

Catalytic Capital Case Study

INVERSOR - Colombia



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This case was developed by
Latimpecto and the Catalytic Capital
Consortium

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EXECUTIVE SUMMARY

In Colombia, four social impact bonds have been implemented. They are focused on generating formal employment for vulnerable populations using public-private partnerships and have in turn facilitated the strengthening of the impact investment ecosystem. In this case study, the catalytic nature of three of these bonds, in which Inversor acted as manager, intermediary and investor is analyzed. Inversor identified and contacted other entities aligned with its mission to join the project, and was responsible for managing, articulating, monitoring and tracking the bonds, selecting the entities to perform the operations and ensuring compliance with the agreed results.

The results of the program were positive, with 8,672 people having strengthened job-seeking skills, 3,853 jobs generated, and 2,671 jobs retained for at least 3 months. In addition, an inclusive approach was achieved which facilitated equal opportunity for employment access.

The bonds show the commitment of public and private actors in generating structural changes by addressing the unemployment problem in Colombia. They also show their willingness to seek innovative solutions and to take risks by investing in a model which had never been implemented previously. In this process, collaboration and continuous learning are two key pillars, and communication between the stakeholders and follow-up at each stage are essential.





Payment Line for Social Impact Results Bonds

<p>Scope: Colombia Bonds Analyzed: 3 Term: 7 years total</p>	<p>SDGs:</p> <div style="display: flex; justify-content: space-around;"> <div style="background-color: #e91e63; color: white; padding: 5px; text-align: center;"> <p>5</p> </div> <div style="background-color: #9c27b0; color: white; padding: 5px; text-align: center;"> <p>8</p> <p style="font-size: 8px;">GROWTH</p> </div> </div>
<p>Vehicle: Social Impact Bonds</p>	<p>Assets Under Management (AUM*)</p> <ul style="list-style-type: none"> • Bond 1: \$1.79 million • Bond 2: \$1.91 million • Bond 3: \$2.39 million** <p>*Includes the pay-for-results amount **Estimated amount</p>
<p>USE: facilitation of innovation and leveraging of impact investment</p>	<p>Role of catalytic capital: price and purpose</p>
<p>Outcomes: amplification of the social outcomes</p> <ul style="list-style-type: none"> • 8,672 people strengthened job search capabilities • 3,853 jobs generated • 72% of women’s jobs across all three bonds 	

BACKGROUND

Inversor is a non-profit organization created by thirteen institutions in Colombia: Banca de Inversión Bancolombia, Bolsa de Valores de Colombia, Brigard Urrutia, Compartamos con Colombia, Corporación Mundial de la Mujer of Colombia, Estrategias Corporativas, the Avina Foundation, the Bavaria Foundation, the Bolívar Davivienda Foundation, the Diego & Lía Foundation, the Saldarriaga Concha Foundation, J.P.Morgan, and Latin America Enterprise Fund Managers.

During its fourteen year history, Inversor has managed nearly \$25 million, developing more than five Pay-for-Results projects and supporting and investing in five impact ventures through two lines of action:

1. Purpose-based investment funds, which are used for strengthening of the business fabric, employment creation and the development of local economies. In this line, the investment also has non-financial support to enable the growth of companies that contribute to the solving of social and environmental problems.
2. Pay-for-results vehicles, which are used to facilitate the strengthening of the ecosystem, support and leadership for the development of innovative plans that allow the results to be scaled and for the social problems resolved, such as the creation of decent employment for the vulnerable population.

Cross-sectionally with respect to these lines of action, Inversor seeks to strengthen the impact ecosystem, making their lessons learned available. Inversor has a process for systematizing its lessons and good practices for its projects, thus facilitating the transmission of knowledge and experiences among the various actors who interact within the ecosystem. They also promote the development of conversations based on qualitative and quantitative data with the aim of improving decision-making, which contributes to the improvement of financial results and the impact expected by investors and funders.

In this case study, we will focus on pay-for-result vehicles, analyzing three social impact bonds developed in Colombia in which Inversor participated in various roles: General Manager, Intermediary and Investor.

