

Executive Summary

Results from the Learning Agenda

First Social Impact
Bond in an Emerging
Country

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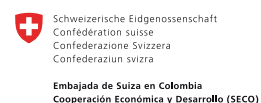
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1. Introduction

This document summarizes the results of the Learning Agenda that was developed for the first Social Impact Bond implemented in a developing country: the *Empleando Futuro*¹ Social Impact Bond (SIB). The Learning Agenda serves as a structured process evaluation of the SIB² with three key objectives:

- 1 Evaluate the effectiveness of the Social Impact Bond model as an instrument to improve employment results.
- 2 Determine how different design elements of this SIB motivated changes amongst its various stakeholders and in the employment interventions themselves.
- 3 Analyze how these changes impacted the effectiveness, cost per outcome, and achievement of results of the different implementation approaches to improving employment that are incorporated within this project.

The SIB, the Learning Agenda, and its Executive Summary are part of a series of activities developed by the SIBs.CO Program, which is an initiative funded by the Innovation Laboratory of the Inter-American Development Bank Group (IDB Lab) and the Swiss State Secretariat for Economic Affairs (SECO), and is implemented by Fundación Corona. The Program's mission is to generate evidence and knowledge with an initial focus on formal employment for vulnerable populations.

This document summarizes both the design components and lessons learned of the SIB. Section 2 introduces the main features and results of the SIB. Section 3 presents the key learnings and recommendations identified during implementation of the SIB. Section 4 presents the applicable learnings and recommendations for employment programs going forward.

2. About the *Empleando Futuro* Social Impact Bond

Colombia suffers from one of the highest unemployment rates in Latin America – reaching 10.8%³ in 2019. Unemployment is most prominent within populations that experience greater barriers to both attaining and retaining formal jobs. These vulnerable populations include youth, women, victims of armed-conflict, disabled persons, the LGBTI community, ethnic groups, and individuals living in either rural or dispersed areas. To tackle this issue, national and local governments, international cooperation agencies, and private sector actors (i.e., foundations and companies) implement programs and policies aimed at increasing the quantity and quality of formal jobs available to vulnerable populations. However, the fact that the results in this sector tend to be mixed demonstrates that there is room to improve⁴. These improvements are both in the form of scaling results and replicating interventions in diverse contexts. Furthermore, there is a pressing need to evaluate the effectiveness of the employment interventions themselves to identify the most effective strategies and to focus on the long-term outcomes such as job placement and retention.

Given this context, Social Impact Bonds have emerged as an innovative public procurement instrument to both increase the effectiveness of public spending and improve results in the social sector. Social Impact Bonds are a Results-Based Financing (RBF) mechanism in which an outcome payer (e.g., government

¹“Employing the Future” in Spanish.

² Three forms of collection of information were used: (i) literature reviews, (ii), semi-structured interviews and (iii) quantitative analysis. However, it is important to consider the limitations of the analysis and its influence on the findings and conclusions presented throughout this document. The analysis is not based on an impact evaluation that can establish causal relationships, but on a process evaluation. In addition, information was collected 18 months after the start of the SIB and there were various restrictions on the availability of information which reduced sample sizes. Thus, some findings are based on purely qualitative information.

³ Source: DANE (National Administrative Department of Statistics)

⁴ Inter-American Development Bank. Evaluating the Impact of Job Training Programs in Latin America: Evidence from IDB funded operations. 2008.

and international cooperation agencies) commits to paying a service provider only for the achievement of independently verified results. The mechanism ensures that spending is 100% conditional on achieved results. Given that funding is only disbursed to service providers once results are achieved, in impact bonds, investors provide up-front working capital to the service provider to be able to deliver their intervention. Therefore, the financial risk of not achieving results is shifted from the service provider to the investor. Once the results have been verified, the outcome payer repays the investor, often with a return for assuming the financial risk.

