

Introducing Social Impact Bonds in Colombia

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ACRONYMS

DNP	National Planning Department
EoT	Educación Orientada al Trabajo
FARC	Revolutionary Armed Forces of Colombia
IDB	Inter-American Development Bank
FC	Fundación Corona
OECD	Organization for Economic Co-operation & Development
PBR	Payment by Results
SAF	SIB Action Framework
SIBs	Social Impact Bonds
SIPA	Columbia University, School of International & Public Affairs

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i. EXECUTIVE SUMMARY

Colombia is at a significant crossroads in its history. The onset of a new era of institutionalized peace, in addition to economic development in line with 'middle-income' expectations, comes with new requirements for reducing inequality, boosting productivity, and limiting workforce informality.

Social Impact Bonds (SIBs), alongside other innovations in social financing, stand out as promising instruments for addressing these challenges. They remain nevertheless untested outside of markets with a well-established impact investment sector and a critical mass of available financing for preventive social activity.

Fundación Corona has over fifty years of experience in strengthening capacities to drive social development, quality of life, and equity. This puts the foundation in a critical position to leverage its expertise and alliances with the supranational, domestic public, and private sectors to build a market for SIBs in Colombia. Its partnership with the Inter-American Development Bank, the Multilateral Investment Fund, the Swiss State Secretariat for Economic Affairs, and the Administrative Department of Social Prosperity endow it with an even stronger impetus for establishing a SIB ecosystem capable of grouping a broad set of players to the table.

The methodological approach put forth by our Columbia-SIPA team will help identify the essential tenets for the development of this ecosystem, and lay out clear, actionable recommendations for implementation by its major stakeholders. Through undertaking in-depth international benchmarking

and generating an assessment of Colombia's market preparedness, this project will endow Fundación Corona with the core conditions for decision-making across three facets of SIB market activity – Identifying, Engaging, and Measuring. Armed with these learnings, the foundation will be poised to play a major part in the historical creation of a social financing ecosystem in Colombia.

This document brings together the output of a wide-ranging analysis undertaken between November 2016 and May 2017. Structured around these three key tenets of SIB market activity - 'Identify', 'Engage' and 'Measure' - it takes the reader through the major global trends that have shaped the global SIB environment, and puts forth specific recommendations for the Colombian context. A specific focus was placed on the key social theme of employability.

1. The analysis first highlights the factors that allow for a SIB to get off the ground, and – when it does – that determine what scope the intervention will take. Driving policy innovation, assessing the existence of demand and supply side factors, identifying suitable issue areas that align with already proactive policy priorities and ensuring that public budgeting can be suitably transformed are all key factors to take onboard in order to build a SIB environment of scale.

2. The document then showcases how the engagement of a diverse set of stakeholders requires clearly defined leadership, strong decision-making structures, and consistent communication to ensure smooth and flexible

implementation. The role of performance management is proven to be critical, particularly when it comes to understanding stakeholder motivations, being able to translate insights to each of these motivations, and being able to adapt an intervention when change is needed. In a context of market development, government support platforms and incentives can be catalytic for encouraging first and second entrants.

3. Finally, high quality data and information management before, throughout and after a SIB intervention prove to be equally crucial. Driving greater data coordination and broader data access have contributed to the design of robust social interventions, as well as to the establishment of clear and agile information practices within and between key SIB stakeholders. Building this data infrastructure – whether from the top-down or the bottom-up, will be a fundamental requirement for a sustainable SIB ecosystem.

Our analysis leaves us hopeful for the development of a robust social investment ecosystem in Colombia. Above all, the broader socialization of the SIB concept, the formal institutionalization of SIB financing models in government policy, and the significant upgrading of social data coordination activities at inter-ministerial and public-private levels remain the key challenges for making SIBs a success.

ii. PROJECT CONTEXT

CLIENT ORGANIZATION

Fundación Corona (FC) is a civil society organization committed to Colombia's social development and the improvement of the quality of life among highly vulnerable populations.

Specifically, FC seeks vulnerable communities' involvement in the collective formulation, design, and implementation of high impact public policies in areas such as education, health, economic development, and citizens' participation.

The foundation was created in 1963 as a private initiative representing the social and ethical responsibility of the Echavarría Olózaga family, who have been linked during three generations to the country's industrial development. Through its fifty year trajectory of reducing Colombia's social inequalities, FC has exhibited a constant desire to grow and improve, pursuing innovation internally and tapping into key learnings from international experiences in social development.

COUNTRY BACKGROUND

Colombia has emerged from a long history of conflict and has begun to overcome persistent structural challenges. While abundant natural resources, two coasts and a connection to Central America position the country strategically to be one of the most prosperous in the region, Colombia remains a country of contrasts. Its large cities face the quandaries imposed by fast urbanization, and rural regions, notably the Pacific coast, still suffer from prolonged poverty and underdevelopment.

The country's development needs have also changed vastly over the past 15 years. Despite

sustained economic growth, social and economic challenges remain with regional disparities becoming more acute. As an emerging economy, Colombia's social safety net and fiscal capacity is smaller than that of developed countries like the United States or the United Kingdom, where preventive social policies have been successfully implemented. As a result, the distributive effect of SIB-type policies and initiatives in Colombia have the potential to be wide-ranging and impactful.

PROJECT BACKGROUND

This project is a contribution to the work of Fundación Corona, who along with the Inter-American Development Bank, the Multilateral Investment Fund, the Swiss State Secretariat for Economic Affairs, and the Administrative Department of Social Prosperity, among others, is seeking to:

Improve the employability results of vulnerable populations in urban areas in Colombia, and to develop the knowledge and capacities to do payment by results, Social Impact Bonds and social impact investment.

This broader initiative has three components:

1. To develop at least three pilot SIBs;
2. To build the market for SIBs; and
3. Establish knowledge and learning for scalability and sustainability

As such, the Columbia SIPA team's research-intensive process will aim to generate publicly-available knowledge, learning and recommendations that can contribute to the market development of Social Impact Bonds in Colombia.

iii. SOCIAL IMPACT BONDS: AN OVERVIEW

WHAT IS A SOCIAL IMPACT BOND (SIB)?

Social Impact Bonds enable governments to work with the private sector to fund effective social services through a performance-based contract. By changing the focus of a social intervention towards its results, rather than on its specific activities, SIBs endow service providers with the flexibility and liberty to learn from and adapt to changing contexts. By emphasizing an intervention's results, SIBs ensure that the interests and objectives of the government and providers are aligned with the wellbeing of the intervention's beneficiaries¹.

Governments partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs. All parties involved decide on outcomes and performance metrics ahead of program implementation. An independent evaluator then measures the results and determines whether the program has been successful. Upon success, the payer, in this case the government, repays the original investment. If the expected results are not achieved, the government is not obligated to pay for the unmet outcomes.

The stakeholders involved in a SIB can comprise²:

- An outcome payer, (a government or foundation), which enters into a contract to pay for specific, measurable social outputs and outcomes
- A (or multiple) service provider(s), which works to deliver these social outcomes in a flexible manner not mandated by the outcome payer
- One or several investors, who can be individuals, foundations or investment firms, providing service providers with working capital

- An independent evaluator, who assesses the outcomes of the program
- An intermediary, who coordinates stakeholders and designs and/or manages the project

figure iii.1: the typical SIB set-up²

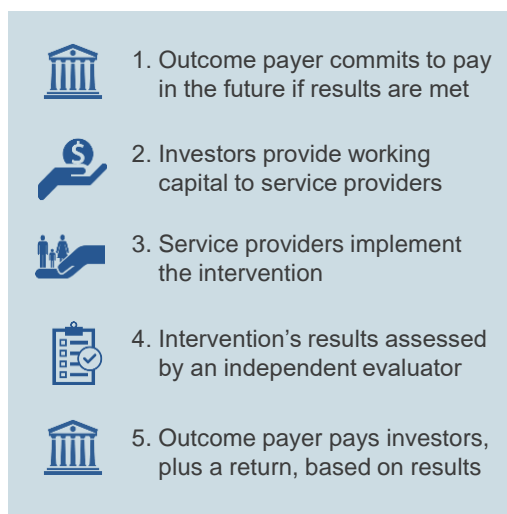


figure iii.2: the government benefits of a SIB²

- SIBs promote flexibility, learning, innovation and proactivity in social policy
- SIBs transfer an intervention's financial risk to private investors
- SIBs incentivize efficient social spending and instill programmatic accountability
- SIBs allow for a strong focus on results

Source: ¹Perakis & Savedoff (2015), ¹Instiglio (2016); ²Instiglio (2016 [2])

iv. RESEARCH APPROACH

The Columbia SIPA team sought to provide Fundación Corona with a set of global learnings that could inform local application, as well as insights gained from on-the-ground research that could lead to a clear set of recommendations.

RESEARCH METHODOLOGY

We created a framework that seeks to understand three distinct, yet closely related, components of delivering a Social Impact Bond: the SIB Action Framework (see figure below) unpacks three typologies of action needed to get a SIB off the ground and ensure its success. These three 'actions' are not consequential; rather,

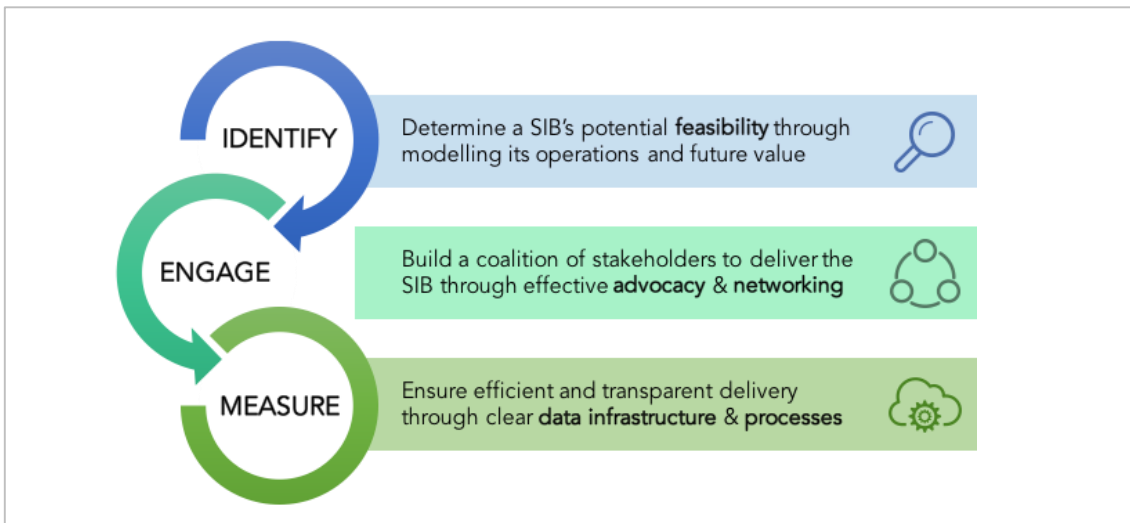
all three need to be present and working together in order for a SIB ecosystem to fully function.

With these three lenses in perspective, two questions guided the analysis:

1. At a global level, what are the key trends that have shaped the way SIBs are identified, engaged with, and measured?
2. As the SIB ecosystem takes shape, what attributes does the Colombian context exhibit in order to embrace or react to these trends?

To answer the first research question, we undertook a series of comprehensive structured, semi-formal interviews with selected experts, from key practitioners in the field of social financial

figure iv.1: the SIB Action Framework



innovation to leading scholars in adjacent fields like the more established school of impact investment academics. Our interviewees represented the majority of countries in which SIBs have been undertaken and/or planned for, both successfully and unsuccessfully – from the United Kingdom to the United States, the Netherlands, Australia, Germany and Canada. More recent entrants with nascent ‘market-making’ experiences, notably Israel, were also key to our analysis.

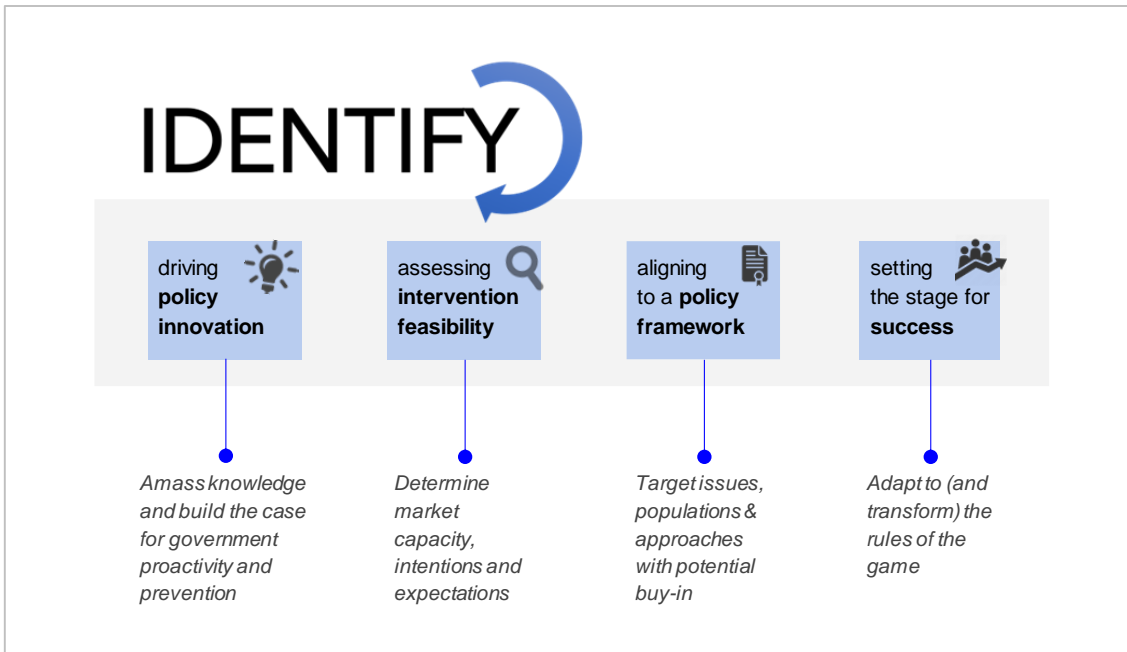
These global insights were complemented by more in-depth local understanding, the output of two

weeks of fieldwork in Colombia in March 2017. In contrast, our interviewees included stakeholders with varying exposure to the SIB concept – this allowed us to generate a set of raw hypotheses about market-building potential.

The following pages bring these learnings to light – the document will go through each component of the SIB Action Framework in more detail, highlighting a select set of global trends and indicating their specific implications for Colombia.



1. 'IDENTIFYING' SIB SCOPE & FEASIBILITY



The pace and quality of future developments within the SIB ecosystem are closely tied to four elements: i) driving policy innovation ii) assessing intervention feasibility, iii) aligning to a policy framework and iv) setting the stage for success. A robust SIB market is dependent on accurately identifying contextual factors and constructing a strong ecosystem to fit its needs.

DRIVING POLICY INNOVATION

TREND: SIB PARTNERSHIPS SPUR INNOVATION BY GROUPING KEY

STAKEHOLDERS AROUND A CONSISTENT SET OF CORE VALUES

Governments around the world are starting to recognize the need for a new approach to social service delivery. One that places emphasis on identifying innovative ideas, testing their effectiveness, and scaling up the interventions that prove successful. The main hurdles to embarking on this new approach are lack of up-front funding, inability to sustain focus on performance, and a reluctance to take on the risk of failure. Social Impact Bonds (SIBs) are designed to overcome these hurdles. SIBs take advantage of private

sector efficiency and capital to achieve public sector goals while shifting up-front financial burden and risk to private parties in case the intervention fails to achieve the intended outcomes.

When investment is tied to outcomes, rather than activities, service providers gain greater flexibility to innovate and improve their programs. Governments and taxpayers transfer the risks of program performance to the private sector, and enhance the value for money of a given intervention by clearly specifying the cost of the measurable outcomes of any program ex-ante³.

“Successful SIBs create a ‘public policy trifecta’: benefitting taxpayers, social service recipients, and private investors”
-Technical Advisor, United States

DRIVING POLICY INNOVATION: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, social impact and performance of publicly funded programs are not rigorously measured or assessed. Lack of credible and current data makes it challenging for government departments to make informed, evidence-based choices about their investments and spending. Social Impact Bonds introduce and demand new levels of rigor in social programs. Furthermore, beyond partnership and coordination between governments and non-governmental actors, SIBs in Colombia have been seen as a means of facilitating greater collaboration across government silos, as well as local and national authorities. A.

shift towards payment by results and channeling taxpayer money toward programs that work make SIBs attractive for stakeholders in Colombia.

The value drivers behind SIBs in Colombia have been identified as: greater efficiency, cost-effectiveness, innovation, and risk transfer to the private sector. Going forward, all actors within the SIB system will need to define what ‘value’ and ‘innovation’ means to them in terms of how interventions are delivered and structured between governments, private investors and service providers. SIB models should act as proofs of concept of spurring further innovation, shifting focus onto outcomes, partnership models and delivery of services.

ASSESSING INTERVENTION FEASIBILITY

TREND: IN EARLY-STAGE MARKET DEVELOPMENT, THE READINESS OF THE SIB MARKET DEPENDS ON THE PRESENCE OF DEMAND AND SUPPLY SIDE FACTORS

A key element present in both literature and expert experience is having favorable market readiness in both demand and supply side factors. A capable and proactive demand; i.e., a public sector that is willing and able to identify key issue areas for SIBs, accommodate the procurement process, and build a strong business case for attracting government and investor attention. Such readiness is encapsulated by Figure 1.1.

Identification of social issue areas that SIBs can address will be discussed in detail in trend 3 below, target population setting and policy framework will be discussed in trend 4 below. Government

Source: ³Technical Advisor, United States

support in terms of creating a conducive policy environment will be tackled in “Engage”.

figure 1.1: Demand factors

DEMAND: ALIGNMENT OF AGENDAS		Example: SOCIAL FINANCE ISRAEL
SOCIAL ISSUE	Needs & service gaps	Need for early prevention programs for Diabetes
POLICY FRAMEWORK	Target population setting	Addresses at-risk populations (2250 youth)
GOVERNMENT WILL	Collective leadership, legal & budgetary conditions	Two Israeli public health organizations and the National Insurance Institute

SIB mechanisms create opportunities for the public sector at all levels of government to reward “what works” or expand access to evidence-based preventive social interventions without requiring taxpayers to shoulder all the financial risk upfront. In order for these new mechanisms to work, governments must retain a central and important position. As this process requires particular efforts and time in terms of learning, coordinating with multiple stakeholders, and implementing in the span of multiple years, dedicated leadership is needed to galvanize and sustain these efforts. The following evaluation criteria are helpful in identifying demand side factors for SIB feasibility⁴.

1. Government wide support – Does the electorate knowingly support it? Is it a priority issue that

affects a large number of voters?

2. Government willingness – Does the issue fit with a specific party’s platform? Is the issue aligned with the party’s promises and objectives?

3. Government capacity – Does the government perceive this as a risky undertaking with a possibility of backfire? Is it feasible from a legal and operational standpoint?

