EUROPEAN
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VP/SI GLOSSARY

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In what follows, we provide a glossary of some of the key terms used in Venture Philanthropy/Social Investment and related areas.

MAIN DEFINITIONS

Venture Philanthropy Organisation/Social investor (VPO/SI or VP/SI organisation)
An organisation pursuing a venture philanthropy/social investment approach.

Social Purpose Organisation (SPO)
An organisation that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations and social enterprises.

Venture Philanthropy (VP)
VP is a high-engagement and long-term approach to generating social impact through three practices:

- Tailored financing: using a range of financial instruments (including grants, debt, equity and hybrid financial instruments) tailored to the needs of organisation supported.
- Organisational Support: added-value support services that VPO/SIs offer to investees (SPOs) to strengthen the SPO's organisational resilience and financial sustainability by developing skills or improving structures and processes.
- Impact measurement and management: measuring and managing the process of creating social impact in order to maximise and optimise it.

Social Investment (SI) (also known as Social Finance)
Social investment is the provision and use of capital to generate social as well as financial returns. The social investment approach has many overlaps with the key characteristics of venture philanthropy, however social investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of capital).

Accelerator
A programme through which an organisation supports investment-ready social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to help them grow.

Accountability
The obligation of an organisation to account for or take responsibility for the effect of its activities.

Activities
The concrete actions, tasks and work carried out by the organisation to create its outputs and outcomes and achieve its objectives.

Attribution
Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

Baseline
The baseline is the initial collection of data that describes the state of development of the SPO when the VPO/SI starts investing in it. The baseline serves as a basis for comparison with the subsequently acquired data on the development of the SPO.

Beneficiaries
The people, communities, broader society and environment that a SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO. Beneficiaries can be divided into direct and indirect or primary and secondary, depending on their relation with the benefits.

Blended Finance
The OECD defines blended finance as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets".
(Source: www3.weforum.org)

Business model
A business model describes the rationale of how an organisation creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of constructing a business model is part of the business strategy. In theory and practice, the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, business process, target customers, offerings, strategies, infrastructure, organisational structures, sourcing, trading practices, and operational processes and policies including culture.

Business plan
Document describing the goals and the operating model of an organisation, and the financial resources that will be used in order to reach the goals.

Capacity building (also known as organisational support)
Approach aimed at strengthening organisations supported to increase their overall performance by developing skills or improving structures and processes.

Co-investment (also known as Co-funding)
In private equity, co-investment is the syndication of a financing round or investment by other funders alongside a private equity fund. In venture philanthropy, it involves the syndication of an investment into a social purpose organisation (SPO), by other funders (e.g. grant-makers or individuals) alongside a VPO/SI.

Convertible loans (or convertible debt)
Convertible loans (or convertible debt) are loans that may be converted into equity. Convertible loans are most often used to support SPOs with a low credit rating and high growth potential. Convertible loans are also a frequent vehicle for seed investing in start-up SPOs, as a form of debt that converts into equity in a future investing round. It is a hybrid financial instrument that carries the (limited) protection of debt at the start, but shares in the upside as equity if the start-up is successful, while avoiding the necessity of valuing the company at a too early stage.

Corporate Social Investor (CSI)
A Corporate Social Investor (CSI) is any vehicle formally related to a company that aims to create social impact – i.e. impact-first or impact-only organisations linked to companies. Examples are corporate foundations, social businesses, social impact funds, and accelerators.
A *corporate foundation* is a social purpose-driven non-profit organisation that has been set up by a company. Corporate foundations have an on-going relationship with the company, which allows them –albeit to various degrees- to access financial and non-financial corporate resources which they leverage to create social impact.
A *corporate social accelerator* is a structure through which an organisation supports investment-ready social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to help them grow.
A *corporate social business* is a structure created and designed by a company with a clear social purpose. The products and services provided remain close to the core business and activities of the company, but are developed to generate social impact rather than commercial benefits. Corporate social businesses seek to be financially self-sustainable while generating social impact.
A *corporate social impact fund* is a specific legal entity which was set up by a company to pool resources from one or more investor for investing activities in companies with outstanding social innovations.

Deadweight
Deadweight is the amount of each change that would have happened anyway i.e. the outcomes the beneficiaries would be expected to experience if the organisation were not active. This is sometimes called the "baseline" or "counterfactual". Deadweight includes the progress or regress beneficiaries typically make without the organisation's intervention.