SOCIAL IMPACT BONDS

Social impact bonds are funding mechanisms which work in a manner which is similar to debt securities. Its rate of return is tied to the achieving of a social or environmental goal. These bonds comprise a portion of results-based funding, which are innovative funding mechanisms for social programs.¹



In other words, social impact bonds are contracts in which the payment is conditional upon the achievement of the agreed upon results, and investors, with varied risk tolerances and return expectations, but having in common a social interest, provide working capital to service providers which are responsible for carrying out the implementation of the program. During and at the end of the project, an independent verifier is responsible for measuring the management and results in order to determine the payment that the government and cooperators will make in accordance with the impact generated.

¹Source: Latimpact Glossary. <https://www.ecosistema.latimpacto.org/glosario>

In Colombia, four social impact bonds have been implemented which are focused on the generation of employment for populations with barriers to access to the formal labor market. In addition to meeting this goal, bonds have fostered partnerships between the public and private sectors, strengthened the impact investment ecosystem and generated learnings relevant to the development of new bids.

By offering an innovative financing method aligned with social and environmental objectives, social impact bonds enable the realization of projects and programs that benefit those areas. This approach creates a multiplier effect that attracts other investors and stakeholders, thereby amplifying the scope and impact of the initiatives.

In this context, the IDB Lab played an essential role as a catalyst and guarantor, in its role as co-payer in Colombia, having provided critical support for public resource procurement. In addition, their support, along with the participation of well-known foundations in the country, gradually motivated new investors to join, adding a total of nine organizations participating in these schemes, with an average investment of approximately \$165,000 each.

Bond		IRR (%)*
Bond 1. Employing the future		8.9%
Bond 2. Cali progresses with employment		0.01%
Bond 4. CREO		13.3% (to date)

There were several challenges in bond development, perhaps one of the most complex of which was that Bond 2 coincided with the COVID-19 pandemic, increasing the challenges for meeting the goals which had been established prior to the pandemic.

The foundations that participated as investors in this bond gave a positive review of their participation, because although the expected return was not achieved (9%), the bond reached an equilibrium point, thus returning the total invested capital, in addition to generating 1,030 jobs at a time when the population of interest had greater barriers with respect to the accessing of formal employment.

The foundations involved in the three bonds had varying risk tolerances and return expectations, but all were equally committed to testing this new investment vehicle in order to achieve greater impact than could be noted from traditional strategies. For this reason their role transcended that of financial contribution and was related to the implementation through recommendations of a technical and strategic nature.

In this sense, it was essential to have foundations that had knowledge and experience in the established social problem and that some of them contributed capital, to some degree philanthropic, which in this case was not only patient but also a bid with a long-term vision and willingness to learn, since it was intended that the return of the first bond would enable the development of a second bond and so on.

Although new investors have entered these schemes, the role of anchor investors (the Bolívar Davivienda Foundation, the Corona Foundation and the Santo Domingo Foundation) was fundamental for the generation of trust and the involvement of new actors. For its part, Inversor's participation in three of the bonds enabled continuous improvement by facilitating an iterative process between them.

GOVERNANCE AND INVERSOR'S ROLE

Inversor had various roles with respect to the social impact bonds; on the one hand, participating as general manager, intermediary and investor, and simultaneously, identifying and engaging investors aligned with the impact mission or focus. In this process, the Inter American Development Bank (IDB) and anchor investors played a catalytic role that led to the participation of new actors due to their positioning in the ecosystem, which was critical for generating trust.

As the entity responsible for general management and performance of the bonds, Inversor was responsible for managing the investment vehicle, providing strategic direction and strategic tracking based on the data and information collected, efficiently allocating resources to operators, managing payments for results and returning resources to investors.

The governance process was structured into two key areas. The Steering Committee and the Technical Committees. In the first one, strategic decisions were made, challenges were addressed, capital was requested, and the return of resources was evaluated.

The relationship between investors in these decision-making areas was characterized by being horizontal and focused on creating an ecosystem that fostered joint learning. In this context, decisions were made by consensus and based on what was most favorable for the project and the beneficiaries, which is why all levels of investment received the same treatment and consideration and no more power was granted to those with greater invested resources.