Similarly, an active and capable supply side; i.e., knowing that every key stakeholder is able to deliver what is reasonably expected from them, is a key SIB driver. A service provider must be able to deliver the intervention, investors must be willing and able to invest and intermediaries should be capable of building the market and supporting the other players. A case from the UK:

figure 1.2: Supply factors

SUPPLY: PRESENCE OF KEY STAKEHOLDERS		Example: FAIR CHANCE FUND UK
INVESTORS	Investor appetite	Northstar Ventures, £0.498 million
INTERMEDIARIES	Ability to assemble and engage	Numbers4Good (shaped bid, deal & fundraising)
SOCIAL SERVICE PROVIDERS	Delivery of outcome-based services	Home Group
TECHNICAL ADVISERS	Support entities	None - provided by Intermediary
EVALUATOR	Reliable data testing and collection	Department for Communities & Local Government

Source: ⁴Finance For Good (2013)

ASSESSING INTERVENTION FEASIBILITY: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, various actors expressed interest in tying intervention success to past scientific research (either in different locations or similar contexts). Knowledge and research sharing depends greatly academic validity and authorship. Buy-in from influential academics or respected policymakers is a key lynchpin in determining SIB feasibility. Furthermore, SIBs must cover social areas that are on the policy agenda and of policy priority for government departments. SIBs that address key social issues such as employability or social inclusion will have a higher success rate than issues not seen as government priorities. The institutionalization of SIBs within CONPES could solidify and government support for SIBs in Colombia. CONPES is the highest national planning authority and serves as an advisory body to the Government in all aspects related to the economic and social development of the country.

From the supply side, philanthropic organizations have started building momentum towards the development of a SIB market in Colombia. These players are not just philosophically inclined towards social provision but also have the capacity to participate in SIB projects.

While the first wave of SIBs tap into the policy priority areas of employability and vulnerable populations, technical success will determine future rate of development. If government actors can see value in SIB-funded programs being one way of achieving a broader policy priority, a shift from reactive to preventative services can be

achieved.

SIB issues need to address (a) Policy priorities (as institutionalized within CONPES across Government departments in Colombia). For example - in areas of broad public policies – employment generation, poverty reduction – there lie huge potentials for SIBs. These policies have large cross-departmental coverages at the national level.

While initial SIBs in Colombia will be underwritten by philanthropic and socially motivated investors, over time, the SIB market may grow to include more commercially oriented financial institutions.

ALIGNING TO A POLICY FRAMEWORK

TREND: THE PRACTICE OF 'IDENTIFYING' A SUITABLE SIB ISSUE AREA HAS MOVED BEYOND SIMPLY ADDRESSING TRADITIONAL GAPS IN PUBLIC SECTOR PROVISION

Target areas that are feasible for SIBs should be a middle point between areas that are served by traditional philanthropy, such as culture or the arts; and “mainstream” public areas such as agriculture, environment, water and sanitation, and financial services. SIBs have attempted to prevent or reduce people’s need for expensive services down the line, and have been used to test new services that reduce the need for existing services. In this view SIBs can be seen as operating at the intersection of public versus private provision of services.

A SIB should seek to provide either 1) goods that address the social needs of an individual or society

Source: ⁵OECD

to improve life outcomes (social impacts); or 2) goods that result in savings in the costs or improvements in the effectiveness of providing for social needs (efficiency gains)⁵. Consider for example, the following chart:

figure 1.3: Publicness & efficiency gains (OECD)

Degree of publicness	Individuals efficiency gains	Systemic efficiency gains
Social impact on individual	PRIVATE	Possible SIB
Social impact on society	Possible SIB	PUBLIC

In the chart above we can see that when the provision of a service has not only individual efficiency gains, but has social returns to the economy and society as a whole, there may be space for a SIB. In such a space, it is important that any social impact spillovers are correctly factored into SIB instruments. The provision of affordable social services with broad social impacts is clearly desirable, but becomes challenging especially in multi-stakeholder models like SIBs because the incorporation of externalities and monetization of outcomes into objective functions may not always be straightforward.

Social Impact Bonds designers have largely identified four key social issue areas: education, employment, criminal justice and social welfare. In particular, social welfare and employability have come to represent the largest issue areas in the SIB market. Social welfare delineates a range of issues including adoption or long-term foster care

placement, homelessness and support of disadvantaged young people. Additionally, the area of policing, safety and crime started off as an important SIB issue area, most likely because of its close alignment with SIB feasibility criteria. For instance, recidivism has clearly defined, quantifiable outcomes, and is paired with high political commitment due to the large number of negative intended and unintended consequences⁶. The potential for SIB implementation in an issue area is increased where the consumption of a good creates social impact primarily at the individual level but also results in systemic efficiency gains (e.g. lowering recidivism rates, to reintegrate offenders and lower costly prison budgets.)

Below we present some examples of the current trends in SIBs in different policy areas (see Appendix for details):

- Health & care needs of the elderly
- Employability & school dropouts
- Affordable housing
- Policing, safety and crime
- Family care and gender

“A SIB’s issue area should be closely aligned to what makes a SIB feasible: whether it is monetizable, and whether its outcomes are measurable”
-Academic Expert, United States

TREND: POPULATION SETTING HAS SEEN FEW METHODOLOGICAL CHANGES – RISK EXPOSURE AND STATISTICAL SIGNIFICANCE REMAIN KEY FACTORS

Source: ⁶The Brookings Institution (2015)

Once the social issue is stated, the SIB designer defines the rest of the social policy framework. This begins with defining the target population; i.e., the age, geographical area and sample size of those receiving the intervention. Moreover, the treatment population must be defined in such a way that avoids “cream-skimming, i.e., selecting only the easiest-to-serve people”⁷.

In this sense, the literature clearly defines that, in order to meet with the social investment criteria, the target populations should be population at risks: i.e., those living in underserved or developing areas, regions or countries. Populations at risk can be defined either by social demographics (such as family type, age and others factors), by location (such as underserved or developing regions), or by income⁸. Finally, the target population of a SIB should be of sufficient size to be able to measure impacts in a statistically significant way, but not too large as to add complexity to the already complex SIB model⁹. For example, in a Brookings Institute survey more than 60% of the deals served equal to or smaller than 1,000 individuals, and only UK, US and Australia have implemented SIBs with a cohort bigger than 1,000.

TREND: THE DEFINITION OF A ROBUST ATTRIBUTION MODEL THAT CONSIDERS TIME CONSTRAINTS REMAINS THE KEY TURNING POINT IN ACHIEVING UP-FRONT STAKEHOLDER BUY-IN

Key stakeholder buy-in within the SIB ecosystem means understanding that payment, contract and service provision must be achieved within a reasonable time horizon. Keeping in mind these

key criteria, a time horizon for achieving outcomes is considered suitable for a SIB if there is substantial evidence from previous evaluations or scientifically commissioned research that the specified outcomes will occur within this time frame. For example, in the US, Government (Federal, state or local) can review evidence from places such as the Coalition for Evidence-Based Policies “Social Programs that Work” list (2015), the Washington State Institute for Public Policy cost effectiveness studies (2016), and recent research results from professional evaluation firms to see if there are proven programs in priority policy areas that could be replicated using a SIB model, and evaluate how much time the project endured.

Furthermore, it is important to put a reasonable time horizon into place, one in which investors and outcome funders are able and willing to make and receive payments given the, legal and political conditions in a country. Additionally, the need to consider the demands of multiple groups means that some outcomes or projects may be less suitable for SIBs. For example, in a number of SIBs being developed, the time lag between the intervention and outcomes being achieved may be seen as too long if it exceeds five years.

It also emerged from our research and interviews that many interventions usually produce short-term benefits but may also yield rewards over the longer-term¹⁰. For example, investments in prenatal health care produce short-term benefits such as improved infant and maternal health and lower health care costs, but they may also produce longer-term benefits such as reduced special education spending, reduced crime during teenage years, and increased adult earnings.

Source: ⁷Liebman & Sellman (2013); ⁸OECD (2015); ⁹The Brookings Institution (2015); ¹⁰Azemati, Belinsky, Gillette, Liebman, Sellman and Wyse (2013)

“A SIB tests attribution under 5 years, through payment, contract and provision”
-Academic Expert, United States

ALIGNING TO A POLICY FRAMEWORK: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

The real lynchpin in Colombia for SIB success, requires an understanding at the government level of the value being created by prevention - reducing people's need for expensive existing services down the line. Such a perspective provides a strong economic justification for the SIB: spend earlier to save later and help participants avoid worsening outcomes.

Social Impact Bonds will face fewer barriers in Colombia if they are used to expand funding in areas where the government wishes to improve the quality of existing services, and/or reduce the inequality of access.

Political economy makes Social Impact Bonds difficult to implement in areas that are traditionally provided by the public sector. For example, in Colombia there are lots of government programs that focus on training, in entrepreneurship, in these case the gains from implementing a Social Impact Bond may not be relevant.

Other policy areas than can already be identified as shifting from reactive to proactive programs, are more suitable for SIBs. Examples of these areas in Colombia are: social inclusion (Departamento de Prosperidad Social), employability and education (DPS, Mintrabajo, Education), and human capital formation towards productivity (Min. of Education).

SETTING THE STAGE FOR SUCCESS

TREND: INSTITUTIONAL INCENTIVES HAVE PROVEN TO BE MAKE/BREAK PRECONDITIONS FOR A SUCCESSFUL SIB ECOSYSTEM

Another important element in determining the feasibility of a SIB is the existence of a national legal framework that enables all the necessary stakeholders in the SIB model to perform properly. In this sense, the literature¹¹ list several considerations that each stakeholder should be legally able to take onboard:

Outcome Payers (esp. Governments)

- Continuity can be ensured even with future administrations
- Capacity and autonomy for contracting social services
- Public procurement authorization for SIB schemes

Investors

- Legal capacity to fund SIB schemes by providing funds to intermediaries
- No prohibitions or restrictions to invest in social services
- Legal framework for debt and equity or hybrid investments
- No limitations or excessive procedures for foreign investment
- No quantitative or qualitative limitations on the repatriation of profits
- Mechanisms ensuring that the government will accept the evaluator report as valid

Intermediaries

- No requirements for permanent residency to conduct business

Source: ¹¹OECD (2016)

- No constraints on the legal form of the entity of the intermediary
- Not burdensome regulatory thresholds for carrying out financial intermediation
- Capacity to employ foreign personnel
- No residency requirements for directors or officers
- Capacity of the intermediary to independently select service providers

Service providers

- Legal requirements to provide social services and no regulations limiting their field of activity
- Independence of service provider from intermediary in terms of contractual connection
- Capacity of the service provider to participate in the procurement process

Moreover, the availability of institutional incentives from a central government level can provide the reserve or kick-start capital necessary to drive initial market impetus (see figure 1.4).

figure 1.4: institutional incentives¹²: UK & USA

United Kingdom

- Tax relief to social investors
- Centre for Social Impact Bonds: the UK Cabinet Office has established a knowledge center for SIBs, and separated a special 'Social Outcomes Fund' to add additional money for SIBs
- Commissioning Better Outcomes Fund: commissioned by Big Lottery Fund

United States

- Community Reinvestment Act used to encourage banks to invest in SIBs

- 'Social Innovation Fund': awards grants to organizations that facilitate the development of SIBs
- PFS (SIB) Incentive Fund under annual budget encourages innovation and accelerates the use of evidence-based approaches by lowering investment risk`

TREND: WHILE DEAL AND PAYMENT STRUCTURES VARY BY INTERVENTION, PUBLIC BUDGETING REMAINS A CRITICAL FACTOR FOR SCALING SIBs

Deal structure and payment models are also a very important component of the design phase of a SIB. In particular, three main structures for managing SIB deals have emerged¹³:

1. *Direct*: in which the contract is signed between the commissioner and the service provider or with a special purpose vehicle set up and controlled by the service provider.
2. *Intermediated*: in which the contract is signed between the commissioner and a special purpose vehicle (this is a shell company with limited liability that protects investors).
3. *Managed*: in which the contract is signed between the commissioner and an intermediary or an intermediary managed special purpose vehicle

Similarly, two broad categories for payment structures have been implemented so far¹³:

- i) Payment for output per participant on a monthly, quarterly, or yearly basis, by measuring outputs (e.g. completion of an activity) rather than outcomes (e.g. measures of impact on the

Source: ¹²The Brookings Institution (2015); ¹³Ibid

individual); and ii) Payments for outcomes per group, where outcomes are measured for the group of participants in comparison to a control group or counterfactual, and are paid at one, two, or four intervals over the contract.

However, because SIBs are multi-year investments, the government, as the outcome funder, needs to be able to spread appropriated funds throughout the fiscal years and to issue success-based payments. This continues to be a challenge, as the usual path is to tie fiscal expenditures on a yearly basis (see also: OECD 2015). Therefore, in order for a SIB to be feasible there should be legal mechanisms that allow future payment commitments and ensure that payment is not contingent upon political fluctuation.

We have identified certain trends that have allowed governments to ensure future payments. For example, in the UK case, the Cabinet Office Centre for Social Impact Bonds within the Social Investment Finance Team and the Big Lottery Fund have helped overcome the challenge of annual budgeting obligations. Similarly, in the U.S during the Obama Administration, the White House requested funding for SIBs (Pay For Success as they are known in the US) in each White House budget request since the 2012 fiscal year. Notably, the budget requests since the 2014 fiscal year have included a request for a \$300 million PFS (SIB) Incentive Fund, which is modeled after the U.K.'s Social Outcomes Fund and intended to smooth savings across levels and departments of government.

In the case of Colombia we identified the legal concept of *vigencias futuras ordinarias* as a mechanism that could potentially allow both

national and local governments to overcome the yearly budget challenge.

“Budget negotiations should allow the Minister of Finance to both allocate appropriate savings for the year ahead and, at the same time, adequately award the risk taken by the investors”

-Technical Expert, Luxembourg

SETTING THE STAGE FOR SUCCESS: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

During our research in Colombia, *vigencias futuras* stood out as a legal mechanism that could be used by both national and local governments to avoid year-on-year budgetary obstacles. According to the Colombian law “819 of 2003”, the legal framework to use *vigencias futuras*, this mechanism can be used when the execution of the expenditure begins with a budget of the current duration, and the object of the commitment is carried out in each one of them.?? In such a case, the Ministry, Department or Municipality of interest could request approval from the Ministry of Finance.

In order to be approved, five requirements must be met at the national level, and one more at the Department or Municipal level:

- i) The amount, terms and conditions are in accordance to the Marco Fiscal de Mediano Plazo (MFMP), i.e., must be based on balance sheet goals that guarantee fiscal sustainability
- ii) The funds requested should be at least have the approval of 15% of the funds in the current fiscal period

- iii) If needed, obtain the approval of the National planning department (DNP) and the ministries involved, according to the nature of the project.
- iv) To have the Certificate of budget availability
- v) Provide an economic and legal justification of the project

For the Department or Municipal level, the *vigencias futuras* should be also authorized by the Departmental Assembly or the Municipal Council, respectively. In order to do this, however, the entity in charge of the social issue to be attended by the SIB needs to have it high up in its priorities, and be willing to institutionalize it through CONPES.

One of the limitations of *vigencias futuras* is that the Ministry of Finance authorization (through CONFIS) cannot compromise funds beyond the current government period. However, according to the law (819 of 2003, article 10^o paragraph 5) this can be overcome if the Council of the National Economic and Social Policy (CONPES) has previously declared the project one of "strategic importance."

Year-on-year budgeting remains a challenge at all levels of government, but a limited set of mechanisms exists to circumvent these challenges both at the national and municipal level. Exploring previous and current experiences of using *vigencias futuras ordinarias* to address social issues will remain crucial. Since current laws in Colombia give some space on using this mechanism to fund future SIBs, as long as certain requirements are met.

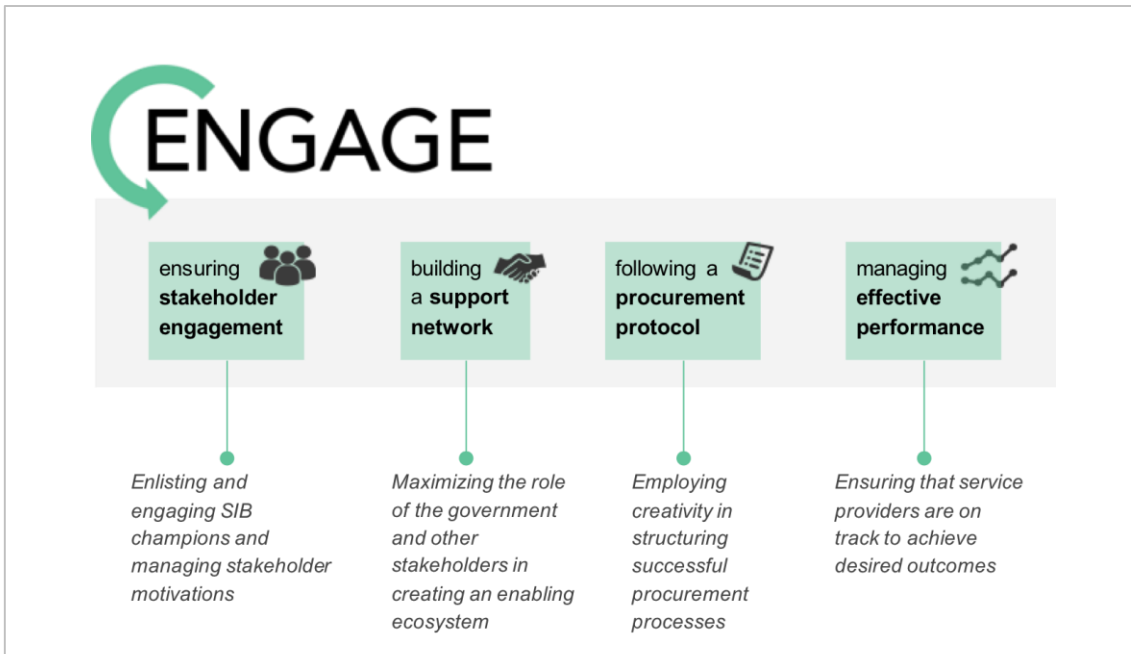
'IDENTIFY': CONCLUSIONS

SIBs offer a new way to advance cross-sector

partnerships and introduce innovative financing solutions to scale proven preventative social programs. SIBs operate at the intersection of three important trends: greater funder interest in evidence-based practices in social service delivery; government interest in performance-based contracting; and impact investor appetite for investment opportunities with both financial returns and social impact. Philanthropy and government will continue to be vital sources of funding for the social sector. SIBs can complement this funding by serving a niche purpose: providing predictable, long-term capital for evidence-based organizations aiming to significantly expand their programs. By redirecting public spending from remediation to prevention and imposing greater discipline on social service delivery, SIBs have the potential to unlock short-term savings and long-term value at scale, a revenue stream by which government could use to repay investors.

The pace and quality of future developments within the SIB ecosystem are closely tied identification of four elements: i) driving policy innovation ii) assessing intervention feasibility, iii) aligning to a policy framework and iv) setting the stage for success. A robust market depends on a strong ecosystem, which is shaped by the correct identification of what SIBs can offer. Driving policy innovation, assessing the existence of demand and supply side factors, aligning across national policy lines and ensuring legal and budgeting constraints are met help set the stage for SIB success.