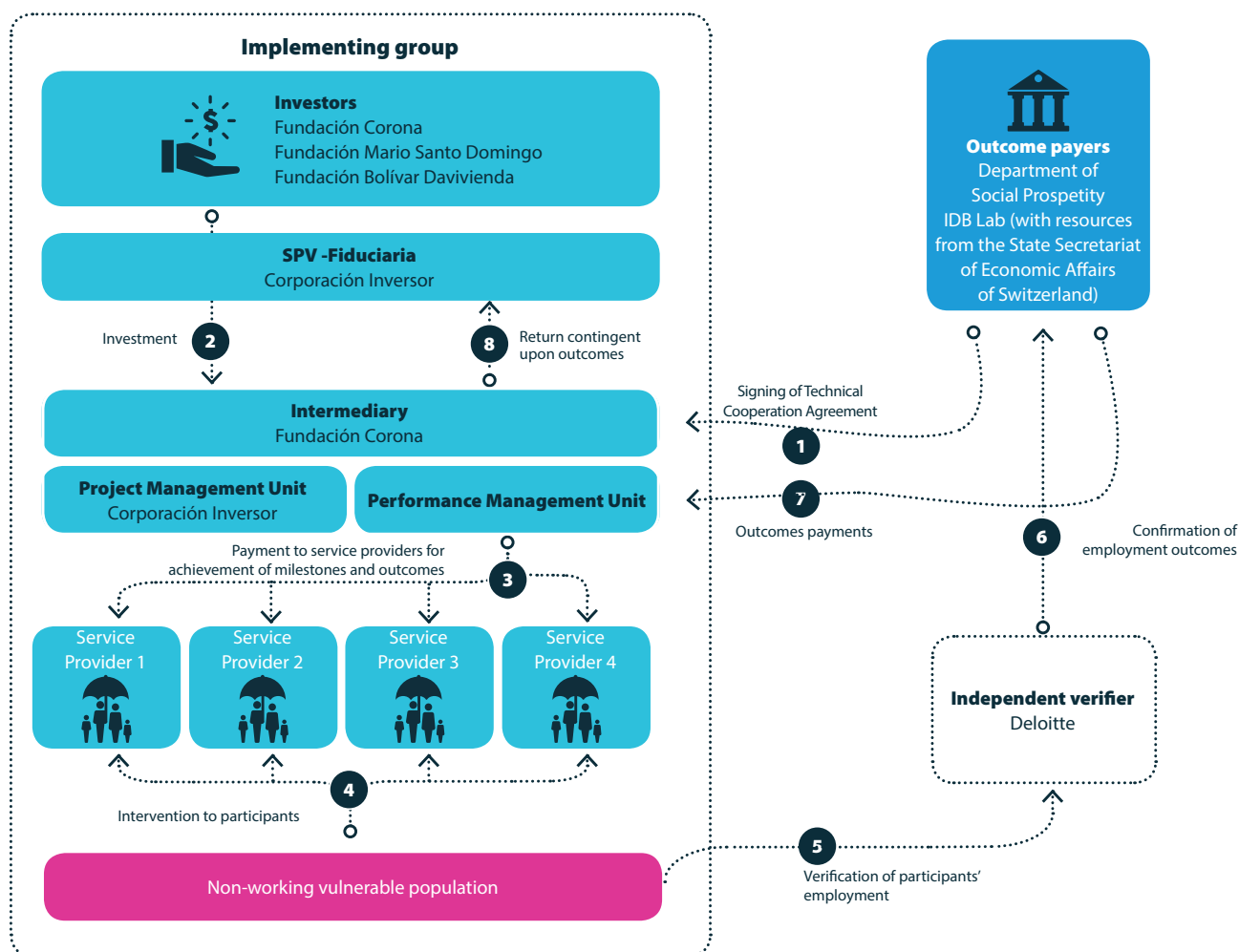
Impact bonds⁵ also offer benefits beyond improving the effectiveness of public spending. Firstly, by paying for verified results, a significant amount of data needs to be collected which increases the availability of quality data for the sector. Furthermore, RBF mechanisms (such as Social Impact Bonds) provide service providers greater flexibility to adjust their programs, empowering them to innovate, learn, and adapt their

programs in pursuit of impact. As of 2019, 132⁶ Impact Bonds had been launched worldwide, three of them in developing countries, two in Colombia and one in Argentina.

