

Executive Summary

Social Impact Bonds in Health Promotion
In Israel

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Directed by the Milken Institute Israel Center, the Milken Institute Fellows Program awards annual fellowships to outstanding Israeli university graduate students. Through the Milken Institute Fellows program, we train some of Israel's best and brightest young professionals in creating pragmatic financing and economic policy solutions, and they deploy them as resources to government ministries, nonprofits and other key organizations. Our applied research and Financial Innovations Labs® are a launching pad for transformative change, using innovative financing mechanisms, programs and policies to bridge social, regional, economic and productivity gaps within Israel and between Israel and the world.

In addition, Fellows craft their own policy studies during their internship aimed at identifying barriers to job creation and capital formation in Israel. The Fellows' research, carried out under the guidance of an experienced academic and professional staff, support policy makers who shape economic reality in Israel. The program offers the ultimate training opportunity, combining real-life work experience with applied research.

Throughout the year, Fellows receive intensive training in economic and financial analysis, public policy processes, and research methods. They acquire tools for communication and presentation, policy analysis, leadership and project management. The fellows participate in a weekly research workshop where they meet senior economic and government professionals, business leaders, and top academic and financial practitioners from Israel and abroad. They also participate in an accredited MBA course. The course, which focuses on financial and economic innovations, is taught at the Hebrew University School of Business Administration by Prof. Glenn Yago (Senior Director/Senior Fellow at the Milken Institute).

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve in key positions in government ministries while others work at private-sector companies or go on to advanced graduates studies at leading universities in Israel, the United States and Great Britain. Within the program's framework, more than 80 research papers have been published, catalyzing reforms, reducing barriers, accelerating economic growth, and improving the quality of life for Israel's citizens.

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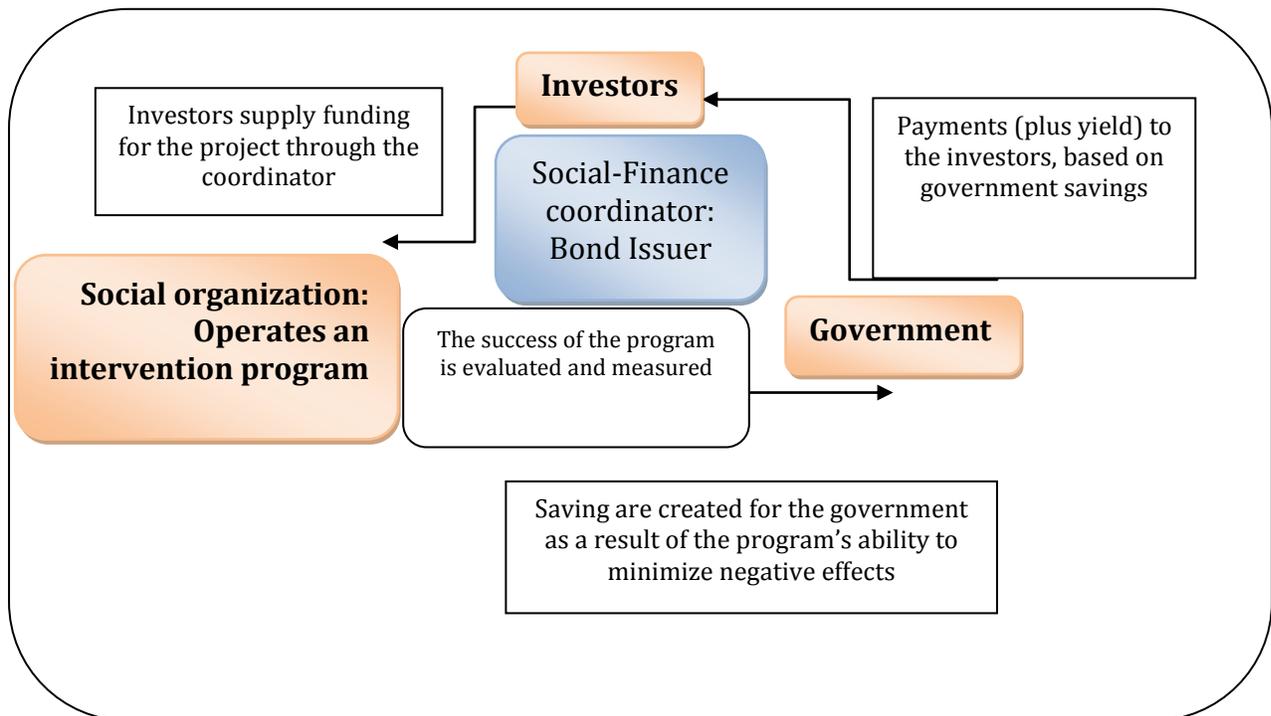
This research examines and analyzes the possibility of implementing the “social impact bonds” model in the field of health promotion in Israel, while considering the unique structure of the nation’s health system. The research also looks into the potential advantages and risks of such a model.

Background

The field of health promotion seeks to affect the social, environmental, and behavioral factors that determine the health of individuals in ways that would encourage each person to lead a healthy lifestyle. These same factors are key to determining public health. In Israel, as in many other developed countries, the budgets for public health, health promotion, and preventive medicine are low compared to the general health system allocation. Furthermore, they are not expanded to keep up with population growth. Often, nonprofit organizations take on the important role of health promotion, especially among minority groups. These organizations have the advantage of direct contact with the target populations, unimpeded by cultural or linguistic barriers. Mostly reliant on philanthropic donations or government funds, these nonprofits typically lack sufficient funds for their programs.

Social Impact Bonds as a Solution

In recent years, a model involving social impact bonds has been developed as a means of funding social projects. In this model, investors go through a social-finance coordinator to supply funding for a social intervention program, with the assumption that its success will create significant savings for the government in the future. Once the program has been in place for a set period, its achievements are then measured, and the savings stemming from these successes are quantified. Based on this calculation, the government pays investors back their initial investment along with interest. Some of the savings remain in the government’s hands.

Chart 1: Social Impact Bonds and Public Health

Source: Milken institute Israel Center, 2013.

This new financing method for social projects has attracted much interest, as it can be applied to generate funding for projects addressing issues such as labor force participation, prison recidivism, and more.

In exploring the possibility of applying the social impact bonds model to public health, this research has considered these as key steps:

Identifying the scope. Our analysis defines the criteria for choosing projects and fields that would be compatible with the model. These findings point to areas of public health that already have a broad and thorough knowledge base, which is useful for establishing a reliable measurement program. Specifically, areas with an existing consensus on how to measure success and improvement would work well in this model. Moreover, working on the assumption that disease prevention holds potential savings for the government, the analysis found substantial evidence that changing behavioral risk factors would have significant effects on incidence of the disease.

Creating a funding framework. The research analyzes the structure of finance in the Israeli health system and presents two models for integrating social impact bonds. The first suggests creating the engagement between the state and the social-finance coordinator while relying on government funding of health maintenance organizations (HMOs). The second looks into the option of the HMOs working directly with the coordinator while the government takes a supervisory role.

Establish a savings and payment formula. Another issue examined in the research is the method of calculating the savings that stem from the financed project, and the method of determining the payment amounts to investors. Also, it is suggested that payments be based on two main components: measuring the incidence in the intervention group, compared with a control group; and examining the decrease in the participants' chances of developing the disease in the future.

The last part of the research discusses this model's potential advantages and disadvantages for the government and public health. For social impact bonds to work in the field of health promotion, the findings highlight two crucial suggestions: Locate areas in which social organizations have an edge over the government, and create a knowledge base and better understanding of the social-finance field in the Israeli government.

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