

INNOVER FINANCIEREMENT pour INNOVER SOCIALEMENT

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iiLab's research on SIBs.CO: The social impact bonds program in Colombia

Colombia experiments social impact bonds to tackle unemployment among vulnerable people

A development project to leverage financial and public innovation

The journey started from both employment challenges among vulnerable people in Colombia and the opportunity of experimenting a new financial mechanism: social impact bonds (SIBs), translated into “*bonos de impacto social*” (BIS). Let us dive into the “SIBs.CO” program that propelled the development of a series of three SIBs.

Vulnerable people are chronically excluded from the labor market

Colombia faces a challenge regarding formal employment for poor and/or victimized populations, hindering social mobility in the society. Young people are the most affected by unemployment. A 2016 Inter-American Development Bank's (IDB) diagnosis stated that although unemployment rate in Colombia is relatively low at 9%, almost a fifth of people aged 18-24 years old in the 13 main metropolitan areas are not in employment, education or training. More than 47% of people in these areas work in the informal economy. Unemployment among young people victims of the armed conflict and/or displaced reaches 58%.¹

“SIBs.CO” started in 2016 for incremental development of SIBs

SIBs came out as an opportunity to collect evidence on employment outcomes for populations with complex needs, and to enhance the cost effectiveness of public workforce development programs. The conversation around SIBs started in 2014 including Corona Foundation (major family foundation dedicated to education for employment and citizenship) and Instiglio (consulting firm in data-driven policy). In 2016, the ambition to use SIBs for employment challenges materialized in a project from the IDB, with resources of the Swiss State Secretariat of Economic Affairs (SECO), and with Corona Foundation as implementing partner². The project provides a framework for developing a series of three SIBs cofinanced with the Colombian government, for market building activities (meaning capacity and ecosystem building), and knowledge creation and dissemination. The project rallied international and public payors, investors, intermediaries and consultants around a platform called “SIBs.CO”³.

SIBs.CO has engaged with the public sector to tackle employment issues

Colombia was the first developing country to implement a SIB, that is to say to involve the public sector in a payment by results scheme. The Colombian government was investing about US\$1bn per year for employability programs with little evidence on outcomes⁴. SIBs.CO has engaged with the *Departamento para la Prosperidad Social* (DPS), which is the national State department dedicated to poverty eradication in Colombia. As of now, the first BIS has been completed, with DPS as co-payor. The second BIS is running with the Cali City Council. The third BIS is in design phase with DPS and will be structured as an outcomes fund.

Unemployment among vulnerable populations is a big issue in Colombia. The rate of unemployed young people reaches 58% when they are victims of the armed conflict, against an average of 20% in 13 primary metropolitan areas.

“SIBs.CO” is the nickname of a development program funded by IDB and SECO called “Pay-for-success financing for innovations in urban workforce development”.

SIBs.CO aims to implement a series of three BISs on the same issue. As of now, the first BIS has been completed with DPS, the second BIS is running with the Cali City Council, and the third one (an outcomes fund) is in design phase with DPS.

Between October and November 2019, the author carried out on-site fieldwork on the Colombian SIBs in Bogota and Cali. The case study included 11 interviews with stakeholders and three days of observation during the evaluation process in Cali.

The study is also composed of various public and working documents.

This article provides insights into the SIBs program. It proposes a short analysis of salient points, probably the more notable from a French perspective.

