

SOCIAL IMPACT BONDS: BENEFITS AND RISKS

Recent initiatives try to use performance-based contracts in funding social services. These initiatives are focused on creating additional financial incentives for participants and risk redistribution between taxpayers and service providers. Whilst they look very promising, the short term of their existence makes it difficult to assess their benefits, risks, and prospects of implementing in different situations.

According to Social Finance, Social Impact Bond (SIB) is a public-private partnership which funds effective social services through a performance-based contract [1]. The government contracts with a private sector company to get social services. The reward is based on achieving performance objectives. The government pays nothing if the social outcomes do not improve above an agreed threshold. SIBs are used for treating different social problems such as recidivism, homelessness, health problems, unemployment, etc.

The usual SIB model brings together government, service providers, investors, and intermediary. Due to the complex nature of SIBs, the intermediary is usually a center of the transaction which organizes the process. However, it may provide only consulting services. Although the long-term aim is to attract capital from the financial market, most of the investors are philanthropic organizations and funds.

The first SIB was introduced in Peterborough in 2010. As of June 2016, 22 projects shared their performance data [1]. Most of them (21 projects) indicate some improvements in social outcomes. Twelve projects have made payments, either to investors or to service providers, and four projects have fully repaid investor capital. Only one significant failure was reported: Rikers Island Recidivism project. Its objective was to reduce recidivism rates among young men, but there was no improvement in comparison to historical data. No payments were made on Goldman Sachs' \$7.2 million investment.

There are several main benefits of using SIBs which include:

- *risk redistribution*: the risks are shifted from taxpayers to investors;
- *innovative practices*: using SIBs allows service providers to test different approaches;
- *cost reduction*: preventing a problem is usually cheaper than its solving;
- *enhanced transparency*: there is a more public control on how taxpayers' money are spent; it is especially important for countries with a high level of corruption like Ukraine.

At the same time, criticisms of using SIBs include:

- only large population samples can produce statistically significant measurement results; it rules out small projects;
- SIBs are complex instruments which require expertise in incentive contracting, cost-benefit analysis, evaluation design [2];
- it is hard to assess results in some areas, hence the financial resources might be reallocated to projects with measurable outcomes;
- some long-term social benefits are nonmonetizable, therefore officials are not willing to participate in SIBs;
- government officials may refuse to make payments or support projects after changes in the office.

Although there are a lot of risks, using SIBs may deliver improvements in some social service areas where robust outcomes metrics exist, the target group is clearly defined, government officials provide support, and traditional methods perform poorly.

References:

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2. Azemati H., Belinsky M., Gillette R., Liebman J., Sellman A., and Wyse A., "Social Impact Bonds: Lessons Learned So Far," Community Development Investment Review, April 2013.

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INTERNATIONAL TAX COMPETITION AND ECONOMIC DEVELOPMENT

The development of international economic relations, accompanied by the globalization and integration processes, facilitates the capital flow between countries and their unions and intensifies the competition not only on the world markets for goods and services, but also in the tax area. According to American scientists D. Mitchell and J. Clemens tax competition is a situation when people or companies can reduce their tax burden by moving their capital, labor or business from countries with high levels of taxation to those where this level is lower [1]. R. Teather believes that tax competition is the use by the government of a certain country of low effective tax rates in order to attract investment and increase business activity there [2]. However, some researchers consider tax competition as the management of competitive advantages of the tax system with the purpose of achievement of sustainable competitiveness of the national economy and additionally as a form of economic competition.

Such divergence of approaches to the definition of international tax competition leads to the conclusion that this phenomenon is multiform and complex. On the one hand, it improves the efficiency of the business, attracts foreign investment and facilitates economic development. On the other hand, the price of these achievements is the macroeconomic problems and budgetary losses in other countries [3].

The main indicators of the tax system's competitiveness are the total amount of taxes and charges, income tax rates and the income tax burden, the effectiveness of the tax agency and the stability of the tax legislation, etc. [4].

According to the World Bank's research Doing Business -2017⁴ in 2016 in the ranking of the tax burden on businesses ("Paying taxes" subindex) Ukraine ranked 84 out of 190 countries [5]. In a year Ukraine has risen 23 ranks (in 2015 it was at 107th place). The level of the income tax burden (Total Tax Rate) in Ukraine made up 51.9 % (84th place) in 2016. World average tax burden in accordance with this ranking is 40.8 %. For comparison, Georgia was at 22nd place (TTR – 16.4 %), USA – at 36th place (TTR – 44.0 %), Russia – at 45th place (TTR – 47.4 %), Germany – at 48th (TTR – 48.9 %) [6].

In the process of research of the tax competitiveness of Ukraine an indicator of fiscal health, that is one of the elements of Index of Economic Freedom⁵, was taken under consideration. According to results of the study the level of fiscal freedom in Ukraine in 2016 as compared to 2015 decreased by 10.8 points and accounted for 67.9 points; as a result, it fell below the average world level (77.4 points) [7].

Research showed that Ukraine has one of the most adverse tax systems for doing business in the world. Unstable tax legislation, which deepens the existence of the shadow

⁴ The **Ease of doing business index** is an index created by the World Bank Group.[1] Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.

⁵ The **Index of Economic Freedom** is an annual index and ranking created by The Heritage Foundation and The Wall Street Journal in 1995 to measure the degree of economic freedom in the world's nations.