2. 'ENGAGING' THE SIB COALITION



The success or failure of a SIB is deeply underpinned by the effectiveness of stakeholder engagement. Each key SIB player enters the contract with distinct motivations - skilled management is often required to keep all parties aligned, committed and satisfied. Clear outcomes and processes help establish early trust and cooperation among various actors. The existence of government support platforms and incentives is critical in developing stakeholder confidence in the SIB ecosystem and encouraging first entrants into hesitant markets. Several critical trends from international experience in SIB engagement

processes can be applied to the Colombian context to ensure successful further development.

ENSURING STAKEHOLDER ENGAGEMENT

TREND: ENLISTING AND ENGAGING SIB CHAMPIONS WITHIN GOVERNMENT HAS PROVEN CRITICAL TO THE INITIAL STAGES OF SIB DESIGN AND DEVELOPMENT

The process of introducing results based financing (RBF) programs like SIBs into traditional government systems has been consistently

challenging around the world due to lack of flexible infrastructure and opaque change processes. Engaging SIBs champions within the government and ensuring ownership early in the process is critical to the success of SIB implementation. Internal champions offer critical early-stage support, including help navigating bureaucracy, and establishing access to key decision-makers. Different levels of government (national, state, local) have typically occupied different roles and levels of engagement in SIB projects.

figure 2.1: engaging across government levels

National government

Central government is best suited to work along four core avenues:

- Galvanizing interest
- Convening outside groups across social service sectors
- Providing incentives across gov't levels
- Setting standards and providing top-up funds where there is no budget support from other impacted institutions

State & local government

Because of the high degree of coordination involved in most SIBs, deals are more likely to be primarily negotiated by state or local governments, with the national government providing support in the form of financial or technical assistance. State & local governments are usually more knowledgeable about the needs and challenges of their populations

TREND: CLEAR DECISION-MAKING STRUCTURES & STRONG LEADERSHIP TAILORED TO STAKEHOLDER MOTIVATIONS ARE DETERMINANT FOR ENSURING SUCCESS OF SIB IMPLEMENTATION

There are six main stakeholders that are involved in Social Impact Bonds ecosystem: outcome payers, investors, social service providers, intermediaries, independent evaluators and beneficiaries. Typically, the actor who holds the contract with the outcome payers plays an important leadership role in ensuring predetermined outcomes are achieved. In many cases, this actor is also responsible for managing performance data throughout the process. For a SIB to succeed, stakeholders have to be fundamentally aligned on the defined outcomes of the Bond. Managing stakeholder motivations requires tailored communications and management from the intermediary¹⁴ Below we offer a breakdown of stakeholder motivations observed in Colombia and how to address them.

Outcome Payers:

There are two main reasons for why outcome payers are drawn to Social Impact Bonds:

- **Outcomes**
SIBs are often first commissioned to have impact where there is a gap in current social services. It offers an opportunity to implement innovative programming without assuming any monetary risk or making significant shifts to current service provision structures¹⁵
- **Cost-savings**
Data from 30 OECD countries on government spending in the areas of social protection, education, health, housing and public order

Source: ¹⁴Ronicle (2014); ¹⁵Investor, United Kingdom

account for a majority of government expenditures¹⁶. Many government departments are interested in reaching desired social outcomes with cost-savings— the motivation to minimize costs shows accountability to taxpayer funds and demonstrates a public willingness to provide value for money.

SIBs provide the capacity to invest in preventive programs - especially in times of budgetary constraints¹⁷. This model can have a sound effect on citizens' well-being while yielding savings in the medium and long-term. Moreover, SIBs can enhance cross-sector and cross-authority cooperation, breaking departmental silos by providing integrated solutions to long-term challenges. This collaborative process may also generate savings across multiple authorities¹⁸.

Across all SIB structures (managed, intermediated, or direct), outcome payers (governments) are involved early on to generate ownership and to ensure SIB design is addressing a relevant problem. Local governments that decide to pursue SIBs may consider specifications including spearheading pilots, coordinating among programs and agencies, and ensuring that their data systems are capable of tracking cost and service utilization at the client level. Cooperation with federal government is also needed, since national level agencies could play critical roles in incentivizing cross-agency collaboration and providing supplemental financial support for program assessment¹⁹.

Investors:

A growing number of companies have begun focusing on environmental and social issues or practicing corporate social responsibilities (CSR), as well as establishing a foothold in a growing

global 'impact investment' market. Publicity and visibility can be a big motivation for investors to participate in SIB projects. Besides that, investors that provide grants as part of their CSR programs or community involvement, view SIBs as an opportunity to recycle grants after the end of the project to scale social benefits. Recycling the return on their investment into another program upon the successful implementation of a SIB provides sufficient motivation to otherwise grant makers. A survey conducted by Brookings demonstrated that investors are more triggered to invest in a SIB if it is the first implemented in the country or in a sector that has higher chances to offer them greater visibility²⁰.

Impact investment firms are bravely taking the lead on SIB investment on behalf of the traditional investing world. The highly quantitative and technical nature of SIB management and assessment aligns with impact investors' double bottom line of social impact and monetary return²¹. In Colombia, the SIB model must be further tested, and more evidence must be collected before SIBs attract mainstream investment.

Building a business case for investor buy-in is of critical importance to the project for obvious reasons. Depending on the structure, investors can play a leading role in managing the SIB. Bridges Fund Management (previously Bridges Ventures), a specialist fund manager for sustainable and impact investments based in United Kingdom, is deeply involved in many of their SIB projects where they lead the project from the initial development stages to day-to-day performance management. They have developed in-house capacity to liaise with government & service providers, avoiding costs incurred by engaging an intermediary²².

Source: ¹⁶OECD (2015); ¹⁷Bridges Ventures (2016); ¹⁸OECD (2016); ¹⁹McKinsey & Company (2012); ²⁰OECD (2016); ²¹Bridges Ventures (2016); ²²Technical advisor, United Kingdom\

Similarly, in the first Colombian SIB, we see Fundación Corona leveraging their partnerships and expertise in multiple sectors to assume the combined role of investor and performance manager, a double role quite unique in the global SIB experience.

Social Service Providers:

Service providers are primarily motivated to participate in SIBs because of access to capital, allowing them to operate and continue providing services. With the presence of stable and long-term funding, they can focus on the creative implementation of their programs, preventive operations, and efficient delivery²³. An increased focus on service implementation paired with close coaching and support from intermediaries encourages performance improvement and in turn, a better chance at reaching the desired outcome. To be ready to scale through SIBs, service providers need a strong operating model, a thorough understanding of what it will take to adapt and expand the target intervention, familiarity with social impact assessment, and experience working with partners. Local community knowledge and relationships are of high importance. Service providers that have already qualified for government contracts may be likely candidates for early SIBs²⁴. For the success of the SIB model, service providers are required to be flexible in executing the social intervention to achieve better performance. This is due to the rigorous performance monitoring and outcome evaluation inherent to results-based performance assessment. In some cases social service providers can take on the intermediary role.

Intermediaries:

Motivations vary according to the stage of maturity

of the SIB market and the operating mandate of the intermediary²⁵. Similarly to investors, intermediaries view SIBs as an opportunity to test innovative financial models addressing social problems. In addition, intermediaries are able to hone their menu of services, develop their value proposition by gaining niche expertise in an emerging sector, and generate profit. SIBs require a long-term commitment in order to structure the deal, raise capital, implement the program, and evaluate results. Intermediaries provide critical management and support throughout the process and should not be disturbed by internal governance or financial issues²⁶.

In managing performance, intermediaries are in an optimal position to build data collection and reporting systems that enable accurate and timely reporting²⁷. They can also play a pivotal role in developing the social impact investment ecosystem. They provide the links between investors, investees and others in the market and provide innovative new solutions to improving inefficiencies in the market. Intermediaries also provide advice as well as help in structuring deals and in managing funds²⁸. As SIB experiences continue to be learned from, intermediation is poised to become more efficient, and data more widely available. Nevertheless, the role of the intermediary may reduce in importance as the SIB market matures and intermediation capabilities are built out within funding or implementing stakeholders, like governments or service providers.

Independent Evaluators:

Most SIBs requires two evaluators, or an evaluator wearing two 'hats', each fulfilling a distinct role: one

Source: ²³OECD (2016); ²⁴McKinsey & Company (2012); ²⁵Brookings Institution (2015); ²⁷OECD (2016); ²⁷Bridges Ventures (2014); ²⁸OECD (2015)

is an ongoing adviser to the intermediary and the service provider, while the other is an auditor that assesses whether the SIB met its ultimate performance targets. McKinsey named these roles as 'evaluation adviser' and 'independent assessor'. Qualified organizations will likely have similar skill sets: program area expertise, extensive evaluation experience, and a collaborative attitude²⁹.

Beneficiaries:

Before determining the intervention, the SIB initiators (intermediaries/service providers) need to conduct a study to understand the needs of the beneficiaries, and why a SIB funded program might yield better results for the population. Current employability programs in Colombia have not been tracked for impact or outcomes – this makes it difficult to know which methodologies are more effective in ensuring long-term employment. Ideally, upon conclusion of the SIB project, beneficiaries will see programs that are more effectively tailored to their needs.

ENSURING STAKEHOLDER ENGAGEMENT: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

The Colombian SIB steering committee has made considerable progress in establishing relationships with SIB champions in the Department of Social Prosperity (DPS) and Department of National Planning (DNP.) There are three key next steps now for the team:

- Although there has been vocal buy-in from the Presidency, the establishment of an overarching program or fund to encourage other government entities to engage in SIB design should be pursued through focused advocacy
- Given the decentralized nature of Colombia's governance structure and high interest from city offices, more effort should be invested in establishing government champions at the municipal level
- Fundación Corona and partners have made impressive headway in building intra-ministerial support. They should continue their efforts to establish buy-in and knowledge of SIBs in multiple levels of government ministries to ensure sustainability and access to vertical implementation structures.

Moreover, Fundación Corona, as investor and intermediary, has been effective in coordinating multiple stakeholders and establishing themselves as a trusted and competent partner. The foundation should ensure that cross-stakeholder information being collected through this initial SIB is being processed, analyzed, and continuously distributed not only to others in the steering committee, but to other government entities and potential actors as well. The engagement of a wider network and generation of rapid loops of feedback can help fortify internal database and process systems.

BUILDING A SUPPORT NETWORK

TREND: SUPPORTIVE POLICIES, CAPACITY-BUILDING INITIATIVES, AND CENTRALIZED GOVERNMENT BODIES THAT INCENTIVIZE AND SUSTAIN SIBs HELP STIMULATE THE MARKET FOR SOCIAL INVESTMENT

In order to establish a sustainable impact investment market, governments need to be involved in multiple layers of intervention, from supply to demand. Ben Thornley and others provide a policy framework that consists of three

Source: ²⁹McKinsey & Company (2012); ³⁰Tomkinson (2015)

types of policy interventions: supply development, directing capital, and demand development (see: Figure 2.2).

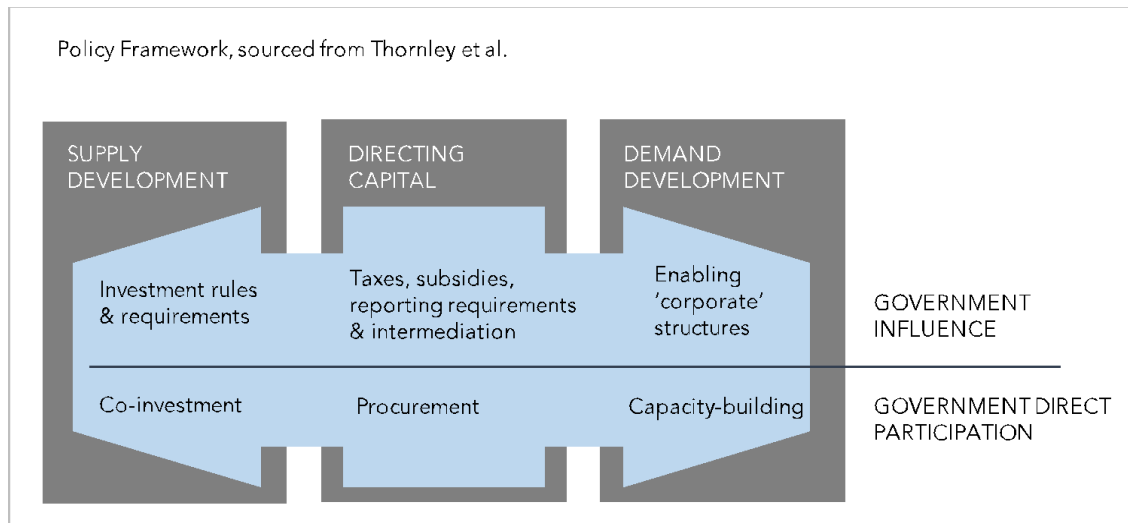
The experience from the United Kingdom shows that the government plays a very significant role in supporting initiatives that facilitate the flow of capital to actors who link social outcomes to financial returns. The initiatives (see: Figure 2.3) can be in the form of incentives or reduced regulatory barriers which partially 'de-risk' investments.

In addition to that, building the capacity of government employees is very important to increase awareness and understanding of social

and financial innovations. This could include institutionalizing user-centered thinking, and coding and design skills; as well as trialing new financial models and public-private partnerships that impose new modalities of contracting and engagement with non-public actors³¹. However, governments can also build the capacity of service providers to improve the demand side of SIBs. Technical assistance for small businesses and job training programs for particular sectors are examples of policies that direct subsidies to investees rather than investors.

Another important factor that has been instrumental for motivating SIB appetite is the presence of a centralized government body that

figure 2.2: the SIB support network: government



Source: ³¹Beeck Center (2016)

figure 2.3: UK tax advantages

- In 2012, the UK Government introduced legislation that provides tax advantages to impact investors
- The Seed Enterprise Investment Scheme (SEIS) was launched in 2012 to provide a de-risking mechanism for start-up investors by offsetting income tax liabilities by up to 50% on qualifying investments that do not succeed
- In March 2014, a 30% income tax relief measure was announced for new social investments

supports Social Impact Bonds. The centralized government body should have the resources to support the SIBs projects. Moreover, the body should have the discretionary power to decide the allocation of fund, research, and other forms of support in order to answer the challenges throughout the implementation of SIBs.

“There are three principles in building the capacity of public sector towards more innovative approach for social outcome: Governments have to create the culture of change towards innovation, allow innovative government employees to execute and explore their ideas, and bring outside talent and combine them with inside talent”

-Sonal Shah - Former Director of the Office of Social Innovation and Civic Participation, the White House

In the United Kingdom, the body that works as a main support system for SIBs is the Cabinet Office. The Center for Social Impact Bonds at the Cabinet Office helps to promote the development of SIBs by providing expert guidance on developing SIBs, reducing transaction and set-up costs by developing standard tools such as template contracts, helping SIB developers to estimate cross-cutting benefits by making data more publicly available about the costs to government of providing specific public services, and connecting SIB stakeholders³². In addition to technical support, the Cabinet Office has also allocated funds to top up outcomes payment. Because a social intervention often involves multiple government agencies, it is often challenging to pool funding. The Cabinet Office fund overcomes this issue by allocating targeted funding for social finance initiatives, encouraging government agencies to work together³³.

figure 2.4: case study - IDEA Council, USA

In 2016, the Beeck Center for Social Impact + Innovation and the Massive Data Institute at the McCourt School of Public Policy recommended the White House to create an Innovation, Data, Evidence, and Adaptability (IDEA) Council with executive-level leadership.

- To support the development of SIBs in various technical support, such as legal counsel, personnel and programming support, cybersecurity, and procurement
- To create a centralized management and ensure priority at the top level of

Source: ³²HM Government (SIB Guidance website, accessed 2017); ³³Technical advisor, United Kingdom

government: a centralized office within the White House would unify disparate agency innovation labs, new technology leadership positions, and new initiatives that champion the use of data and evidence

However, before diving into the formation of supporting policies, a strong motivation from the government often has to be in place. In a new SIBs ecosystem like Colombia, key government actors have shown interest in nurturing public sector appetite for innovative tools like SIBs. Part of the motivation to use the model is the possibility to measure impact across social programming.

Building more widespread understanding, interest and engagement among government stakeholders is a big challenge. As such, the evidence gathered from a pilot SIB remains critical to allow the scaling of the model – particularly in order for policy specialists within the National Planning Department (DNP) to justify its institutionalization. Leveraging collective action to develop the SIB marketplace appears preferable to public actors compared to a sporadic approach. This finding resembles the learning that emerged from an interview with a technical expert in Germany which stressed on the importance of governments in controlling the SIB design process. Current trends in the SIB ecosystem show that foundations tend to take the lead in the design of SIBs, however since motivations for establishing a SIB could differ across the range of stakeholders involved, the government role beyond enablers of a policy space for SIBs is seen. For example, certain stakeholders

such as foundations tend to have pressure to use “innovative” methods or novel approaches to tackle issues, which actually warrants a growing need for governments to control and align the different motivations of engaging in a SIB model.

Governments can thereby be seen as bringing objective neutrality to the SIB design and market-building processes.

Another key learning from the UK and the US is that the role of local governments in providing support and policies can prove very important in building the SIB ecosystem. In Colombia, municipalities have demonstrated both potential and interest in exploring SIBs as innovative tools that can help them achieve their goals in social outcomes. By nature, municipalities have more immediate access to and knowledge of their population, allowing them to modify the social intervention to be more specific. However, the challenge of implementing the SIB on the sub-national level is the level of knowledge and capacities of the local agents. The cycle of finding champions within local governments, as well as building the technical capacities of local agents at a grassroots level, is not just challenging but very difficult to scale.

Setting a strong foundation by ensuring intra-government motivation is surely critical; however, creating supportive policies is also important during the momentum of a pilot SIB phase. The idea from international experience of incentivizing social impact investors is perceived to be an effective tool to encourage the involvement of investors, a subset limited not only to philanthropy organizations but also to private investment. Currently, the appetite for SIBs in Colombia mainly

comes from the foundations that are ready to bear the financial risks to achieve desired social outcomes. Nevertheless, substantial potential exists to involve Corporate Social Responsibility (CSR) arms of private institutions (2nd generation) or even a wave of institutional investors (3rd generation). The evidence of success from the pilot SIBs and government commitment to support the SIB ecosystem will serve as a basis for incentivizing their further involvement.