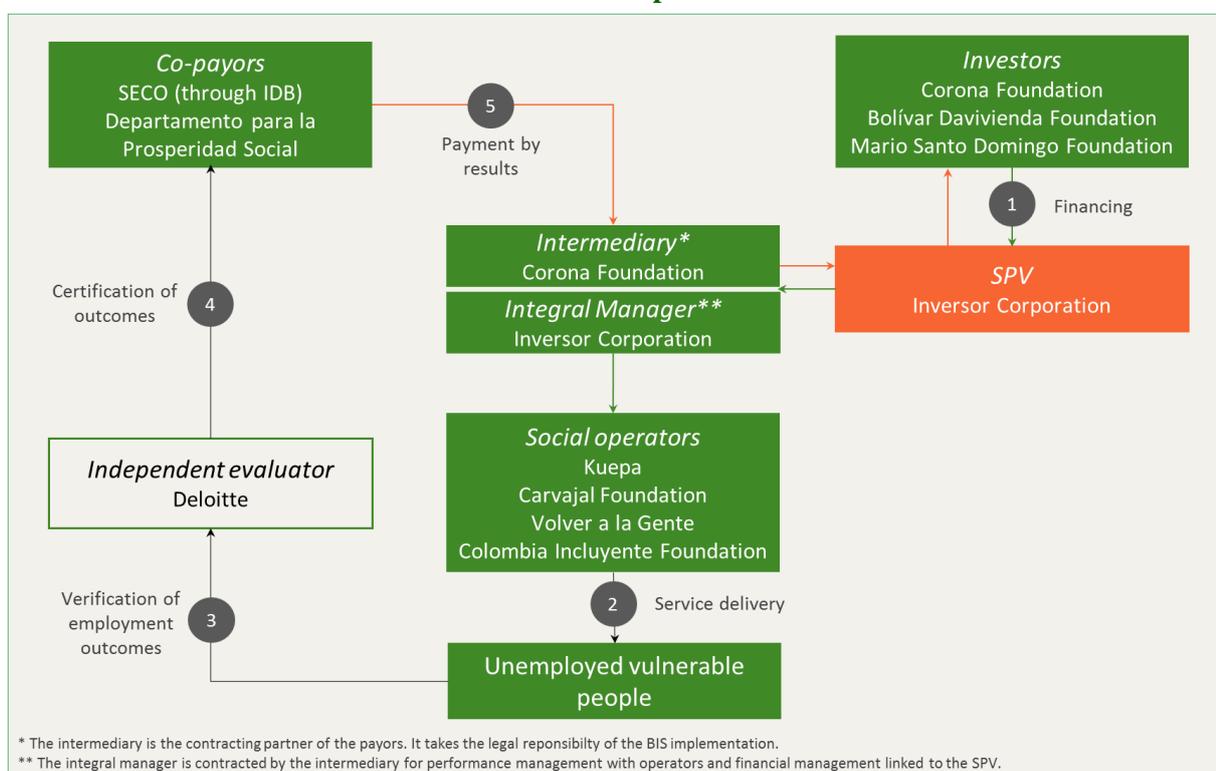
The SIBs.CO program

- **Component (i): Payment for improved employment outcomes** through three iterative BISs cofinanced by SECO and the Colombian government based on an inclusive employment scheme⁵



- **Component (ii): Market building** including capacity building and data infrastructure financed by IDB
- **Component (iii): Scalability strategy activities and dissemination** including studies and workshops financed by IDB

Structure of BIS 1: Empleando Futuro⁶



Population

- Unemployed people
- In Bogota, Cali and Pereira
- 18-40 years old
- Graduated from high school
- Not involved in national *Inclusión Productiva* programs in 2016 and 2017⁷
- With at least one of the following characteristics:
 - SISBEN score (poverty score) between 0 and 41.74
 - *Red Unidos* member⁸
 - *Unidad de Víctimas* member⁹

Metrics

- Job entry (45.5% of payments)
- Job retention after 3 months (45.5% of payments)
- Job retention after 6 months (9% of payments)

Results

- Job entry: 899 people (117% of target)
- Job retention after 3 months: 677 people (88% of target)
- Job retention after 6 months: 309 people (no target)
- DPS executed 98.5% of the maximum budget for outcomes payment and SECO executed 85.5%
- 9% ROI for the investors

1. How to modify public contracting processes

The BISs do not aim to experiment a new intervention for employment, but rather to infuse outcome-based contracting in the public sector.

