

Social Impact Bonds: Securitization of Social Problems

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Extensive Summary

With the rapid population growth in the world, the burden of the state is increasing more and more in the finding of the financial resources required to make investments in the social needs of the society. According to a report published by the United Nations in 2017, a large majority is expected to be from underdeveloped countries and it is stated that the world population will be around 11 billion by 2050 and this is seen as a serious problem for the World (United Nations, 2017).

Crisis at global level has also caused the states to remain back on the welfare state as a social state. The financial crises have actually brought financial innovation together. It has been argued that financial creativity, which may lead to the emergence of a crisis, may provide advantages in solving social problems and that financial creativity, which may have negative consequences as a result of poor management, may have positive social consequences and contribute to financial problems. (Schiller, 2011)

In 2010, "Social Impact Debtors" emerged as a new source of funding for governments in the UK that implement social state principles. In this study, as a country that has adopted the principle of being a social state by giving examples of social impact bonds and their applications in the world and how the social impact bonds are being developed, monitored, useage and the applications are discussed in the world and in the literature social impact bond issue is a newly developed subject.

Social impact bonds(SIB) are used to assess the extent to which public institutions finance the development of a specific social project, including private investors (funders), the public sector (paying) and the intermediary (subcontractor) contracts with non-profit organizations. (Schinckus, 2017).

When social impact bonds are examined, SIBs' can be considered as a variant of agreements in which private sector investments in physical infrastructure projects are joined by public private partnership that become widespread. Based on specific contract and process designs in public-private partnership practices, it is not so clear as it is

based on social projects for SETs that it is possible to make open measurements for return. SIBs' pay only for the results obtained and these results are measured by rigorous evaluation methods. (Warner, 2013).

A SIB can be initiated by one or more different stakeholders including:

a commissioner: one or more public sector bodies (central or local government) seeking an outcomes-based solution to a social problem.

a provider: a charity or not-for-profit organisation seeking funding to deliver a new or existing service.

an intermediary organisation: seeking to create a SIB to tackle a social problem in a particular sector or local area. (OECD, 2017)

The main broad models being used to measure the success of SIBs are:

Administrative data models: the SIBs succeeds based on service provider and/or government data on whether specific outcomes have been achieved – past data may be used to determine the value of particular outcomes but there is no direct comparison between outcomes achieved by SIB beneficiaries and outcomes achieved by non-beneficiaries.

Comparative models: measuring the outcomes achieved by a group of beneficiaries of a SIB against the outcomes achieved by a comparable group of people not benefitting from the activities funded via a SIB – this could mean a Randomised Control Trial or a historical comparison. (OECD, 2017)

The SIB project was first initiated in 2010 to finance a social program on the rehabilitation of prisoners in the Peterborough region. The social program in Peterborough was aimed at reducing the return to prison for male prisoners who were 18 years of age or older and had been sentenced to 12 months or less (Dorsett, 2017).

According to the data of the OECD, there are 32 SIB projects by 2017 and the contract amount average is 5,995,000 USD and the average investment amount is 1,520,000 USD at UK. In the US, there are 10 SIB projects and the contract amount average is 16.224.500 USD and the average investment amount is 9.600.000 USD. The other countries mentioned are European countries, Australia and Israel, and there are 19 SIB projects with an average investment of 2.538.000 USD.

The first examples of practice were given in the UK and the United States in order to better explain the workings of the social impact bonds. In study information given about Peterborough application first social impact bond project applied in England, Rikers Island application applied in USA and failed as a result in 2015, and Utah application which is the first successful in America.

When the data of Turkey's social spending examined between 2010-2015, it shows an increase from 148.450 million TL to 279.734 million TL and showed an increase of 53 percent. Turkey has an increase in social spending in all of social investments and considering the way the principle of social state each day. Social Impact Bonds would be an important investment tool for Turkey.

The social impact projects that started in 2010 with the UK are developing rapidly all over the world, despite the failure of the Rikers Island project. In this context,

considering the rapid development of social impact bonds, the implementation of these projects will make a significant contribution to Turkey.

When social spending examined in Turkey, it has been increased the expenditures made in this direction and financing constitutes a significant burden on the country. The state will be able to spread social spending to a large part of the society and will provide important advantages for the country to share financing with private investors.

Studies should be carried out in order to use the social impact schemes, which are mostly used in developed countries such as England and USA, for other countries as well. In African countries, especially those struggling to cope with a major problem such as hunger and having difficulty financing this issues, Mozambique has begun to work on this issue, which is expected to be an important sign for other underdeveloped countries.