

SOCIAL IMPACT BONDS AS AN INTERNATIONAL FINANCIAL INSTRUMENT FOR PUBLIC BUSINESS-PROJECT IMPLEMENTATION

ОБЛІГАЦІЇ СОЦІАЛЬНОГО ВПЛИВУ ЯК МІЖНАРОДНИЙ ФІНАНСОВИЙ ІНСТРУМЕНТ ДЛЯ РЕАЛІЗАЦІЇ СУСПІЛЬНИХ БІЗНЕС-ПРОЄКТІВ

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Abstract. *The article analyzes the mechanism of creation and functioning of social impact bonds. In the process of implementing social programs with the participation of the state, there is an urgent need to find and attract capital assets. However, not all financial instruments that exist on the market are able to provide the set goals precisely in the long-term perspective of achieving social effects. For this purpose, such a new financial instrument as a social impact bond is proposed. Due to its simplicity and convenience, this type of bond provides benefits both for socially vulnerable segments of the population and for investors who aim to be socially significant and responsible in society. At the same time, the effectiveness of the use of investment capital in this case will depend on the level of social effect, which must be measured and evaluated. The use of social impact bonds and their results have been confirmed by the experience of many countries around the world.*

Keywords: *social impact bonds; financial instrument; business project; cash flows; investor funds.*

Анотація. *У статті проаналізовано механізм створення та функціонування облігацій соціального впливу. У процесі реалізації соціальних програм за участю держави виникає гостра потреба у пошуку і залученні капітальних активів. Однак не всі фінансові інструменти, які існують на ринку, здатні забезпечувати поставлені цілі саме у довгостроковій перспективі досягнення соціальних ефектів. З цією метою пропонується такий новітній фінансовий інструмент як облігація соціального впливу. Завдяки простоті та зручності цей різновид облігацій забезпечує переваги як для соціально незахищених верств населення, так і для інвесторів, які ставлять за мету бути соціально значимими та відповідальними у суспільстві. При цьому ефективність використання інвестиційного капіталу в даному випадку залежатиме від рівня соціального ефекту, який має бути вимірний та оцінений. Застосування облігацій соціального впливу та їх результати підтверджено досвідом багатьох країн світу.*

Ключові слова: *соціальні облігації; фінансовий інструмент; бізнес-проект; грошові потоки, інвестиційний капітал.*

Introduction. Nowadays the social impact investing has gained the attention of governments, international organizations, and businesses which are looking for innovative ways to diminish the negative spillover of social and environmental problems and to solve emerging challenges of modern society. The implementation of social business projects demands often powerful start-up investments, which depend on the level of success of business-project and its' positive social effect. One of the modern international financial instruments that help attract funds on mutually beneficial terms are social impact bonds. They help socially responsible businesses to provide capital assets for the implementation of projects and programs aimed at improving the lives of the population and meeting the urgent needs of both an individual or a group of people, as well as society as a whole. The use of

social impact bonds in the management of international business projects contributes to an increase in cash flows due to the realization of investor funds, taking into account support and guarantees from the state. Social financing is especially relevant in countries with a low level of capital intensity, where there is a need for constant improvement of social standards of the quality of life.

The purpose of research. The purpose of research is to analyze the mechanism of social impact bonds as well as to show the practical use of these innovative financial instruments.

Analysis of the latest publications. Many authors try to find the optimal mechanisms of social impact bonds functioning. The most actual approaches have been depicted in the series of surveys of OECD (OECD, 2015, 2016, 2020), where different ambivalent aspects of SIB are performed. Besides some authors dedicate their articles on the SIB problematics, considering their practical implementation in different spheres and countries (Necel R., Wiśniewski M., 2019), (Rabindra N. R., Rabindra N. S., 2016), (Olson, H. and others, 2022). In addition to this there are some Internet sources, that show modern statistic data on social impact bonds as well as the analysis of their influence in society (Government Outcomes Lab, 2024), (Taylor & Francis online, 2024).

The important research results.

In recent years, social impact bonds (SIBs) have gained significant importance in the financing of international business projects. In the process of implementing social programs and projects, the issue of initial financing is increasingly common, especially in countries with low capital intensity. That is why governments, state authorities, social service providers, and project managers are looking for new sources of capital assets to realize ideas and ideas that would bring public benefit.

At the same time, social impact bonds have triggered debates around issues such as the delivery of social services and the quest for efficiency in doing so, the risk transfer from the public to private sector and what this entails for social services providers, the capacity to monitor and evaluate better outcomes, and the increasingly prevalent need to invest in preventative interventions with high returns in the long run (OECD (2016): 3)].

