

"THE CONTRIBUTION OF THE PROJECTS WE HAVE LAUNCHED TO ISRAEL'S GDP WILL BE NIS 1.8 BILLION"

At the Public Benefit Company ,SFI summarizes the expected impact from the 6 Social Impact Bonds launched so far ■ The company estimates the direct savings to public entities at NIS 97 million ■ According to a report published ,every computer science student they succeed in preventing from dropping out from the university, will contribute NIS 5 million to the GDP.

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[Published in Hebrew](#) in TheMarker, 22.9.21



How much is a high-tech worker worth to the country ? That is, how much will the Israeli economy gain if a computer science student does not drop out of his studies prematurely and instead will integrate into the industry ?The answer according to SFI (Social Finance Israel,) in a [recent report](#), is that such a high-tech student will contribute about NIS 5 million to Israel's GDP.

This is a periodic report by SFI ,a public benefit company established in 2013 to promote a flow of capital funds to provide solutions for social problems in Israel through the use of innovative financial tools , including Social Impact Bonds. In the latest report ,the company also summarizes the expected future contribution of the Social Impact Bonds projects launched so far, after they come to an end. According to SFI's estimates ,the total contribution of the first project ,which was launched in 2015 and was intended to prevent students from dropping out of the Computer Science Department (taking into account the number of participants) is NIS 931 million.

Omer Snir head of SFI's R&D, explains in a joint interview with SFI's CEO Yaron Neudorfer how its calculated: "We know how much those who finish their degrees earn and we also took conservative estimates based on the knowledge that wages have increased in recent years ,so we know how much it contributes to the GDP .We also considered the fact that if the student had dropped out, he would still have worked ,but with a lower productivity. We have done the calculation over their entire career and have translated it into today's terms". Thus ,he says ,the total addition to the GDP that every student who remains in his studies will contribute to the economy ,with some of this going directly to the student, some going to state taxes, some to the employer and a part to the Israeli economy ,amounts to about NIS 5 million per student.

In addition to this area of interest, in the last 8 years, SFI has carried out additional Social Impact Bonds programs: Preventing type 2 diabetes Enhancing math achievements for Bedouin youth; Impact investment to reduce loneliness of the elderly in Tel Aviv; and a program to encourage and promote a population of young Druze into high-tech .The total impact expected from the projects underway so far presented in the report amounts to NIS 1.8 billion ,most of which comes from the potential of computer science students and students who will successfully complete 4 and 5 units of mathematics.



There too ,Snir explains, “there are a lot of studies ,not only ours ,that show how much graduates of 4 units of mathematics and-5 unit graduates earn ,because it affects the university areas of studies and accordingly the future salaries in such fields .We also know how to calculate how many new graduates were added after the project was completed.”

A significant impact is also expected from the Social Bond launched only last April ,with the support of the Israel Innovation Authority ,designed to train 60 young people from the Druze community to the high-tech industry. “It is a project in a slightly different model than the others”, says Neudorfer. “Those who do well and at the end of the program are employed in high-tech and receive salaries higher than NIS 12,000 will return the money invested in their training ,but those who do not reach this level of wages will not have to return anything. It is literally an income-contingent loan.

“For the first time, a Social Impact Project returns money”

Social Impact Bonds (SIBs) were created to connect the world of philanthropy to the business world — so that contributing to social causes would be run like a business and would yield a return for its investors. The idea underlying the model is that the funding for the project is raised from investors and returned to them by the entity that initiates the bond ,plus a yield ,in accordance with the predetermined targets. If those goals are not met, the investment becomes a contribution.

SFI was founded by Sir Ronald Cohen — best known as one of the heads of the Apax Partners, but also famous for conceiving the idea of SIBs. Apart from the six projects that have been launched, SFI notes that there are more than 20 additional projects in various stages of development.

None of the launched SIBs have reached maturity, so it is not possible to check the extent of their final impact. Yet Neudorfer notes that the interim results of the first project can already be seen, and he defines them as a success.

The project ,mentioned above ,is intended to prevent students from dropping out of the computer science department .This SIB was initiated because, according to SFI data ,the percentage of students who do not complete their degrees can sometimes reach 40% and this phenomenon is particularly upsetting to the academic institutions that could potentially lose NIS 100-150,000 per such student ,and therefore are willing to invest to prevent it from happening.

