment readiness support could be. We can categorise our data according to objective factors like amount, type of investee, type of investors and type of investment, and the return offered or forecast.

5 www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_1.pdf

6 Unlike Daggers and Nicholls (The Landscape of Social Impact Investment Research: Trends and Opportunities, March 2016) I would argue that it's unhelpful to combine grants and investments under one term and that 'social finance' should only refer to finance for social sector organisations that is structured as some form of debt or equity investment.

This will provide a rich data set that we can then cut as required to identify what's going on across the sector, and which we can refresh regularly to see how the data changes over time.

At the same time, to support objective 4 we need to understand the changing motivations of investors and the scale of finance that is available specifically for charities and social enterprises, on the assumption that socially-motivated finance is in some way more beneficial to investees than commercially-motivated. We need to consider the number of institutions looking to make social investments and identify the amounts they have allocated or invested for social purpose. We can survey individual investors and ask them about their attitudes and investing behaviours, then use the sample to make some population extrapolations. And again, we rerun the survey routinely to see how the answers change over time.

The point is that the amount of finance being used by social sector organisations and the amount of finance being invested for social purpose are two different research questions. We need to keep them distinct to get any clarity about what's really going on.

"The amount of finance being used by social sector organisations and the amount of finance being invested for social purpose are two different research questions."

The social investment confusion

The evidence all suggests that charities and social enterprises are generally pretty confused by social investment. The one thing that is clear is that it's not the same as getting a loan from the bank, because bank loans have been available forever and the 'social investment market' is apparently some new thing that Big Society Capital and a bunch of 'SIFIs' are busy trying to build.

And therein, I believe, lies the problem. So I'm going to go out on a limb here and say something potentially controversial: the fact that we talk about this concept of 'social investment' as a type of finance raised by charities and social enterprises is, I suggest, one of the main barriers to them getting involved.

Firstly, debt is often a scary enough word as it is. The idea of getting into debt in order to pay for stuff you couldn't otherwise afford and putting your organisation and your beneficiaries at greater risk doesn't always, unsurprisingly, sit that comfortably with trustees. Now introduce a new and unfamiliar concept called 'social investment' as an alternative to conventional finance, and you can appreciate how the comfort zone is getting left even further behind. Add to the mix the political rhetoric of social investment offering salvation for the sector at the same time as deep funding cuts and the proliferation of ex-City people trying to offer you finance, and you can see why social investment hasn't always been whole-heartedly embraced.

The second issue is that it's not always clear what to expect from investment with a 'social' label. Sometimes what investors mean is that it's finance exclusively for social organisations. But investees may interpret the label to mean that there's something different about 'social' investment compared with ordinary commercial investment – perhaps a willingness to accept lower returns and longer timeframes, and to not mind so much if it all doesn't work out and the money can't be repaid. So you can also understand the frustration from investees when some sources of 'social' investment turn out to be much more commercial than they expected.

My proposition therefore, radical as it might sound, is that we stop talking to charities and social enterprises about raising social investment as a type of finance. We stop giving the impression that social investment is a thing with definable characteristics, and instead simply talk about how repayable finance could support their mission. We explain how there is a spectrum of different investors and lenders – from banks to venture philanthropists – each with their own mix of social and financial goals. And some of these might describe themselves as social investors.

> **My proposition is that we stop talking to charities and social enterprises about raising 'social investment' as a type of finance.**

Changing investor behaviour

Earlier we looked at the objectives we want to achieve. For organisations in the social sector we want to see increased sustainability and impact by encouraging an entrepreneurial culture and consideration of how repayable finance can, in the right circumstances, be an appropriate tool. As I said in the previous section, I don't think we need a specific term to promote a shift in attitudes amongst charities and get people who've never considered finance before to think about whether it could be right for them.

On the investor side however it's a different matter. For the investee it's a binary difference between investment and not-investment, but for the investor it's a qualitative difference. We're not really encouraging investment when they wouldn't otherwise be investing, but rather calling people to invest in a different way. In part we're asking them to think about impact and the opportunities to enable positive change within the context of their normal financial objectives. But more than this we should be challenging whether maximising returns really is the most important thing in life, encouraging investors to think about how they can use their money for good and getting risk-adjusted returns that are acceptable, if not maximised.

The point is, we're saying to people, "You understand what investment is generally, right? Well this is a particular, distinct approach to investment." Whether we call it social, impact, positive, responsible, sustainable, or whatever, the use of some preceding qualifier captures the concept of a specific set of investing goals so that we can help investors see them and hopefully adopt them.

