



SOCIAL IMPACT BONDS IN FOSTERING SOCIETAL CHANGES IN INDIA

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ABSTRACT

Social impact is the positive change your organization creates to address a pressing social issue. This can be a local or global effort to tackle things like climate change, racial inequity, hunger, poverty, homelessness, or any other problem your community is facing. social impact means any significant or positive changes that solve or at least address social injustice and challenges. Businesses or organizations achieve these goals through conscious and deliberate efforts or activities in their operations and administrations. so one of the recent measures taken by the government of India is through issuing social impact bonds. In a SIB, an investor provides capital to a service provider for social intervention. The investor receives a return based on the outcome of the intervention relative to a predetermined benchmark. This study aims at knowing the concept of social bonds and how it is evolving in India, and how the social bond is related to the development of a sustainable social environment.

Keyword: Social Impact Bonds, changes, launch and development

INTRODUCTION

One type of impact investing is the social impact bond (SIB), an arrangement where investors in a project receive financial returns based on the project outcomes, specifically the accomplishment of prespecified social objectives. In a traditional social impact bond, a government attracts financing from an investor. The investor passes the financing on to a service provider who implements a project designed to solve a specific social problem. If the project meets specified social goals, e.g., test scores for an education intervention, the investor receives the initial investment back plus interest payments. In many of these arrangements, investors do not

receive any money back if the goals are not met. For payments to be made, a third-party assessor must certify that the intervention achieved the prespecified goals. Since 2012 impact investing has gained the attention of governments, philanthropic organizations, and businesses that are seeking innovative ways to address the root causes of social and environmental problems and solve emerging welfare challenges. Impact investing has been defined by the Canadian Task Force on Social Finance (2010) and by the Global Impact Investment Network (GIIN) as active investments made to generate positive and measurable social (or environmental) impact alongside a financial return.

Social Impact Bonds (SIBs) are a relatively new type of performance-pay contract for public services provision where government purchasers partner with private for-profit investors, or social investors (who seek a blend of financial return and social good) to fund interventions tackling social problems. The UK is a global leader in the development of SIB interventions, namely the world's first SIB aimed at reducing reoffending at HMP Peterborough Prison in 2010 since followed by several Central Government-led SIBs focused on Youth Engagement, Training and Employment, homelessness, and Health and Social Care.

OBJECTIVE OF THE STUDY

- To understand the concept and exact scenario of social Impact Bonds in India.

RESEARCH METHODOLOGY

- The study is purely conceptual in nature.

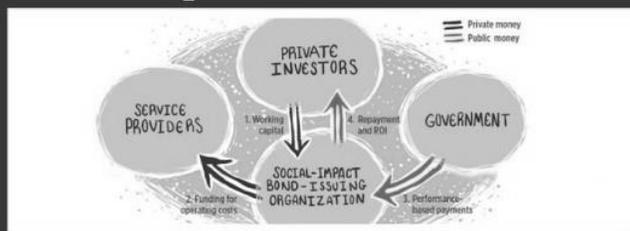
SOURCE OF DATA

- The data are collected from the secondary source of information which are taken from the official websites of OECD, Social Finance, Corporate Finance Institute, news articles, magazines and notes.

The journey of Social Impact Bonds in India

India is finally set to have its first social impact bond in the Pimpri Chinchwad District of Maharashtra, 20 kilometers away from Pune city. The government is finally equipped with one more financial instrument to manage and foresee to completion of the various projects that usually require huge initial capital investments and expose them to grave risks. Through this social impact bond, the PCMC (Pimpri Chinchwad Municipal Corporation) will bear the cost of a public welfare project associated with the bond only if some pre-determined project targets are fulfilled.

