



“Shifting financial risk from service providers to investors” - An Analytical study on Social Impact Bonds (SIBs).

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ABSTRACT

Public welfare expenditures often possess some kind of social impact. For a variety of reasons, but not all such expenditures succeed. Social problems such as poverty, unemployment, recidivism and other such related issues. In the present era, the emphasis is more on the environmental issues as it is influencing the living conditions of people and challenging their existence.

Environmental problems are to be given due attention to bring back normalcy in the nature for the mankind to survive. The problems of environment are to be discussed in the light of financial assistance, support from the Government and other funding agencies. Furthermore, social impact investing opens up the world of social impact to private investors as well as other funders. These offer prospects for social enterprises and civil society organizations to become more significant part of delivery system.

As a part of such funding is termed as “Social Impact Bonds”(SIBs). It is a contract with the public sector or Government authorities, where by it pays for better social outcomes in certain areas and passes on part of its savings achieved to investors”.

In this context, this paper set outs to explore the current state of Social Impact Bonds and how they are scaling up social innovations and addressing the social problems such as environmental degradation, its protection and remedies to overcome the threat from nature. The study focuses on primary as well as secondary data for analyzing the role of SIBs.

Key Terms: Public Welfare, Recidivism, Civil Society, Savings and Social Impact Bonds.

1.0 INTRODUCTION

India is developing in the direction of technological advancement, digitalization and artificial intelligence, making a smart life style, but it has to meet the challenges that are societal and environmental. Government implements welfare schemes for the benefit of people for their physical well-being by uplifting their financial status. Here, the Government or private financial enterprises should realize one thing, not only utilizing funds for the benefit of welfare, which will satisfy few basic requirements of the public, but it should divert its funds for the benefit of environmental protection, reducing carbon emissions, pollution and radiation.

The Government is coming out with innovative financing schemes to meet the social problems, particularly in sectors where, the funds are insufficient or no funds. In this context, it is apt to discuss on a new and innovative financial instrument termed as “Social Impact Bonds” (SIBs).

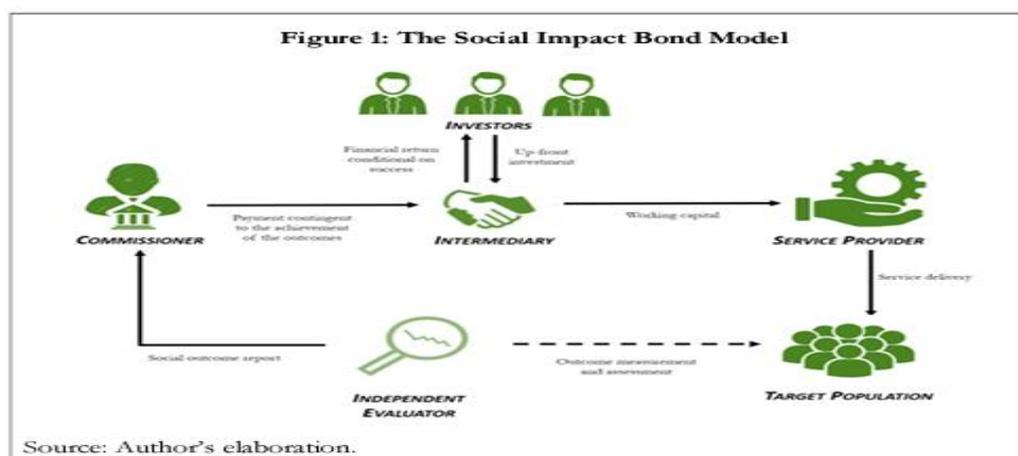
It is relatively a new financing mechanism that has gained momentum across globally, including India. The implementation of Social Impact Bonds in India is still in nascent stage. Many stakeholders, investors, social service providers are not familiar with the concept of SIBs.

Concept of Social Impact Bonds

A Social Impact Bond (SIB) is “an Innovating financing mechanism in which Governments or Commissioners enter into an agreement with the social service providers, such as social enterprises or non-profit organizations who fund for a social problem and the Government will repay the investors with a return on investment”.

In the interest of environmental issues, as it is one of the pestering problems in the present scenario, this paper emphasizes the need of Government and private agencies to play a vital role in diverting SIBs for the benefit of protecting the mankind from environmental calamities.