Empleando Futuro, the first Social Impact Bond in both Colombia and in a low- or middle-income country, focused on placing and retaining vulnerable populations in formal jobs. Specifically, the SIB focused on the number of people placed in formal jobs and the retention rate of these individuals for three and six months. The main objectives of the SIB were to achieve greater cost-effectiveness in employment programs for hard-to-employ individuals and to serve as a learning tool for other employment programs. Additionally, the SIB aimed to develop a market for investment in social programs that could complement government initiatives while assuming the innovation risks. In this SIB, (implemented as part of the SIBs. CO Program) the national government's Department for Social Prosperity (Prosperidad Social, as per its Spanish title) and the IDB Lab, with funds from SECO, were the outcome payers. Fundación



Figure 1. Structure of the *Empleando Futuro* SIB



Corona, Fundación Mario Santo Domingo, and Fundación Bolívar Davivienda were the investors. Fundación Corona acted as the intermediary⁷ and Corporación Inversor operated as the Project Management Unit⁸. The SIB was implemented in three Colombian cities (Bogotá, Cali, and Pereira), where Fundación Colombia Incluyente, Corporación Volver a la Gente, Fundación Carvajal, and Kuepa were the service providers (see Figure 1).

The implementation term of the *Empleando Futuro* SIB was from April 2017 to December 2018. The outcome payers conditioned 3,100 million Colombian pesos (Approximately USD 1.05 million)⁹ based on the achievement of three payment metrics:¹⁰

- 1 Job placement in formal employment (JP).
- 2 Three-month job retention (R3).
- 3 Six-month job retention (R6).

It is important to note that just the first two metrics – JP and R3 – are regular payment metrics that were conditioned on the achievement of results with a financial risk to investors. The third metric, R6, was included in the SIB design for learning purposes and, therefore, was implemented as a bonus to the investors that was equivalent to 10% of the outcome payment achieved on the first two metrics. Therefore, there was no financial risk for the investors if the results of this metric were not achieved.

The target population were individuals living in poverty, displaced persons, or victims of armed-conflict. Participants in the SIB had to meet at least one of the following criteria: (i) have a SISBEN¹¹ score of 0 to 41.74, (ii) belong to Red Unidos¹², or (iii) be registered in the Victims Unit¹³ due to victimization as a result of displacement. Other demographic criteria were also established to further define the target population.¹⁴ The intervention of the service providers combined activities such as psychosocial support, technical skills training, job intermediation¹⁵, among others. Eleven stages¹⁶ were specified in the intervention plan in order for each service provider to develop their individual “intervention pathway”.

The following outcomes of the SIB were verified: 899 participants in vulnerable conditions secured a job, 677 maintained employment for at least three months, and 309 maintained employment for at least six months. These outcomes represent a 117.3% achievement of the job placement (JP) target and an 88.4% achievement of the participants’ three-month retention target (R3) – the SIB’s main payment metrics. In terms of the six-month retention metric (R6), 60.9% of the participants

who achieved the R3 target maintained their employment for six months.

⁵ The generic term “impact bond” refers to an RBF mechanism that encompasses both Social Impact Bonds and Development Impact Bonds. The primary difference between these terms is that in the first one a government agency is the outcome payer, while in the second the outcome payer is a private, cooperative, or non-governmental organizations.

⁶ Information accurate at the time of publishing the Learning Agenda in Spanish in 2019. This figure includes projects under the name of Social Impact Bonds and Development Impact Bonds. According to The Brookings Institution’s Social and Development Impact Bonds by the numbers: April 2020 Snapshot. 2020, as of April 2020, 192 impact bonds have been launched worldwide, ten of them in developing countries.

⁷ An intermediary is responsible for representing investors in the SIB and signing the Results-Based Financing contract with the outcome payers. Fundación Corona, as an employment expert, assumed the role of intermediary and relied on Corporación Inversor as an expert in capital management and impact investing.

