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שמואל נאמן מוסד למחקר מדיניות לאומית בטכניון - 85300					



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Mitzva bonds could tackle the problem of the declining numbers of high school pupils, who study math and physics at the highest level; here students at the Kiryat Sharett high school in Holon take their matriculation exams in mathematics



Mitzva bonds

Social bonds could link performance with funding and, ultimately, rebuild the public's trust, eroded by years of waste and corruption

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WHY IS there so little creativity in Israel where it is most desperately needed – tackling pressing social problems, such as poverty, inequality, housing and racial and religious strife? Why does innovation begin and end at the narrow borders of Planet High-Tech? Why does the phrase “*ain taktziv*” (no budget) impose capital punishment on worthy initiatives?

The simple answer is that both government and some private philanthropy assume wrongly that the sole way to tackle social problems is by blindly throwing vast sums of money at them. But all too often a large

a new slippery slope exists, with politicians standing in line to demand new tax exemptions. Why not channel the money directly to those who need it? Shas has no answer.

Here is a modest proposal for changing the way we manage at least part of the 328 billion shekel (more than \$40 billion) government budget. I call it mitzva bonds. A mitzva is a good deed. Donating money to charity, for instance, is a good deed. Doing so anonymously is even more worthy. But making sure that money truly helps people is the real thing.

MONEY ALONE IS NOT ENOUGH TO DEAL WITH SOCIAL PROBLEMS. WE NEED NEW THINKING

So, let the government sell mitzva bonds that mature in, say, 20 years. The bonds pay a minimal rate of interest. But if, and only if, the project, which the bonds fund, achieves its predetermined measurable objectives, e.g., reducing hunger among children or preventing adult-onset diabetes, the bondholders get a big chunk of cash. Mitzva bondholders do good, proven deeds, and also do well – why not?

The bonds are actively traded in the bond market and their value thus reflects how well the project is attaining its measurable goals. Only smart, well-planned projects will merit the investments of mitzva bond buyers. Mitzva bonds provide a major new source of resources for social causes, but only if the programs they fund are creative, focused and prove effective. And, they establish a new norm for how governments spend their tax revenues.

This idea is actually quite old. As far as I can tell, it was first proposed by a New Zealand economist named Ronnie Horesh in 1988. He called it Social Policy Bonds. Horesh argues that for many government programs, “policy objectives are unstated, uncosted, obscure or conflicting, and financial rewards to those involved are uncorrelated to their effectiveness.”

The idea has been embraced by Sir Ronald Cohen, an Egyptian-born British financier, known as the father of British venture

capital who founded APAX, a private equity fund with major investments in Israel. Cohen serves as chair of a G8 Taskforce (G8 is the group of the eight wealthiest countries) on Social Impact Investment and is chair of Social Finance Israel, which plans to issue mitzva bonds in Israel.

ACCORDING TO Yaron Neudorfer, CEO of Social Finance Israel, the first social impact bond was successfully issued in the United Kingdom in 2010. This bond sought to reduce criminal reconviction rates in the UK’s Peterborough prison by funding rehabilitation programs. If fewer criminals return to prison, bondholders profit.

Since then, some 30 such social bond issues have been prepared or launched worldwide. In the US some \$50 million in social bonds have been issued, a tiny drop in the bucket compared to the enormous \$100 trillion global bond market, but interest is growing.

In December 2013, Israel made a rare appearance at a G8 meeting in London, when Social Finance Israel presented a clever blueprint for tackling adult-onset diabetes. Neudorfer’s colleague Ophir Samson told The Jerusalem Post that fully one Israeli in 10 is diabetic or pre-diabetic (has elevated blood sugar). The disease swallows nearly a fifth of the nation’s health care expenditure and sharply reduces patients’ productivity and quality of life.

Under the social bond, or mitzva bond, plan, co-authored with experts from Hadasah Medical Center, Clalit Health Services and Boston’s Brigham & Women’s Hospital, pre-diabetics get an intensive prevention program that includes free access to a fitness center, group exercise, lifestyle counseling and technological monitoring of progress. The proposed mitzva bond would get extra cash only if the subjects involved show measurable results compared to a control group.

A key element of mitzva bonds is verification. MIT economist Esther Duflo and her colleagues have pioneered field research on social programs, in which randomized experiments with control groups determine which social programs really work, using the same proven techniques used, for instance, to test new drugs.

In mid-April, Netanyahu’s old cabinet approved a plan to change how the government measures the quality of its policies. Under the plan, 72 indicators were chosen,

in 10 key dimensions: personal security, health, housing, elementary education, higher education, employment quality, social involvement, environment, personal and social wellbeing, and material standard of living.

The basic idea is to broaden how our wellbeing is measured, beyond the single dimension of Gross Domestic Product (GDP). Every year, the Central Bureau of Statistics will publish the 72 numbers and tell us how we’re doing. What is missing, though, is linking the 72 indicators to the way the ministries shape policy and spend their money. Is it cynical to wonder whether those 72 indicators serve simply to confuse the enemy (i.e., us taxpayers)?

