

## **Chapter 7**

### **How to issue your own Social Policy Bonds**

It may well be the private sector that first issues Social Policy Bonds. This chapter looks at how this might be done.

#### **Example 2: Female Literacy Bonds**

Officially, 53% of Pakistanis are literate. Others say the figure is nearer 30%. Literacy, often defined as no more than the ability to write one's name, is as low as 3% among women in some rural areas.<sup>1</sup>

While Pakistan's religious schools are widely seen as fomenting terrorism, hatred of the west, and ignorance, its mainstream schools are also, to say the least, underachieving. With its population of 160 million, Pakistan's failing educational system is a major concern and one that doesn't seem amenable to the current policy mix. So let us assume that a group of enlightened philanthropists decides that an urgent priority is to increase the literacy rate of girls and young women in Pakistan from its current level of 30 percent (or 28 percent<sup>2</sup>) to 95 percent.

The philanthropists need not know anything about the Urdu language. They would though be convinced that raising the female literacy rate in Pakistan would be a good thing in itself, and perhaps make the world a safer place for themselves and their descendants. They need have no particular expertise, either about how to achieve their goal or about which charities or government bodies are best placed to help achieve it. But, in accordance with the Social Policy Bond principle, those who wish to see an objective achieved do not need such expertise. Instead the philanthropists could proceed by depositing some of their funds into an escrow account at a trustworthy financial institution. These would be their contribution to the cause of female literacy in Pakistan. They could then call on members of the public to swell this account by making their own contributions. This contents of the account will be used to redeem 'Female Literacy Bonds', which the philanthropists would issue and promise to redeem for \$10 each once a specified female literacy rate for females in Pakistan has risen to 95 percent. They would probably add certain provisos into the redemption terms. For instance, they would probably not wish to see a rise in female literacy at the expense of male literacy, of basic health programmes. So they could stipulate that the bonds shall not be redeemed if the male literacy rate falls, or if health indicators for the Pakistani population show a decline.

The literacy goal would need to be monitored by some reputable and trusted body. It might be that there is already such a body, impartially and reliably measuring the literacy of Pakistani girls and women. If not, the philanthropists will have to organise their own. This body could perform standardised tests of representative but random samples involving hundreds of Pakistani girls and women. Only when the female literacy rate as measured by this body does reach 95 percent would the philanthropists instruct the escrow account managers to redeem the bonds.

Once issued, the Female Literacy bonds would then be sold on the open market for whatever price they will fetch. (Any proceeds could be used to cover administrative costs, or returned to the philanthropists, or used to enable the issuers to add to the number of bonds issued for this, or other, social goals.) Who would buy the bonds? The Pakistani Government, currently the largest current supplier of literacy-increasing services, might decide to buy some or all of them. It would then be in a position to reap financial rewards by doing what it could to increase the literacy of Pakistani schoolchildren. It could do this by channelling resources into expanded or improved literacy classes. It might, for example, change the school curriculum to give literacy in colloquial Urdu a higher priority, or it could decide to strengthen and enforce laws against truancy. It could broadcast literacy programmes on television and conduct research into the most efficient ways of increasing literacy in its society.

If at any time others thought they could do a better job than the Pakistani Government, they would be in a position to bid more for the bonds than their current market value, and buy them from the Government. Similarly if the Government did not want to be actively involved: people and institutions, based in Pakistan *or anywhere else*, could buy the bonds instead and work to modify or supplement the Pakistani school system's literacy teaching. While the targeted literacy goal would be more readily achieved by the support and participation of the Pakistani Government, *it would not rely on such support.*

Given the gap between the current female literacy level and the target, the bonds might at first sell for a fraction of \$10. Some people might buy the bonds at these very low prices and just wait for their price to rise, much as they would buy a lottery ticket, wishing to become free-riders (see chapter 4). But what would happen then? The value of the bonds would fall still further. The lower the value of the Female Literacy Bonds falls, the more profit people can make if they buy the bonds and then do something to raise the literacy rate of girls in Pakistan. The bonds would be tradable so people can sell them whenever they want. If somebody thought they could do something to raise the female literacy level, then they would buy bonds and make a profit on the increase in value as it became more likely that the target will be achieved quickly. They wouldn't have to wait till the objective had been achieved: the market would value their bonds more highly, even before redemption. The bonds would most probably end up in the hands of a few large holders, who would have incentives to co-operate with each other, and to finance those projects that they believed would be most effective in raising the level of female literacy.