Deal flow
Deal flow refers to the number and/or rate of new proposals presented to the investor. This term is used with respect to venture capital/private equity funds, venture philanthropy funds, and has also been borrowed and used by philanthropists in reference to 'deals' or potential projects to be awarded grants.

Debt instruments
Debt instruments are loans VP/SI organisations can provide to SPOs, charging interest at a certain rate. The interest charged can vary depending on the risk profile of the investee (i.e. the SPO); on its potential social impact; and on the securitisation and repayment priority of the loan (e.g. senior vs subordinated loan).

Displacement
Displacement occurs when the positive outcomes experienced by beneficiaries accessing the organisation's services also create negative outcomes experienced by another group elsewhere (also as a result of the organisation's activities).

Drop-off
Drop-off occurs when, over time, the effects of the output and the observed outcomes decreases (e.g. beneficiaries relapse, lose the job attained, revert to previous behaviours).

Due diligence
Due Diligence is the process where an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment.

Employee engagement
Any formally organised support or encouragement from companies, albeit in close collaboration with Corporate Social Investors, to leverage employee resources (time, knowledge, skills or other resources such as money or network) to support SPOs to have social impact. It can vary from corporate volunteering (hands-on or skill-based, virtual or on site volunteering) and/or corporate giving (payroll giving, employee matching) to co-investment programmes.
Corporate volunteering refers to any formally organised support or encouragement that a company provides to employees wishing to volunteer their time, skills and/or network to serve charities and other non-profit organisations without any compensation or remuneration.
Employee giving is defined as any formally organised support or encouragement that a company provides to employees to make regular donations from their pay to charities and other non-profit organisations.
Co-investment programmes enable employees to be the partner in investing in SPOs, with the aim to revolve the funding or have a (modest) financial return.

Endowment
A donation of money or property to a non-profit organisation, which uses the resulting investment income for a specific purpose. "Endowment" can also refer to the total of a non-profit institution's investable assets, also known as "principal" or "corpus", which is meant to be used for operations or programmes that are consistent with the wishes of the donor.

Equity instruments
Equity instruments are contracts through which VP/SI organisations provide funding to SPOs and in return acquire ownership rights on part of the SPOs' businesses. This form of capital can be appropriate when the prospect of a loan repayment is low or non-existent. If the SPO is successful, the equity share holds the possibility of a financial return in the form of dividend payments and/or the capital gain at the exit. In addition, it allows for the possibility of a transfer of ownership to other funders in the future.

Exit
The end of the relationship between the VPO/SI and the social purpose organisation (SPO). The nature of the exit will normally be agreed before the investment is completed. In the case of a charity, the VPO/SI will ideally be replaced by a mix of other funders (see financial sustainability). The time scale for the exit can be agreed upon at the outset. In the case of a social enterprise, exit may require the repayment of a loan, for example, and the timing will depend on the commercial success of the enterprise. An exit strategy is the action plan to determine when the VPO/SI can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised.

Financial Instruments (FIs)
Financial instruments are contracts involving monetary transfers through which, in the VP/SI space, venture philanthropy organisations and social investors financially support social purpose organisations.

Financial sustainability
Financial sustainability for a social enterprise is the degree to which it collects sufficient revenues from the sale of its services to cover the full costs of its activities. For charities, it involves achieving adequate and reliable financial resources, normally through a mix of income types.

Foundation
Public-benefit foundations are asset based and purpose- driven. They have no members or shareholders and are separately constituted non-profit bodies. Foundations focus on areas ranging from the environment, social services, health and education, to science, research, arts and culture. They each have an established and reliable income source, which allows them to plan and carry out work over a longer term than many other institutions such as governments and companies. In the context of VP, foundations are non-profit organisations that support charitable activities either through grant making or by operating programmes.
(Source: **European Foundation Centre** http://www.efc.be)

Fund
A fund is a vehicle created to enable pooled investment by a number of investors and which is usually managed by a dedicated organisation.

Grant-maker
Grant-makers include institutions, public charities, private foundations, and giving circles, which award monetary aid or subsidies to organisations or individuals. Generally known as foundations in Continental Europe, grant-makers also include certain types of trusts in the United Kingdom.

Grants
Grants are a type of funding in the form of a cash allocation that VP/SI organisations can offer SPOs. From SPOs' perspective, grants do not foresee any type of repayment or any financial returns to be given back to the VP/SI organisation. From VP/SI organisations perspective, grants do not establish any ownership rights.

