

Life Bonds: Linking Returns to Life Outcomes

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Proposed new life bonds represent one potential mechanism for leveraging the power of financial markets to reduce poverty.

By Jamie Attard | 1 | Sep. 12, 2012

“Freedom is never voluntarily given by the oppressor; it must be demanded by the oppressed.”—Martin Luther King Jr.

Can we use the power of financial markets to drive long-term positive outcomes? Can financial markets incentivize beneficial behaviors? Can financial markets shift the focus of development towards the demands of the poor? I believe the answer to all three questions is a wholehearted yes—the only thing missing is the right instrument.

The largest challenge in addressing poverty is providing the poor with access to sufficient resources to enable them to maximize their capabilities and live fulfilling lives. However, an important component of development is recognizing and responding to the demands of the poor to maximize the adoption and success rate of new initiatives. Only by understanding and responding to the demands and voices of the poor will we deliver meaningful, long-lasting, impactful and sustainable solutions.

We have created financial instruments to focus on commodities, risks, and the environment, but have neglected social outcomes that are the ultimate drivers of global growth and stability. Only when the torch of the global financial markets is shone on the plight of those poorest around the world will we truly comprehend the level of need and act. Proposed new life bonds represent one potential mechanism for empowering the voice of the poor and leveraging the power of financial markets to reduce poverty.

A life bond is a 25-year, market-traded, zero-coupon bond. Life bonds would be awarded on a national basis to ten percent of all children born to families below the poverty line, with a maximum of one awarded per family.

A life bond would work this way: Eligibility would require a child’s birth to take place in a hospital, and the bond would vest only when a nourished and vaccinated child reaches the age of five. The bond would then increase in value upon the fulfillment of key health and education outcomes important in the development of children. Health milestones up to the age of 25 would focus on promoting the maintenance of vaccinations and adequate nourishment, and the avoidance of substance and alcohol abuse. Education-specific milestones would focus on promoting the completion of primary, secondary, and tertiary education.

A life bond would represent a publicly tradable financial security, with the market reflecting the expected realizable value of each bond specific to local conditions. Parents would assume joint trustee rights over a life bond until a child reaches 18 years of age, after which time the grantee would assume full legal entitlement.

A maximum of 40 percent of the ownership rights of a life bond could be realized prior to maturity. As trustees, parents would be required to provide joint consent in realizing the vested market value of a life bond. Although 40 percent of the ownership rights of a life bond could be transferred, the subject cannot be changed; death prior to a grantee reaching 25 years of age would extinguish all bond rights. Proceeds from the realization of the value of a life bond would be electronically deposited into the registered bank account of the bond owner.

An online identity protected biometric registry would detail the progression of each bond grantee, their location, and each bond's face and market value. A key requirement of life bonds is that the status of a grantee be verified on an annual basis to maintain validity. Verification would be performed as part of annual health checkups at hospitals and health centers, which would also include the validation of education records.

The proposal is for a ten-year trial of a life bond scheme within a least developed country, funded by foundation grants and supported by annual rigorous measurement. Data from the treatment group would be gathered on an annual basis and compared to a control group or national level statistics. It is hoped that after ten years of demonstrated incremental impact, national governments would adopt the program by providing for the expected realization of life bonds and internalizing the gathering of health and education information.

Life bonds would not represent a panacea to solving global poverty. They would need to supplement rather than replace supply-sided development initiatives to continue to encourage more equitable access to health and education services. But they would empower the voice of the poor and provide a mechanism for financial markets to support international developments and generate attractive returns. They also have the potential to promote greater active global citizenship, to accelerate the pace and adoption of innovative development initiatives, and to help strengthen the connection between the developed world and those living in poverty to encourage greater public contributions.