In other words, 'social investment' in my view is not about who is raising the money and what their legal structure is. It should rather be used to describe investments made with a particular set of social objectives.

> **'Social investment' should be used to describe investments made with a particular set of social objectives.**

Characteristics vs. principles

My argument so far has been that "[insert appropriate word here] investment" should refer to investment with a particular set of objectives so that investors can understand it as different from other approaches to investment.

There is a view however that the appropriate terminology should not only refer to objectives but also have some defining characteristics. According to this view, a 'social' investment should only be classed as such if it meets certain criteria like, for example, the legal status of the vehicle, the amount of profit sharing acceptable or whether social outcomes are counted.

I accept that there are some circumstances where this is necessary, like the application of Social Investment Tax Relief for example. However, if our goal is to shift investor attitudes then I'm not convinced that defining characteristics are helpful. The problem of doing this is that it moves us away from 'social investment' as a kind of investing worldview and starts to treat it more like an asset class.

Instead I suggest we should talk about principles of how to do good 'social investment' or good 'impact investment'. In other words, we should treat social investment as being analogous to philanthropy. You can get tax relief if you donate to a charity, but that doesn't mean you can't be philanthropic by giving money to a for-profit company. Philanthropy is a matter of motive. We can however still encourage donors to adopt principles that will make them most effective in their philanthropy.

Similarly, questions of impact measurement, ownership, asset locks, mission locks and limitations on profit distribution are all sensible things to look at when making a socially-motivated investment. Investors can embed these criteria in their own funds, but I don't think it's right to impose them on others. Social investors are likely to focus on social sector organisations, but I don't believe they necessarily have to (particularly when not everyone agrees on where to draw the boundary of the 'social sector').[7] Requiring investees to measure impact makes a lot of sense, but what gives us the right to say it's not an impact investment if you don't?

My view is that we shouldn't create a police force that dictates whether or not people can call themselves social or impact investors, or whether a particular investment should be called a social or impact investment. Rather, each investor and fund manager wanting to adopt this (or any similar) label should clearly set out their own principles, criteria and track record, and allow others to judge whether their motives are true.

> **"We shouldn't create a police force that dictates whether or not people can call themselves social or impact investors or whether a particular investment should be called a social or impact investment."**

7 In contrast to Daggers and Nicholls (2016), who describe social investment specifically as "providing access to repayable capital for social sector organisations, where the providers of capital are motivated to create social or environmental impact".

Distinguishing investor objectives

Social/impact investment often gets described as if it's a single, consistent thing. "You want to know what social investment is? Well it looks like this."

The BCG proposition, as described previously (and recently affirmed by BSC), implies this binary distinction between social-motivation (or 'social intent') and commercial-motivation (or 'no social intent'). But while the newly-revised BSC definition affirms that objectives matter, the concept of social intent as an on-off switch seems to me to be an over-simplification. Sometimes people distinguish between 'finance first' and 'social first' investors, though I'm not sure that quite nails it either.

What I see, on the one hand, is people who want to manage an investment portfolio but also want to create positive impact. Even within this category there is a spectrum: for some a low level of impact might be enough to make an investment acceptable, while others might set the bar much higher. The finance and social factors may in fact be equally important, but the point is that the portfolio is being commercially managed to achieve risk-adjusted returns that are at least as good as what you might have expected without any social criteria. And there's absolutely nothing wrong with that. I'd love my pension provider to tell me about all the social good they've achieved with their investments. I wouldn't want them to say "we've lost half your money but look at all the innovative and disruptive social start-ups we've supported".

On the other hand, I see a range of foundations, specialist funds and individual investors who recognise that mainstream finance may not be appropriate or even accessible for some social organisations. They care about creating impact, and see investment as an extension of philanthropy that enables money to make a change while being preserved and recycled. Yes they are social first, but the key distinguishing feature is that they don't need to benchmark or maximise their returns. A commensurate return is fine if achievable, but there is the ability and willingness to be less than commercial in order to provide the capital required – perhaps a lower risk-adjusted return, less liquidity or a more patient and flexible approach.

