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SOCIAL **IMPACT** BONDS

Government of India spends billions of dollars every year in social projects to address serious social and environmental problems (e.g., school dropout rate, infant mortality, environmental pollution, rural electrification etc.). The major challenge for the government is to assess the effectiveness of the programmes. What is the guarantee that the money disbursed actually reaches the beneficiary? How do you ensure the outcome of a project? Several laudable experiments, on social issues, fail and taxpayers legitimately question government not to spend their money on 'failed' experiments. The pragmatic governments, therefore, would want to spend money on successful experiments. Tax payers also would not mind that spending.

An innovative financial vehicle is developed mainly to address this concern. Social Impact Bonds (SIBs)—also known as "social innovation financing" or "pay for success"—offer governments a risk-free way of pursuing creative social programs that may take years to yield results. Usually, governments decide what problems they want to address and then enter into a contractual agreement with an interm-mediary (or bond-issuing organization) that is responsible for raising capital from independent investors including banks, foundations, and individuals, and for hiring and managing nonprofit service providers. If the project achieves its stated objectives, the government repays the investors with returns based on the savings the government achieves as a result of the program's success.

Payment is based on what the project or service has achieved and not on the processes or work that have been done. *Figure 1* shows how traditional SIBs work: initial funding is paid for by investors to cover the costs of the project. The provider carries out the project, and the investor is paid by the government according to the results achieved, at specific points agreed in the contract. For example, if a state government wants to reduce school dropout rate in the state, SIBs can be used to raise funds from private philanthropists and if the service provider (the agency engaged to work with the schools) can ensure that the dropout rate did reduce below a threshold, the state government would pay the investors the principal back along with some returns at times.

The fund manager (social impact bond issuer) has a critical role to play. She has to identify and approach high net worth individuals, foundations and even some corporates to subscribe to the SIBs. Next, she needs to know the service providers (NGOs and/or social enterprises) who have access to the beneficiaries and have organizational set up and programmes to deliver results. The fund manager also has to liaise with the government and finalise terms of repayment. The structure of SIBs is such that investors do not consider their investments as charity and assurance from government on repayment of the bonds actually enhance the creditworthiness of issuers.

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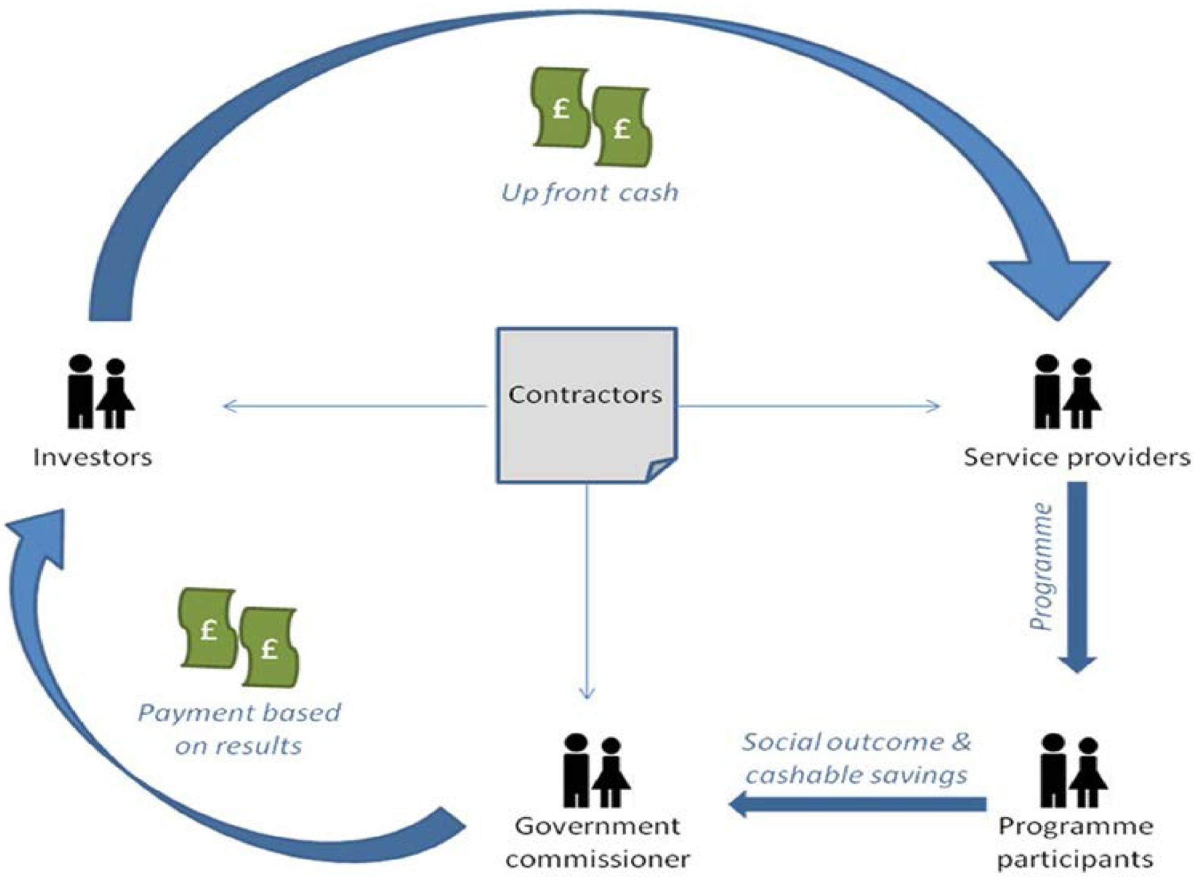

Figure 1 *Source: https://www.gov.uk/social-impact-bonds*

The first Indian organization to use SIBs to launch a Pay By Results (PBR) programme was Educate Girls- a Dasra portfolio organization. Dasra is a philanthropic foundation working with philanthropists 'to create large scale social change'. Existing donors contributed to the Educate Girls programme to achieve the following outcomes: a) increased enrolment of girls in school; b) increased attendance in school and continued enrolment over several years; c) improvement in learning and test scores. Unlike traditional SIBs where ultimately government 'buys' the outcome and repays the original investors, Dasra SIB is structured in such a way that existing donors will continue to fund the programme till the outcomes are achieved. Once the outcomes are achieved 'buyers' of the results i.e., new donors (mostly from overseas) will put in money to expand the services and reach of the programme. Hence, the existing donors will not get their investment back (another deviation from a traditional SIB route).

SIBs as a financial instrument has the potential to become a popular way of finding social and environmental projects where results cannot always be monetized. Companies in India, who are required to spend 2% of their three-year average after-tax profits on CSR (Corporate Social Responsibility) projects can avail this route to ensure that they pay for results. This way impact assessment of social investments can be ensured.

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