Stakeholders and authorities in some of the globe's wealthiest countries are facing an increasing demand to react to increasing social needs while at the same time facing fiscal needs that could appear to insist on the cutting of social expenses (Olson and other., 2022: 5-6).

A SIB is an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organizations, and investors to pay for the delivery of pre-defined social outcomes (Social Finance, 2012; OECD, 2015).

First, an Initiator or Outcome Payer (public or central government institutions), who is responsible for social welfare, makes an agreement with an Intermediary on the commissioning of an intervention and commitment to payment for the outcomes (see Figure 1.).

Second, an international company in form of private entities, or public-private ventures (Intermediary) implementing a social business project issues bonds that can be purchased by private investors, charitable organizations, investment funds, etc (lender of capital). The Contractor – Non-Governmental Organizations provide services to Beneficiaries (people, who bear risk of social exclusion: the long term unemployed, the homeless etc.).

After receiving social services, an evaluator is involved in the scheme, who determines the extent of the results obtained and estimates the benefits or social effects.

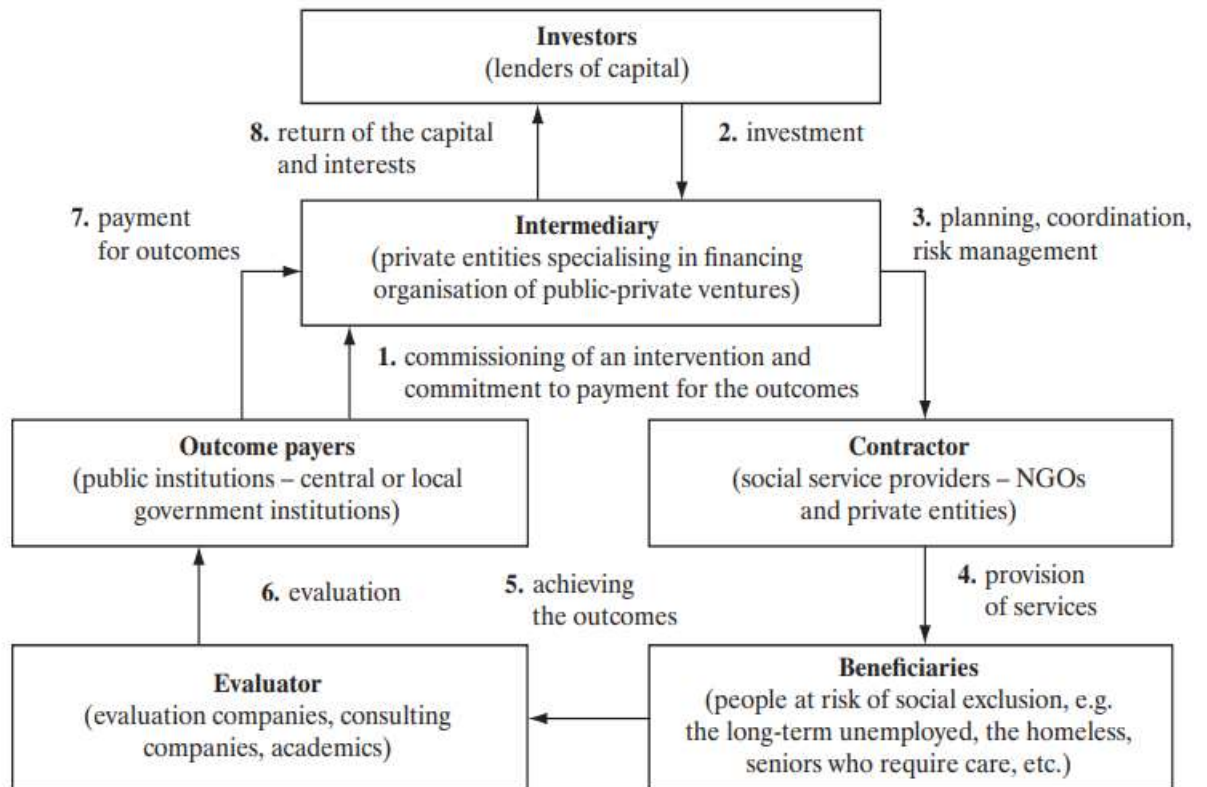


Figure 1. The basic social impact bond mechanism

Source: (Necel R., Wiśniewski M. (2019): 70)

Measuring results is a critical step in the SIB process. Based on this, the government or an authorized body releases the funds to the investor along with the agreed interest. Therefore, the government or authorized body is the final payer for the results and can also determine the results indicators and terms of payments.

