A Study of "Social Impact Bonds" as a tool for Corporate Social Responsibility.

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Today, the world over, the old freidmanian doctrine that the only social responsibility of a company is to maximise its profits, is no longer acceptable. The government's thrust on inclusive growth, and a view that the corporate sector must support the concept of inclusive growth, has led the mandatory CSR spending. Many companies have active programmes of corporate social responsibility and fund activities of societal benefit. The focus is mostly on communities around their area of operation and in fields like health, education, water and sanitation. The present article advocates that a section of India Inc will have to spend more towards social good. They can go beyond cheque book philanthropy and backing causes on a notion to become change makers in the truest sense through well structured, sustainable and far-reaching CSR programmes. Social impact bonds and impact investment should interest Indian companies looking to meet their 2% CSR commitment.

Key Words: Corporate Social Responsibility, Sustainability, Social Impact Bonds, Impact Investment.

Introduction

In the new Companies Act 2013, the mandatory 2% corporate social expenditure is a unique and controversial provision. It is unique because, in no other country CSR spending mandated by law. It is controversial because many in business believe the roughly ` 15,000 crore CSR spending from corporate India could be misused. However it is a timely and pioneering idea and the challenge will lie in execution.

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Many companies have active programmes of corporate social responsibility and fund activities of societal benefit. The focus is mostly on communities around their area of operation and in fields like health, education, water and sanitation. Some of this is undoubtedly based on altruism, but much of it is brand building and self interest; happy people do make good neighbours.

The present article advocates that a section of India Inc will have to spend more towards social good. They can go beyond cheque book philanthropy and backing causes on a notion to become change makers in the truest sense through well structured, sustainable and far- reaching CSR programmes. Social impact bonds and impact investment should interest Indian companies looking to meet their 2% CSR commitment. Secondary data has been used in this article wherever required, to support the inherent views.

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An Innovative Financial Instrument for Corporate Social Responsibility

The Social Impact Bonds are a new instrument which can be utilised for sustainable social good. The concept of Social Impact Bonds lies on outcomes, not on outputs which makes this model stand out. Social Impact Bonds are a form of outcomes-based contracts in which the public sector commits to pay for significant improvement in social outcomes for a defined population. This complex and innovative financial instrument comes to India without much of a time lag as its still in the pilot stage even in the US, UK and elsewhere.

Emphasis on Performance

Social Impact Bonds are actually not bonds or debt instruments in the true sense of the term, but an attractive label for multi-stakeholder partnerships in which philanthropic funders or commercial investors - not governments - take on the financial risk of expanding social programs. The model has three principal actors : the government, donors or investors, and service providers (NGOs or social enterprises). A fourth player, a financial intermediary or consultancy, design the framework, identifies or brings all the parties together, and oversees project through its lifetime. The first Social investment bond, launched in 2010 and being implemented in UK's Peterborough prison with the objective of reducing short term prisoners from committing a crime again.

Fit for India Inc

Indian companies' unique culture, skills and intrinsic ability to innovate can establish unique ways to support society and build their brands. Companies could initiate best-in-class policies or reinvent a product that changes an entire industry. Philanthropies or individual donors who invest, may not want financial returns, and may be happy with the social returns; but would like to get their money back for ploughing back in to other projects. Theoretically, the output payer can be anyone, corporations, multilateral organisations or large philanthropic foundations.

The new Companies Bill mandates companies spend at least 2% of their average net profit in the last three years on nine broad CSR areas. This applies to all companies with a net worth of ` 500 crore or more, or a turnover of ` 1,000 crore or more, or a net profit of ` 5 crore or more during any financial year. It is estimated that it could result in about 15,000 crore of corporate money flowing into the social sector. A lot of stakeholders, under the circumstances, would like to know the impact of money spent. In India it seems right timing for payment by result concept. Social investment bonds seem appropriate under the situation.

The New Approach of Impact Investment

Impact investment is basically the idea of using profit seeking investments to bring about social or environmental good. It is championed by a group of institutions, including the Rockefeller Foundation, Gates Foundation and several financial powerhouses like Citigroup and JP Morgan, among many others.