⁸ This Unit represents the interests of the outcome payers and is responsible for the well-functioning of the SIB through its lifecycle.

⁹ In practice, COP 2,900 million (approximately 983,000 USD) was disbursed for the achievement of results. In other words, achieved results were not sufficient to disburse the total amount of resources.

¹⁰ Payment metrics are defined as the outcomes that, once verified, trigger the outcome payers’ payments to the intermediary; therefore, outcomes are directly incentivized in this SIB model.

¹¹ Sistema de Identificación de Beneficiarios de Subsidios Sociales (System for the Selection of Beneficiaries for Social Programs, in Spanish). This system classifies the population according to their socioeconomic conditions. SISBEN is used to quickly and objectively identify the population living in poverty and vulnerability to target social investment.

¹² Red Unidos is the national welfare program of Colombia.

¹³ Single Register of Victims of the Victim Care and Reparation Unit which was initiated by the Colombian government in January 2012 to establish measures to assist and repair the damages caused by the armed conflict in Colombia.

¹⁴ (i) 18 and 40 years of age upon entering the program, (ii) be a high school graduate upon entering the program, (iii) not have participated in the Inclusión Productiva, Empleo para la Prosperidad and Mi Negocio programs (government-run employment assistance programs), and (iv) not have formal employment at the start of the training.

¹⁵ Job intermediation refers to support provided to identify and match someone’s skills with employment opportunities.

¹⁶ The stages are: dissemination of information, open call, and enrollment; profiling and characterization; socio-occupational orientation and life planning; pre- and post-training evaluation, training in specific skills and socioemotional skills; retention strategy; psychosocial support; job intermediation; job placement; post-employment support, and project measurement, monitoring, and evaluation.

3. Lessons learned from the Social Impact Bond model

This section consolidates the main findings and recommendations of the SIB as an innovative financing mechanism. It explores whether the benefits associated with this RBF financing mechanism were present in the *Empleando Futuro* SIB. The section is divided into two subsections. The first examines the technical design elements that influenced the nature, quality and quantity of the outcomes, intervention strategies, and potential risks. The second analyzes the factors that allowed the SIB to successfully promote inclusive employment interventions and the challenges that stakeholders faced in the process of structuring and implementing these initiatives.

The main findings and recommendations of the effects of the SIB's technical design on project implementation are presented below (Section 4.1 of the Learning Agenda).

- The SIB introduced financial and reputational incentives that motivated investors, the intermediary, and service providers to focus on strategies to improve the project's core results: job placement (JP) and three-month job retention (R3). This was achieved by linking a higher percentage of the payment to these results. However, much less effort was put towards the six-month job retention metric (R6) which was subject to fewer incentives. It should be noted that this metric was introduced later into the design and played an important role in terms of learning and data collection. In addition to financial incentives, reputational incentives played an important role in this SIB. Since the SIB model is still considered a new, innovative financial mechanism for spending in the social sector, stakeholders are incentivized to perform well as the results are likely to be disseminated to a wide audience and will be well documented in this Learning Agenda. It remains to be seen whether these reputational incentives will persist over time as Social Impact Bonds become more common and the mechanism and its results attract less media attention. Therefore, these findings suggest that future outcome payers would benefit from allocating a higher percentage of the payment to the prioritized results¹⁷. The findings also highlight the importance of designing explicit and sustainable reputational incentives for future Social Impact Bonds that may not receive the same level of media exposure.
- The SIB's technical design introduced incentives to achieve a lower cost per outcome (total payment that the intermediary provides to a service provider, divided by the number of participants that were placed in and retained jobs for three months). However, in turn, these incentives drew less attention to the effectiveness of the intervention and improvements achieved (proportion of participants that completed the training, were placed in a job and retained employment for three months). Thus, some technical adjustments will be needed in order for the SIB to both reduce cost-per-outcome and incentivize greater cost-effectiveness. These adjustments could include adapting the verification methodology by either carrying out an impact evaluation to determine the causality of results or by modifying the payment metrics to be the percentage of participants who successfully move from training to job placement and retention.
- There was no clear evidence of cream skimming¹⁸, gaming, or other undesirable behaviors during implementation of the SIB. Nonetheless, there are certain aspects of the technical design that can be refined in future projects in order to minimize the risks of these behavior as the SIB mechanism becomes more prominent in the market¹⁹. We recommend engaging with technical experts who can design new incentives for service providers and establishing protocols and contractual safeguards to mitigate these risks. In the case of this SIB, the intrinsic motivation and institutional commitment of the stakeholders within the project, as well as the strategic alignment of the SIB's objectives, may have mitigated these aforementioned risks.
- To fully leverage the potential of the Social Impact Bond model and improve the impact of social programs, it is essential to allow for flexibility, promote long implementation terms, and strength Performance Management (PM)²⁰ capabilities of service providers. In this SIB, investors and the intermediary had flexibility to develop a host