One of the places where this distinction really becomes tangible is how investors will respond in the event of a default. When setting up the Retail Charity Bonds platform we had long discussions about what Allia should do, as the loan manager, if one of the charity borrowers defaulted. In the end, we concluded that taking any action would leave us in a no-win situation. Either we would have to act in the best interests of the investors and do whatever it took to get the money back from the charity – a role that we, as a charity ourselves, didn't feel comfortable playing. Or, we would have to tell investors from the outset that we wouldn't be prioritising the recovery of their money if it all went wrong – which would effectively make the bonds uninvestable to mainstream investors. So instead we have left it up to the investors to decide what they want to happen, and how commercial or how supportive to the charity they want to be if a default occurs.

I know that not everyone will agree with me on this distinction. Some people may feel that investment should always be commercial, and if it's not then it's not a true investment. Others may think that any kind of subsidy or softness is distortive and unhelpful, or perhaps that philanthropy and investment can go together but should be clearly differentiated. Those who operate in the more commercial impact investing space may not appreciate even the slightest suggestion that investors have to forgo some return in order to achieve impact.

I do believe that impact investing can deliver 'market' returns and can attract mainstream commercial finance. But I also believe there's far more that can be done with finance that puts the mission of the investee at the heart of the deal.

Our terminology needs to capture this distinction between the commercial-with-impact and the mission-driven. We want investors to add impact criteria into their portfolios, but we also want to show them that there's something beyond this – that they could facilitate even more impact if maximising risk-adjusted return wasn't the primary goal. We want investees to be able to find those investors who are seeking impact, but we also want to help them easily understand those investors' objectives and know who to approach if they need more than a commercial investor could offer.

> **Our terminology needs to capture the distinction between the commercial-with-impact and the mission-driven.**

Turning to terminology

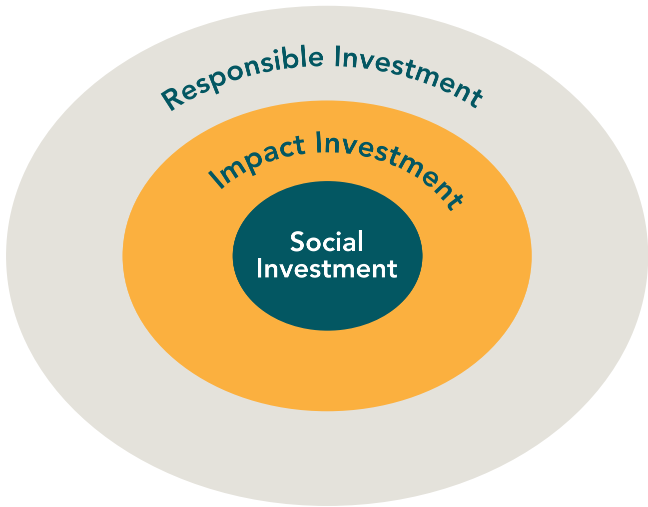
At last we turn back to the question of our terminology. With all that we've previously explored, what meanings should be captured by our different labels and how do they fit together?

The great thing about a process like this is that you get to reflect on your own thoughts. From all the feedback we received and my further research and consideration, I'm proposing a slightly different approach to the one I suggested in the original Pioneers Post article.

Working with the existing terminology and its accepted usage, it seems sensible to recognise 'sustainable investing' (also referred to as 'responsible' or 'sustainable and responsible' or SRI) as a broad umbrella term.

The Global Sustainable Investment Association describes sustainable investing as "an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management." This covers everything from negative screening through to investing specifically in businesses with an explicit social or environmental purpose. In other words, everything to do with investing in organisations under our objectives 1, 2 and 3 that has anything to do with either excluding harmful impact or aiming for positive impact comes under this banner. We can safely say that everybody should be investing sustainably.

Within the sustainable category we have impact investing. The Global Impact Investing Network (GIIN) describes this as "investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return". They go on to say that impact investments "target a range of returns from below market to market rate, depending upon the circumstances". This concept is certainly more specific than the 'sustainable' label, requiring the intention to generate additional impact. Referring back to our initial objectives, it helps us differentiate between what's an ethical investment in a responsible company and a genuine impact investment.



8 https://thegiin.org/impact-investing/need-to-know/
9 https://thegiin.org/assets/upload/West Africa/01 West Africa Regional Chapter.pdf

The impact investment concept would also cover investment in social sector organisations under our objective 1, but is clearly much broader. Indeed a lot of impact investment seems to focus on positive impact companies, including investments in things like cleantech, pharmaceuticals or transport infrastructure, which I don't imagine would normally feature in a 'social investment' portfolio (see for example the GIIN report on impact investing opportunities in West Africa[9]).