Starting from 2010 to 2022, the volume of social impact investments amounted to 80 million euros, while about 700 million euros were involved in various projects (Degroof Petercam, 2022).

The peculiarities of these securities market are that it is limited by the number of investors, as well as the lack of unification of the legislation on the resolution of these securities, and this circumstance can cause many abuses. Another obstacle to the deployment of the system is that it relies on the evaluation of social action, which is particularly difficult and must be taken with great caution.

Investors, on their end, should consider three areas: funding opportunities, procurement and taxation. Firstly, it has to be examined whether there is a regulatory framework and, if yes, if it allows donors or investors to fund social services and SIB schemes directly or through intermediaries. If yes, a next step is to test whether there are any limits regarding the amounts to be provided as well as the financial vehicles providing them (OECD (2016): 12).

The most discussed and debated SIB-financed project remains the first one, famously launched by the David Cameron government at HPM Peterborough in 2010. The Peterborough SIB was a recidivist programme providing pre- and post-release mentoring to help young male adult and short-sentenced prison leavers break the reoffending cycle. The aim of this project was to provide evidence for ‘social impact’, which is considered to deliver more rigorous evidence than measuring ‘social outcome’ or ‘social output’ (Taylor & Francis, 2010).

The social impact bond raised £5 million from trusts and foundations to fund the One Service – an umbrella organization designed to respond to the complex needs of offenders. The One Service was delivered by St Giles Trust, Ormiston Families, Sova, MIND, TTG Training, YMCA and John Laing Training, and was managed by Social Finance. Over the course of the program, it became an integral part of the Safer Peterborough Partnership. Staff worked closely with the police, the probation service, the Integrated Offender Management Teams, the prison, the local authority, local statutory providers and the voluntary sector.

Over five years of operation, support from the One Service was offered to two cohorts of 1,000 short-sentenced male prisoners for a period of up to 12 months post-release. Engagement was voluntary, but the whole cohort was included in the measurement of the results. (Social Finance).

Social impact bonds have constantly increasing potential for application in developing countries. There are many potential areas of application of impact investment in developing countries such as mentioned below.

1. Community filtration units for supply of clean water to below poverty population.
2. Maternal health provision, particularly the attendance of births by a skilled professional when otherwise a professional would not have been present.
3. Gyan Shala, a form of one-room schools in the urban slums of India operated by a not-for profit organization for low-income group confirmed a strong willingness to pay school fees at a level that would sustain the business model commercially.
4. Broad objective of Sustainable Development Goals is to provide a sustainable framework for development through eradication of poverty and deprivation, improvement of economies, protection of health and environment, promotion of good governance etc., implementation of which will be dependent on sufficiency of funds (Rabindra N. R. & Rabindra N. S., 2016).

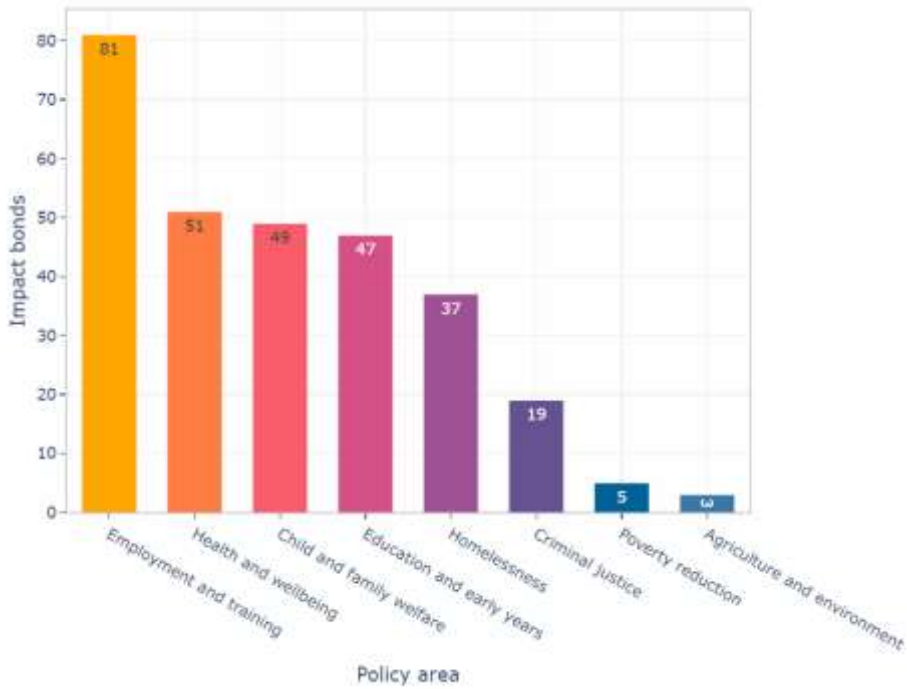


Figure 2. Global impact bonds by policy area.