Within the sector the principal segments are the 'impact first' type, focused on social good and willing to give up some financial return if need be. Then there are the 'financial first type - commercial investor who would like market returns while doing some good. The impact first types are a minority. They may fall in to different parts of the investing spectrum, but all pledge by impact.

Mainstream Capital and Potential for Scale

A study indicates that in emerging markets, impact investment could fetch annual returns of 8 – 10 % for debt investments and 20 – 24 % for equity investments. A noise around impact investing reached a crescendo in November 2010, when JP Morgan categorised it as a distinct asset class and estimated an investment opportunity between 20,000 to 50,000 crore rupees. It is music to all kinds of investors. Impact Investor with expectations of financial returns has yet to warm up to Social Impact Bonds in India. The Social Impact Bond model allows for multiple investors to come together, pool resources and achieve scale that may not be possible singly. Crisil, along with Instiglio and others, is beginning to promote Social Impact Bond in India.

A research by Global Impact Investing Network shows that about 8 billion dollars flowed into impact investments in 2012. But much of it was in companies in the growth stage and via private equity – proxies for financial returns and about 2,570 numbers of investments have been made. Please refer fig. 3 in annexure for more details.

It can be argued that the lure of pure financial returns would bring investors into the impact investing arena and that the social aspect, the measurement of which in any case lacked strictness, will remain mere homilies.

This novel approach of impact investing fund can be to invest, measure and rate the impact has four key metrics. It also fits with desirability to introduce new financial instruments and enhance transparency. Since payments are tied to outcomes, the ability to identify what will be achieved , and the right metrics is going to be very critical.

New Order, New Capital, New Rules

While the challenges in the social sector are miscellaneous, scores of social entrepreneurs have been doing wonderful work under trying conditions. The power of entrepreneurship is a massive force that has been unleashed. Imperfections are inevitable as an industry grows and can be addressed. The positive of the hype in some ways, is that social issues are now mainstream. The struggle is in addressing present pitfalls and charting the road ahead. The old order has to give way to the new, and the new value is "contributing to change."

The Global Social Impact Bonds began in the UK in September 2010 and the one in New York city was launched in august 2012. While he model lacks a substantial track record to go by, it is seen as welcoming in a situation where too much money is chasing too few opportunities, even in the social sector. Social Impact Bonds creates new investible opportunities that never existed.

Conclusion

Social Impact Bonds – this investment instruments paves the way for a new type of instrument that enables the public sector to leverage upfront funding from private sector. It has been apparently received with much enthusiasm in financial circles.

The excitement around the new instrument is quite palpable, but it is also being recognised that not all societal challenges can be addressed by market mechanisms. Only where results are clear measurable and tangible can Social Impact Bonds be meaningful.

Instead of seeing CSR as an onerous imposition and a 2% tax, it's necessary for the organisations to see it as a 2% investment in building corporate reputation, employee engagement and innovation. Real CSR not only renews the implicit license to operate given by society to a company, but it helps to create a functioning society that we can all live in.