TREND: SIB ECOSYSTEMS HAVE INCREASINGLY ENROLLED THE HELP OF ACADEMIC BODIES TO ASSIST PUBLIC AND OTHER STAKEHOLDERS WITH SIB-RELATED RESEARCH AND TRAINING

There is limited precedent for developing Social Impact Bonds, therefore the process of trying to agree on the best metrics, financing, and payment structure is very complex. To answer this challenge, governments can cooperate with advanced educational institutions to help them with research, data, and training.

figure 2.5: case study - Government Outcomes Lab (United Kingdom)

The UK Cabinet Office cooperate with the Blavatnik School of Government at the University of Oxford to establish Government Outcome (GO) Lab, that has roles such as:

- Provide research, data, and training
- Act as an independent center of academic excellence for innovative public

sector commissioning

- Provides toolkits and metrics

“We provide technical assistance on the government side to help set up projects that create value for the public sector. We support them for at least 1-2 years during the project development to analyze the target population, select a promising intervention, write the procurement for project partners including the intermediary and provider, design an appropriate evaluation methodology and develop an operational plan”

- Hanna Azemati, Assistant Director, Government Performance Lab, Harvard Kennedy School of Government

“We have realized that governments did not have the sufficient capacity to start the SIB process and they need support with capacity building or technical development”

- Academic expert, United States

In Colombia, there is a huge potential for a partnership with academic institutions that creates mutual benefit for both parties. Universities can provide rigorous research and independent analysis to better inform SIB stakeholders. On the other hand, universities will also gain learning experience from their involvement in SIB projects. In order to develop sustainable support, it is also important to build participation of universities by

building a curriculum towards innovative public sector commissioning. Universities can take the role as data centers, especially in light of positive cooperation practices between academic institutions and government agencies with regards to data exchange. Universities can also provide on-the-ground training for national or local agents to increase the efficacy of SIB projects.

BUILDING A SUPPORT NETWORK: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

Ensuring the success of current pilot SIBs will prove critical to escalate the SIB model to key institutional actors, notably the planning department (DNP) – proven success lays out the evidence base for more compelling policy planning. Using a gradual approach that leverages collective action to develop the SIB marketplace is more preferable to public actors compared to a sporadic approach, in order to align different motivations.

The transfer of SIB-related knowledge to the municipal level needs to be done from an early stage of market development to ensure the readiness of local agents. In that vein, the central government should start finding SIB champions and conducting capacity building within their institutions as well as within select local governments with established SIB-related capacity; one way of doing so sustainably is by involving intermediaries/ technical advisers/ academic institutions

Creating supportive policies to attract investors (e.g.: a tax advantage) could prove important especially during the high-momentum early phase.

Moreover, domestic universities should be encouraged to incorporate the rationale for results-based financing in their policy curriculums. They should also be encouraged to take up roles as centers/ holders of data, or as impact evaluators, or as institutions that build capacity among outcome payers. Tying the rigorous analysis of academia can only lend more depth and legitimacy to the scaling of the model.

FOLLOWING PROCUREMENT PROTOCOL

Government service contracts are often overseen by strict rules on how to procure for delivery of services by an external party under a government contract. Complications can emerge when procuring for a SIB; current and past projects have employed creativity in structuring flexible procurement processes³⁴ The procurement method each SIB operates under is determined by stakeholder motivation, contextual factors and the maturity of the SIB market. SIBs in pilot phases are likely to rely heavily on intermediaries/technical advisers who provide important data and expertise. SIBs in more mature markets are likely to develop stronger internal systems for engagement based on learning from previous projects.

Motivation plays a key role in procurement as well, as governments will cast a wider net for RFP if they intend to stimulate innovation in the social service sector through their SIB or create more awareness around innovative finance tools. Each process reflects intentional and often necessary trade-offs made around transparency, competition, and efficiency.

Source: ³⁴Tomkinson (2015)

TREND: A VARIETY OF PROCUREMENT MODELS HAS EMERGED, REFLECTING THE MOTIVATIONS AND CONSTRAINTS OF EACH SET OF ACTORS AT THE TIME OF SIB DESIGN

Government service contracts are often overseen by strict rules on how to procure for delivery of services by an external party under a government contract. Complications can emerge when procuring for a SIB; current and past projects have employed creativity in structuring flexible procurement processes. Each process reflects tradeoffs made around transparency, competition, and efficiency.

The procurement method each SIB operates under is determined by contextual factors and the maturity of the SIB market. SIBs in pilot phases are likely to rely heavily on intermediaries/technical advisers who provide important data and expertise. SIBs in more mature markets are likely to develop their own systems for engagement based on learning from previous projects. Motivation plays a key role in procurement as well, as governments will cast a wider net for RFP if they intend to stimulate innovation in the social service sector through their SIB or create more awareness around innovative finance tools. Procurement models most relevant to the Colombian context are explained below.

Model 1: Open Internal and External Requests for SIB Proposals

An government actor overseeing a SIB-funded program issues a Request For Proposals (RFP) from internal and external actors alike and chooses the best proposal for implementation³⁵. This is a defensible process as it is fair and transparent for all parties involved. However, this method does not

ensure that original planners/investors win the right to implement, and could cause complications to arise among various stakeholders³⁶. This model has been used in Ontario, Canada where the Ministry of Economic Development, Employment and Infrastructure received 83 ideas from 79 organizations, and narrowed down to two frontrunner ideas to pilot.

Model 2: Request for General Proposals and Joint Project Development

The government of New South Wales in Australia issued a very detailed RFP, which included preferred prices, structures, and issue areas. The best proposals were then selected and developed in partnership with the government entity. The main challenges of this structure stemmed from the time and resource intensive nature of this structure. Although the SIB was more inclusively designed, the procurement process from start to finish took 3 years to complete³⁷. This model received 11 proposals over a one year open RFP period in the areas of out of home care and recidivism.

Model 3: Crowdsourcing Focus Areas and Solutions

The State of Massachusetts utilized a clean slate approach to their SIB process; issuing an RFI to the public in order to decide which social issues to focus on. The chosen service provider worked with an intermediary to win and negotiate the contract. This approach allows the market to shape government thinking and recognizes that there may be social issues and intervention types that government hasn't previously considered³⁸.

Model 4: Procurement led by Technical Adviser/ Intermediary

Source: ³⁵Government of Ontario website (accessed 2017); ³⁶Technical advisor, Australia; ³⁷Department of the Treasury, New South Wales Government website (accessed 2017); ³⁸Tomkinson (2015)

In this model the technical adviser and/or intermediary approaches the government to conduct a needs assessment and feasibility study for target populations. They then build a business case in alignment with government interests and procure a flexible and effective service provider, and finalize contracts³⁹ Government saves time and staff resources, but an excess of private entities pitching social service projects to government could lead to bad press and strategic imbalance⁴⁰. This has been used in Israel and in early UK SIBs.

Model 5: Systemized Procurement Enabled by Mature SIB Market

The UK Department of Work and Pensions has now participated in a critical mass of SIBs, enough to develop a systematized method of service provider procurement and engagement with investors. They allow a competitive The UK Department of Work and Pensions has now participated in a critical mass of SIBs, enough to develop a systematized method of service provider procurement and engagement with investors. They allow a competitive selection process to take place and use a rate card to quantify the price of predetermined outcomes. See figure 2.6.

FOLLOWING PROCUREMENT PROTOCOL: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

Colombia enjoys relatively flexible government procurement restrictions, which allows the government to be selective and expedite the process under special circumstances (see also: 'Regimen Contractual'). Unlike Canada, for example, the Colombian government is able to

figure 2.6: UK DWP Rate Card⁴⁰

UK Department of Work and Pensions (DWP) Rate Card	
DWP pays for one or more outcomes per participant which can be linked to improved employability. A definitive list of outcomes and maximum prices DWP was willing to pay for Round 2 is as follows:	
NATURE OF OUTCOME	MAXIMUM PRICE OF OUTCOME
Improved attitude towards school	£700
Improved behaviour	£1300
Improved attendance	£1400
Entry Level Qualification	£900
NVQ level 1 or equivalent	£1100
NVQ level 2 or equivalent	£3300
NVQ level 3 or equivalent	£5100
Entry into employment	£3500
Sustained Employment	£2000
The maximum amount payable per individual is £11700. The figure is based on 3 years of Annually Managed Expenditure (AME) savings.	

procure for an intermediary and allow them to run their own process for recruiting service providers.

Future procurement processes should prioritize developing internal capacity of governments and of service providers. Different government agencies should work with trusted intermediaries to help them develop their internal capacity to collect data, measure results, and share both across different departments for a more cohesive impact. Service providers must only be renewed if they show a deep commitment to evidence-based programming and data collection. As the market matures, the intermediary role will naturally have to be minimized to make the SIB process less complex and more cost efficient for all those involved.

Source: ³⁹Social Finance UK (2013); ³⁹Technical advisor, Australia; ⁴⁰HM Government (accessed 2017)

MANAGING EFFECTIVE PERFORMANCE

TREND: PERFORMANCE MANAGERS PLAY A CRITICAL ROLE IN SYNTHESIZING AND TRANSLATING INTERVENTION INFORMATION INTO RECOMMENDATIONS AND MANAGEMENT DECISIONS THAT ARE TAILORED TO STAKEHOLDERS' MOTIVATIONS

The role of a SIB performance manager is to understand stakeholder behavior, (at a minimum) understand operations at all levels of intervention activity, and justify progress to investors. In cross-analyzing performance information, the performance manager should have a clear picture of the beneficiary's 'journey' from entry until exit from the service – this should feature a command of evolving needs, activities, outputs and milestones. Analysis and service variation in reaction to data-driven insights from service has tended to be spearheaded by intermediaries or the technical advisors facilitating the intermediation.

“Intermediaries have typically been key performance managers and data analysts because they are the stakeholders with most immediate access to information and with the highest degree of technical familiarity with the outcomes metrics that the service is informing”

-Technical advisor, United Kingdom

In addition to that, the scope in contracts “for adaptation through rapid feedback loops is a key strength of the Impact Bond model and, in turn, should drive the best possible social outcomes”.

“As investors, we expect that intermediaries have the ability to gather relevant and quality data, synthesize the data into policy recommendations and management decisions, and put beneficiaries' interest before internal staffs' interest”

-Investor, United Kingdom

By focusing on outcomes rather than interim outputs, a SIB also provides service providers with flexibility to adapt in the context of the intervention, to better meet the needs of particular individuals and “react to new information”⁴². In light of this, effective performance management is equally underpinned by the translation of data-driven insights to modify service delivery – this will be further developed in the ‘Measure’ section of this document.

figure 2.7: case study - Career Connect (UK)

- The Innovation Fund appointed Career Connect (CC) to improve employability for disadvantaged young people.
- CC appointed a dedicated performance manager and strengthened its management information systems in order to track data more accurately.
- This extra level of rigor helped CC identify opportunities and make better informed decisions, facilitating the evolution of the program over time

Source: ⁴¹Social Finance and CIFF (2016); ⁴²MaRS Housing (2014)

As only a pilot SIB has been launched in Colombia, few actors have proven their suit as performance managers. Future performance managers will be responsible for ensuring that all stakeholders obtain quality data in a timely manner as a way to maintain transparency and facilitate the making of well-informed decisions. Trust and transparency are essential determinants of a SIB's agility and flexibility. From field observation, current intermediaries, given their in-house capacity and technical familiarity with the outcome metrics, are best poised to act as performance managers for near-future SIBs projects.

MANAGING EFFECTIVE PERFORMANCE: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

Enhancing the role of intermediaries as performance managers will be crucial to build the trust that allows the SIB market to grow.

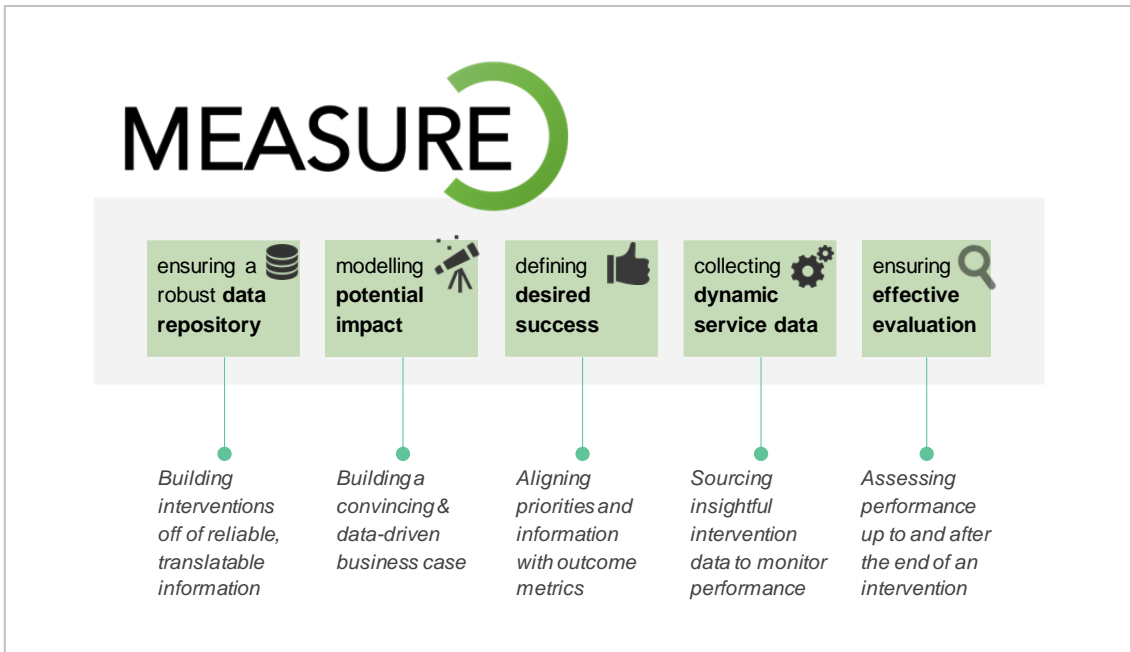
Changing governments' mindset towards budget flexibility for social projects is very important to provide rooms for longer SIBs. A longer duration gives the performance managers time to evaluate the effectiveness of their intervention in the first year and understand a better approach to be implemented in the following years. Given that the room for adjustment in the wave of pilot interventions is slightly limited, the learnings from the pilot phase can be applied to the future SIBs that have a similar set-up.

'ENGAGE': CONCLUSIONS

Collaborative and transparent stakeholder engagement has allowed trusted relationships to

be formed among the Colombian SIB steering committee, enabling them to design and launch SIBs successfully on an accelerated timeline. The SIB development process in Colombia has been further strengthened by decision-making models, committed champions within the government, and alignment around final goals. To continue and sustain current momentum, stakeholders will need to advocate for policies and programs that institutionalize support for future SIB development. Additionally building performance management capacity internally, with the intermediary and externally, with service providers and the government, is crucial to developing SIB timelines that are set programs up for lasting results.

3. 'MEASURING' SIB PROGRESS & IMPACT



Before, during, and after the delivery of a SIB intervention, high quality data and information management is essential as it allows for everything from effective design to clear-cut impact measurement. While 'measurement' is essential to both the 'identification' and 'engagement' actions of a SIB, this section will follow the common flow of quantified information decisions within a SIB, from start to finish, covering the sub-components as illustrated in the graphic above.

Across these five sub-components of 'Measure' it is important to highlight the existence of four so-

called 'data infrastructures' in the running of a SIB:

1. *National/regional social and economic data* that gives SIB designers guidance on the fiscal and operational motivations for key SIB stakeholders
2. *Individual/people data* that allows SIB designers and implementers to track information on participants before, during, and after a SIB intervention
3. *Cost data* on a project and program-level with information on fixed and/or variable expenditures across a range of (often historical) social interventions and performance data.
4. *Intervention-specific service data* including

tracking and monitoring information on the specific SIB intervention at hand

ENSURING A ROBUST DATA REPOSITORY

The first step towards designing an intervention and defining a set of outcomes is usually the collection of baseline data on the social problem to be tackled with a SIB. Collected data can then serve multiple purposes, i.e. identifying the target population, creating a first quantitative base for a cost-benefit analysis, designing the intervention and outcome metrics, constructing a counterfactual to the SIB intervention and defining the type of performance data to be collected during the service period.

There are different approaches for gathering baseline data. First, a SIB designer tends to collect both available macro-data as well as individual people's data provided by government institutions, social service providers or other research institutions⁵⁰. Furthermore, cost data on existing government services is insightful as it gives the SIB designer a first understanding of what level of cost per person needs to be undercut or at least targeted with an intervention. Ideally, several government interventions should be investigated, since typically multiple programs are in place to target certain populations⁵¹. Second, many SIB designers commission tailored research, e.g. through pilot studies, to complement existing data. This initial data gathering process typically takes up to a year⁵².

Lack of relevant data and limited data access present challenges for baseline calculations. Since SIBs tend to address "blind spots" of government

services, at times, relevant data simply does not exist - even in developed countries such as the Netherlands or Germany⁵³. In this case, a SIB designer relies on their own data or is left to lobby for more comprehensive public data collection methods in the mid- to long-term⁵⁴. Yet in many instances, relevant data appears to exist, but is not publicly available due to lack of coordination among institutional actors or privacy regulations.

Data availability instead of data existence also appears to be the greater challenge in Colombia, where a variety of government institutions (PILA, DANE, SENA, Functional Ministries etc.) collect vast amounts of data, yet there is limited data coordination or alignment on data access policies⁵⁵. In addition, quality and reliability of data appears to be a challenge in the Colombian context, in particular regarding individual-level information about vulnerable populations as they tend to be less reachable. For example, approximately 75% of SISBEN scores have not been updated since 2011, creating a disjoint with other indicators. International best practices to tackle challenges of data availability have evolved, including efforts around greater data coordination and broader access, which can serve as an inspiration for the Colombian context.

"There are no specific policies for data coordination. In the policy environment we have so many actors that don't coordinate with each other. We have SENA, Ministry of Education, etc, but they are simply not used to coordinate"
- Social service provider, Colombia

Source: ⁵⁰Ecorys (2017); ⁵¹Government actor, Germany; ⁵²Academic expert, United States; ⁵³Technical advisor, Germany; ⁵⁴Technical advisor, Colombia; ⁵⁵Social service provider, Academic expert, Independent evaluator (all Colombia)

TREND: GREATER COORDINATION AROUND PERSONAL AND COST DATA HAS ALLOWED FOR MORE ROBUST SIB DESIGN AND DELIVERY

One of the greatest challenges around personal and cost data continues to be different data systems and platforms within government, which are not set up to be cross-referenced⁵⁶. This creates data silos and significantly impacts the reliability of data, as government institutions apply different assumptions and cost models to a social problem cutting across various agencies⁵⁷. A possible remediation is hiring technical coders (i.e. local universities) that are able to cross-match multiple platforms⁵⁸. Another recent development has been the move by the University of California Berkeley to establish a Lab that allows governments to share data within and across departments. Faster cross-matching can move the needle from collection to analysis. Most of the data focus in governments “has been about submitting reports, not extracting insights – getting datasets to talk to each other more efficiently can allow SIBs to address change more ably”⁵⁹. While it has been clear that the data ‘starting point’ for service-level collection in SIBs has often been weak, clear coordination has “created a positive externality to force people to actually address the data issue rather than pretend that it does not exist”⁶⁰.

figure 3.1: case study - California Policy Lab⁶¹

The California Policy Lab, a joint venture between UC Berkeley and UCLA, will partner with government agencies to

create a secure data warehouse that links administrative data at city, county and state levels, allowing major longitudinal analyses in areas such as economic, social service, education and criminal justice systems. Cross-silo data integration and access is facilitated through establishing memoranda of understanding between key government departments (for example, between the Probations and District Attorney databases).