of strategies to achieve outcomes. While service providers also benefited from adequate levels of flexibility, certain aspects of PM might have proven to be slightly inhibiting. In particular, service providers reported that the intensity of certain PM activities (e.g., preparing management progress reports) became burdensome, which limited their ability to develop corrective measures and improve on their results. Additionally, the relatively short duration of the SIB, further limited by the public sector's regulatory restrictions, negatively impacted the service providers' development of PM capabilities at both the organizational and project level. It also restricted the number of iteration cycles available to learn and course correct.

The SIB faced technical, legal, and administrative barriers in both the design and implementation phase. Furthermore, as with any innovation process, change management and constant strategic alignment were necessary to ensure that the shared objectives were what guided the decisions for all the stakeholders. The main findings and recommendations on overcoming barriers and developing the impact bond market are presented below (Section 4.2 of the Learning Agenda).

- The most prominent technical barriers were the scarcity of information to guide the technical design of the SIB and the limited access to administrative information systems to use to verify results. The participation of *Prospeidad Social* as an outcome payer proved vital in order to access administrative information systems²¹ to verify the achievement of results and determine participant eligibility. Having access to public data and information systems as verification mechanisms, will be fundamental in scaling RBF models in public policy.
- Legal barriers included the challenge of funding a multi-year project which required reallocating resources between fiscal years, as well as the risk of non-disbursement, if results were not achieved. To overcome this barrier, outcome payments from the government were used for the first round of disbursements while outcome payments from international cooperation agencies were subsequently used. However, we recommend establishing more sustainable institutional mechanisms to facilitate the implementation of RBF models and Social Impact Bonds with a longer duration and to promote learning and innovation. For example, the SIBs.CO Pro-

gram is moving towards the creation of an Outcomes Fund²², which will benefit from the legal status of fiduciary commissions and commercial trust funds to allow for public institutions to commit funding for several years at a time. Structuring this financial vehicle is an important step towards greater sustainability and scalability for the Social Impact Bond model.

- The steep learning curve of designing and implementing the SIB required a significant investment of time from all stakeholders. This investment was not only fundamental to the project's success, but also resulted in increased technical knowledge and management capacity for the second Social Impact Bond of the SIBs.CO Program. Continuing to document lessons and strengthen the technical capacities of the government and other stakeholders will be fundamental for the development of the market and the adoption of these mechanisms in public policy.

¹⁷ For example, in the Cali Social Impact Bond, the second SIB implemented in Colombia, the stakeholders incorporated this lesson by assigning a weighting of 40% to longer-term job retention (i.e., six-month retention), in line with the objective of sustainably entering participants into the labor market.

¹⁸ Cream skinning corresponds to a perverse incentive through which service providers focus on participants who have a better chance of achieving the desired outcomes and limit their work with those who, due to their employability or conditions of vulnerability, could possibly benefit more from the program.

¹⁹ Unlike the *Empleando Futuro* SIB, where the selection of service providers and investors was made through a closed process, in future iterations, such as the Outcomes Fund, we expect to have open selection processes for new service providers and investors, who could have lower levels of strategic alignment and institutional confidence compared to the actors of the first SIB.

²⁰ Information system that produces real-time information on the implementation of projects or social programs in order to take corrective measures that maximize outcomes.