Fig 1.0



Source: Secondary Data

The key aspects of SIBs are as follows:

1. The outcome payer agrees to pay only in case of achievement of the scheduled outcomes.
2. The investors provide upfront working capital to the service providers.
3. The investors receive the returns, only if the outcomes are achieved.
4. The results of the investment is scrutinized by an independent evaluator.
5. Advisors and specialized intermediaries support the involved parties and manage the contract/partnership.

2.0 LITERATURE REVIEW

According to the literature review, so far Social Impact Bonds (SIBs) have been developed on only three continents viz., Australia, Europe and North America (2015). The UK launched the first SIB in 2010 to reduce prison recidivism among short term male prisoners. These SIBs are taking a very nascent growth in India and in many other developing countries.

Peterborough in the UK (2011) and Rikers Island in the USA (2013) invested in SIBs in reducing the youth unemployment rates by improving young people's skills. In Nottingham and in London, UK (2014), Utah in the USA and Rotterdam in Netherlands (2016) invested in SIBs in reducing loneliness amongst the elderly through beneficiaries scheme.

There are now 32 active SIB projects in the UK (Cabinet Office 2019) and over 100 other SIB projects have been planned or started around the world, since the first SIB was launched at Her Majesty's Prison Peterborough in the UK in 2010.

In India SIBs are relatively a new financing mechanism, which is in a very infant stage and heard at the latest in 2022. The concept of SIB has garnered interest due to the potential it holds for the innovative financing of social programs.

These SIBs are used to address social issues such as providing high quality pre-school education, avoiding foster care placement, increasing youth employment, enhancing infrastructural facilities and health care at large.

Different economies are increasingly adopting SIBs. The SIBs are based on the principle of sharing risk between donors and a stringent result-based payback system. They incentivize socially desirable projects which would be neglected, if left to the mercy of traditional funding model.

NEED FOR THE STUDY

Based on the literature review, there is a need to discuss the relevance of Social Impact Bonds, in the context of social problems that are existing from Indian scenario and also the investment decisions of SIBs to divert towards environmental issues and reduce the negative impact of environment on the mankind.

OBJECTIVES OF THE STUDY

In view of the literature review and need for the study, the following are the objectives of the study:

1. To elucidate the relevance of SIBs in the Indian context and its challenges.
2. To analyze the views of investors and awareness among the general public on SIBs.

RESEARCH METHODOLOGY

The study is based on both primary and secondary data. The primary data is collected from the SIB investors such as MSME, NSDC, private investors and general public by imparting a questionnaire, which is based on the awareness, implementation and usage of SIBs for the benefit of society. The sample size is 69. The sampling method applied is convenience sampling (non-random sampling), as it focused for responses mainly with MSME and NSDC (investors in SIBs).

The secondary data is collected from official portals of NSDC, MSME and reputed international journals and articles.

SCOPE OF THE STUDY

The scope of the study is confined to only SIBs in the Indian context, with regard to respondents from Hyderabad, Telangana State.

SOCIAL IMPACT BONDS – IN THE INDIAN CONTEXT

As per the latest updates with regard to Social Impact Bonds (SIBs) by Government of Indian organizations is limited. However, there was some initiatives and discussions by involving Government agencies exploring the potential of SIBs to address the social challenges more effectively.

1. **NITI Aayog:** NITI Aayog is a premier policy think tank of Government of India, which is actively promoting social innovations and entrepreneurship. Not much, but focused by NITI Aayog on SIBs by playing a vital role in facilitating discussions and collaborations between Government agencies, private investor and social organizations, that are interested in innovative financial models, to resolve the societal issues.
2. **National Skill Development Corporation (NSDC):** NSDC, a public-private partnership, under the Ministry of Skill Development and Entrepreneurship, has been continuously involved in initiatives aimed at skill development and employment generation. Not directly involved in SIBs, NSDC could potentially involve in partnership with private investor and social service providers to fund skill development programs and introduce a skill-oriented curriculum in the universities to make the graduates fully skilled to utilize the national as well as global employment opportunities.
3. **Government of Rajasthan:** The Government of Rajasthan, in partnership with organizations like UNICEF & the Michael Susan Dell Foundation, has explored the possibility of implementing SIBs in areas such as

education and health care. For example, there have been discussions about using SIBs for improving learning outcomes in Government schools.