TREND: BROADER ACCESS TO PEOPLE AND COSTS DATA HAS ALLOWED FOR MORE RIGOROUS COST-BENEFIT ANALYSES AND IMPACT MODELING

Confidentiality around individual-level and cost data is another challenge to data access. By law, governments cannot typically release personal information, even to other departments, without legal coordination. Specific regulations around data privacy depend very much on the country context. While large volumes of government data are public in the UK or in the US, other countries such as the Netherlands or Israel have strong privacy limits⁶². Best practices to ensure democratization of data have been developed in the UK and the US (see figures 3.1 and 3.2).

figure 3.2: case study – UK Cabinet Office, unit cost database

The unit cost database collates over 600 cost estimates in a shared location.

Source: ⁵⁶Technical advisor, Colombia; ⁵⁷Liebman and Sellman (2013); ⁵⁸Ibid; ⁵⁹Technical advisor, United States; ⁶⁰Investor, United Kingdom; ⁶¹University of California, Berkeley (2016); ⁶²Government actor, Colombia

Comprised of national-level costs derived from government reports and academic studies, the database features fiscal, economic and social value data on crime, education and skills, employment and economy, fire, health, housing and social services. These can be “used by local commissioners, charitable organizations and social enterprises to inform: SIB proposals for new interventions or the redesign of existing public services; and feasibility studies and evaluations”⁶³. These costs have been externally validated by a technical adviser, and are updated regularly.

“I have the impression that the relevant data exists, but that is not organized well so that it can be used for analysis. One problem is that a lot of the information is confidential information, in particular on individual level”

- Government actor, Colombia

ENSURING A ROBUST DATA REPOSITORY: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, government policy on data coordination, specifically regarding individual level data, is moving in the right direction with programs such as Llave Maestra, Big Data initiative or the Interoperabilidad Initiative⁶⁴.

One main focus of these programs has been coordinating, verifying and analyzing individual-

level data about the participation in past and current government programs, which will be especially helpful for designing future SIB interventions. National actors such as DPS, DNP and MinTIC are taking the lead in these data initiatives and appear to be key for success.

Data coordination, where it has occurred (e.g. Red Unidos, SISBEN improvement), has proven to be a catalyst for stakeholder engagement⁶⁵. For example, government actors have experienced that after being provided information through Red Unidos, a series of allies - including private actors - tend to respond to community needs to close the gap between supply and demand. However, there is still a ways to go in terms of integration and harmonization of individual-level and cost information. On the municipal level, coordination is even less institutionalized as data access tends to depend on personal relationships. Many local institutions continue to have their own database and analysis system with outdated information and software, which impedes data matching and cross-referencing⁶⁶.

With this in mind, transversal national entities like DNP and PS should identify programmatic overlap in order to better locate and cross-reference relevant data. The government should also take the lead in setting data standards to improve the quality of social data and to facilitate its analysis.

And while individual level data appears to be prevalent across government databases in Colombia, privacy regulations hinder public access⁶⁷. Data sharing agreements and memoranda of understanding between government institutions and private actors such as social service providers or research institutions exist, yet they are in the majority of cases on a bilateral

Source: ⁶³UK Cabinet Office (website, accessed 2017); ⁶⁴Government actor, Colombia; ⁶⁵Ibid; ⁶⁶Ibid; ⁶⁷Institutional actor, Colombia

level, entailing high administrative costs on both sides⁶⁸. The absence of broadly accessible and reliable cost data can act as a key potential obstacle to scale the SIB model. Efforts to resolve this obstacle include open data initiatives for citizen access (e.g. Datos Abiertos Colombia).

In addition, Colombian government institutions engage in only a limited way with the private or the nonprofit sector in terms of data collection. Social service providers and private research institutions gather large volumes of proprietary information (e.g. through surveys/focus groups) that have great potential to complement government databases bottom-up⁶⁹. As a consequence, both public and private silos of exist.

“I have the impression that the relevant data exists, but that is not organized well so that it can be used for analysis. One problem is that a lot of the information is confidential information, in particular on individual level”

- Institutional Actor (Colombia)

Because of this, data-sharing agreements should be streamlined and bundled across government institutions and private stakeholders to facilitate access. Moreover, the institutionalization of data policy could contribute to creating a more open data culture, in which both public and private actors share information top-down as well as bottom-up.

MODELLING POTENTIAL IMPACT

Based on the initial baseline data gathered, the potential impact of a SIB intervention is modelled.

These calculations typically include defining a target population, developing the specific intervention structure, conducting a cost-benefit-analysis and building some sort of counterfactual.

TREND: POPULATION SETTING HAS SEEN FEW METHODOLOGICAL CHANGES -RISK EXPOSURE AND STATISTICAL SIGNIFICANCE REMAIN KEY FACTORS

Instead of jumping directly from a social issue to be addressed by a SIB to the identification of a target group, recent SIB designs have first identified several sub-cohorts within the population of interest in the context of feasibility studies. If there is a choice between different sub-cohorts, the government can decide, which group best aligns with current policy. For example, in the case of the “Housing First” SIB in Canada, the SIB intermediary identified three relevant cohorts among homeless people, namely “high needs”, “moderate needs” and “high users”. After feedback from the government, the SIB designer decided on the “high needs” population, even though other options had greater cost-saving potential⁷⁰.

The presentation of alternative scenarios and trajectories for the beneficiaries broadens the decision making options for the government, which can in turn enhance the governmental buy-in. Such a process also counters cream-skimming as the decision is centered around targeting high risk vs. low risk individuals instead of targeting people with a high probability of success⁷¹.

Once a target population is defined, a specific SIB intervention can be developed. The base for almost any intervention is some sort of cost-benefit analysis (CBA) of a SIB design. The CBA is typically conducted by the intermediary. In some

Source: ⁶⁸Social service provider, Colombia; ⁶⁹Performance manager, Colombia; ⁷⁰MaRS Housing (2014); ⁷¹Liebman and Sellman (2013)

SIB projects, a CBA is performed even before the government and investors are committed to a SIB, however other intermediaries stated that given the complexity of such an endeavor, they only perform a CBA, if the government is already on board⁷². In the latter case, the CBA rather serves as a confirmation that the proposed SIB makes sense for the government, meaning that the social benefits realized actually exceed the costs⁷³.

Costs

Estimating the costs of an intervention for all stakeholders involved is essential both for developing the business case and for comparing public to private costs of a SIB. In addition, an estimate of the cost also helps determining the price paid by outcome payers. There are generally two different approaches for estimating the price of a SIB. Either the analysis takes current government costs as the starting point - if data is available - and evaluates through an own detailed cost analysis whether these costs can be underbid by a SIB design. Alternatively, the thought process originates at the question what is the lowest price that can be charged for this SIB intervention. In this case, the final price only needs to be below the government's price. In either case, costs are relatively easy to quantify, especially if small pilot studies have already been tested.

Benefits

While calculating costs has been facilitated through broader access to data as well as pilot studies, estimating social benefits remains challenging. In addition to measurable budget savings, rather qualitative social impacts can be achieved. Usually, the government is interested in both types of benefits, yet it is important to stress this distinction within the CBA⁷⁴. Also, short to medium

term and long term benefits need to be distinguished, thus there needs to be a common understanding of the time horizon to be considered and an agreed upon method to extrapolate long-term projections, if applicable⁷³. In calculating budget savings, it is furthermore helpful to distinguish between different levels of government e.g. federal, state, local, as this gives decision makers a more comprehensive idea of where potential net benefits will have the highest effect⁷³.

Constructing a Counterfactual

The main idea of a counterfactual is that baseline data is used to predict the development of the target group without an intervention. This outcome can then be compared to a potential SIB design⁷⁴. The goal is to beat the predictions, either in terms of cost-efficiency or in terms of effectiveness, as this is the base for a good business case to be sold to the government and investors. Taking into consideration the CBA conducted, it can then be credibly argued how large the net benefits of a SIB are compared to the counterfactual⁷⁵.

Constructing the counterfactual can be a challenging task, simply because the future is difficult to predict, even if comprehensive baseline data is available. There are several risks to the counterfactual, among others the stability of the target population, outcomes of external events over time, or the length and scale of the SIB contract. There are several ways in which a counterfactual can be constructed.

1. Projection of Counterfactual:

In a simple initial SIB design, the counterfactual can just be projected with the available baseline data. This approach is recommended if a large volume of lot of administrative data is available and financial resources are limited, especially since this

Source: ⁷²Intermediary, Germany; ⁷³Liebman and Sellman (2013); ⁷⁴Investor, Netherlands; ⁷⁵MaRS Housing (2014)

lowers the costs. However, this approach entails a lack of live control and no calibration for real-time events

2. *Non-Experimental Counterfactual:*

Alternatively, a live but non-experimental counterfactual can be established, e.g. by focusing on a specific geographic region and thus accounting for some external factors. This approach controls for more variables, however is also costlier to implement.

3. *Randomized Control Trial:*

The most comprehensive and reliable approach to modelling the counterfactual is an experimental design, such as a randomized control trial, that controls for both observed and unobserved variables. However, the costs for such a method are high and a very rigorous research design needs to be executed, including collecting data on a control group, which has little incentive to provide information absent of a service.

TREND: IF THE MAIN MOTIVATION FOR INTRODUCING SIBs IS INNOVATION OVER COST EFFICIENCY, MEASUREMENT APPROACHES TEND TO FOCUS ON OUTCOMES RATHER THAN IMPACT

A SIB's cost-efficiency potential and its innovative financing character have proven to be the two most convincing arguments for stakeholder buy-in. While the cost-saving argument has often been advanced in Anglo-Saxon contexts, continental European countries have rather targeted effectiveness and innovation.

MODELLING POTENTIAL IMPACT: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, innovation is the clear motivation in this first phase of SIB market development⁷³. While a variety of stakeholders recognizes the SIB cost-efficiency potential in the medium to long term, cost considerations are currently rather secondary. There is an understanding, both on the side of investors and outcome payers, that innovation and market-building requires “up-front” investment.

Furthermore, outcome measurement has deliberately taken priority over impact measurement during the pilot-phase given the early stage market development. This could prove effective in establishing an initial evidence base, i.e. on the effectiveness of the intervention, while gradually building impact evaluation capacity for future SIBs.

Data evidence from the first pilot SIBs should be clearly analyzed, e.g. by testing for correlation, as this can lay the ground for future impact modelling. Knowledge and resources of academic institutions can also be leveraged in the process of building up impact evaluation capacity. And as governmental impact evaluation capacity increases, key public players (e.g. DNP, DANE) may take up an independent evaluator role.

DEFINING DESIRED SUCCESS

Defining success by creating the outcome metrics lies at the heart of every SIB design. Without clear and measurable outcomes, per definition, a SIB cannot be successful. Given the complexity of social problems, it is oftentimes difficult to narrow down single and clearly defined indicators instead of highly complex impact mechanisms, but for a SIB, explicitness and simplicity are key⁷⁶. Defining

Source:⁷⁶MaRS Housing (2014)

and contractually agreeing upon the outcome metrics as well as the evaluation method prior to the intervention, ensures an effective evaluation at the end of the service period as the independent evaluator simply follows protocol.

TREND: DEFINING THE OUTCOME METRIC HAS BECOME AN INCREASINGLY COLLABORATIVE EFFORT BETWEEN ALL STAKEHOLDERS INVOLVED

In order to align all stakeholders on the outcomes of an intervention, defining the outcome metrics has become an increasingly and transparent process. First priority tends to be conferring with the outcome payer. Next, social service providers are oftentimes included in the definition process, as they have a more in-depth understanding of which outcomes and impact can actually be measured in interaction with the beneficiaries. This type of collaboration ensures multi-stakeholder buy-in early on⁷⁷.

Overall, the outcome metrics should not have more than two or three quantifiable goals and the time horizon needs to be well defined⁷⁸. It is also important to clearly differentiate between outputs and outcomes, whereas the focus should be on the latter. Helpful resources for developing outcome metrics with identifiable indicators include for example “Inspiring Impact Hub”, an online resource that compiles systems, tools and past metrics to effectively measure impact across social projects. Another employability specific resource is “The Journey to Employment (JET)” Framework, developed by New Philanthropy Capital, which lays out specific outcomes and tools to measure what happens on young people’s journey to employment.

TREND: QUALITATIVE INDICATORS INCREASINGLY COMPLEMENT QUANTITATIVE OUTCOME METRICS FOR DATA GATHERING AND LEARNING PURPOSES

While most SIB designers agree that an outcome metrics should consist of quantifiable indicators, qualitative measurements have gained importance for data gathering and learning purposes⁷⁵. Experts reported that social service providers in particular insist on qualitative indicators, as these give a more comprehensive picture of their social activities.

In the field of employability, factors such as emotional capability, attitudes to education and work or career management skills are also important⁷⁹. For example, service providers in the employability SIB in Germany mentioned, that young unemployed people participating in the intervention managed to come on time or keep their room tidy, but that these improvement were not captured in the evaluation⁸⁰.

🇨🇴 DEFINING DESIRED SUCCESS: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, government actors as well as social service providers have demonstrated interest to participate in designing SIB interventions and respective outcome metrics. The outcome metrics of the first SIB for employability appears to be well-grounded within a practical, evidence-based model for inclusive employment, which provides a good starting point for the creation of future intervention outcome metrics⁸¹. Outcome payers have contributed to the definition of indicators, which has created political buy-in for the intervention as well as for the end results.

Source: ⁷⁷Evaluator, Germany; Technical advisor, United Kingdom¹; ⁷⁸Technical advisor, Australia; ⁷⁹Evaluator, Germany; ⁸⁰Technical advisor, Colombia; ⁸¹Social service provider, Colombia

Looking ahead, future outcome metrics should aim to align with current policy priorities on the national level; as buy-in of DNP appears to be key.

Moreover, an assessment of not just the pilot's results - but its metric-setting - will prove very helpful for SIBs to come. Where the first SIB pilots target employability, qualitative in addition to quantitative assessment of outcomes and impacts has been discussed ever since the early planning stages of the intervention. Social service providers have repeatedly raised the importance of qualitative indicators to be included in the final evaluation, e.g. through surveys or focus groups, as this can pave the way for more in depth impact evaluations down the line⁷⁹. Political stakeholders also reiterated the need for more nuanced and multidimensional indicators⁸⁰.

While it is recommendable to keep early stage outcome metrics simple and measurable, a multidimensional approach with qualitative indicators promises to give a more comprehensive idea of the success of future interventions - especially when moving from outcomes to impact

And finally, the experience of social service providers in measuring and evaluating qualitative criteria in direct interaction with beneficiaries should be leveraged as much as possible.

COLLECTING DYNAMIC SERVICE DATA

Upon the establishment of a rigorous evidence base, a well-outlined basis for comparison, and agreed-upon success scenarios, the 'infrastructure' of data shifts towards service measurement. As SIBs have been rolled out over time, the ever-critical role of data in service delivery has also evolved.

TREND: COORDINATION BETWEEN INTERMEDIARY AND PROVIDER DATA PLATFORMS HAS FACILITATED EFFECTIVE PERFORMANCE MANAGEMENT AND ENABLED REACTIVITY TO CHANGE

Service-level data collection (also known as 'management information') is but the first step of how project-specific information is captured and assessed. Getting the data collection model 'right' has therefore proven to be a key priority for the outcome funders and investors tracking contractual outcomes metrics that are used as a basis for payments, and for the policymakers and evaluators later assessing the learnings from impact evaluations⁸¹.

As highlighted by Chih Hoong Sin at the 2016 Social Investing and Corporate Social Responsibility Forum in Tokyo, performance managers, or the lynchpins of the intervention, play critical roles in translating service-level insights to each stakeholder:

Outcome Payers

- Data as part of due diligence: they need to show that they have undergone robust scrutiny of the data to justify paying out to investors
- Data to assess performance against the original business case for the SIB.
- Data to see how the SIB way of doing things compare with more conventional ways of commissioning services.

Service Providers

- Data to understand the effectiveness of implementation and the efficacy of the intervention

Investors

- Data to assess the return on investment, how it

compares with other forms of investment, and how it compares with their investments in other SIBs

- Data to look at how the investors may redirect resources, adjust inputs and the approach to give it the best chance of success

Given the consequential impact of service-level data, developing effective 'systems' for data collection – up front – has proven effective during the service period. Traditionally, SIBs have relied on service providers to adapt their services to capture a broad share of data that public sector bodies haven't always captured, or, more pressingly, have captured but are in different administrative 'siloes' and therefore need to be re-validated during service⁸². Eliminating these siloes, therefore, has been a key success factor for service-level collection, before the service even begins.

Four actions stand out that allow for this to occur:

a. Clear alignment around individual-level data to be cross-referenced during the service period:

Typically, this features years of service, age, demographics, and SIB-specific metrics, like 'number of arrests', 'number of convictions', etc. For those public sector organisations that do have this data, but it is spread out among departments/ institutions, 'silo-elimination' has been underpinned by an extensive cross-referencing process, in which dates of birth or national ID numbers are matched across government datasets to begin drawing out patterns at the participant level

b. Establishment of clear data-sharing service agreements:

Determining clear data-sharing responsibilities prior to the service allows for more effective cross-

referencing during the project period, and hence more effective monitoring and evaluation down the line. A clear referral process with effectively-matched participant data allows for government and service provider datasets to "talk to each other"⁸³. A streamlined referral and tracking process (from a government list of eligibility criteria >> a randomized list of participants for the service provider >> return of well-matched participant data) has allowed for some SIBs (e.g. Illinois early education SIB) to streamline the processing of service-level data from weeks to seconds⁸⁴.

c. Creation of a 'common language' for service data, to simplify cross-referencing:

Just as SIBs are focused on outcomes, the exercise of collecting and analyzing data for a SIB should equally be outcomes-focused. Many commentators have noted that SIBs can be overly complex, and data requirement is often part of this complexity. Equally, commentators have pointed out that in order for SIBs to flourish and to achieve the desired degree of spread and scale, it is vital for us to work together to find ways of simplifying and streamlining core SIB components so as to reduce transaction costs.

d. Implementation of agile service data platforms

A broad range of social data collection software has emerged, allowing for clear data input and straightforward insight interpretation across the multiple levels of intervention decision-making. Notable examples include Apricot (a CRM and outcome management tool), Evide Impact Tracker (which allows real-time performance tracking), and the custom-built tool for the Department of Social Inclusion in Australia, put together by Community Data Solutions⁸⁵.

Source: ⁸²Government actor, Colombia; ⁸³Technical advisor, United States; ⁸⁴Ibid ⁸⁵See also Appendix for case study

COLLECTING DYNAMIC SERVICE DATA: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

In Colombia, there have been promising developments in how providers measure and evaluate their impact, but multi-stakeholder performance management will require substantial coordination and harmonization for the SIB ecosystem to scale.

The creation of a proprietary data platform for the first pilot SIB will provide an excellent opportunity to understand both good practices for general service data collection, as well as a robust understanding of what is necessary for capturing employability-specific data. Both create progress from which future SIB teams can learn.