Guarantee
A guarantee is a promise by one party (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt. In the VP context, guarantees are one of the financial instruments available for VPO/SIs to support SPOs. The VPO/SI in this case does not need to supply cash up-front, but it opens up access to bank funding by taking on some or all of the risk that the lender would otherwise incur.
(Source: https://en.wikipedia.org/wiki/Loan_guarantee)

High-engagement partnership
Creating hands-on relationships between the supported organisation's management and the VPO/ SI. This practice foresees VPO/SIs taking board seats in the organisations they invest in or give a grant to, and/or to frequently meet with investees' management.

Hybrid Finance
Allocation of financial resources to impact-oriented investments combining different types of financial instruments and different types of risk/return/impact profiles of capital providers.
(Source: **Gianoncelli, A.** and **Boiardi, P.** (2017), "*Financing for Social Impact* | *The Key Role of Tailored Financing and Hybrid Finance*", EVPA)

Hybrid Financial Instruments (HFIs)
HFIs are monetary contracts that represent a variation or combine features of the traditional FIs (grants, debt instruments and equity instruments) in order to achieve the best possible alignment of risk and impact/financial return for particular investments.
(Source: **Gianoncelli, A.** and **Boiardi, P.**, 2017)

Hybrid Financing Mechanism
Financing schemes developed to increase the resources brought to impact-oriented investments by de-risking traditional capital (i.e. retail, commercial or public).
(Source: **Gianoncelli, A.** and **Boiardi, P.**, 2017)

Hybrid Financing Vehicles
Funds developed to provide finance to SPOs in a more efficient way, while satisfying different risk/return/impact profiles of investors.
(Source: **Gianoncelli, A.** and **Boiardi, P.**, 2017)

Hybrid structure/nature
The hybrid structure of the SPO is a combination of a for-profit entity and a not-for-profit entity. The hybrid structure is an innovative way to address the issue of access to finance. By setting up a hybrid structure, the SPO can attract grants through the non-profit entity and social investment through the for-profit entity, hence increasing the pool of resources available while channelling them in the most effective way.
(Source: **Gianoncelli, A.** and **Boiardi, P.**, 2017)

Impact Investing (II)
Impact investing is a form of investment that aims at generating social impact as well as financial return.

Impact Management
The use of the information collected through impact measurement to make informed decisions to increase positive outcomes and reduce negative ones.

Impact Measurement (IM)
Measuring and monitoring the amount of change created by an organisation’s activities.

Impact Value Chain
Represents how an organisation achieves its impact by linking the organisation to its activities and the activities to outputs, outcomes and impacts.

In-house resources
Resources provided within the VPO/SI itself, through its staff members or volunteers, as opposed to people within the greater network of the VPO/SIs, service providers, or portfolio organisations.

Incubator
A programme through which an organisation supports very early-stage social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to make them investment-ready.

Indicators
Indicators are specific and measurable actions or conditions that assess progress towards or away from outputs or outcomes. Indicators may relate to direct quantities (e.g. number of hours of training provided) or to qualitative aspects (e.g. levels of beneficiary confidence).

Institutional Investor
An entity that invests large sums of money on behalf of others. Institutional investors usually seek commercial returns. Commercial banks and pension funds are examples of institutional investors.
(Source: The Global Steering Group for Impact Investing)

Investee
The social purpose organisation (SPO) that is the target of the VPO/SI activity and the recipient of financial and non-financial support.

Investment
An investment is the use of money with the expectation of making favourable future returns. Returns could be financial, social, and/or environmental.

Investment proposal
The investment proposal is the document prepared by the VPO/SI to present a potential investment (including nature, goals and funding) to the investment committee.

Key performance indicators (KPIs)
Key Performance Indicators are a business metric used to evaluate the extent to which the organisation has achieved a goal and factors that are crucial to the success of an organisation. KPIs differ per organisation, business KPIs may be net revenue or a customer loyalty metric, while government might consider unemployment rates.

Long-term investment
A long-term investment is made over a period of five years or more.

Materiality
Materiality refers to an assessment made to determine the factors that are relevant, significant and material to include in a true account of the organisation's impact.

