



## Social Impact Bonds

An outcomes-based approach for social interventions

### Programa Bonos de Impacto Social Colombia

(Colombia's Social Impact Bond Program, SIBs.CO) has implemented two bonds focused on improving employment outcomes for vulnerable populations. Different stakeholders—especially public entities, multilateral and international cooperation agencies, and foundations, which act as investors—took up the challenge of proving that these mechanisms could have a greater impact on the region and on the country.

## Social Impact Bonds

An outcomes-based approach for social interventions



### LOCATION:

National - Colombia



### MAIN PARTNERS:

- Inter-American Development Bank's Innovation Lab (IDB Lab);
- Swiss Confederation State
- Secretariat for Economic Affairs (SECO);
- Social Prosperity Department;
- Fundación Corona

### OTHER PARTNERS:

- Fundación Santo Domingo
- Fundación Bolívar Davivienda
- Fundación WWB
- City of Cali
- Plan Internacional
- Corporación Mundial de la Mujer
- Instiglio
- Corporación Inversor
- Compartamos con Colombia



### SECTOR:

Employment



### TYPE OF INVESTOR/ SILO:

Foundations



### FINAL BENEFICIARIES:

Vulnerable populations and victims of conflict in Colombian urban areas.



### DURATION

2016

–now



### MOTIVATION/PROBLEM TO TACKLE:

Improve employment outcomes for vulnerable populations and victims of conflict in Colombian urban areas. Build knowledge and skills to execute outcome-based schemes.



### NON-FINANCIAL SUPPORT:

- Impact management and measurement
- Business strategy and/or model
- Financial management
- Operational (marketing, logistics, IT, sales, purchases, legal)



### TYPE OF FINANCE:

Donations, Hybrid finance.

### RESOURCES INVESTED OR DONATED:

USD 9,000,000

### IMPACT:

Through the implementation of the first Social Impact Bond (SIB) in three cities (Bogotá, Cali, and Pereira), the following was achieved:

2032

people trained in technical and socio-emotional skills.

1855

participants with employment-intermediation support.

899

participants employed.

677

participants employed and retained for more than three months.

As for the second SIB, executed in Cali, 6026 vacancies have been managed in approximately 581 partner companies.



It was possible to include an outcome-based fund in Colombia's 2018–2022 National Development Plan as an innovative instrument to leverage high-social-impact initiatives.



SDGS ADDRESSED



## BACKGROUND AND CONTEXT

Over the last decade, and before the COVID-19 pandemic, Colombia had made significant progress in reducing unemployment. Rates as high as 15-17% in the first decade of the 21<sup>st</sup> century gradually and steadily decreased to 8% over the past ten years.<sup>1</sup>

However, employability among vulnerable populations represented a challenge in closing inequality gaps. Policies had been implemented by the national and local governments with different initiatives in mind; nonetheless, the traditional intervention model focused more on activity development—mainly for professional training—than results that ensured employment.

To meet this need, public and private sector organizations set about implementing for the first time in a developing country, an innovative pay-for-success model. This model has contributed to placing the intended outcome of Social Impact Bonds at the center of social policies.

*“Not only was it the first bond in Colombia and Latin America, but also the first in a developing country. And that is what we were aiming to promote.” Daniel Uribe, Executive Director, Fundación Corona.*

The issue to be tackled was the employment of vulnerable groups. The specific objective was to ensure that program participants were able to keep their jobs for a verifiable period of three to six months, and that these jobs were aimed at the vulnerable population that faced barriers to access the formal market.

The partnership between the Inter-American Development Bank Innovation Lab (IDB Lab), the Swiss Confederation State Secretariat of Economic Affairs in Colombia (SECO), the DPS (Social Prosperity Department) of the National Government, and Fundación Corona as the executing entity structured the SIBs.CO. Fundación Bolívar Davivienda and Fundación Santo Domingo also collaborated in its creation



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<sup>1</sup> Banco de la República, Colombia (2020), Tasas de empleo y desempleo en Colombia. Accessed at: <https://www.banrep.gov.co/es/estadisticas/tasas-empleo-y-desempleo>

so that the public administration and social organizations could work together in ensuring a real impact and generate evidence for better decision-making.