While many domestic service providers already use comprehensive proprietary data collection and evaluation tools focusing on impact, considerable efforts need to be undertaken to integrate these data approaches within SIB performance management: future intermediaries should include data collection and systems capacity as a key criterion for selection. Future intermediaries should trial data platforms with a proven use in past SIBs across the world, notably Apricot in the UK.

ENSURING EFFECTIVE EVALUATION

Evaluation, the key protocol of success measurement, has also evolved.

TREND: WHILE A BROADER RANGE OF EVALUATION PLAYERS HAS EMERGED, IN ALL CASES, INDEPENDENCE REMAINS KEY

As SIBs have been rolled out by a greater

constellation of actors, whether from the intermediary or outcome payer side of the equation, the market for evaluators has also diversified. Classic audit and advisory firms (e.g. Deloitte) have invested in creating in-house capacity for guiding and measuring social impact.

A flurry of social sector-specific evaluators (e.g. Ecorys) have also sprung up. As impact evaluations are eventually conducted in more mature SIB markets, academic institutions tend to become involved to guarantee scientific rigor. And most recently, we have seen the public sector build capacity to conduct inter-ministerial programmatic evaluations.

“While the question has been raised, concerns over conflicts of interest in public-to-public evaluation have been assuaged by the sheer institutional strength of Finnish institutions and the clear delineation of powers”

- Technical advisor, Luxembourg

figure 3.3: case study – Public-to-public evaluation in Finland

The Finnish Tax Administration will act as an evaluator on social interventions by the Ministry of Economic and Social Affairs, establishing clear ‘Chinese walls’ and setting clear oversight/ audit protocols. Governments are driven to do so in order to cut down on costs but also prove full transparency to the taxpayer

TREND: THE ESTABLISHMENT OF RATING AND CERTIFICATION AGENCIES HAS STRENGTHENED INVESTOR TRUST IN SIBs

For investors to enter the social impact investment market, the measurement of social impact is critical. The Impact Reporting and Investment Standards (IRIS) establishment by The Global Impact Investing Network (GIIN) is able to address the concern about measurement. IRIS is a set of metrics that can be used to describe an organization's social, environmental, operational, and financial performance. IRIS is designed to address a major barrier to the growth of the impact investing industry - the lack of transparency, credibility, and consistency in how organizations and investors define, measure, and track their performance. They encourage the adoption of a standard format for reporting performance. The metrics that IRIS is providing are selected or developed through a formal and open process that includes review and inclusion of existing third party standards, input from expert working groups and advisors, and feedback from users and the public.

🌍 ENSURING EFFECTIVE EVALUATION: IMPLICATIONS & RECOMMENDATIONS FOR COLOMBIA

The presence of a wide range of evaluator 'types' in the Colombian context is a welcome sign. The engagement with an audit firm for the first pilot SIB will provide essential learnings for managing the exchange and monitoring of data throughout and after intervention completion. The presence of domestic think-tanks with strong evaluation expertise (e.g. EconEstudio), as well as the presence of evaluation experts in academia (e.g.

Universidad de los Andes) can allow for more competitive bidding in the SIBs to come. Most importantly, the evaluation practices established within government itself, with the DNP playing a big role in the evaluation of policies implemented by other ministries, can help set the scene for clear rules and protocols to be established specific to social impact measurement.

Intermediaries should begin socializing impact evaluation practices with the above mentioned ecosystem of actors, whether through conferences, workshops or other events. Creating a diverse, competitive bidding process will help keep future evaluation costs low. Furthermore, engaging evaluation experts in government, notably at the DNP, will help establish clear-cut guidelines to follow: whether in the procurement of evaluation services, or the setting of evaluation standards and timelines. constellation of actors, whether from the intermediary or outcome payer side of the equation, the market for evaluators has also diversified. Classic audit and advisory firms (e.g. Deloitte) have invested in creating in-house capacity for guiding and measuring social impact.

A flurry of social sector-specific evaluators (e.g. Ecorys) have also sprung up. As impact evaluations are eventually conducted in more mature SIB markets, academic institutions tend to become involved to guarantee scientific rigor. And most recently, we have seen the public sector build capacity to conduct inter-ministerial programmatic evaluations.

Lastly, as the SIB ecosystem is developed, aligning to global standards may lend both credibility and greater cross-comparability to social financing activities.

'MEASURE': CONCLUSIONS

High quality data and information management before, throughout and after a SIB intervention are as crucial as a proper scoping exercise and effective engagement of key players. Driving greater data coordination and broader data access have contributed to the design of robust social interventions, as well as to the establishment of clear and agile information practices within and between key SIB stakeholders.

Building this data infrastructure even further— both from the top-down and the bottom-up, will be a fundamental requirement for the ecosystem to scale and sustain itself.

4. CONCLUSION

Social Impact Bonds (SIBs) advance cross-sector partnerships and introduce innovative financing solutions to scale proven, preventative social programs. SIBs unlock short-term savings and long-term value at scale by redirecting public spending from remediation to prevention and imposing greater discipline on social service delivery.

Several key trends emerged from an extensive literature review and international benchmarking exercise. These trends helped structure our team's field research and interviews with key stakeholders in Colombia, thereafter helped contextualize how these key learnings can be applied to Colombia. Our key learnings and recommendations for future SIB development in Colombia are divided into three action areas using our SIB Action Framework (SAF): Identify, Engage, and Measure. Below, we offer a synthesis of our findings and a roadmap for navigating early challenges in developing a SIB ecosystem.

IDENTIFY - Innovation in service delivery and SIB deal structures has proven to be the key value driver behind SIB interest. As governments across Latin America expand the provision of public services, they face key challenges with improving program quality and reducing inequality of access. Well-designed SIBs provide means for improving service delivery and introducing flexibility to public programs. Furthermore, for a SIB model to be successful and scalable it should fit within a country's institutional and regulatory context. In Colombia, SIBs are most likely gain traction when developed to address issue areas of key interest to multiple government stakeholders. Alignment across national policy priorities and institutionalizing SIBs within CONPES (government

planning authority and advisory body with the mandate to coordinate agencies working on social and economic development) will provide the necessary incentive for adoption and expansion of SIBs at both the national and municipal level. Successful implementation of the first SIB in Colombia will help facilitate helpful legal and budgetary changes for those to come. The future of SIBs in Colombia is strengthened by transforming public budgeting and establishing future income funds (vigencias futuras) to help facilitate the multi-year budgeting contracts inherent in all SIB structures.

ENGAGE - Enlisting and engaging SIB champions across all stakeholder groups and especially within government is critical to the initial stages of SIB design and development. In Colombia, considerable headway has already been made engaging and sustaining SIB champions across governmental departments. Given the decentralized nature of Colombia's governance structure, efforts moving forward should be focused on establishing awareness and buy-in at the municipal and local levels of government. Dissemination of data and key learnings from the current SIB will add to the future sustainability of SIBs. The large variety of stakeholders and non-traditional design of SIBs can often complicate procurement processes. SIB designers have to adhere to procurement regulations and balance a tradeoff between competition, efficiency, and transparency. Colombia's enjoys relatively flexible regulations around procurement allowing the prioritization of internal capacity development of government and service providers. Increased capacity allows implementation of SIB models that are less complex and more cost efficient. Supportive government policies and institutions

play a immense role in both promoting and sustaining a conducive SIB ecosystem. In Colombia, collaboration across academic and government institutions to develop capacity building initiatives will help disseminate useful information and build greater understanding of SIB processes and mechanisms.

MEASURE – Beyond building out a robust and reliable public data infrastructure, coordinating and verifying existing government data in collaboration with private sector data housed within non-profits and service providers emerges as a key next step for SIB stakeholders. Cost-efficiency often plays a prominent role in decision-making when government data is available, and in Colombia, where baseline data is yet to be collected, innovation becomes the key value driver. Finally, when outcome metrics and indicators are defined, the importance of collaboration across actors and the importance of differentiating between outcomes and outputs must be considered. As the first SIBs in Colombia target specific outcomes, the collection of qualitative as well quantitative indicators promises to give a more comprehensive idea for the success of future interventions.

Although much can be learned from the implementation of SIBs internationally, there is no template for designing SIBs for a new market. The Colombian political, social, and investment contexts are determinant for the potential of SIB growth and expansion. Building a strong, data-centric evidence base will be crucial to ensure that capital is put to work on interventions that achieve the intended impact. This includes systematically collecting performance information and using it to better track the development of the market. To minimize the challenges of building a robust

evidence base for the whole SIB market, detailed analysis and using the SIB action framework of identify, engage and measure can help lay the ground for appropriate policies within and across sectors going forward.

5. APPENDIX

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APPENDIX 1: Research methodology

The Columbia team's research methodology was structured over 5 phases and gathered a broad set of global learnings to inform local application.

PHASE 1 - Background Research

Our team started with a thorough review of existing literature on SIBs and national level research of the Colombian context. This phase was important in developing the team's base level knowledge of how SIBs operate and where they have been implemented. Our simultaneous research into the existing economic, cultural, and legal frameworks in Colombia offered applicable context from the beginning.

PHASE 2 - Global Expert Interviews

As a new and evolving financial tool, much of the knowledge about SIB implementation is still being developed. We contacted over 90 of the top experts in this field, with special attention paid to geographical and sectoral diversity. We conducted interviews with over 30 experts - Academics, Evaluators, Institutional Actors, Investors, and Technical Advisors. These interviews filled in gaps on knowledge from our desk research and offered insight into decision-making processes and

rationale behind structural choices.

PHASE 3 – Key Trends and Case Studies

In Phase 3, we synthesized information gathered from desk research and interviews to identify trends we are seeing the identify, engage, and measure levels of the SIB process globally. The analysis of these trends led to the creation of our SIB Action Framework.

PHASE 4 – Validation in Colombia

The team travelled to Bogota for two weeks and conducted interviews with 20 stakeholders in the local SIB ecosystem, including members of the existing SIB steering committee and potential entrants into the space. Questions were crafted with the intention of validating the relevance of global trends in the local context. Interviews were conducted in English and Spanish with the occasional help of a translator.

PHASE 5 – Recommendations

The last phase of the project was used to add information gathered from Colombia to our global research in order to make recommendations for the future growth of the nascent Colombian SIB market. The report we produced after this five month research and analysis process is presented in this document.

APPENDIX 2: Country context (detailed)

History and politics

Colombia has endured a protracted civil conflict between leftist armed insurgents and state-led security institutions. At its root is the historic challenge imposed by comprehensive land reform,

which has risked perpetuating deep social inequalities and limited broad-based inclusion of popular demands into the mainstream political system¹. In the form of paramilitary groups, insurgencies have been largely financed through drug-trafficking. The most notable amongst them are the Fuerzas Armadas Revolucionarias de Colombia-Ejército del Pueblo (FARC) and the Ejército de Liberación Nacional (ELN). Both the FARC and the ELN are well-organized guerrillas, with political and military leaderships and well-trained and equipped fighters. Through exerting control over territory and people through intimidation and the destruction of social infrastructure, their tactics have included the massacre of civilians, kidnapping, illegal detention, torture, extortion and forced recruitment, leading to extremely damaging consequences for the civilian population.

President Juan Manuel Santos began his second term in office in 2014, four years after beginning the peace conversations between the Colombian government and the revolutionary armed forces. A historic peace agreement was signed in September 2016 between the Colombian government and the FARC rebels, only to be disapproved in a very contested national plebiscite vote. However, in November 2016, Congress approved the peace agreement, which marked the beginning of a bilateral and definitive ceasefire, which gives hope for peace after all.

Economy

Following the Colombian financial crisis of 1998, Colombia has achieved a sustained 15-year long period of strong economic growth, owed mainly to strong macro-economic policies, bilateral free trade

agreements and an oil and mining boom. Most recently, Colombia was significantly affected by the global economic slowdown of 2009 and lower oil prices, but services remained the engine of growth with manufacturing and agriculture recovering in 2015. Even so, Colombia is one of the fastest growing economies of the region, with an average growth of 4.58% annually in the last 5 years, in comparison to an annual growth of 2.01% for the region over this same period.

Furthermore, Colombia's flexible exchange rate regime is the first line of defense to external shocks. A favorable policy-enabling environment coupled with strong fiscal management have set the country on a promising path of economic success. Nevertheless, uneven/inadequate investments in infrastructure and limited access to new financing remain a problem. Colombia is still a very unequal country in terms of large regional differences and limited redistribution of economic resources. As we can see on the Gini coefficient comparison graph below, Colombia is still one of the most unequal countries in the region.

Employment

Owing to the economic strides made in the recent years, unemployment reached a record low of 8.9% in 2015, following important reforms to reduce non-wage labor costs². The sustained economic growth over the past 15 years has led to significant improvements in labor market outcomes especially for young Colombians.

However, like many other developing and emerging nations, Colombia is characterized by a large shadow economy and a high incidence of informal employment. More than half of the working population is self-employed, not covered

Source: ¹Hylton (2003); ²World Bank (2016)

by social security nets with a large majority in unregistered businesses. The informal sector tends to be less productive and contributes less on average to the country's fiscal capacity. Transition rates from informal to formal employment remain low. With informality and unemployment as two major drivers of inequality, addressing these social problems would go a long way towards improving equity in Colombia, in comparison to other countries in the region.

Over the past decade, a series of legislative initiatives have sought to encourage labor formalization. The comprehensive tax reform of 2012 has significantly reduced non-wage labor costs. Minimum-wage setting continues to have a strong political component, adjusted yearly by a centralized bargaining process between trade union representatives and the government.

Employability challenges in FC's target areas *Bogota:*

Colombia's capital city, home to one fifth of the entire Colombian population, Bogota is the main economic engine of the country. Home to some of its poorest and most vulnerable citizens, widespread economic disparity and almost half the population employed in the informal sector, Bogota's problems are complicated from the massive influx of rural immigrants that enter the city every year. This has led to the rise of informal settlements and a sizeable gap in public infrastructure provisions. With swathes of unemployed youth and displaced migrants, Bogota presents one of the most complex employability scenarios in Colombia⁴.

Santiago de Cali:

Lying in Western Colombia, Cali is Colombia's 3rd

largest city with over 2 million inhabitants and a dominant industrial, agriculture and commercial center. The recent global financial crisis affected Cali drastically, experiencing the largest increase in unemployment rates than any other city in Colombia (along with Medellin)⁵. Cali is also Colombia's second most violent city with large persistence of organized crime, a direct result of armed and internal conflict⁶.

Several groups have come to exercise territorial control in municipalities adding complexities marked with the drug trade. With a city this size, vulnerable populations suffer greatly, however the biggest losers are indeed the youth who are constantly at risk and exposed to being recruited by these gangs. Violence caused by infighting between cartels and gangs has drastically increased urban displacement. According to Codhes, an NGO that monitors displacement in Colombia, expulsions forced by illegal armed groups have gone up 425% since 2000⁷.

Pereira

At the center of the coffee landscape of Colombia, Pereira is a small but important commercial hub for trade and commerce. As one of the major epicenters of urban redevelopment, Pereira is considered one of Colombia's most up-and-coming cities. Pereira has made good strides in reducing unemployment in recent years, back to the national standard of 9%. Vulnerable populations like across Colombia have been largely employed in the informal sector, with large discrepancies in educational attainment and employability prospects.

Social policy

The National Planning Department (Departamento

Source: ⁴Echanoe and Sendoa (2014); ⁵Medina (2013); ⁶Alsema (2013); ⁷Ibid

Nacional de Planeación) is the executive administrative agency of the Colombian government charged with defining, recommending and promoting public and economic policy. Each presidential term, the DNP elaborates economic plans with the purpose of establishing the direction of the national economy and priority areas for economic and social policy.

Since the 1990s, the design and provision of social policies in Colombia has undergone massive transformation. In general, these transformations seem to reflect a regional trend to combine a selective enforcement of constitutionally protected economic, social and cultural rights aimed at improving the living standards of the most vulnerable sections of society. Colombia has made significant progress in implementing a good-governance agenda aimed at strengthening its institutions to promote sustainable and inclusive growth throughout the country. However, despite recent reforms, social security and insurance programs in Colombia suffer from poor design and implementation and expanding coverage and improving the quality of public services remains the need of the hour.

In 2012, the ratio of the average incomes of the top 10% of Colombians to the bottom 10% was 37:1, compared to an OECD average of 9:1 in 2011 (and a regional average of 25:1 in Chile and Mexico)⁸. Large differences in levels and quality of education still exist, contributing to labor segmentation and income inequality. With vast regional differences in the availability and quality of infrastructure and public services coupled with unequal distribution of land ownership and limited income redistribution via taxes and benefits, Colombian social policy has

a long way to go. Embarking on a path towards inclusive growth is vital in the context of successfully eradicating concentrated pockets of poverty and exclusion, providing opportunities for a growing middle class and solidifying progress towards lasting peace.

Vulnerable populations

Colombia is a country of contrasts - persistent regional disparities especially in terms of levels and quality of education especially affect vulnerable populations. Fundación Corona has identified vulnerable populations to be women, youth, displaced populations and victims of internal conflict.

According to the World Bank, the youth represents about 30% of Colombia's total population, of which 17% are unemployed. As per official statistics, quality education and training in skills are considered crucial handicaps for the youth employment⁹. According to the UNHCR, Colombia has the highest number of internally displaced people in the world - with 6.9 million citizens, of which half are women¹⁰. This makes up roughly 13% of the total population. Violent crime, particularly femicide, is endemic and Colombia has the second highest number of murdered women in Latin America. In general, women are more likely to be homebound than participate in the formal economy. In practice, this means they have less capital (financial and land ownership) and lack access to legal recourse to address these barriers and address situations of violence. This lack of representation of these vulnerable groups in government translates into a lack of policies and service delivery to meet their particular needs. Even with enabling frameworks at the national

Source: ⁸OECD (2016); ⁹World Bank (2013); ¹⁰Alsema (2016)

level to ensure inclusion within Colombia's social and political processes, implementation on the ground is severely limited¹¹. The prevalence of armed conflict has led to a culture of violence, fear and intimidation. This places tremendous constraints on women's and vulnerable populations' ability to advocate for their needs within systems and structures of governance and limits the ability of local leaders to respond. This context prevents populations most in need of state services from accessing necessary resources and having their voices heard in governance processes.

Fundación Corona's SIB initiatives will be designed to provide better delivery of services to these identified vulnerable populations. The strategy contributes to the Foundation's overall focus: placing an emphasis on vulnerable populations especially those that have been disproportionately affected by the ongoing armed conflict. The proposed SIBs will ideally ensure that the different stakeholders and entities involved apply gender and vulnerable population lenses to their work, while simultaneously helping vulnerable populations through effective service delivery and engagement.

APPENDIX 3: SIB overview (detailed)

A brief history of SIBs

Social Impact Bonds (SIBs) are innovative social finance tools categorized under results-based financing¹². SIBs enable governments to work with the private sector to fund effective social services through a performance-based contract. They are also known as Social Benefits Bonds in Australia

and Pay for Success Projects in the United States¹³. Governments partner with high-performing service providers by using private investment to develop, coordinate, or expand effective programs. All parties involved decide on outcomes and performance metrics ahead of program implementation; an independent evaluator measures the results and determines whether the program has been successful. Upon success, the payer, in this case the government, repays the original investment. If the expected results are not achieved, the government is not obligated to pay for the unmet outcomes.