Why not go one step beyond measurement? Why not take, say, half of the government’s civilian spending and choose performance metrics for each public program, from among the 72 indicators? This could form the basis for issuing mitzva bonds that could change the face of Israel. It would help reassure the public that its tax shekels are well spent and increase public involvement and awareness of its government’s activities and spending.

GOVERNMENT MINISTRIES BLITHELY USE TAXPAYER FUNDS WITH VERY LITTLE EFFORT TO DETERMINE IF IT WAS WELL SPENT

But will mitzva bonds endanger Israel’s fiscal stability by creating excess debt? Definitely not. Israel is the only one of 34 OECD countries whose government debt (as a percentage of GDP) has declined since 2008. Private household debt in Israel, as a percentage of GDP, is less than half that in the US.

In his 2012 book “Finance and the Good Society,” Yale University economist Robert Shiller makes a strong case that financial capitalism, the people who brought us the catastrophic global crisis in 2008, can also do great benefit for society. He quotes the prophet of capitalism, Adam Smith, who

portion of that money never reaches the people who need it.

A 2011 Gallup Poll in the United States showed that nearly three-quarters of all Americans believed that the large government budget deficit was due to wasteful government spending. Here in Israel, as Prime Minister Benjamin Netanyahu painfully cobbled together a coalition, each party conditions its participation on getting a big chunk of cash – a billion shekels more for education, three billion for restoring child allowances.

According to the financial daily

TheMarker, the budget demands of one small party, United Torah Judaism, with six Knesset Members, add up to more than 6 billion shekels. Add to these demands the perpetually hungry Defense Ministry, demanding 5.6 billion shekels more, and you get a big hole in the planned 2016 budget.

What’s wrong with spending more on children and education? Only one thing – lack of accountability. In the private sector before they begin a project, large or small, strong leaders always figure out how to answer the question, “When we’re done, how will we know if we succeeded?” In other words, what is our concrete measurable goal?

In sharp contrast, government ministries all over the world blithely use taxpayer funds, huge amounts of it, with very little effort to determine if it was well spent. The result has been an alarming drop in public trust in government. If you have no way to measure results, you can never determine success or failure, and hence never improve or learn.

NEW YORK TIMES columnist David Brooks recently noted that various American governments have spent \$15 trillion during the past 50 years to tackle poverty. “The money has served as a cushion,” Brooks observed, “not a ladder.” In other words, it comforted the poor but did not lift them out of poverty. Why? Taxpayers should demand answers.

The late American economist Arthur Okun coined the phrase “leaky bucket” to describe public spending. Here is an example. In return for joining the government, the Shas party demanded exempting basic foods from the 18 percent Value Added Tax. It sounds logical. Why not help the poor by eliminating a highly regressive tax? Here is the problem – the poorest 20 percent of the population probably benefit a lot from it. But the remaining 80 percent enjoy it too and don’t really need it. So eight shekels out of every 10 in lost revenue are wasted. And

YUSSI ZELIGER / FLASH90

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wrote in 1758 that we all seek “the approbation and esteem of those we live with, of such importance to our happiness.”