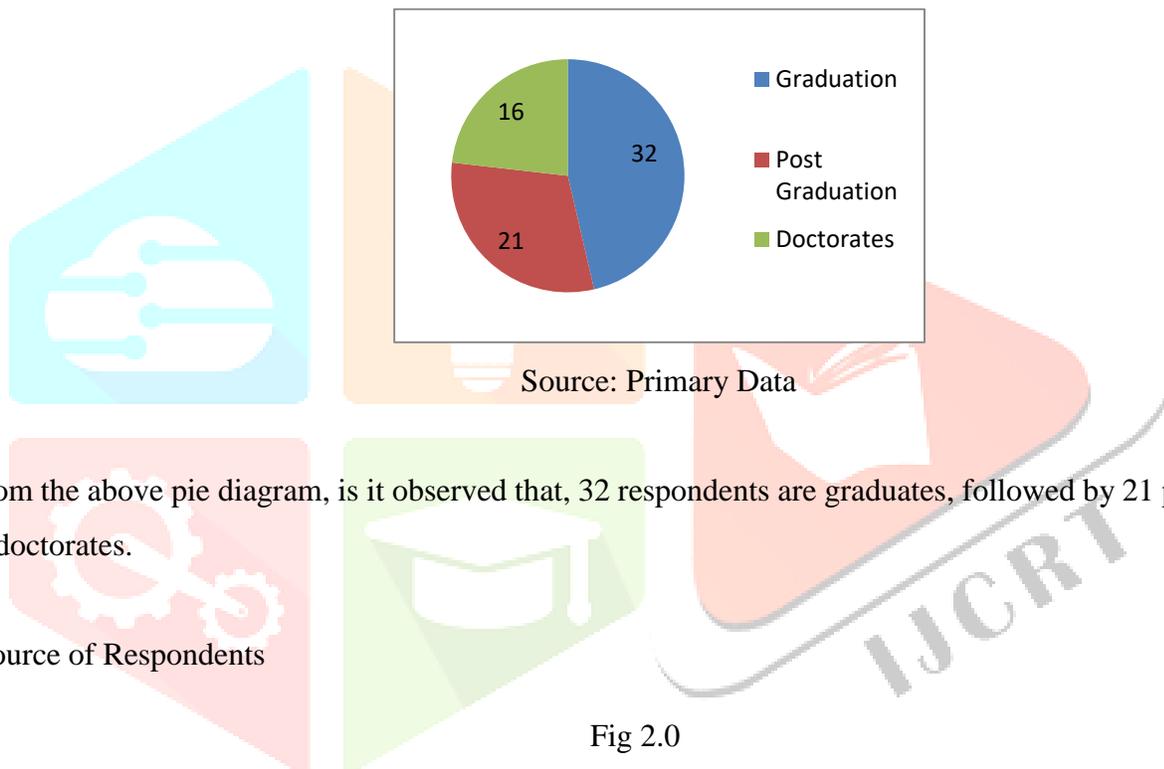
- 4. **State Governments:** Some State Governments in India are initiating their interest in SIBs to address the issues of basic livelihood, education and health care. The States that are showing interest in SIBs are Maharashtra and Tamil Nadu.

SIBs – DATA ANALYSIS & INTERPRETATION

FROM VIEW POINT OF MSMEs, NSDC, PRIVATE INVESTORS & PUBLIC

1. Education Level of Respondents

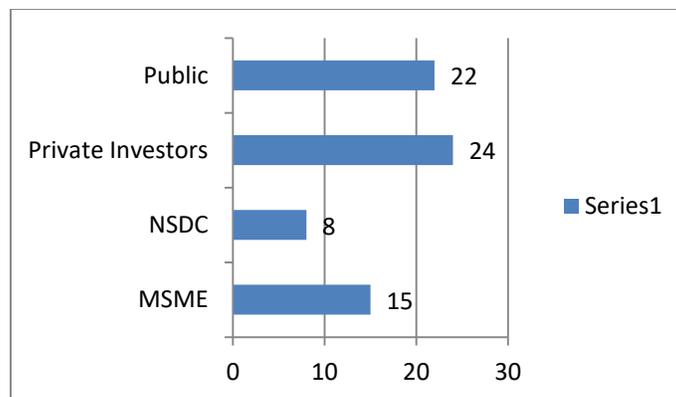
Figure 1.0



From the above pie diagram, it is observed that, 32 respondents are graduates, followed by 21 post graduates and 16 doctorates.