For its part, the technical committees focused on operational aspects, defining the actions within the intervention route and promoting the achievement of the established results. In addition, Inversor monitored, through periodic meetings, the activities executed by the implementers in order to track the indicators that were loaded weekly in order to take actions and reach the goal. In this process, the monitoring of execution was ongoing and involved the intermediary to the point of establishing the activities jointly, since as one of the operators put it, in the payforperform result programs the focus is on productivity and efficiency, not merely on performing the activities and explaining them.

RESULTS AND IMPACT

The Social Impact Bonds for employment generation in Colombia generated satisfactory results and various lessons about strengthening individuals' ability to seek employment, generating new employment opportunities and promoting employment retention, facilitating the breaking down of barriers to access to formal employment.

Social impact bonds were characterized by an inclusive approach that ensured that people from diverse socioeconomic groups, genders and ethnic backgrounds had equal access to employment opportunities. Additionally, it focused on building the resilience and self-confidence of the participants so that they did not feel unenthusiastic if they were not chosen in the processes and encouraged them to present themselves to various opportunities as a way of showing them the possibilities as opposed to limitations.

Sociodemographic characteristics of individuals benefitting*	
Women	77%**
Minority ethnicity	55%**
Victims of conflict	44%**
Heads of Household	35%
% of individuals utilizing banking	28%

*Data presented refers to a sample of 1,924 beneficiaries.

**Information related to Bond 2 (Source <http://www.sibs.co/cali-progresal>)

One of the main goals of the bonds was to strengthen people with respect to their ability to search for employment, providing them the skills and tools needed to increase their job opportunities.

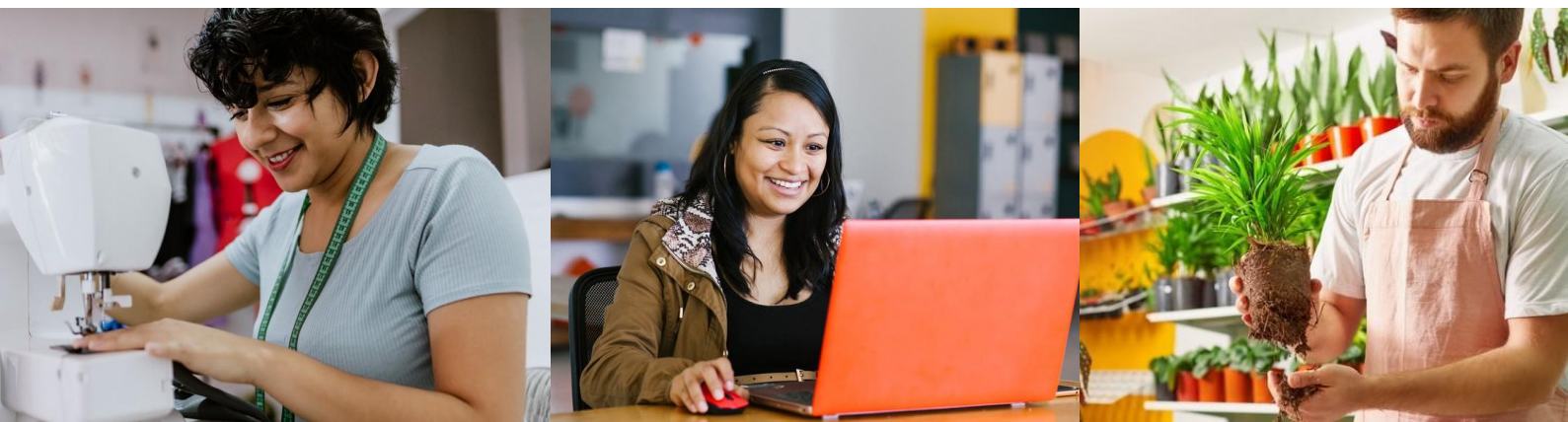
Through various training workshops, strengthening of social/emotional skills, personalized advice and training on specific competencies, a total of 8,672 people benefited, who acquired new skills, improved their resume, learned job search strategies and interview performance, and increased their confidence in their ability to address the challenges posed by the job market.