²¹ Examples include the Integrated Social Security Contribution Form (PILA, as per its Spanish acronym) for verification of placement and retention results and the Social Program Beneficiary Identification System (SISBEN, as per its Spanish acronym) for verification of eligibility criteria.

²² Instrument that provides incentives in order to guarantee social outcome achievement on a large scale. It is structured to receive, manage, and disburse resources according to arrangements agreed upon by one or more funders.

In addition to these strategies to overcome the identified barriers, the following critical factors contributed to the successful implementation of the SIB

- The stakeholders of the SIB, particularly the outcome payers and the intermediary, leveraged their unique institutional strengths and demonstrated the capacity, strategic complementarity, and commitment to ensure practical and effective solutions. Further, the intensive collaboration during the structuring process of the SIB facilitated the strengthening of institutional ties, the development of trust, and alignment of priorities and interests among stakeholders.
- The involvement of international cooperation agencies as outcome payers was essential in overcoming the identified barriers previously mentioned. Their ability to provide matching funding to pay for results, provide high-quality technical assistance and mitigate the aforementioned legal barriers to pay for a multi-year project, were fundamental in securing the necessary institutional commitment from the government and for the SIB to achieve better results. As such, international cooperation agencies will be critical for the development of a market for Social Impact Bonds.
- Finally, in the SIB, the philanthropic nature of the investors and their commitment to the project objectives was a decisive factor that allowed them to take on the inherent risk of such an innovative project. Their involvement provided a practical example for the impact investment market and for innovation in public policy in Colombia. International experiences show that in the initial stage of creating an impact bond market, leveraging philanthropic investors will continue to be essential. Significant participation of these philanthropic investors is still evident in pioneer markets such as the United Kingdom. To facilitate the participation of other types of impact investors in the future, it will be important to continue generating evidence that supports the potential of these financial instruments, promoting the development of a market for specialized intermediaries, and exploring financial guarantees by philanthropic investors, among other strategies.

This allowed the SIB to demonstrate the value added of innovative financing to public and private stakeholders and contributed to developing public policy in the area of innovative financing. Institutions such as the National Planning Department (DNP, as per its Spanish acronym) are exploring RBF initiatives within their policy jurisdiction. For example, the 2018-2022 National Development Plan indicates that the DNP, in conjunction with Prosperidad Social, will explore and promote mechanisms that achieve innovation. Based on the experience acquired through this SIB pilot in Colombia, RBF projects have been included as one of those mechanisms. Likewise, the success of this pilot laid the foundation for a second Social Impact Bond, the SIB Cali Progresión con Empleo, and the structuring of the first Outcomes Fund in Colombia.

4. Lessons learned for employment programs

This section uses the information generated from the SIB to present preliminary findings and recommendations applicable to the design of RBF mechanisms for employment programs, the implementation of employment programs, and future research in this sector (Section 5 of the Learning Agenda).

Preliminary findings and recommendations applicable to the design of future RBF mechanisms

- For all SIB service providers, placing participants into the formal labor market was the most difficult result to achieve as compared to three and six-month job retention. This suggests that the barriers to entering the formal labor market are high and are even more challenging than those of retention. Additionally, little variation was observed in the performance of service providers in six-month job retention. This is partly explained by the fact that service providers did not prioritize following-up post-placement and after 3 months of employment. In addition, many service providers did not develop strategies that focused on this metric. Given that job placement is necessary

for attaining job retention, we recommend placing a greater focus on six-month job retention by increasing the payments conditioned on this result. This would also encourage high-quality employment and would motivate service providers to focus on strategies to achieve this result, generating learnings that would lead to more effective strategies.