The project is operated by the Aluma on behalf of SFI within the computer science studies at the University of Haifa and the Tel Aviv-Jaffa Academic College. Some of the students in the program were accepted for a first year of probation, as they were below the standard of admissions at the college. "We have completed three cycles and the project is now in its sixth year, with 80% of its results already known today. We estimate that we were able to reduce student dropout by more than 30% in both institutions compared to dropout rates that were quite stable in the previous five years. For the students who have been granted probation, more than 50% of them are expected to finish not only the first year (in probation) but their entire degree" says Neudorfer.

The project raised NIS 8 million in investments from three investors — Bank Leumi, the Edmond de Rothschild Foundation, and an Israeli family office." To date, investors have already received back 60 per cent of their investment, with each year we calculate the actual results against the benchmarks" Neudorfer said. "We estimate that at the end of the project the investment will return all the money along with an annual return of 4%. This is the first time in Israel's history that a social project returns money to its investors". This contrasts with social projects that are pure philanthropy.

"These are not numbers that we invented".

Neudorfer also recounts what the project provided to students. This includes support that Neudorfer defines as "semi-academic", and some of the students are even provided financial assistance in the form of a scholarship. "We know who attended the classes and who did not, and there was also personal assistance to the students who needed it. As a result of the project, the University of Haifa appointed a specific person in the rector's office whose role is to be in charge of reducing dropouts — and it is a great achievement because they take the best practices that we created and can instill them in all faculties at the university", says Neudorfer.

There can be criticism of your method of measurement. After all, these are only assessments, as the projects have not yet been finalized.

Neudorfer: "These are numbers that are based on the projections we give to investors, not numbers that we just invented, and they are taken from economic research. For example, how much are pre-diabetics 'worth' to the HMO. Even when a business corporation sells bonds to investors, it relies on estimates of how close they will be to their quarterly targets."

Snir: "The level of reliability is quite high because in the end, it is tied to payments (by the public entity) — for example, if X less students dropped out of the faculty and integrated into the industry, is how the success of the project is measured. The public entities won't pay for something that didn't occur."

How do you know how to neutralize other effects? For example, it is possible that in the Covid-19 year more students dropped out regardless of your intervention.

Snir: "As a rule, built a control group each time according to the specific issue. The Diabetes Prevention SIB bonds has a controlled group of people who have the same characteristics, and we track their results. In the field of higher education, it is impossible to build such a control group, because we work with all the students in the department. Therefore we took the results from years past and saw that the dropout data is the same over the past 5 years, and we measure against it."

Savings remain in the pocket of the public entities

In the report, SFI also examines the impact they have created in a narrower sense, the impact of the direct savings generated as a result of the six projects they carried out, and in this respect it is a saving of NIS 97 million, after they have raised NIS 49 million from impact investors. Neudorfer explains: "for example, if there is a person who is pre-diabetic and we saved him from becoming diabetics, not only did we impact his and his family's life, we also saved money for the HMO's and the Government because of possible hospitalization expenses and social security disability payments. If the same patient becomes disabled, it costs the state in social payments more than medical expenses."

The direct savings for each of the approximately 2,000 participants of the Diabetes Prevention Program are estimated at NIS 18,000, with the total contribution of the project to GDP estimated in the report at NIS 109 million. Overall, the contribution to GDP also considers that people who become sick are rejected from the workforce or that there is a decline in their productivity.

Similarly, a project to prevent elderly loneliness was launched a year ago. The project began with a pilot in which 200 elderly people who are in a state of chronic loneliness will receive tailor-made social services for them on behalf of the Tel Aviv Municipality. SFI estimates that the project will generate savings of NIS 48,000 for each elderly person, with a contribution to the GDP of about NIS 6 million. "We did our financial research and looked at how much saving each such person would save, in costs to the health system and the welfare system in case of the success of the program." Snir explains.

Neudorfer adds, "Today, the government is looking for financial resources and we have shown that with an investment of NIS 50 million, it is possible to save NIS 100 million — this is significant." Neudorfer adds to the statement — that the investment funds will have to be returned to investors along with the yields. After all, public entities (such as Universities, HMO's and the National Insurance Institute in the case of diabetes bonds, and the Ministry of Education and the Tel Aviv Municipality) have committed to paying for successful results.

"In the event of reaching the maximum possible result, they will pay NIS 75 million back to investors, and the gap between the NIS 97 million saved and what they will pay remains in their pocket as savings," Neudorfer concludes.