A starting point for launching SIBs in Colombia was the lack of evidence on cost efficiency of social services. The focus has always been SIBs –where the government is involved as a (co-)payor- and not development impact bonds (DIBs) –where payors are international organizations and foundations. Still, the conversations have taken place in a development context that sees the State as transitioning for the better. The idea was to include the Colombian government as a payor to enhance capacity in evidence-based policy. According to SECO, SIBs reinforce the demand from the government for impact evaluations. According to the consulting firm Instiglio, payment by results is a sophistication of public management.

The actors mentioned a series of obstacles, including culture, mentalities, capacity to carry out evaluations, but also legal challenges for the public sector. Indeed, the principle of budgetary annuality urges budget execution within the same year. In a payment by results scheme, the amount of money committed by the public payor may not be totally paid, in case the project financed do not achieve its objectives. Hence in BIS 1 and 2, payments were spread between the Colombian government the first year and SECO (through IDB) the second year. The outcomes fund (BIS 3) overpasses the constraint of annuality. In its first phase, it will use funds from the government and SECO. At the end of the SIBs.CO program, it will be in place and might become entirely public. Moreover, paying by results instead of paying for activities poses challenges within public accountancy rules.

The intervention scheme to fight unemployment is not very different from existing programs. It is based on an inclusive employment framework composed of 11 steps allowing flexibility in implementation: 1. Targeting, convening and enrolment, 2. Profiling and characterization, 3. Socio-occupational orientation and life plan, 4. Pre and Post-training evaluation, 5. Training in specific skills and socio-emotional abilities, 6. Retention strategies, 7. Psycho-social support, 8. Professional intermediation, 9. Effective job entry, 10. Post-entry support, 11. Measure, monitoring and evaluation of the project. The framework was designed from the best practices of the Inclusive Employment Model designed by Corona Foundation, ANDI Foundation, USAID and ACIDI/VOCA¹⁰, but also DPS's Productive Inclusion Model and operator's propositions.

2. Systematized learning

Learning is a key principle in the Colombian BISs. **Learning is organized and managed. This is even more interesting as *bonos de impacto social* are**

innovative in the Colombian context and thus unpredictable.

Learning is transversal in the program. The first component aims to develop three BISs and to improve the mechanism in an iterative manner. Various studies inform the learning process, like “*Results of the learning agenda*” (feedback on BIS 1) and “*Mapping of types of employability and employment outcomes in the country*” (BIS 1 put in perspective with other workforce development programs)¹¹, carried out by SIBs.CO with the support of Instiglio. The second component includes comprehensive data collection and monitoring on the performance of the operators. Performance management is at the core of learning processes. The third component clearly focuses on knowledge creation and sharing in the Latin-American region.

In fact, learning tactics rely on comparisons: of BIS with existing public programs, of operators between them, of participants between them, of investment in BIS with other investment practices. The *Mapping* report compares BIS with existing public services, which supports the underlying objective of BIS to modify public contracting principles.

Furthermore, learning under uncertain conditions creates and reinforces niche expertise. At the national level, Inversor Corporation (financial and performance manager in BIS 1 and intermediary in BIS 2) becomes a reference in the nascent field of impact asset management. At the international level, technical assistants like Instiglio (technical assistant for the design of the 3 BISs) and Social Finance UK (technical assistant for the design of the outcomes fund) reinforce their positions as knowledgeable professionals.

3. Financial management

SIBs are a financial innovation in a nascent impact investment field. As explained by Corona Foundation and Bolívar Davivienda Foundation, **the experimentation through the SIBs.CO program intends to prove the validity of SIBs as an asset type. This ambition is associated with management practices.**

Inversor Corporation is integral manager in BIS 1 and 2, and intermediary in BIS 2. Integral management consists in both financial management on behalf of investors and operational management on the field. As Corona Foundation explained, the two activities are connected. Whereas the pricing of outcomes is fixed, investment is not determined beforehand but adjusted along the way. Inversor Corporation traces the social results on a weekly basis to forecast continuously the results trajectory and the attached financial returns. The optimized investment (that is operational funding) stems from dynamic calculations that balance the prices for outcomes with the budgetary needs of the operators, considering a margin for the financial viability.