### Social impact bonds around the world<sup>2</sup>

As of September 2020:

- ... 194 Social Impact Bonds in the world
- ... USD 438,000,000 raised for their execution

Aspects addressed by Social Impact Bonds:

- ... Employment and professional training: 26.15%
- ... Childhood and family well-being: 17.44%
- ... Homelessness: 15.38%
- ... Health: 14.36%
- ... Education: 12.82%
- ... Criminal justice: 7.69%
- ... Agriculture and environment: 1.03%
- ... Poverty reduction: 1.03%
- ... Unknown: 4.10%

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<sup>2</sup> Government Outcomes Lab (2020). Impact Bonds Data Base. United Kingdom. Accessed at: <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo-data-and-visualisation/impact-bond-dataset-v2/>



## DESCRIPTION

Fundación Corona is a family foundation created more than half a century ago in Colombia. It promotes quality of life, social development, and equity in the country. One of its lines of work is to promote work-oriented education geared towards the creation of an inclusive employment model.

Given its specific experience, it was designated by IDB Lab and SECO as the executing entity for the Social Impact Bond implementation process.

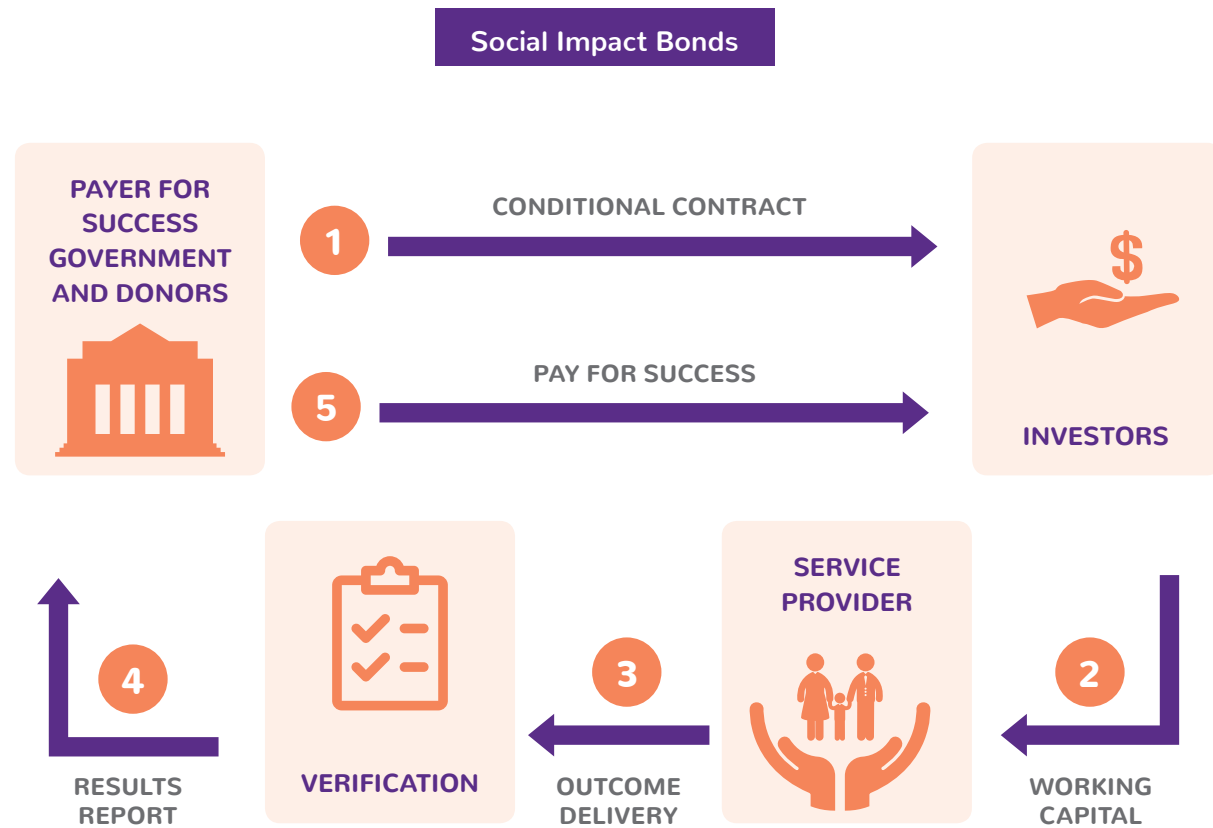
SIBs.CO's main objectives revolved around two aspects: first, improving the employment of vulnerable groups and victims of conflict in urban areas in Colombia; and second, contributing to the knowledge and skills needed for outcome-based financing, Social Impact Bonds, and impact investment.