Preliminary findings and recommendations for the implementation of employment programs

- Service providers' strategies to improve access and retention of participants in the project, especially the flexibility of training schedules and the introduction of financial and non-financial incentives, may explain why most participants completed the employment training. These strategies could improve the efficiency of the intervention and the employability of participants. We recommend that other employment programs use similar strategies, exploring adaptations necessary across varying contexts as relevant.
- Service providers who achieved better job placement and three-month job retention results were those with more experience in implementing employment programs and with better institutional connections with potential employers. In addition, several findings pointed to the importance of understanding the needs of the labor market and employers to achieve better employment results.
- In general, service providers who achieved the best job placement results were those who:
 - Had more sophisticated profiling and targeting practices.²³
 - Made more adaptations to the job intermediation²⁴ stage of their intervention by providing more intensive support to participants or by improving matching between vacancies and participants.
 - Focused more on developing soft skills.
- On the other hand, service providers who achieved the best three-month job retention results were those who:
 - Provided psychosocial support or post-placement support adapted to companies' or participants' needs. In fact, this was the most valued stage by the interviewed participants.
- An analysis of the reasons participants did not maintain employment as well as qualitative evidence from interviews with service providers and participants suggests that difficulties in adapting to the labor market affected the achievement of results of this metric. In general, there were several reasons why the participants did not maintain employment, including difficulty in complying with work schedules and working within the hierarchical structure of the workforce. Participants reported that they were accustomed to an informal work context, with flexible schedules and rules and few consequences for noncompliance or poor performance.
- Homogeneity across the placement rates of various demographic groups would suggest that participants of the SIB faced similar barriers to labor market entry. However, women²⁵, participants with disabilities, and individuals who had been unemployed for more than two years had lower placement rates, suggesting greater barriers to market entry. Additionally, participants with higher education²⁶ and older participants had higher six-month retention success rates.

²³ Profiling and Targeting (P&T) refers to the selection of people who ultimately participate in the project from a larger group that meets the eligibility criteria. In this case, P&T was based on an analysis of soft skills such as the participant's attitude and motivation. A more sophisticated P&T is related to a greater 'involvement of project participants' (i.e., the success rate between the start of training and the start of intermediation).

²⁴ Job intermediation refers to support provided to identify and match someone's skills with employment opportunities.

²⁵ Women had a 7.3 PP lower placement rate than men, which could indicate the existence of greater barriers to entry into the labor market.

- Regarding factors related to the quality of employment (type of contract and salary), we found that project-based contracts²⁷ were mostly secured by participants without previous work experience. This could indicate that these types of contracts may be the gateway into the labor market for the target population. Furthermore, it is important to note that this type of contract did not impact six-month retention rates or salary levels despite its temporary nature. Regarding salary, we observed that a higher education level correlates with securing a higher-paying job. However, considering existing limitations of the available data about working conditions and salary of participants, we suggest validating these findings with additional information in the future.

Recommendations for future research

- The preliminary findings of this Learning Agenda can already inform the design and implementation of future employment programs and the design of RBF mechanisms (particularly impact bonds), especially when PM strategies are used to understand their effectiveness in a given context.
- However, because of methodological limitations of the analysis and limited data availability, a key recommendation is to validate the preliminary findings and generate more rigorous learnings by improving the comparability of results achieved across service providers. Strategies could include randomly assigning program participants to service providers and collecting more data on participant characteristics and external factors that could affect the achievement of results. We recommend comprehensive documentation of the strategies implemented by service providers (e.g., post-placement support modalities) and the development of rigorous measurement strategies for soft skills to analyze how they can impact employment outcomes.

Closing Note

We hope this publication contributes to the technical expertise necessary to implement innovative financing mechanisms and improve employment programs for vulnerable populations. The hope is that professionals from the public and international development sectors can strengthen their understanding in this area – thus motivating more governments and sector professionals to utilize well-designed SIBs to promote improvements in public policy. We invite you to take a detailed look at the full document, where you will find a comprehensive report on the learnings of the Empleado Futuro SIB.

Click [here](#) to access the full document “Learning Agenda Report. First Social Impact Bond in a developing country”, or visit www.sibs.co

²⁶ Participants with higher education are those who reported having completed higher or technical education, and participants with lower education are those who report having only completed high school.

²⁷ Project-based contracts or to hire a worker for a specific project for a set period of time until the project is finished. People with these contracts are referred to as contractors rather than employees.