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ANNEXURE

Fig. 1 : The Three Phase Approach

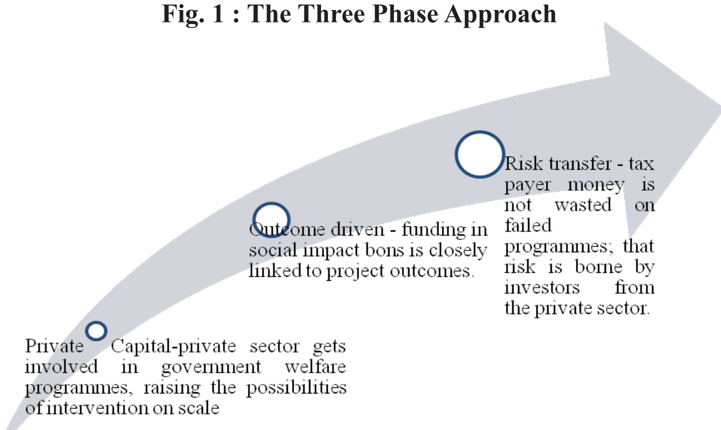


Fig. 2 : Social impact bond model

The four key players in the Social Impact Bond Model

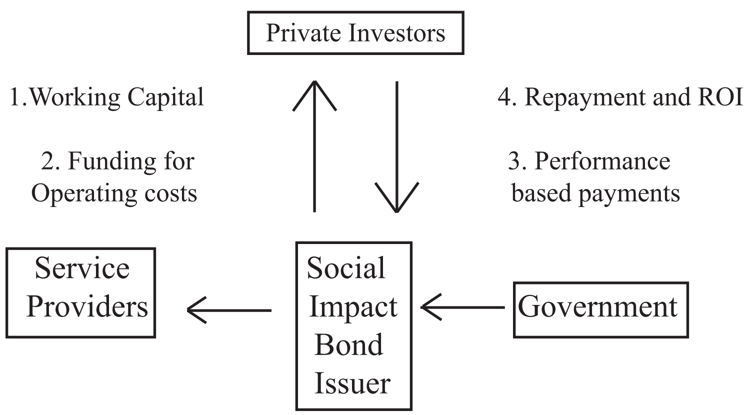
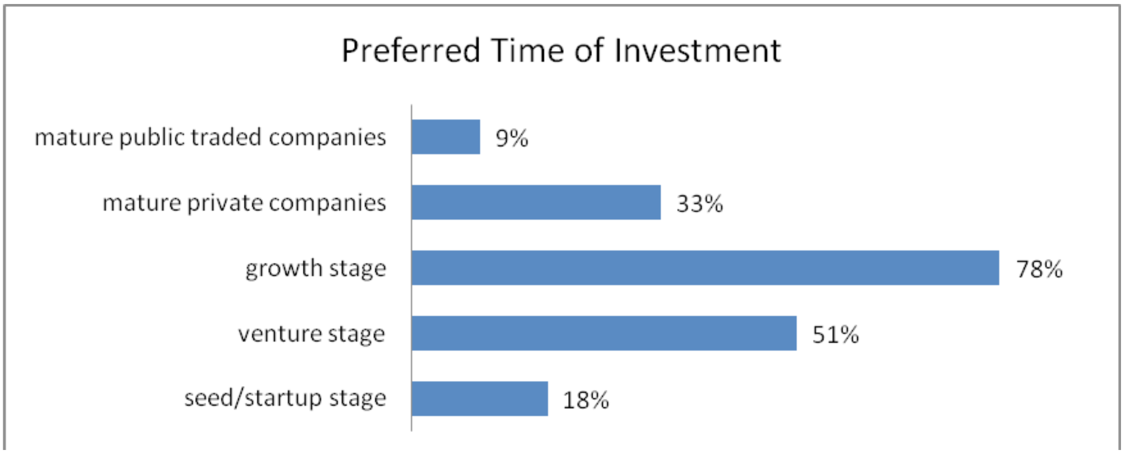


Table 1 : Two sides of Impact Investment

Two Approaches - and Two Ideologies – to Impact Investment		
Impact First		Profit First
Focused on social good and willing to give up some financial returns; not hesitant to raising and directing philanthropic capital in investments	INVESTOR PROFILE	Commercial Investors who would like market returns while doing some good
Mostly people from the development sector transiting to for profit or hybrid models	PROMOTER PROFILE	Corporate professionals turned social entrepreneurs
Aware of the need to generate revenue and profits, but are committed on creating impact	PROMOTER MINDSET	Mixed bag like a section of impact investors, some have the get rich-quick syndrome
Service a need a market failure, work for those cannot pay for goods and services, build stakeholder capacities and create facilitating ecosystem	BUSINESS OBJECTIVE	Cater to a market – businesses focused mostly on low income categories, in urban and peri urban areas, with an ability to pay for products and services

Fig. 3 : Preferred Time of Investment by Social Entrepreneur



Source : Global Impact Investing Network Survey.

Fig. 4 : Measuring Impact