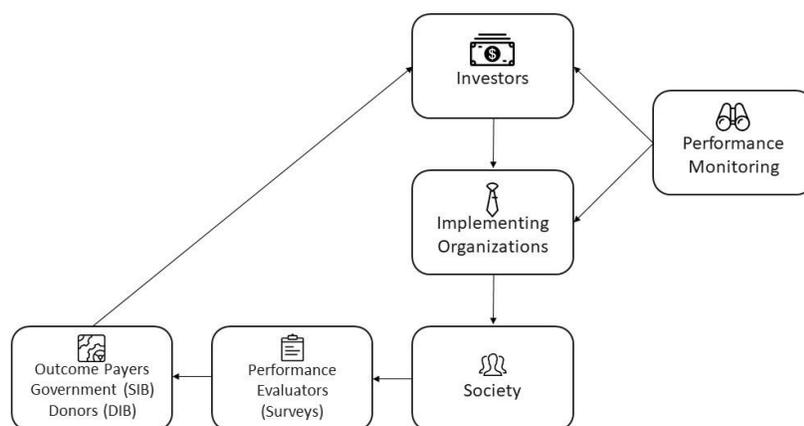
India's First Social Impact Bond



Social impact bonds are contracts with the public sector or the governing authority, whereby- the money raised through bonds pays for better social outcomes in certain pre-decided areas and passes on the part of the savings achieved to investors. The money asked is for a change; a social impact.

Usually, the investors who choose SIBs as their investments are not only interested in the financial returns but also in the changes their money can bring to society, thereby, they settle for lesser returns than other instruments in the financial markets. Companies and firms take them up as CSR initiatives and therefore, aren't concerned with lesser returns as compared to other bonds.

These results-based financing contracts deliver the upfront delivery of social services allowing for the governing authority to invest later on in the project upon seeing the completion of projects or achievement of targets.



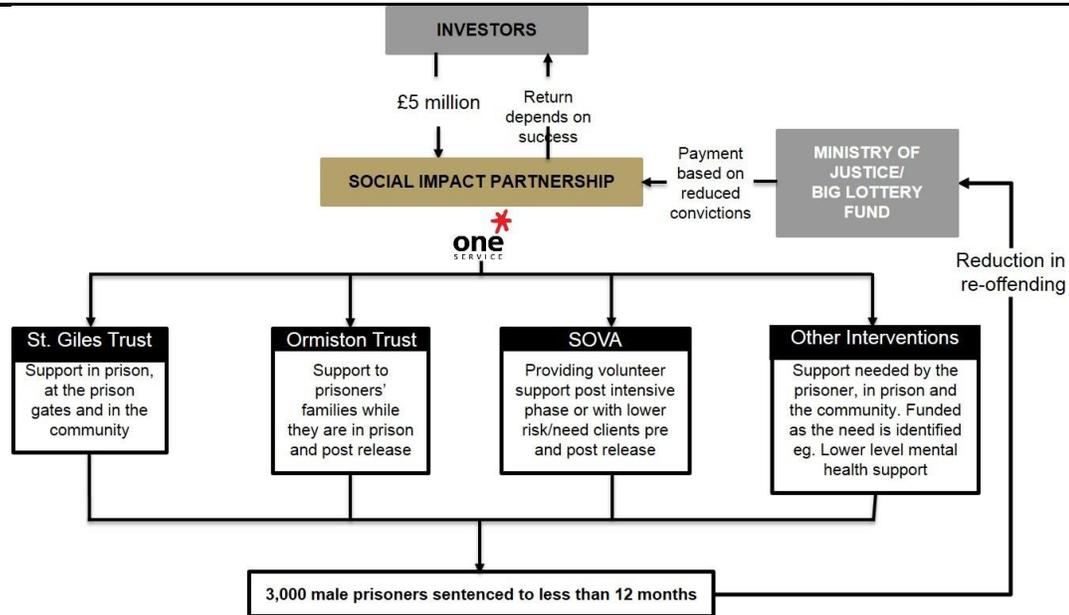
1. Investors commit upfront purchasing of bonds and providing of working capital to impending organizations with the expectant meeting of targets successfully
2. Implementing organizations deploy the said funds to various programs for bringing change in the society decided in the contract

3. Performance monitoring ensures timely completion of tasks and submission of required documents as and when needed. A performance manager tracks the procedures and prepares reports for further delegation of tasks and better decision making
4. Independent performance evaluators check through surveys and research the progress made and the actual impact on society
5. If the performance targets are met, the government or donors give the investors their principal with returns
6. If the targets are not met:
 - Partial pay-out can be opted for if mentioned in the contract
 - The contract can be changed or altered to allow for more time
 - There can be no pay-out as well

The first-ever Social Impact Bond

The first time that Social Impact Bonds came into existence was in 2010, at Peterborough Prison, Eastern England. The investment was 5 million pounds and it had 17 investors.