Mezzanine finance
Mezzanine finance is a hybrid of debt and equity financing, usually used to fund the scaling of an organisation. Although it is similar to debt capital, it is normally treated like equity on the organisation's balance sheet. Mezzanine finance involves the provision of a high-risk loan, repayment of which depends on the financial success of the SPO. This hybrid financial instrument bridges the gap between debt and equity/grant through some form of revenue participation.
(Source: **Balbo, L., Boiardi, P., Hehenberger, L., Mortell, D., Oostlander, P.,** and **Vittone, E.,** (2016), "*A Practical Guide to Venture Philanthropy and Social Impact Investment*". EVPA)

Mission-related investing (MRI)
The dedication of the full portfolio of assets and investments of a foundation to its social mission.

Monetisation
Monetisation is the process of transforming the value of outcomes and/or impacts into a unit of currency. SROI is a framework that guides how to monetise the value of social impact in financial terms.

Non-Financial Support (NFS)
The support services VPO/SIs offer to investees (SPOs) to increase their societal impact, organisational resilience and financial sustainability, i.e. the three core areas of development of the SPO.

Organisational resilience
The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund raising capacity etc.).

Organisational support (also known as capacity building)
Approach aimed at strengthening organisations supported to increase their overall performance by developing skills or improving structures and processes.

Outcomes
The changes, benefits (or dis-benefits), learnings, or other effects (both long and short term) that result from the organisation's activities. Outcomes can be short or long term, negative or positive.

Outputs
The quantified summary of activities (e.g. tangible products and services) that result from the organisation's activities.

Participatory loans
Participatory loans are a type of subordinated debt. The interest charged is usually linked to the progress of the SPO's business. Their often long repayment periods and possibly grace periods make participatory loans a useful financial instrument for SPOs still in their early stages.

Portfolio
A portfolio is a collection of projects and/or organisations that have received sponsorship from the investor. A distinction is often made between 'active' and 'past' portfolio, distinguish between the organisations with which the investor is actively involved. Usually, however, all portfolio organisations are included in the greater network of the investor.

Portfolio manager (also known as Investment manager)
A portfolio manager is given the responsibility of tracking the performance of and maintaining communications with the various organisations and/or projects within the investor's portfolio.

Pre-investment stage
The pre-investment stage is the process during which the investor examines the operations and leadership of the project or organisation with a view towards making an investment. This might include a detailed review of the financials, operations, or reference checks for organisational leaders. The term due diligence is also used, which has a legal definition as a measure of prudence. In other words, the investor is assessing if it is likely to get what it thinks it is paying for.

Private equity
Ownership in a firm which is not publicly traded and which usually involves a hands-on approach and a long-term commitment for the investors.

Pro-bono contribution
Professional work undertaken voluntarily and without payment. Unlike traditional/unskilled volunteerism, it is service that uses the specific skills of professionals to provide services to those who are unable to afford them.

Pro-bono contributor
A professional who provides specific skilled support to an organisation without the payment of a fee.

Recoverable grants
Recoverable grants are grants VP/SI organisations use to fulfil a role similar to equity. Recoverable grants may include an agreement to treat the investment as a grant if the SPO is not successful, but to repay the VP/SI organisation if the SPO meets pre-agreed KPIs with success. Recoverable grants are designed to focus the SPO on sustainability and to reduce its risk of grant dependence.

Return on Investment (ROI) (see also Social Return on Investment (SROI))
The Return on Investment is the profit or loss resulting from an investment. This is usually expressed as an annual percentage return.

Scaling up
Processes of developing and growing the activities of an SPO to expand its social reach and increase its social impact.

Seed financing
Seed financing is money used for the initial investment in a start-up company, project, proof-of-concept, or initial product development.

Short-term investment
A short-term investment is made over a one-year period less, or an investment that matures in one year or less.

Social enterprise
A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.
The European Commission uses the term 'social enterprise' to cover the following types of business:

- Those for who the social or societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation.
- Those where profits are mainly reinvested with a view to achieving this social objective.
- Those where the method of organisation or ownership system reflects the enterprise's mission, using democratic or participatory principles or focusing on social justice.

There is no single legal form for social enterprises.
Many operate in the form of social cooperatives, some are registered as private companies limited by guarantee, some are mutual, and a lot of them are no-profit-distributing organisations like provident societies, associations, voluntary organisations, charities or foundations.
(Source: **European Commission** http://ec.europa.eu/growth/sectors/social-economy/enterprises_it)

Social entrepreneur
Social entrepreneur is defined as a leader or pragmatic visionary who:

- Achieves large scale, systemic and sustainable social change through a new invention, a different approach, a more rigorous application of known technologies or strategies, or a combination of these.
- Focuses first and foremost on the social and/or ecological value creation and tries to optimise the financial value creation.
- Innovates by finding a new product, a new service, or a new approach to a social problem.
- Continuously refines and adapts approach in response to feedback.