2. Source of Respondents

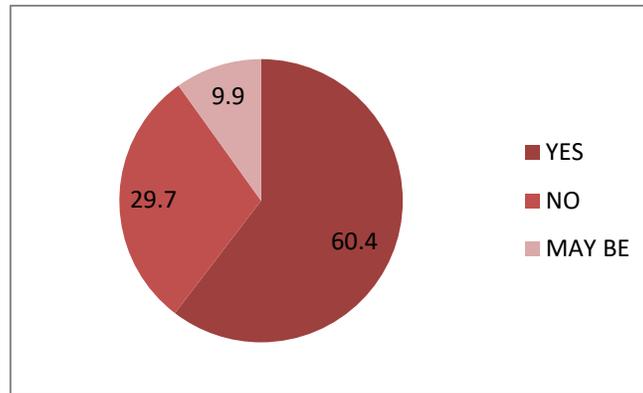
Fig 2.0



From the above bar chart, it is opined that, 15 responses are collected from MSME, followed by 8 from NSDC, 24 from Private Investors and 22 from general public.

3. Awareness on SIBs.

Fig 3.0

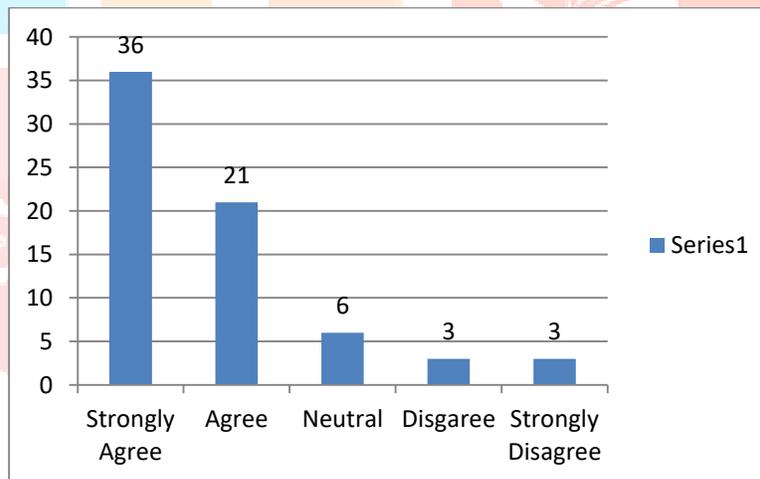


Source: Primary Data

From the above pie chart, it is evident that, 60.4 % of the respondents are having complete awareness on SIBs, 29.4% are not unaware and 9.9% of the respondents are having a limited knowledge about SIBs.

4. SIBs are an innovative financial mechanism to address social issues.

Fig 4.0

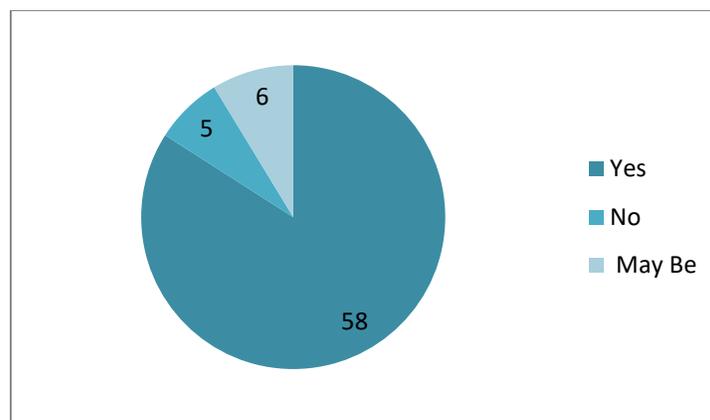


Source: Primary Data

From the above bar diagram, it is analyzed that, 36 respondents strongly agree, 13 respondent agree, followed by 6 respondents are neutral and the respondents disagreed are 4.

5. In addition to basic livelihood, primary education and health care, other societal issues such as skill development, employment generation, women protection and environmental issues are to be brought under the funding scheme of SIBs.