The program was structured around three components: first, a focus on payment for better employment outcomes, with pay-for-success design and contract issuance (particularly Social Impact Bonds); second, market creation, by means of which local skills were strengthened and specialized knowledge was gained from the outcomes of the first component; and third, systematizing lessons learned and communicating them at a regional scale to catalyze the market.

- ... Investors: they provide the working capital to finance the operating activities of service providers.
- ... Service providers or operators: usually social purpose organizations familiar with the policy or issue to be addressed who implement the program or service for the target audience.
- ... Outcome financier: often the government or a donor, who commits to paying investors in the future if the results are achieved.
- ... Intermediary: in charge of managing the performance of the Social Impact Bond.
- ... External verifier: they monitor and, as the name suggests, verify results.
- ... Technical advisers: they provide support in deal structuring.

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**Graph 1: Structure of a Social Impact Bond**



Fuente: Shared by the SIBs.CO team



## IMPLEMENTATION

*“Around the world, funds were starting to be created with a program vision, a vision of different processes that gradually evolve and provide a greater learning experience over time. This, together with prior knowledge from IDB Lab, Instiglio, and other consultants, allowed us to decide not to make a bond, but to build the social impact model in Colombia.” Daniel Uribe.*

For its development, Fundación Corona acted as the executing entity and put its specialized knowledge at the project’s disposal. Fundación Santo Domingo and Fundación Bolívar Davivienda supported the co-creation of the first “Empleando Futuro” bond and supported the cooperation and partnership with new stakeholders that could foster the development of a second bond with economic resources; they acted as investors and social-impact-bond promoters.

SECO and IDB Lab have financed SIBs.CO. Furthermore, IDB Lab acted, thanks to resources provided by SECO, as final payer of the Social Impact Bonds.

Public entities such as the Social Prosperity Department (DPS) and the City of Cali (the city with the highest displacement rate in the country) have also been key stakeholders, both for the execution of the bonds and for the capacity building required for other outcome-based contracts with the national and local governments.

The setup of the first bond, Empleando Futuro, was carried out in a relatively short period for this type of process (18 months). The focus was on improving access to and retention of formal jobs by vulnerable populations (women, youth, and victims) in Bogotá, Cali, and Pereira.

After this first execution, a second bond was structured at a local level with the purpose of proving that it was also possible to execute such a mechanism with local administrative entities. The City of Cali was the public partnering entity for the development of the second bond (“Cali Progresá con Empleo”), launched in 2019.



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Fundación Corona acted as the executing entity and put its specialized knowledge at the project’s disposal.

Through the learnings derived from the execution of these bonds, the idea of a third bond soon turned into a outcome-based fund included in the 2018–2022 National Development Plan as a greater stake in promoting this type of mechanisms and contracts in this country.

### Tailored Finance

The investment made by SECO, IDB Lab and the Social Prosperity Department in SIBs.CO equals USD 9,000,000. USD 6,000,000 have been allocated to the outcome-based component, and the remaining USD 3,000,000 to the market creation and strengthening component, as well as to the systematization of lessons learned, executed by Fundación Corona.

*“A key characteristic of our investors is that they invest through their endowment. Fundación Corona, for instance, contributed resources not with a philanthropic vision, but from its endowment, thus increasing the amount of resources available for social investment.” Daniel Uribe.*

The first bond was extended because of its fine performance during the initial stage, which is why it was executed between 2017 and 2018. “There were positive returns for investors. The IRR (internal rate of return) to investors was 8.2% before inflation.”<sup>3</sup> Capital contributions for the execution of this bond were USD 329,000<sup>4</sup> as pay-for-success flows were reinvested in the project.

For the second bond, the number of investors doubled, a proof of the increased trust and interest generated by the execution of the first. For this second bond, investors committed USD 867,000<sup>5</sup> and, given that it is still under execution, there is no definitive internal rate of return.

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<sup>3</sup> Government Outcomes Lab (2019). Colombia Workforce Development Social Impact Bond - EMPLEANDO FUTURO. Accessed at: <https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/colombia-workforce-sib/>

<sup>4</sup> TRM COP 2.919,17 (March 2017).

<sup>5</sup> TRM COP 3.116 (February 2019).