Inversor Corporation thus intervenes on the field to ensure the smooth implementation of this hybrid financial product. In BIS 2, Inversor Corporation hired a full-time consultant to work in Cali with operators and the city council. She supports the stakeholders in billing, data collection and implementation of operations. Every two weeks, steering committees take place with each operator. Integral management transforms the experience of social operators, which is both burdensome and helpful to monitor and improve the results.

4. Impact on the field

Besides all the complexity of BIS implementation, observations on the field show that BISs are impactful on a number of aspects. The evaluation process from Deloitte on the BIS 2 highlights a feeling of trust and fairness from the participants.

Participants interviewed in Cali shared their surprise that the program is trustworthy and lead to employment. Many shared previous bad experiences

with employment agencies that asked for money and did not help them to find a job. Both employees and employers were in need of work stability when they joined the BIS program. Participants and employing companies truly appreciate the support provided by the operators over 6 months after job entry. Moreover, the involvement of the Cali city council as well as the independent verification carried out by Deloitte build trust among participants. Some of them emphasized the fact that money is properly used in this program, against corruption practices.

The Cali BIS have propelled new relationships around the program. The operator Kuepa created a local office on the occasion of the BIS 2 and plans to stay there. Operators have established new partnerships with local employment agencies and companies. To finish with, participants have experienced novel complicity with employers, colleagues, operating teams, and even family and friends.

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¹ Inter-American Development Bank, Multilateral Investment Fund. 2016. Pay-for-success financing for innovations in urban workforce development (CO-T1434). Donors memorandum. Retrieved from: <https://www.iadb.org/en/project/CO-T1434>

² Ibid.

³ For more information: <http://www.sibs.co/>

⁴ Inter-American Development Bank, Multilateral Investment Fund. 2016. Pay-for-success financing for innovations in urban workforce development (CO-T1434). Donors memorandum. Retrieved from: <https://www.iadb.org/en/project/CO-T1434>

⁵ The intervention for enhanced employment outcomes consists in 11 steps: 1. Targeting, convening and inscription, 2. Profiling and characterization, 3. Socio-occupational orientation and life plan, 4. Pre and Post-training evaluation, 5. Training in specific skills and socio-emotional abilities, 6. Retention strategies, 7. Psycho-social support, 8. Professional intermediation, 9. Effective job entry, 10. Post-entry support, 11. Measure, monitoring and evaluation of the Project.

⁶ The structure of the BIS 2 is similar, with the Cali city council as co-payor instead of DPS, three additional international investors, and Inversor as intermediary instead of Corona Foundation. The metrics are the same, with a major financial emphasis on job retention after 6 months.

⁷ *Inclusión Productiva* programs were implemented by *Departamento para la Prosperidad Social* for employment of vulnerable populations in Colombia. The BIS contract mentions *Mi Negocio* that supported business creation and business strengthening, and *Empleo para la Prosperidad* that offered training, psycho-social support and employment opportunities like the BISs.

⁸ *Red Unidos* is the strategy of the Colombian government to address the needs of the most vulnerable population in Colombia, that is to say people with the lowest SISBEN scores (level 1) and displaced people.

⁹ The *Unidad para la Atención y Reparación a las Víctimas* is a government entity that aims to support victimized people with relevant policies. Victims are recognized as such in a unique register.

¹⁰ USAID is the U.S. Agency for International Development. ACDI/VOCA means Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance and is an international development nonprofit organization based in Washington, D.C., U.S.

¹¹ SIBs.CO. November 2019. Resultados de la Agenda de Aprendizajes. Primer Bono de Impacto Social en un país en desarrollo. Retrieved from: <http://www.sibs.co/libreria-documentos/>
SIBs.CO. Mapeo de tipos de resultados de empleabilidad y empleo inclusivo en el país. Bonos de Impacto Social. Retrieved from: <http://www.sibs.co/libreria-documentos/>