(Source: http://www.schwabfound.org)

Social impact
The attribution of an organisation’s activities to broader and longer-term outcomes, which are in turn defined as the changes, benefits, learnings, or other effects (positive or negative, both long and short term) that result from an organisation’s activities.. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway (‘deadweight’); (ii) the action of others (‘attribution’); (iii) how far the outcome of the initial intervention is likely to be reduced over time (‘drop off’); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes (‘displacement’); and for unintended consequences (which could be negative or positive).

Social Impact Bonds
Results-based contracts between governments/public entities and social investors that enable federal state, and local governments to partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs.
(Source: **Dear, A., Helbitz, A., Khare, R., Lotan, R., Newman, J., Crosby Sims, G.,** and **Zaroulis, A.**, (2016), “*Social Impact Bonds. The early years*”, Social Finance)

Social Innovation
Social innovations are new ideas that meet social needs, create social relationships and form new collaborations. These innovations can be products, services or models addressing unmet needs more effectively. The European Commission's objective is to encourage market uptake of innovative solutions and stimulate employment.
(Source: **European Commission** http://ec.europa.eu/growth/industry/innovation/policy/social_it)

Social investment intermediaries
Organisations that aim at increasing the pool of financial resources available for SPOs to reach and scale their social impact by bridging the demand and the supply side of capital, channelling funds towards SPOs in a more efficient way and bringing more resources into the VP/SI space.

Social Value
Is the relative importance of changes experienced (or likely to be experienced) by stakeholders as a result of activities.

Socially Responsible Investing (SRI)
Also known as sustainable, socially conscious, "green" or ethical investing, this term defines any investment strategy seeking both financial return and social good. In its broadest usage, SRI refers to proactive practices such as impact investing, shareholder advocacy and community investing. Socially responsible investments encourage corporate practices that promote environ- mental stewardship, consumer protection, human rights and diversity. They can also represent the avoidance of investing in industries or products that can be socially harmful, including alcohol, tobacco, gambling, pornography, weapons and/or the military. The term dates back to the Quakers, who in 1758, prohibited members from participating in the slave trade.

Social Return on Investment (SROI)
SROI is a framework of principles that allows us to account for social value/impacts. It places the involvement of stakeholders as central to understanding the consequences of activities and the value of experiences so that we can better understand, report and manage impacts to improve performance.

Social sector
Social sector is an alternative term used in reference to the non-profit sector, non-governmental sector, voluntary sector, independent sector, or third sector.

Social venture capital
Social venture capital is an enterprise approach to tackling social problems through investment, supporting the creation and the expansion of commercially sustainable enterprises to maximise social and financial returns. In developing countries, this approach is used to create jobs and empower the poor.

Soft loans
Soft loans are debts VP/SI organisations offer to SPOs with no interest (i.e. 0% interest rate loans) or with a below-market rate interest. The main difference with recoverable grants lies in the repayment scheme, which is agreed ex-ante between the two parts and it is not conditional to any specific KPI. Local tax regulations may prevent the use of soft loans for commercial SPOs.

Stakeholder
Any party that is effecting or affected by the activities of an organisation. The most prominent stakeholders are the direct or target beneficiaries, though stakeholders as a group also includes the organisation's staff and volunteers, its service-users and investees, its suppliers and purchasers and most likely the families of beneficiaries and those close to them, and the communities in which they live.

Subordinated loans (or subordinated debt)
Subordinated loans (or subordinated debt) are financial instruments that, in the case of borrower default, are paid after all other loans. Although subordinated debt is a riskier instrument than unsubordinated debt for lenders, it is still paid out prior to any equity holders.

Tailored financing (TF)
The process through which a venture philanthropy organisation or a social investor (VPO/SI) finds the most suitable financial instrument(s) to support a social purpose organisation (SPO), choosing from

the range of financial instruments available (grant, debt, equity, and hybrid financial instruments). The choice of the financial instrument(s) will depend on the risk/return/impact profile of the VPO/SI and on the needs and characteristics of the SPO.

Theory of Change (ToC)
A theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

Volunteer
A person who voluntarily offers himself or herself to performs a service willingly and without pay. For the purpose of this report, differently from pro-bono and low-bono supporters, volunteers offer unskilled labour.