*“We as foundations can handle higher risk. We thought that if results were positive (which was the case), we could allocate those same resources to the second bond and build a sustainable, higher-impact spectrum. We were not there for a return, but to build the vehicle, to have an impact [...] and to learn as well. Luckily, the more patient philanthropic capital represents another opportunity for us to create higher-impact innovations.” Daniel Uribe.*

Through the experimentation, execution, and study of these outcome-based mechanisms, a change of mindset is taking place in the public sector. Local and national governments can concentrate more on paying for tangible results in their initiatives and not on directing all their efforts towards intermediate activities that cannot ensure the final impact.



### Non-financial support

The involved organizations have contributed technical and human resources to develop these SIBs, which has been key for goal accomplishment, outcome tracking, and cooperation with other stakeholders.

Fundación Corona has made use not only of its human workforce, but also of its inclusive employment model to foster the development of both the program and the Social Impact Bonds. Other organizations—such as SECO and IDB Lab, Santo Domingo, Bolívar Davivienda, WWB, and Corporación Mundial de la Mujer Colombia—have also resorted to their work teams in search of new partners and stakeholders who could participate in this initiative.

*“The collective leadership role, which promotes guided change, fosters good innovation conditions.” Daniel Uribe.*

Accountability and outcome monitoring must be carried out by social-impact-bond intermediaries—who are accountable before final payers on the progress of the expected results—and field operating entities—so that they communicate this progress to both final payers and investors. Hence the importance of collaboration and governance among partners.



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## RESULTS

Both SIBs focused on populations with defined characteristics that, above all, struggled with barriers to employment in the labor market. These barriers were defined by their vulnerable condition (determined by a score on Sisbén).<sup>6</sup> Being displaced or victims of violence was also part of the criteria, as well as being 18 to 40 years old and not formally employed. Concerning the first bond, it was also required that candidates had not participated in productive inclusion programs between 2015 and 2017.<sup>7</sup>

The first employment Social Impact Bond attracted 9765 people, while its target was 9127. Out of these, 2603 were enrolled (compared to a forecast of 2297) and 2009 participated (the target was 1886). The labor-intermediation process supported 1870 people, compared to 1481 that were initially expected.

Lastly, the bond succeeded in employing 898 people and not only the 766 set as a target—which constitutes a success rate of 117%. Notwithstanding, the three-month retention rates saw a slight decrease as only 677 people kept their jobs for this period, i.e., 88% of the target.

As for the second SIB, executed in Cali, a total of 6026 vacancies have been managed so far in around 581 partner companies. More than 65,785 hours of socio-occupational guidance have been provided to 2901 people; 21,066 hours of psycho-social support to more than 2600 people; 225,227 hours of soft- and hard-skill training to 2625 individuals. Data on the generated jobs are currently being gathered for end results to be presented, but SIB targets or expected results account for 856 people employed and retained for three months and 599 retained for six months.

One of SIBs.CO's more relevant achievements—after the implementation of the two bonds and the analysis of a third one in this country—is that an outcome-based fund has been included in the Colombian 2018–2022 National Development Plan given the positive experience gained during the previous execution.

<sup>6</sup> Sisbén is the System for the Identification of Potential Social Program Beneficiaries, as defined by the Colombian government.

<sup>7</sup> Information from SIBs.CO's general presentation.

*“When you move forward with just one bond, it is not possible to know how much knowledge is being passed on. Meanwhile, capacity building in the public entity is greater with several bonds. This is why the program evolved into Fondo de Pagos por Resultados (pay for success).”*  
Laura Casas, SIBs.CO leader.



## LEARNINGS AND PERSPECTIVES

One of the greatest lessons drawn from SIBs.CO in the country is the production of evidence by different public and private sector stakeholders that outcome-based mechanisms—particularly Social Impact Bonds—are innovative tools for public and social management. In this way, public administrators can focus less on financing activities and channel resources towards the expected impact.

SIBs have also succeeded in providing evidence of vulnerable-population employment in the labor market. This can contribute to creating public policy for employment. Impact assessments can also provide empirical foundations for decision-making in this field.

SIBs.CO’s work has raised new challenges and important learnings in terms of market building. There is a need to promote outcome-based mechanisms in the public sector and, at the same time, help social purpose organizations with capacity building in order to focus them on delivering results rather than listing activities.

Lastly, a lesson highlighted by Fundación Corona is how different public, private, social sector, and international cooperation stakeholders collaborated to achieve the overarching result. This constitutes one of the main characteristics of and challenges for organizations with strategic philanthropy and social investment initiatives.



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