Fig 5.0

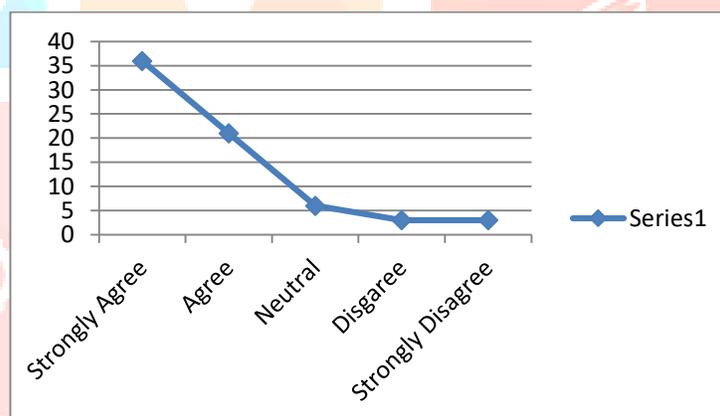


Source: Primary Data

From the above pie diagram, it is emphasized that, 58 respondents supported the above statement, while 5 respondents are not supporting and 6 are neutral.

6. The role of Public Sector and Private Sector Banks, SIDBI, IDBI and Non-Government Agencies should also play a vital role in promoting SIBs, in addition to NITI Aayog, MSME and NSDC.

Fig 6.0



Source: Primary Data

From the above line diagram, it is observed that, 57 respondents strongly agree, while 6 are neutral and other 6 respondents did not agree.

FINDINGS OF THE STUDY

Based on the data analysis and interpretation, the following are some of the findings.

1. The respondents belong to graduation, post-graduation and doctoral level.
2. The source of respondents are from NSDC, MSEM, Private Investors and general public.
3. 60.4% of the respondents are aware about Social Impact Bonds.
4. 82.6% of the respondents opine that, SIBs are going to be an innovative financial mechanism to address the societal issues.

5. 84% of the respondents view that, SIBs can be utilized for other societal issues such as skill development, employment generation, women protection and environmental issues.
6. 82.6% of the respondents support the statement, that is Public Sector and Private Sector Banks, SIDBI, IDBI and Non-Government Agencies should also play a vital role in promoting SIBs, in addition to NITI Aayog, MSME and NSDC.

CHALLENGES

To make SIBs popular in India, certain challenges are to be overcome:

1. **Familiarity with the concept of SIBs:** Government officials, investors and social providers should be familiar with the concept of Social Impact Bonds.
2. **Ensuring Transparency & Accountability:** Defining and measuring the social outcomes accurately, might be difficult in the complex diversity of Indian social landscape.
3. **Limited Scope of Social Sector Organizations:** Many social or non-profit organizations in India fail to design, implement and evaluate programs that suit the concept of SIBs.
4. **Legal & Regulatory Framework:** India's legal and regulatory framework need to be reformed to suit the legal compliance of SIBs, including issues relating to risk, allocation and taxation
5. **Enhancing the domain of SIBs:** The scope of the SIBs should be extended to other societal issues and more emphasis should be given to environmental protection projects.

CONCLUSION

Despite the awareness and challenges, there is growing interest among the policymakers, philanthropic organizations and impact investors, in exploring the potential of Social Impact Bonds to address the social challenges in India. Government and Social organizations should create awareness among the private investors to invest in the societal problems to resolve. Pilot projects and feasibility studies are underway in some States to assess the viability of SIBs in different sectors.

The funders of SIBs should not only emphasize their focus on education, health care and basic livelihood, but also extend the domain by including projects such as women security, girl child protection and a major issue to be addressed is the environmental issues. The funding agencies should come forward to address the environmental problems and make a feasibility report, submit the Government to take measures such as planting of saplings, green energy production, solar plants, protecting eco-system and so on.,

It's important to note that the adoption and implementation of SIBs at scale are in the early stages. Challenges such as legal and regulatory framework, capacity building and outcomes measurement need to be addressed for SIBs to become a main stream financing mechanism in India.

As the concept is gaining momentum in the recent times, there is a possibility that more Government organizations will explore and adopt SIBs as a part of their efforts to address social challenges effectively.

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