Source: (Government Outcomes Lab, 2024)

The Figure 2 shows us the most used policy areas of social impact bonds as of 2024. The leading area is employment and training as well as health and well-being.

United Kingdom is the leader among holders of social impact bonds by a significant margin. The service user figure for the UK is based on available data for 80 projects. 28 projects reported data on actual number of engaged service users, 52 projects reported data of target number of engaged service users and 18 projects did not report data on service users (see Figure 3).

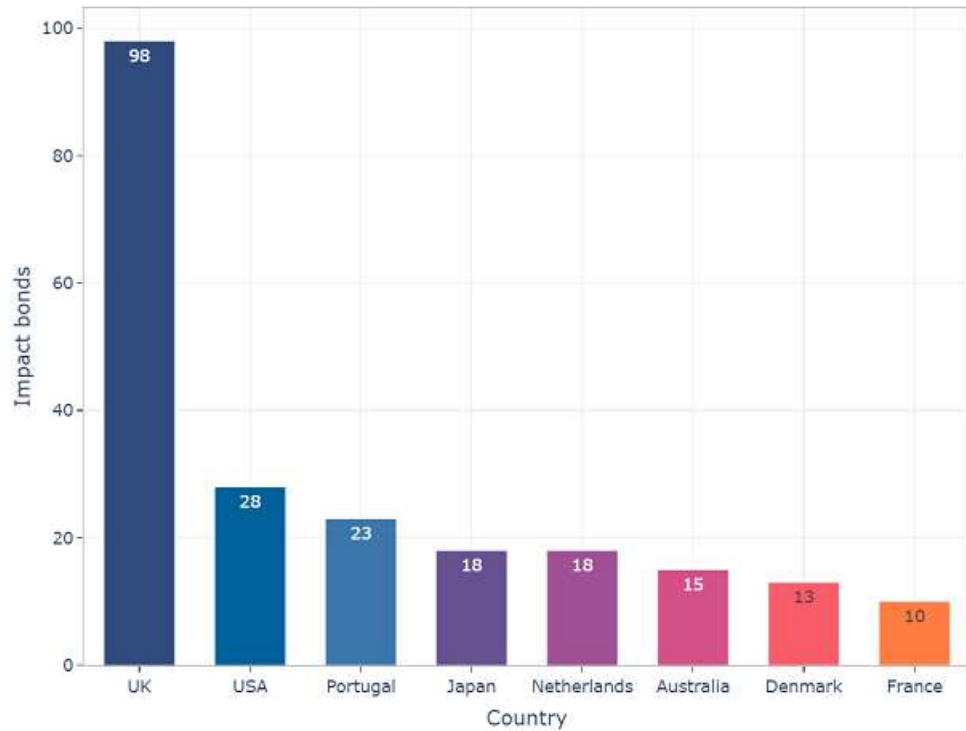


Figure 3. Leading impact bond countries.
Source: (Government Outcomes Lab, 2024)

Thus, social impact bonds are innovative financial instruments that are dynamically developing in our time. They allow, on the one hand, to improve the quality of implementation of social programs, to implement business projects for people or organizations that perform an important social mission. On the other hand, these financial instruments contribute to a more effective cross-border redistribution of production and financial resources in the long term due to the implementation of state programs.

Conclusions. Despite certain difficulties in assessing the social effect and the uncertainty of the level of profitability for investors, social impact bonds may have good reasons for further development in the world. And the prospects for the development of SIB will depend on many factors: improvement of mechanisms of cash flows and guarantees; the political and economic will of state institutions in the implementation of social programs; the level of interest of investors, etc.

For private companies with high social responsibility, the sale of social impact bonds is a worthy alternative to raising capital funds, such as mezzanine, project financing, or convertible bonds. In addition, non-profit private organizations that could improve the process of improving the quality of social programs should be involved in this process. Thus, in the synergistic interaction of several key participants of the SIB mechanism, this financial instrument will contribute to the sustainable development of society on mutually beneficial terms.

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