SIBs are quickly gathering momentum all over the world, with over 60 projects launched in 15 countries. The world's first SIB was launched in 2010 in the United Kingdom, aimed at improving prisoner rehabilitation. Other SIBs since have been aimed at financial inclusion, decreasing unemployment, improving healthcare, housing, criminal justice and international development. SIBs are most successful when a project can produce measurable outcomes in a short time frame. Equally important are enabling financial and political environments. Public sectors have to date struggled with designing the right incentives to encourage innovation in the SIB space. SIBs have the potential to support innovation within the government by focusing on outcomes and placing the risks of a new program on private investors and foundations. More importantly, the SIB model can also stand as a significant cost saver for governments¹⁴.

SIBs in healthcare and education

As SIBs start to gain success in developed countries working with vulnerable and low-income

Source: ¹¹USAID (2010); ¹²Instiglio (2014); ¹³Social Finance UK (website, accessed 2016); ¹⁴Social Finance UK (2016)

populations, especially the US, UK, and Israel, the model is being carried over to developing countries. Topics such as education, healthcare, and employability are being tackled first because they well poised to produce the types of indicators investors like: quantifiable, short-term measures, and whether the measure is non-partisan. A conventional benefit-seeking wisdom has formed around the fact that SIBs also enable and require partners to be more disciplined about using data to identify what works, and to find cost savings where possible¹⁵. Several key areas beyond employability and recidivism in which SIBs have been deployed include, but are not limited to:

Education

Identified as a great tool for the education sector, SIBs work to close the opportunity gap between youth from varying backgrounds. By engaging partners and using data to be more intentional, SIBs have been applied in early childhood programs, after-school programs to help dropout rates, and to help increase scores in underperforming schools. Education SIBs could build the collective impact infrastructure that helps facilitate such high-impact strategies. In India, Instiglio has launched the first Development Impact Bond with the support of the Indian Government, USAID, and the Gates Foundation, with the explicit intention of establishing a “proof-of-concept” for other development agencies to follow suit in adapting the model¹⁶.

Healthcare

Healthcare programs are well suited for SIB funding because even in typically data-starved environments, medical information is recorded. Ongoing progress measurements are easily tracked by recording the number of beds occupied,

supplies used, operations conducted, medical test scores etc. Medicines and procedures are also easily put to the test through experimentation; data needed for baseline studies are already collected as part of general practice by hospitals and clinics. Healthcare involves various actors in addition to the government, such as the medical, research, and insurance industries, as well as philanthropy. The more industries that have a monetary and intellectual stake in the issue, the more likely there will be interest and follow-through for the implementation of a SIB. Medical interventions are heavily regulated by the scientific community and generate evidence that can be used to scale innovative solutions up with ease¹⁷. This makes the results of healthcare SIBs useful not only for the host state and country, but for other countries poised to address similar issues. Unlike other social programs, health care interventions can be replicated and attributed easily because of the minimal dependence on contextual factors.

Relevant applications of SIBs in Colombia

A growing concern for governments like Colombia is maximizing value for money in public expenditure and since available public funding in limited and aid and philanthropy cover only a fraction of the country’s needs, there remain significant gaps in the market for social innovations and private sector involvement. According to Instiglio private capital and know-how remain on the side-lines and despite growing interest in impact investing there are very few investors that have taken on the risk from the government to cater to development concerns. In fact the government of Colombia’s recent four-year development plan includes Social Impact Bonds as

Source: ¹⁶Instiglio (2016); ¹⁷Columbia-SIPA (2015)

another poverty-fighting tool in its toolkit, citing Instiglio's earlier work in the country¹⁸. The first SIB model for Latin America was conceptualized in Colombia in 2012. It aimed to target educational outcomes and school dropout rates in secondary school students in Antioquia, a mountainous region in Colombia¹⁹. It was designed by Instiglio along with the government of Antioquia (most notably with the support of governor Sergio Fajardo) and Dividendo por Colombia, an NGO based in the region. With the NGO as the service provider, the government the outcome player and Instiglio as the intermediary²⁰, the project was in the stage of finalizing private investors but had to be put temporarily on hold due to changes in the political cycle. In terms of structuring, Instiglio was charged with the design of the financial structure as well as the impact evaluation. They were positioned to conduct all the monitoring and evaluation services, designing metrics and performance indicators partnering with academics, service providers, government officials among others. Despite being on hold, the project garnered the attention of the Inter-American Development Bank (IDB) and by 2013, the IDB became the first international institution to launch a fund to support social impact bonds in Colombia.

Legal framework in Colombia²¹

A key challenge in executing SIBs in developing countries has been structuring a legal system that allows for flexibility and accountability of all parties involved. Legal services are expensive and time-consuming, knowing the opportunities and obstacles at the time of design can conserve resources.

Colombia's legal framework is generally friendly

towards the implementation of Social Impact Bonds. Government entities have substantial autonomy over procurement given that administration is fairly decentralized. Hybrid funding models which include debt and equity investments are not subject to any special regulations or restrictions in Colombia. The funding of SIBs is allowed under Colombian law as long as all loans and equity contributions are channeled through the Colombian foreign exchange market. As a general rule, the government needs to issue a public tender process before entering into an agreement; the only exception is entering into a direct contract. An investor is able to contract directly with the government only if it is a well reputed non-profit organization. Terms and conditions within the initial agreement are flexible to negotiation and amendment within the scope of the original contact.

An important step in concluding an intervention financed by a SIB, is the evaluation of the results by an independent actor. Under Colombian law, collaborative contracts are not allowed to include clauses in favor of the government. Once it is agreed that an independent evaluator will be used to rate the results of the program, the clause is binding to all parties including the government. However, the government's right to contest the results are also protected under the law. Colombia functions under an annual budgeting system, running from January 1 to December 31. The government is required to make a budget registration and issue a certificate that guarantees money to repay intermediaries in the case of a successful intervention; the agreement is only then enforceable. The legal mechanism to pay for SIBs will fall under "future payments" (*vigencias futuras*),

Source: ¹⁸Galante (2015); ¹⁹Center for Global Development (website, accessed 2016); ²⁰Instiglio (website, accessed 2016) ; ²¹Instiglio and Thomson Reuters Foundation (2014)

which allows government entities to recognize and allocate money for future obligations in the current budget. In addition, SIBs may qualify for tax breaks and incentives offered to socially-oriented investments.

APPENDIX 4: 'Identify' component (additional)

ASSESSING INTERVENTION FEASIBILITY

Demand side factors

1. Social issue

Provision of services can address various societal and individual needs. In this sense two types of social issues may be considered - 1) the provision of goods that address the social needs of an individual or society to improve life outcomes (social impacts); and 2) the provision of goods that result in savings in the costs or improvements in the effectiveness of providing for social need (efficiency gains).

Where the provision of a service has only individual efficiency gains, but there are social returns to the economy and society as a whole there may be space for a SIB. In such a space, it is important that any social impact spillovers are correctly factored in the SIB instruments. The provision of affordable social services with broad social impacts is clearly desirable, but becomes challenging for especially in multi-stakeholder models like SIBs because the incorporation of externalities and monetisation of outcomes into objective functions may not always straightforward. Where the consumption of a good creates social impact primarily at the individual level but also results in systemic efficiency gains (e.g. lowering recidivism rates, to reintegrate offenders and lower

costly prison budgets) there is also potential for a SIB²². When it comes to goals for SIB participation, stakeholders' believe that government or outcome payer participation usually depends on a combination of the 2 previously defined earlier goals behind the SIB - if financial savings can be captured. Or what sort of social impact do the SIBs deliver, even if the financial savings cannot specifically be aggregated across stakeholders and realized. (e.g.: the inability to capture savings when a less expensive preventive program replaces a more expensive remedial program).

2. Target population

Once the social issue is stated, the second step is defining the target population; i.e., the age, geographical area, size, etc., of those receiving the policy. The trends so far confirm the literature insights. For example, regarding the age of the target population, the Brookings Institute report (2015), found that of the 38 SIBs surveyed, five SIBs in the areas of homelessness and criminal recidivism work with adult populations and have no maximum age limit. Twenty-two SIBs focus on young adults, working on criminal recidivism or broad employment support programs. Six of the family support and adoption SIBs focus on children, and three of the SIBs in the education sector focus on children around age 4, and children from 8 to 9 years old. In sum, the age of the target population depend of the context, but there is a trend to have young adults (20 to 40 years old) for issues like recidivism, homelessness and employment; whereas there is also a trend to have children (0 to 20 years old) in education policies, family therapy and social benefits programs.

Finally, there is no consensus regarding the

Source: ²²OECD (2015)

geographical areas best suited for SIBs. However, it is quite obvious that so far most of the SIBs have been implemented in urban areas. The reason might be a practical one, in one of our interviewees, a technical expert at the Harvard Kennedy school said that “in order to choose a certain population data must exist”²³; from that we can argue that, since data is more easily available in cities, it is expected that more SIB projects are designed for urban settings vs rural ones.

3. *Government will and commissioner support*

As we have mentioned, SIB mechanisms create opportunities for the public sector at all levels of government to reward “what works” or expand access to evidence-based preventive social interventions without requiring taxpayers to shoulder all of the financial risk upfront. But in order for these new mechanisms to work, government must retain a central and important position. Therefore, a key trend in both, literature and interviews, is that political leadership, commitment, and support play a crucial role in firstly establishing a SIB market and thereafter developing the market. As this process requires particular efforts and time in terms of learning, coordinating with multiple stakeholders, and implementing in the span of multiple years, a dedicated leadership is needed to galvanize and sustain these efforts. The cases of the UK and the US illustrate this point.

To assess this trend, the following evaluation criteria while performing primary and secondary research prove useful²⁴:

- a. Government Wide support – Does the electorate knowingly support it? Is it a priority issue that affects a large number of voters?
- b. Government willingness – Does the issue fit with

a specific party’s platform? Is the issue aligned with the party’s promises and objectives?

- c. Government capacity – Does the government perceive this as a risky undertaking with a possibility of backfire? Is it feasible from a legal and operational standpoint?

Thus, the critical role for the government becomes first to define the technical mechanisms, like SIBs, innovation prizes, or innovation funds that house public sector funds. Secondly, governments create a conducive ecosystem for SIBs by introducing support in a policy framework or a strategy document.

Case study: Demand side factors example (Social Finance Israel Diabetes SIB)

On December 5th, 2013 Social Finance Israel presented a SIB aimed at reducing the development of type 2 diabetes in high risk population in Israel. In order to do so the service provider selected 2,250 Israelis at risk of Type 2 diabetes that were divided in two groups, one that would receive the intervention and the other for control. The intervention would consist of a one-year intensive program, plus two-year follow up, in order to provide healthy living and personal fitness programs to high-risk pre-diabetic participants. Two Israeli public health organisations and the National Insurance Institute were selected as the payers of the bond, which outcomes would be measure by i) The number of type 2 diabetes cases averted, relative to control group, and ii) The number of healthy states produced, relative to control group. Based on this measurements, the payments would be based on the savings of costs generated by the interventions due to: i) Reduction of direct diabetes-related medical expenses, ii) Reduction of direct diabetes-related disability and

Source: ²³Technical advisor, United States; ²⁴Finance for Good 2013)

income allowances, and iii) Increase in economic productivity from increased workforce participation. Finally, to fund the trial, Social Finance Israel and partner UBS sold a \$5.5 million social impact bond to foreign and Israeli investors. The program was launched in July 2016 for three cohorts of people identified as having a high diabetes risk, and the first results will be measured three years after the first cohort begins the trial.

Case study: Supply side factors example (The Home Group SIB, Fair Chance Fund, UK)

As of March 1, 2015 there were two active impact bond funds in the world, the Innovation Fund and the Fair Chance Fund, both in the U.K. The Fair Chance Fund, including seven SIBs aiming to improve housing, education, and employment for homeless youth, was launched in December of 2014. One of the seven was the Home Group SIB, aimed at reducing youth homelessness at several cities in the North-East of England. The following table summarizes the main elements of this SIB, specially focusing on the supply side factors we explained in the main body of the document:

Social issue: youth homelessness

Location: Newcastle, Northumberland, South Tyneside, North Tyneside, Gateshead, Durham and Sunderland (England, United Kingdom)

Contract duration: 36 months, starting 12/2014

Target population: Age 18 to 24 (21 to 24 if the individual spent time in state out-of-home care while under age 18); Not in education, employment or training (NEET); Homeless as defined in homelessness legislation, but not in homeless priority need; Priority for Local Authority support but unable to be accommodated in a supported housing scheme

Intervention: Providing accommodation, education,

volunteering and employment

Service provider: Home Group

Intermediary: Numbers4Good

Outcome payers: U.K. Department for Communities & Local Government; Cabinet Office

Technical advisor: N/A

Investor: Northstar Ventures

Investment: £0.498 million

Outcome evaluator and method: Department for Communities and Local Government, using validated administrative data

Payment schedule: Quarterly payments made by the outcome funder

Payment method: payment per participant

ALIGNING TO A POLICY FRAMEWORK

TREND: THE PRACTICE OF 'IDENTIFYING' A SUITABLE SIB ISSUE AREA HAS MOVED BEYOND SIMPLY ADDRESSING TRADITIONAL GAPS IN PUBLIC SECTOR PROVISION

SIBs focus on service gaps. SIBs have largely been new prevention or early intervention services. They attempt to prevent or reduce people's need for expensive existing services down the line. This is also the economic justification for SIBs – spend earlier to save later and help participants avoid worsening outcomes. So SIBs have been new services that try to reduce the need for existing services.

A majority of the SIBs in the past have broadly focussed on 4 key social issue areas: education, employability, criminal justice and social welfare. While many of the first SIBs launched focussed on areas of criminal justice, other areas have gained traction since then. In particular, social welfare and employability have come to represent the largest

issue areas in the SIB market. Social welfare, essentially includes a range of issues including adoption or long-term foster care placement, homelessness and support of disadvantaged young people.

The area of criminal justice started of as an important SIB issue area, most likely because it closely aligned with SIB feasibility criteria. The criminal justice system has clearly defined and monetizable outcomes, and there is high political commitment due to the large number of negative intended and unintended consequences. Issue areas covered by SIBs can hence in a way be seen as traditional sectors of government service provision. However an important differentiating characteristic is that the intended interventions within the SIBs are almost never included in core government services. Core government services include primary education, law enforcement, and social protection. In particular, SIBs have been used as a tool to fund interventions where inputs are fairly complex but outcomes are simple to measure.

Below we present some examples of the current trends in SIBs in different policy areas that came across in our desk research and interviews. This analysis also presents a justification for why these areas may be more suited for SIBs than others, or more suited for a SIB type intervention vs another, keeping in mind markets trends thus far.

Health & care needs of the elderly

Although there are many health outcomes and services to consider across populations, the long-term health care needs of the elderly are of particular interest for the SIB discussion for two reasons. First, the health of the elderly is an important social consideration as societies age,

and people live and work longer. Second, because it is here where the highest voluntary private social spending occurs because of the intersection of health and old-age spending. A number of SIBs in the UK for example have focussed on health care needs of the elderly, including the county council of Worcestershire that launched the country's first social impact bond in 2015 helping 3000 elderly people overcome loneliness in the country.

Employability & school dropouts

Helping people into good quality and secure employment is critical for a range of desirable social outcomes today and in the future. Today, the private and public social gains from employment include a reduction in household poverty – and the improved quality of life it brings as well as increases in productivity, and reductions in benefit dependency. For tomorrow, employment is critical for building the social contributions needed to pay for a person's own pension and elderly care, as well as for tax contributions that fund much of the present public social spending in the areas of health, education, and social protection among others. Helping youth into quality employment or stay in education settings is the foundation for success in this area, as well as a healthy economy and society. This is why we see a number of SIBs focus on areas of NEET especially in youth. So far, the following bonds in the UK such as ThinkForward, Links 4 Life Program, Social Impact Bond Rotterdam in the Netherlands, Duo for a Job in Belgium have all focussed on improving employment outcomes across different target populations.

Affordable housing

Providing all members of society with secure and

good quality accommodation is a human priority. Furthermore, stable good-quality homes provide the foundation from which stable employment is achieved, communities are built and local environments are protected. An example of how SIBs can meet demand for affordable housing is the Denver Social Impact Bond in USA which was launched in February 2016 which includes up to five years of supportive services to Denver's most vulnerable population.

Policing, safety and crime

Crime exists across societies, and depending on the severity of the crime experienced, it can have severe personal and social impacts. Reducing crime and the fear of crime are major social goals, and whether present systems are coping with expectations provide insights as to how this gap could be filled by SIBs. Prison rates and prison occupancy rates are interesting indicators of social outcomes for the SIB discussion because recidivism was the first social outcome to be linked to a SIB. Providing for prisoners is a costly process, and so innovation in crime or recidivism prevention services will be in general demand, which creates a space for SIB. So far, a majority of SIBs in the US & Australia have focussed on criminal justice including the Rikers Island Social Impact Bond.

Family care and gender

Childcare is also seen as an important contributor to the efficiency of social systems, preparing children for later schooling, increasing productivity in adulthood and reducing the likelihood of negative social outcomes. Related to the provision of childcare, and important for achieving important gender equity goals for societies, is helping women

access good quality secure employment. Another 'family' social need of interest for SIB is children in out-of-home care. Supporting these children has the potential for large social impacts in terms of providing secure, supportive, and long-term home environments that maximise the child's development opportunities and also reducing costs associated to institutional care (public and private). The Utah High-Quality Preschool Initiative SIB for early childhood education was funded by Goldman Sachs in 2014. A majority of the SIBs in the UK, US and Canada have focused on family care as well.

TREND: POPULATION SETTING HAS SEEN FEW METHODOLOGICAL CHANGES -RISK EXPOSURE AND STATISTICAL SIGNIFICANCE REMAIN KEY FACTORS

Regarding the population size, there is a very clear trend to have a population that allows you to measure impacts in a statistically significant way, but not to large as to add complexity to the already complex SIB model. For instance, in the Brookings Institute survey more than 60% of the deals served equal to or smaller than 1,000 individuals, and only UK, US and Australia have implemented SIB with a cohort bigger than 1,000. In fact the largest one implemented so far, with a publicly available number of beneficiaries, targets approximately 10,000 youth in the U.S. criminal justice system²⁵.

TREND: THE DEFINITION OF A ROBUST ATTRIBUTION MODEL REMAINS THE KEY TURNING POINT IN ACHIEVING UP-FRONT STAKEHOLDER BUY-IN

A time horizon for achieving outcomes is reasonable if there is substantial evidence from

Source: ²⁵The Brookings Institution (2015)

previous evaluations or scientifically commissioned research that the specified outcomes will occur within this time frame. For example, in the US, Government (Federal, state or local) can review evidence from places such as the Coalition for Evidence-Based Policies “Social Programs that Work” list, the Washington State Institute for Public Policy cost effectiveness studies, and recent research results from the professional evaluation firms to see if there are proven programs in priority policy areas that could be replicated using a SIB model, and how much time did the project endured.