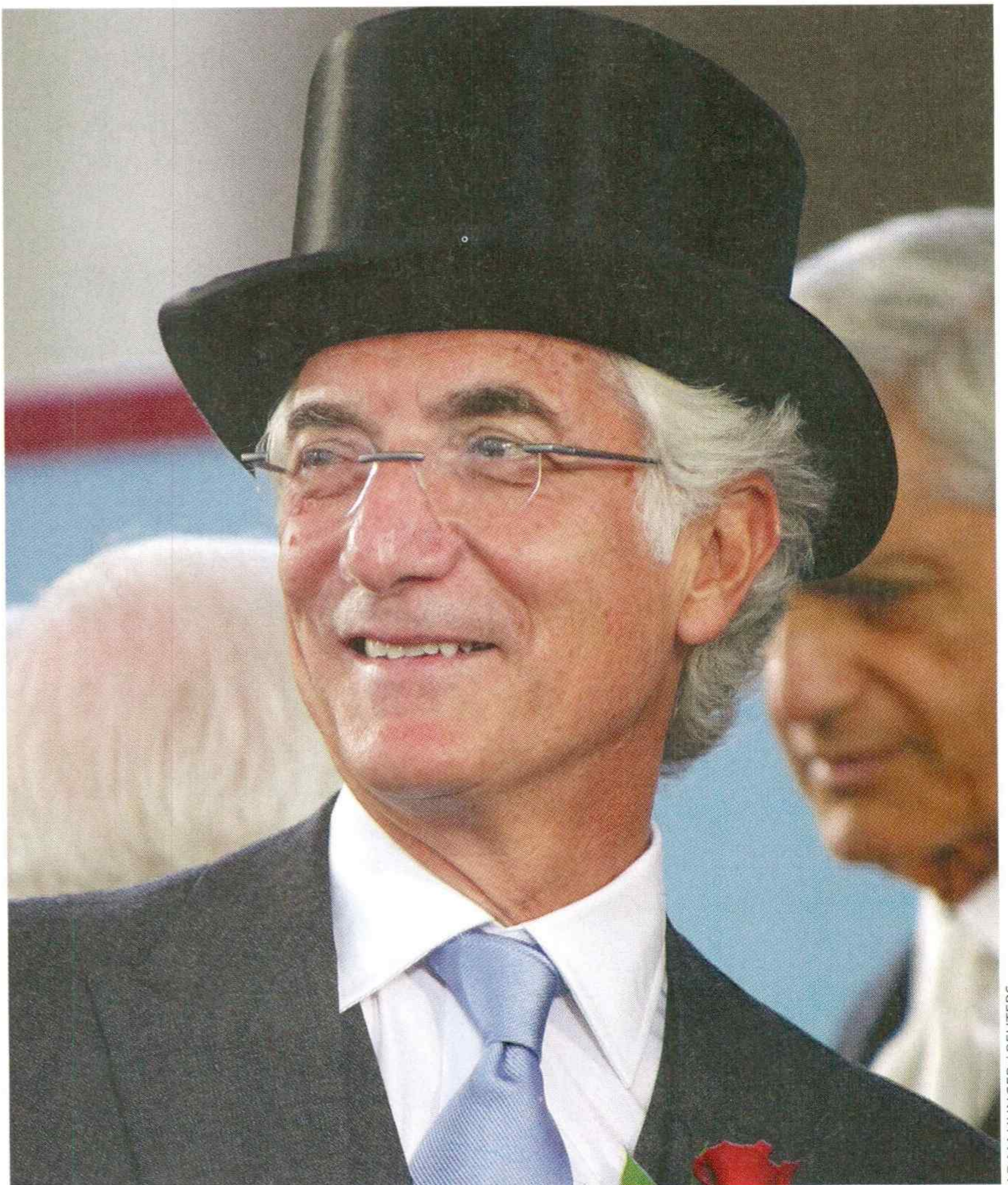
We earn such esteem through mitzvas. So why not mitzva bonds? The late philanthropist billionaire Sammy Ofer paid for a world-class football stadium in Haifa and an incredible 2,000-bed underground hospital, the world’s largest, at Rambam Medical Center, which saw use during Operation Protective Edge and doubles in peacetime as a parking garage. His mitzvas have clear visible results and bear his name. That is why it is so much easier for Technion, for instance, to raise donations for new buildings and much harder to generate operating funds for research.

PERHAPS MITZVA bonds can provide a partial solution. In the capital market, the value of a company’s common stock rises in proportion to measured results – profit. Why not create a similar public “share,” a mitzva bond whose market value rises in step with similar measured results? The mere existence of such bonds will stimulate creative thinking about how to use public money effectively to achieve worthy social goals.

I spoke about social bonds with Prof. Orit Hazzan, at Technion’s Department of Education in Technology and Science. As a scholar and citizen, she is deeply concerned about the future cohorts of Technion students. Her concern is based on data showing that the percentage of high school pupils who study math and physics at the highest level has decreased during the past several years.

Education Ministry figures show that, in 2007, nearly 13,000 took the five-unit math exam, but in 2013, only around 9,000 did. Also only about five percent of today’s high school graduates have a matriculation certificate that reflects advanced science studies. Since these high school pupils create the potential pool from which the Technion selects its students, the future of Israel’s next generation of scientists and engineers is threatened.

“Suppose we want to tackle this concern by a program that aims at increasing the number of high school pupils who choose to study math and physics on the highest level,” Hazzan tells *The Jerusalem Report*. “In parallel to the program, we could issue a social bond in order to finance it. We can



ADAM HUNGER / REUTERS

Sir Ronald Cohen, an Egyptian-born British financier is chair of Social Finance Israel, which plans to issue mitzva bonds in Israel

show the public that the program has a positive impact by measuring its impact on a specific cohort of students [and on a control group] over time.”

“An even more radical program addresses the [integration of] the Haredi sector [in the labor force],” she adds. “If we wish to implement a program and ask the public to finance it by issuing a social bond, all we have to do is present the very clear measurements of the benefits – salary increase, increase in tax payments, and decrease in poverty rates and in the social welfare payments associated with this poverty. Citizens would not hesitate to invest in such a bond – its high likelihood to achieve strong returns is clear.”

Money alone is not enough to deal with social problems. We need new thinking. Money and creativity together, through mitzva bonds, can change the way government uses our money and, hence, the way we perceive our government and its leaders. We, the people, have a right to demand that our government should be accountable for how it spends our tax money.

Mitzva bonds could link performance with funding and, ultimately, rebuild the public’s trust, eroded by years of waste and corruption. ■

The author is senior research fellow at the S. Neaman Institute, Technion, and blogs at www.tinnovate.wordpress.com