Results	
Persons improving their ability to seek employment	8,672
Jobs Generated	3,853
Retention for at least 3 months	2,671
Average Salary	\$1,112,711
% of participation by women in jobs generated	72%

Source: Based on interviews

Through the three impact bonds included in this case, a total of 3,853 jobs were generated in various economic sectors, seeking to achieve a double impact, reducing the unemployment of people belonging to vulnerable groups and promoting the economic development of the region by fostering the creation of productive and sustainable employment.




One of the most significant challenges to job generation is the ensuring that the jobs created are retained over the long term. In this regard, 2,671 employees have remained in the new job for at least 3 months, suggesting potential job stability.



FINAL COMMENTS

The Social Impact Bonds in Colombia have resulted in substantial lessons about the importance of impact measurement, results-based contract structuring, public-private sector collaboration, the key role of strong intermediaries, and the need to work in partnership with other actors in order to achieve significant social change.

The recommendations focus on continuing to promote ongoing learning, strengthening of communication between involved actors, and the maintaining of a comprehensive approach that includes psychosocial support and active engagement of the business sector:

-  The pursuit of structural changes requires long-term commitment and a determinate bet on testing new models in order to positively impact society. To address complex and persistent issues, such as unemployment in vulnerable populations, one must be willing to make ongoing investments and efforts over time and to adopt novel approaches that, while not always generating the expected return, will undoubtedly foster the learnings necessary to continuously make positive changes.
-  Social impact bonds encourage collaboration between the private sector, government and nonprofits. This horizontal collaboration is very important for the addressing of complex challenges and the promoting a comprehensive approach to impact generation. By working together, these actors can combine resources, knowledge and skills in order to achieve greater reach and effectiveness in implementing social programs.
-  Financial vehicles such as social impact bonds may generate increased corporate interest due to their potential return on investment: In Colombia, business groups, for the most part, have their own foundation to address social challenges, which evidences a commitment on the part of this sector in relation to overcoming social problems in the country. Although this division between business and social management is sometimes the subject of criticism, it also makes the interest of the private sector in contributing to social causes visible.

The above is very important since private investment is a component necessary to achieve the Sustainable Development Goals (SDGs). In this context, the promise of financial return increases the likelihood of private equity flowing to those sectors and geographies where it is most needed.

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The bonds had a positive response from the government and its openness to work together for common social goals. In this sense, the public sector found affinity with private sector investment objectives and that alignment allowed the aggregating of capital to expand the scope of bonds and the number of people impacted.
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Social impact bonds encourage the establishment of a measurement methodology with concrete goals and measurable results. By being pay-for-results based, which means investors only get a financial return if pre-established social goals are achieved, the bonds require metrics to be developed and drive transparency and accountability in the social sector.
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For social impact bonds developed in Colombia, training in impact measurement was received from the Global Impact Investing Network (GIIN), which facilitated the strengthening of the impact investment ecosystem through promotion of the development of a methodology to understand the changes generated, provide guidelines for the evaluation of results and the identification of areas for improvement.
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Regular communication between the intermediary and operators is necessary to ensure efficient and smooth coordination during the program implementation process. While detailed follow-up and communication at each phase is critical in any project to generate alerts at the right time and enable positive outcomes, it requires more attention when a novel mechanism is being implemented, since there is greater uncertainty. Against this backdrop, having a structured governance process, as evidenced in the case, that facilitates decision-making is recommended.
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Promote a horizontal conversation between the actors involved and facilitate forums where implementers can share best practices and experiences. Having garnered the participation and vision of all involved, both investors and implementers, and beneficiaries, it is possible to have a panoramic view at the management and results of each stage of the project. For this, having a knowledge management model that systematically collects learnings and takes into account the experience of all stakeholders is recommended. Additionally, it is necessary to share the findings with other actors in the ecosystem in order to achieve the replicability of successes and to limit the repetition of errors.



Lack of knowledge about the mechanism of social impact bonds can pose a challenge with respect to their replicability. The development of this funding mechanism requires some level of sophistication and development of the investors, intermediaries and operators. To overcome this challenge, it is important to have more forums and broadcast channels that will make this investment vehicle visible, even within traditional spaces that would initially appear to not be interested in generating impact.

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