Additionally, a reasonable time horizon will also be one in which investors and outcome funders are able and willing to make and receive payments given the, legal and political conditions in a country. A key learning that came from an interview with an official at the Centre for Social Impact Bonds in the UK government’s Inclusive Economy Unit, stated that in certain SIB projects where outcomes are realized over longer periods of time (for example beyond two years), investors may also be paid on delivering outputs (in a bi-yearly or yearly) fashion as opposed directly after the outcome is achieved. In this view, to motivate investors to invest in SIB projects with longer time horizons, occasional payments on service delivery are also possible versus just at the end of the SIB time period where payments for achieving outcomes are made²⁶. All these caveats are clearly and carefully crafted in the SIB contracts that are eventually signed and negotiated between the outcome payer and investor.

Furthermore, the need to consider the demands of multiple groups means that some outcomes or projects may be less suitable for SIBs. For

example, in a number of SIBs being developed, the time lag between the intervention and outcomes being achieved was seen as too long, typically if it exceeded five years.

It also emerged from our research and interviews that many interventions usually produce short-term benefits but may also produce longer-term benefits. For example, investments in prenatal health care produce short-term benefits such as improved infant and maternal health and lower health care costs, but they may also produce longer-term benefits such as reduced special education spending, reduced crime during teenage years, and increased adult earnings. While it would not make sense for a SIB contract to pay out over two decades as results become apparent—the feedback loop between management practices and results would be too long to be useful—it might be possible to design a SIB that paid out based upon short-term results that are predictors of longer-term benefits. However, it will be interesting to see if governments would be willing to make payments based on these potential longer-term benefits for future SIBs²⁷. In sum, a SIB is said to have a reasonable time frame if the outcomes can be achieved under 5 years. It is important to note here that the duration of contracts between actors in SIBs tends to be relatively short. But in most cases the contract duration is often not equivalent to the duration of service provision.

SETTING THE STAGE FOR SUCCESS

TREND: WHILE DEAL STRUCTURE VARIES BY INTERVENTION, SEVERAL BROAD PAYMENT ‘PATTERNS’ HAVE EMERGED

Source: ²⁶Technical advisor, UK; ²⁷Azemati et al (2013)

Of the 38 deals analyzed in the Brookings Institute survey, the deals within “payment per participant” category included two SIBs on funds for youth employment and welfare in the U.K., two deals for homelessness in the U.K., four deals for family support in the U.K., two deals for preschool in the U.S., and a deal for adult homelessness in the U.S. Additionally, the two existing funds for SIBs, the Innovation Fund and the Fair Chance Fund, both in the U.K., falls within this payment structure since outcomes can be claimed only once per individual. In our interviews for example, technical consultants usually agreed on having “proxies” or “derived” outcomes that “trigger” payment; thus, implicitly signaling the first category of payment. For example, a consultant at BWB UK told us that the SIB designer need to “ Build up a matrix of outcome indicators that would trigger the payment...”²⁸

On the “payments per group”, the Brookings Institute mentioned an SIB for criminal justice in the U.K., three deals for criminal justice in the U.S., one deal for family support in the U.S., two deals for family support in Australia, one deal for youth employment in Belgium, and the one deal for youth information technology education in Portugal. It is important to also mention that some SIBs do not fall particularly neatly into either of the two trends identified so far. In other words, there are exceptions to the rule, as it is usual in an innovating model, as the SIB. For example, in Canada, payments are made per individual outcome at the end of the program. In Germany, investors are paid their principal and 3 percent interest at the end of the program if 20 of approximately 100 participants achieve the outcome. Additionally, six of the SIB deals that

pay based on group outcomes also have set outcome thresholds that must be met for payments to begin; that’s the case for the SIB for criminal justice in the U.K., in which interim payments for each of the three cohorts are paid if that cohort achieves a reduction in recidivism of 10 percent or more in comparison with the control group. Similarly, in the SIBs in Germany and Canada, payments occur only if a set number of participants achieve the given outcome.

TREND: THE TRANSFORMATION OF PUBLIC BUDGETING WILL REMAIN A CRITICAL FACTOR FOR THE SCALING OF THE SIB MODEL

The budget structure is important because SIBs are multi-year investments; thus, the government, as the outcome funder, needs to be able to spread appropriated funds throughout the fiscal years and to issue success-based payments. However, this can be a challenge, as the usual path is to tie fiscal expenditures is on a yearly basis³⁰.

Therefore, in order for a SIB to be feasible there should be legal mechanisms that allow future payments commitment and ensures that payment is not contingent upon political fluctuation. In this sense, we have identified certain trends that allow the governments to ensure future payment. For instance, in one of our interviews, a technical expert at the European Investment Fund, mentioned that in his experience budget is negotiated on the price that the government is willing to pay per year ; this allows the Minister of Finance (or the governmental agency in charge of budget) to make the appropriate savings of resources on the year and, at the same time, adequately award the risk taken by the investors³¹.

Source: ³⁰OECD (2015); ³¹Technical advisor Germany

Case Study: Triodos Bank SIB, Employability Innovation Fund

As we mentioned in the Home Group SIB annex, there are two active impact bond funds in the world, the Innovation Fund and the Fair Chance Fund. The Innovation fund aims to improve education and employment outcomes for youth and was launched in two rounds: the first six SIBs in 04//012 and next four in 11/2012 .

Social Issue	Unemployment
Location	Greater Merseyside, North West England, United Kingdom
Contract Duration	36 months, starting at april 2012
Target population	3,900 disadvantaged 14- to 19-year-olds across Greater Merseyside
Intervention	Deliver structured "Mental Toughness" courses and specialized vocational support
Service Provider	Greater Merseyside Connexions Partnership
Intermediary	Triodos Bank UK
Outcome Funder	U.K. Department for Work and Pensions Innovation Fund
Technical advisor	N/A
Investor(s)	Bridges Ventures, Big Society Capital, The Esmee Fairbairn Foundation, Charities Aid Foundation, Knowsley Housing Trust, Helena Partnerships, Liverpool Mutual Homes and Wirral Partnership Homes
Investment	Approximately £1.5 million
Outcome evaluator and method	The Department of Work and pensions through validated administrative data, and the National Centre for Social Research and "Insite Research and Consulting" through qualitative evaluation at the end of the contract.
Payment schedule	Up to 42 monthly payments made by outcome funder. Repayments to investors as and when approved by project leadership.
Payment method	Payment per participant as defined in rate card (with a cap of £8,200 per participant)
Maximum return	Each type of outcome can only be claimed once, and the total value of outcome payments claimable for support provided to an individual participant is limited to £8,200 for participants in Round 1 of the Innovation Fund. However, the maximum value of the contract (the maximum that the Department for Work and Pensions is willing to pay in outcome payments) is £4.5 million.

Additionally, the rate card for the round 1 of the Employability Innovation Fund is as follows:

OUTCOME	PAYMENT/INDIVIDUAL
Improvements at school	
Improved behavior at school (Measured by a letter from a teacher)	£800
Stop persistent truancy, confirmed by the school when persistent truancy stopped to the point where attendance levels have improved to that associated with the average student (i.e., absent for over 10% of school days per year)	£1,300
Qualifications	
Achievement of First National Qualifications Framework (NQF) Level 1 qualification, evidenced by letter of school or copy of certificate	£700
Achievement of First NQF Level 2 qualification, evidenced by letter of school or copy of certificate	£2,200
Completion of first NQL Level 3 training/ vocational qualifications	£3,300
Successful completion of an ESOL course	£1,200
Entry into education at NQF level 4, evidenced by letter from University	£2,000
Employment	
Entry into first employment including a training element evidenced by letter from employer confirming the young person had worked 16 hours or more per week for a minimum 13 continuous or cumulative weeks	£2,600
Entry into sustained employment, but minimum 26 continuous or cumulative weeks	£1,000

Additional case study: Energise Innovation, Employability Innovation Fund

**CASE STUDY:
Energise Innovation, Innovation Fund
(Round 2) (UK)**

Location: Thames Valley, South East England, UK
 Contract Duration: 36 months
 Target Population: 1500-2000 14 to 15 yr olds who are disadvantaged or at-risk

Intervention: An intensive Adviser-based support; a bespoke action plan is developed for each young person based on their individual support needs. Menu of support options: one-on-one sessions, group work, residentials, activity days and mentoring.

Service Provider: <i>Adviza</i>	Intermediary: <i>Social Finance UK</i>	Outcome Funder: <i>U.K Department for Work & pensions innovation fund</i>	Investor: <i>Big Society Capital</i>	Evaluator: <i>The National Center for Social Research and Insite Research and Consulting</i>
Incentives: May receive performance bonus, contingent on outcomes	Role: Capital rising, mobilization, contract & performance management	Payment Schedule: Up to 42 monthly payments. Repayments to investors as approved by project leadership. Outcome Payment: Cap of £11,700/ participant. Each type of outcome can only be claimed once. Maximum Value of Contract: £ 3.7 million	Upfront Capital: US\$1.45 million	Outcome Evaluation Method: Validated Administrative Data & qualitative evaluations

Type of Outcome

Improvements at school: - Improved attitude towards school (£700) - Improved behavior at school (£1,300) - Stop persistent truancy (£1,400)	Qualifications: - Entry Level Qualification (£900) - Achievement of First National Qualification Framework (NQF) Level 1 qualification (£1,100) - Achievement of NQF Level 2 qualification (£3,300) - Achievement NQF Level 3 qualifications (£5,100)	Employment: - Entry into first employment including a training element (£3,500): participant worked min. 16 hr/week or min. 13 continuous weeks. - Entry into sustained employment (£2,000): minimum 26 continuous weeks.
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APPENDIX 5: 'Measure' component (additional)***TREND: POPULATION SETTING HAS SEEN FEW METHODOLOGICAL CHANGES -RISK EXPOSURE AND STATISTICAL SIGNIFICANCE REMAIN KEY FACTORS***

Additional commissioned research is particularly important, if a SIB intervention is very innovative and thus difficult to compare to existing programs. In order to manage the costs for this initial work, it is recommended to run rather small pilot studies to test practical implications of scientific ideas³². This type of work is oftentimes conducted by SIB technical advisors, however it might also be useful to use local institutions, who have better access to relevant data. For example, in the first health-focused SIB "Ways to Wellness" in the UK, the commissioner instructed both Social Finance UK and a local health observatory to gather metadata and to externally validate already existing pilots as well as comparative cases.

One aspect that needs to be taken into consideration is the cost of gathering baseline data through commissioned research, especially since there's the risk that the data analysis suggests the impracticability of a SIB design and then no further funding will follow. Creating global data bases for SIBs, cooperating with other SIB designers and establishing a comprehensive internal data infrastructure are good approaches to cut down these costs. Helpful initiatives in that respect have for example been established in the UK by the Big Lottery Fund, which among others provides and facilitates funding for initial SIB pilots. Furthermore, experts have warned that calculating the baseline can be "ideological" depending on whether or not

the responsible researcher wants the project to move forward or not³³. SIB designers should thus ensure maximum objectivity of the data analysis.

TREND: THE RISE OF MULTI-STAGE REPAYMENT STRUCTURES IS OPTIMIZING THE INCENTIVES FOR STAKEHOLDERS TO ATTAIN THE HIGHEST SOCIAL OUTCOME

In order to optimize the incentives for all stakeholders, the repayment structure should be directly linked to the outcome metrics. The basic idea is that there is clear cut line between success and failure, below which the government doesn't have to repay investors and above which the government repays investors with an agreed upon rate of return. Furthermore, in most of the SIB designs, there are several different levels of success, which are rewarded accordingly. To ensure that the government keeps its budgetary authority, there is usually a maximum cap beyond which payment will not rise anymore with higher performance. Such a more complex multi-stage repayment structure incentivizes higher achievements.

While this is the most common repayment structure, there are also cases where only a binary decision with one fixed rate of return is agreed upon. The argument advanced for this structure is that for the majority of social service providers every outcome is a success, even if it doesn't exactly satisfy the outcome metrics, and since they don't directly profit from higher financial returns, their incentives to deliver social impact will not change through varying interest rates³⁴.

There are different ways how the rate of return is

Source: ³²Investor, Netherlands; ³³Technical adviser, Germany; ³⁴Evaluator, Germany

calculated. In most cases, the point of departure for negotiations is the available public sector budget, which depends on the price that the government is willing to pay for every participant in the intervention³⁵. On the one hand, the interest rate offered needs to attract private investors or at least impact investors, however the public sector also has a valid interest in avoiding the impression that high returns are realized at the expense of vulnerable populations. Experts from the investors side mentioned that practically, the financial institutions do take a major role in determining the return or the design of the financial vehicle³⁶. To eventually convince investors, the payment schedule has to be aligned with a probability distribution of outcomes .

SNAPSHOT: PERFORMANCE MANAGEMENT PLATFORMS

A broad range of social collection software has emerged, allowing for clear data input and straightforward insight interpretation across the multiple levels of intervention decision-making.

apricot	Apricot
Who they are	Apricot is a non-profit software developed by US-based company "Social Solutions"
What they offer	<ul style="list-style-type: none"> • Data base software • Case management • Outcome management • Volunteer tracking • Grants management
Who they serve	<ul style="list-style-type: none"> • Midsized non-profits • Government • Health & human services

evidē Impact Tracker	Evide Impact Tracker
Who they are	Evide Impact Tracker is an online application developed by Evide, a UK-based community interest company that specializes in SaaS (software as a service) and impact consultancy
What they offer	<ul style="list-style-type: none"> • Monitor contacts, appointments and tasks • Manage projects, activities and case notes • Set and measure own outcomes and indicators • Analyze and report on inputs, outputs and outcomes • Demonstrate value & impact
Who they serve	<ul style="list-style-type: none"> • Community and voluntary sector organizations • Social enterprises

COMMUNITY DATA SOLUTIONS	Community Data Solutions
Who they are	Community Data Solutions is a leading cloud based software provider operating exclusively in the Not-for-Profit sector in Australia
What they offer	<ul style="list-style-type: none"> • Client and case management • Reporting and claim management • Software integration and customization
Who they serve	<ul style="list-style-type: none"> • Community sector organizations

Source: ³⁵Technical advisor, Luxembourg; ³⁶Investor, United States

APPENDIX 6: Columbia SIPA team bios**Marcos Paya, PROJECT MANAGER**

Marcos is a 2nd year MIA candidate from Spain, with a concentration in economic development and a regional specialization in Latin America. Prior to SIPA, Marcos was a Senior Consultant with the Monitor Group, where he focused on delivering growth and competitiveness strategies for private and public sector clients across Europe, the Middle East, Africa, Asia and Latin America. Marcos also served as a Consultant with the Inter-American Development Bank in Washington, DC, where he developed the IDB's 2020 partnership strategy. At SIPA, Marcos is particularly interested in innovative financing, infrastructure investment, and the creation of public-private partnerships. He also holds a BA from the University of Cambridge. Marcos is fluent in Spanish, French and English, and proficient in Portuguese.

Kartika Octaviana, FACULTY CONTACT

Kartika is a 2nd year MPA candidate from Indonesia. She has an extensive experience in broadcast journalism, where she has often conducted interviews with policymakers and world leaders. Besides pursuing her master degree at Columbia SIPA, she is also working part time as a U.S. contributor for Metro TV, an Indonesian news channel. She spent her summer time in 2016 as an intern for the Coordinating Minister for Political, Legal, and Security affairs, where she helped the ministry to expedite various program implementation that were often hampered by long bureaucracy. Her familiarity with the policy making system in developing country context motivates her to be involved in this project.

Eliezer Olivares, CLIENT CONTACT

Eliezer is a 2nd year MPA candidate from Mexico with extensive experience in the Mexican federal public sector. Before SIPA, he worked for three years at the Federal Commission for Regulatory Improvement, where upon achieving an early promotion was responsible for the elaboration of recommendations for regulatory policy. During this time, he learned a lot about the policy process and the importance of creating public value for specific policy areas. Additionally, he was a summer intern for MasterCard Mexico, where he was involved in product design for engagements with the Ministry of Social Development. Eliezer also brings strong quantitative, writing, and communication skills, strong teamwork experience, and significant expertise with quantitative methodologies for the measurement of policy impact.

Perna Sharma, BUDGET LEAD

Perna is a 2nd year MPA candidate from India with a strong background in Economics, social entrepreneurship and quantitative analysis. Passionate about data analytics, Perna has an interest in lean data, impact investing and gender. Previously, Perna worked with the UK-based international NGO Save the Children and ran her own enterprise in New Delhi, India. She has in the past volunteered with various government organisations and grassroots NGOs in India where she worked on the upliftment of local village handicrafts and undertook capacity building and skills training. She graduated with honors from the University of Warwick in the UK with a degree in Economics.

Laura Niersbach, CO-RESEARCH LEAD

Laura is a 2nd year MIA candidate from Germany. During an internship at the KfW Development Bank this summer, she worked on finance and energy projects in Latin America, which sparked her interest in innovative financing instruments in the region. She also gained work experience in the Policy Planning department of the German Federal Foreign Office and in the International and Government Affairs division of Emirates Airlines. Laura received a Bachelor of Economics and a Bachelor of International Affairs from the University of St. Gallen in Switzerland and is proficient in Spanish, having studied in Buenos Aires for six months.

Krithika Harish, CO-RESEARCH LEAD

Krithika is a 2nd year MPA student concentrating in economic and political development. She currently interns with UNDP's Innovation Facility in NYC, where she supports the management of a \$2M ICT for development investment portfolio. She is also a consultant with the Columbia Impact Investing Initiative, helping social enterprises amplify the impact of the programs. She previously served as the Associate Director of Global Programs and Network Development for the United Religions Initiative (URI), a global network of grassroots peace-building organizations. In that role, Krithika delivered capacity-building and targeted regional support to URI's grassroots members; designing and facilitating skill-based leadership trainings internationally. She holds a Bachelor's degree in International Relations with an emphasis on Peace and Security, and a minor in Spanish from the University of California, Davis.

Jose Antonio Ocampo, FACULTY ADVISOR

José Antonio Ocampo is director of the Economic and Political Development Concentration in the School of International and Public Affairs, Member of the Committee on Global Thought and co-President of the Initiative for Policy Dialogue at Columbia University. He is also the Chair of the Committee for Development Policy, an expert committee of the United Nations Economic and Social Council (ECOSOC). In 2012 – 2013 he chaired the panel created by the IMF Board to review the activities of the IMF's Independent Evaluation Office; in 2008-2010, he served as co-director of the UNDP/OAS Project on "Agenda for a Citizens' Democracy in Latin America"; and in 2009 a Member of the Commission of Experts of the UN General Assembly on Reforms of the International Monetary and Financial System.

Prior to his appointment, Ocampo served in a number of positions in the United Nations and the Government of Colombia, most notably as United Nations Under-Secretary General for Economic and Social Affairs; Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC); Minister of Finance and Public Credit, Chairman of the Board of Banco del República (Central Bank of Colombia); Director of the National Planning Department (Minister of Planning); Minister of Agriculture and Rural Development, and Executive Director of FEDESARROLLO.

Ocampo has published extensively on macroeconomic theory and policy, international financial issues, economic and social development, international trade, and Colombian and Latin American economic history.

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