### **Advantages**

The advantages as well as the mechanics of Female Literacy Bonds would be the same as for any other Social Policy Bond issue. There are many funding programmes that distribute cash to favoured activities, organizations or individuals, but Female Literacy Bonds would *inextricably* link payments to the targeted *outcome*: a female literacy rate of 95 percent in Pakistan. Unlike programmes currently run by governments or non-governmental organizations the bonds would encourage diverse, responsive and cost-effective projects. The prospect of financial reward would motivate and enlarge the pool of people with an interest in raising female literacy in Pakistan. Bondholders would gain most by ensuring that the goal is reached quickly. The philanthropists who issue the bonds could try to accelerate progress toward their goal (and mitigate attempted free-riding) by stipulating a time limit for its achievement, beyond which they will not redeem the bonds. They would make no assumptions as to *how* to raise female literacy — that would be left to whoever buys the

bonds, who have every incentive to maximise the increase in female literacy in Pakistan for each dollar they spend.

Any doubts about how effective groups of motivated individuals can be when government efforts appear to have achieved little should be dispelled by the research done by James Tooley, who looked at private schools for the very poor in developing countries.<sup>3</sup> Typically these are small, shabby operations, sometimes occupying a single classroom, staffed in some cases by just the teacher-proprietor and an assistant. Fees can be less than ten US cents per day. Despite the fears of some aid organizations, these schools ‘...everywhere were outperforming the government schools in the key curriculum subjects – even after controlling for background variables.’ Even when the per pupil teacher cost was calculated ‘private schools came out less expensive: In the government schools in Lagos State, for instance, per pupil teacher costs were nearly two and a half times higher in government than in private schools.’

Holders of Female Literacy Bonds can do things that other organizations cannot. While charities, for instance, do marvellous work with limited resources they cannot routinely use their funds to bribe officials either to do their job properly or to look the other way. Nor can they deliberately undermine those in power who can obstruct their work. They cannot, in short, play hardball even when doing so would greatly benefit thousands of ordinary people. But it is not solely a matter of standing up to the obstructive politicians, the corrupt bureaucrats, the well-meaning idealists, the ill-meaning ideologues, the generals, or the men of religion who in many countries wish to keep their people ignorant and poor. It is also a matter of bringing financial self-interest to bear.

Holders of Female Literacy Bonds would have incentives to carry out a wider range of literacy-raising initiatives than either governments or non-governmental organizations, and to do so more cost-effectively. As well as bypassing – or buying off – the people in authority who may be blocking progress toward higher literacy rates, bondholders could lobby the Pakistani Government to give a higher priority to literacy in schools, or they could develop literacy-teaching projects of their own. They might finance production and broadcasting of literacy programmes for television, or set up village schools, or give prizes to the most literate families in villages. It would be up to bondholders to decide on those programmes that will give them the highest increase in female literacy per unit outlay. As we saw in chapter 5, the market prices of the bonds and the changes in these prices over time would supply helpful information as to how fast the objective were being achieved, and as to whether more funds would be required for this long-term project. The market prices of the bonds would be publicly quoted, just like those of ordinary bonds or shares.

Some in the Pakistani Government, religious institutions, or militant organizations might resent the targeting of such objectives by external agencies in this way. But the bonds would present a way of increasing literacy that can modify or circumvent these people’s uncooperative or obstructive behaviour; a way that can co-opt or subsidise those who want to help, and at the same time bypass, distract, or otherwise undermine, those who oppose the literacy goal. As well, while under the current system people can oppose literacy teaching in ways that attract support, under a Female Literacy Bond regime, they would have openly to declare their opposition to female literacy itself. There might be some who would do this, but it’s likely that most of those who are currently obstructing female literacy would be reluctant

to do so. It is precisely this focus on the *outcome*—rather than activities or institutions—that would help strengthen the coalition working to achieve it.

In summary, the advantages of a Female Literacy Bond regime over conventional methods of raising literacy would be similar to those arising from other Social Policy Bonds: they include enhanced cost-effectiveness, stability of policy goals for what would most probably be a long-term objective, transparency, and more attractive money flows.

### ***Private sector Social Policy Bonds for all***

Who might be interested in privately issued Social Policy Bonds, and why?

- Philanthropists and others who are cash-rich but time-poor and have high ideals that can be expressed as quantifiable social and environmental objectives. They could collaborate and issue their own Social Policy Bonds, setting up an escrow account for funds to redeem them. Less wealthy people – ordinary members of the public – could be asked to swell this account by depositing their contributions into it.
- Organizations in the public or private sector already involved in trying to achieve the targeted objective. They could seek funding from holders of the relevant Social Policy Bonds, who, if they believe these organizations' activities are efficient will find it worthwhile to help finance their existing projects.
- People could set up new organizations specifically to buy the bonds, work towards the targeted objective, and sell their bonds once they have risen in value.

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<sup>1</sup> *Teacher, don't leave them kids alone*, 'The Economist', 4 April 2007.

<sup>2</sup> *Inside the madrasas*, William Dalrymple, 'New York Review of Books', 1 December 2005.

<sup>3</sup> *Educating Amarech: private schools for the poor and the new frontier for investors*, James Tooley, 'Financial Times', 17 September 2006. Available online at: <http://tinyurl.com/6regwj>, sighted 19 July 2008.