While the GIIN acknowledge that returns can be 'below market', their 2014 survey with JP Morgan showed that 55% of impact investors sought a market rate return with a further 27% looking for 'close to market'. In practice the majority of impact investing seems to be decidedly commercial, looking for industries and for companies in emerging markets that can deliver healthy returns to investors along with positive impact. There are even some impact investors who are now targeting market-beating returns, sometimes referred to as 'impact alpha'.[10]

The common usage of 'impact investing' therefore more closely aligns with my previous description of investments with all the usual financial criteria but with the parallel goal of creating social impact. And I suspect that impact investing will increasingly focus on this end of the spectrum as more mainstream financial institutions get involved and as impact fund managers seek to engage mainstream investors with the premise that you don't have to sacrifice anything in order to do good. Any suggestion of sub-commercial returns would undermine this message.

Impact investing has, perhaps, grown primarily out of a vision to harness capital markets for social benefit. By contrast, the social investment movement in the UK has primarily emerged out of a policy question of how to support charities and social enterprises. While impact investing tends to ask what opportunities can fit our investment criteria, social investing has, I feel, (even if far from perfect) more of a tradition of asking how finance could be made available to those that need it.

I suspect that if you were to put the same GIIN survey question to UK 'social investors', you would find that most of them are seeking to provide finance at some degree less than fully commercial (even if not always at as many degrees as some social organisations might want). This I believe is the heart of what differentiates 'social investment' and is something worth hanging on to. As interest in some kind of socially-motivated investment grows, and with increasing global coordination, there is a tendency to view 'social' and 'impact' as synonymous, even to mash up our cultures under a combined 'social impact investing' label. But I think it important to keep these two terms distinct.

10 See e.g. http://casefoundation.org/wp-content/uploads/2014/11/ShortGuideToImpactInvesting-2014.pdf

Some self-defined 'impact investors' will reasonably consider themselves to be philanthropically motivated. They could, just as fairly, be described as social investors (though many in the US seem to dislike the word 'social'). Yet maintaining our distinct UK concept of social investment underlines the fact that it doesn't include everything else that impact investing covers.

'Impact investment' is a useful label when seeking to engage with mainstream financial investors who want appropriate commercial investments. "Social investment" however identifies and celebrates those investors with a fundamentally social purpose. They are not looking for a more comfortable conscience on their pension, or to benchmark their investments against mainstream alternatives. They are setting out to make social change, ensuring that returns are sufficient for their needs but not needing to compare or maximise their returns.

If impact investing were to be characterised as investment with impact, then social investing is about impact through investment. Or in other words, we might say:

'Social investment' is an investment where the investor has the social mission of the investee as the primary objective, and which is therefore more beneficial to the investee than would be expected of a commercial investment in a non-social investee.

Appendix: A quick guide

Social investing

Investment made with the primary objective of supporting the social mission of the investee, where the investment is therefore more beneficial to the investee than would be expected of a commercial investment in a non-social investee.

Social investment describes the motivation of the investor to enable the recipient to deliver its social mission through the provision of repayable finance. It is not a description of finance with particular characteristics or raised by particular kinds of organisations.

Since the investor is primarily motivated by supporting the investee, we might expect that the investor would seek acceptable returns rather than benchmarked or maximised returns. Investors will still need to meet their needs, but the nature of the arrangement will in some way be more beneficial to the investee than might be expected of a purely commercial, non-social investment.

Impact investing

Investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return.

Impact investment describes the motivation of the investor to generate impact alongside financial returns. In the US, impact investing can be used to describe what we in the UK call social investing, but it is also used more broadly to refer to investments made to deliver returns as good as (or better than) the rest of the market while also generating positive impact.

In the UK, impact investing can be used to describe opportunities for investors to meet their normal financial goals, without making any concessions, while also having a positive impact.

Repayable finance

Money that is raised by an organisation and will (or may if requested) need to be paid back in future.

Repayable finance is what is raised by a charity or social enterprise through a loan, bond or community share offer, whether the money comes from a high street bank, a charitable foundation or an individual supporter. Some investors may describe themselves as social investors or impact investors, but we talk about charities raising repayable finance rather than raising social investment.

Social finance

Repayable finance for charities and social enterprises.

Social finance can be used to describe any form of repayable finance being used by organisations in the social sector. The 'social finance market' is the sum of all repayable finance, regardless of its source, being used to support these organisations. From a policy perspective we might talk about growing the social finance market to refer to improving access to finance and enabling more charities and social enterprises to take on repayable finance where appropriate.

Allia

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