- Target: Reducing reoffending by citizens who have served short custodial sentences by 7.5%
- For the First time, a system of the payment-by-results mechanism was introduced to fund public services
- For this, the prison administration and the dedicated investor front introduced programs to teach them, educate them, and showcase and provide job opportunities
- The next survey was in 2017, to check the progress. Re-offending rates dropped by 9% successfully achieving the target; allowing for the government to return 5 million pounds at 3%, a little lesser than other instruments
- Private investors funded the programs and the interventions that allowed offenders to not repeat, making tasks easier for the government as well



How will India's first-ever SIB work

The PCMC signed an MoU with the United Nations Development Programme (UNDP), India to co-create India's first SIB wherein PCMC will only have to bear the costs of public welfare associated with the bond if the targets are fulfilled

1. UNDP was established on November 22, 1965, and is headquartered in New York City. It is a global development network that provides help in the form of technical or investment cooperation wherever and whenever it is needed. It advocates for social change and connects countries to knowledge, experience, and resources to help people build a better life for themselves.
2. UNDP India is going to support PCMC in providing technical assistance and knowledge skillset from their previous endeavors in SIBs, DIBs, and other result-based financial solutions; providing innovative financial models for bonds
3. In this SIB, targets are already set at the start of the contract: improving healthcare facilities and services for residents, especially concerning Covid-19
4. This target also forms a part of the United Nation's SDGs (Sustainable Development Goals), allowing UNDP to have a successful healthcare model which they can then implement in other nations as well
5. At each stage of the program, there will be tracking of the progress- making it more transparent
6. The involvement of investors and UNDP officers, experts, and observers will ensure that funds are used effectively and efficiently for the project
7. The PCMC currently operates around 30 primaries, secondary and tertiary level healthcare facilities with a total capacity of 1500 beds, and this SIB is crucial in addressing the health crisis during the pandemic

8. Palladium group has been appointed for designing and structuring the bond
9. SDG finance facility, a Swiss agency for Development and cooperation, housed at UNDP will provide technical assistance and is an expert in SDGs aligned innovative finance mechanisms

The difference from other projects

- This is the first time a government body in India will act as an outcome funder, if targets are achieved, the money invested is returned with a return
- Traditionally, most government-funded public projects require large and early initial investments by the government
- There is a substantial gestation period of outcomes and involves various kinds of risks, one of them being huge delays in completions (Struggles to the successful completion of major projects)
- With this, the initial investment risk of the government decreases manifolds

Benefits of this SIB

- Through this SIB, the government can reduce the risk of funding programs and projects that do not work or finish
- Partnership working of private and public sectors can be encouraged: This SIB will attract more investors from public and private sectors to fund the public welfare projects
- We, now, have a new tool to combat the investment deficit
- It will allow the PCMC administration to upgrade its infrastructure: build the capacity of its staff and establish protocols that can support higher-quality healthcare
- If successful, this can become a model for all Municipal cooperation administrations across the country to fund their projects
- The focus shifts from activity to impact because outcomes are funded and not simply the ideas. Service providers like NGOs, Hospitals, etc. can work freely with determination to achieve results
- Programs become more transparent, more openly laid-out, more defined, and simply better once positive results and achievement of targets are pushed
- The private sector gets involved deeply in public welfare whilst providing dedicated service and funding
- A social impact bond, like the one PCMC, has signed with UNDP, allows projects that would be sidelined in huge budgets to get funding and improve the social impact on the society

A Vanilla Bonds

- The Social Impact Bond (SIB) will **attract more investors both from the public and private sectors to fund public welfare projects to meet the investment deficit.**
- The **Palladium Group has been appointed for design and structuring expertise for the impact bond.**
- UNDP will provide **technical assistance for designing the SIB through the SDG Finance Facility housed at UNDP.** The facility is **supported by the Swiss Agency for Development and Cooperation.**
- The SIB will allow PCMC to not only **upgrade the infrastructure but also build the capacity of its staff and establish protocols that can support higher quality healthcare.**

Conclusion

While SIBs have tremendous potential to cater to social sector needs, tapping private capital effectively and efficiently is going to be important. The government's willingness to participate in SIB projects may prove to be the real litmus test for private risk investors in trying to re-shape the social sector ecosystem in India. While there certainly is a need to treat SIB investments on a more charitable footing w.r.t ITA, the current laws in India do not necessarily discourage the growth of SIB-backed social projects. With the additional capital pool that SIBs can bring, large-scale social interventions with meaningful fiscal prudence can be achieved.

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