

**ADMINISTRATIVE AGREEMENT**

**between**

**THE GOVERNMENT OF SWITZERLAND**

**represented by the State Secretariat for Economic Affairs SECO**

**and**

**THE INTER-AMERICAN DEVELOPMENT BANK**

**regarding**

**Project Specific Grant to the Inter-American Development Bank for the  
Project titled, “Pay-for-Success Financing for Innovations in Urban  
Workforce Development”(CO-T1434)**

**Washington, D.C.  
October 5, 2016**

## ADMINISTRATIVE AGREEMENT

October 5, 2016

With reference to the Cooperation Framework Arrangement (the "Framework Arrangement") dated as of December 11, 2009 between the Government of Switzerland as represented by the State Secretariat for Economic Affairs (SECO) (the "Donor"), and the Inter-American Development Bank (the "IDB"), the Donor will make available a contribution of U.S.\$4,184,211.00 (four million one hundred eighty-four thousand two hundred eleven dollars of the United States of America) (the "Contribution") to be administered by the IDB (as administrator of the Multilateral Investment Fund II pursuant to the Agreement for the Administration of the Multilateral Investment Fund II, dated April 9, 2005) for the purposes indicated in this Administrative Agreement.

1. The provisions of the Framework Arrangement will apply to this Administrative Agreement. The IDB will administer the Contribution in accordance with the provisions of the Framework Arrangement, except as otherwise provided herein. The financial reporting will be expressed in U.S. dollars.
2. The Donor will deposit the Contribution into an account indicated by the IDB in writing as follows:
  - a. U.S.\$1,154,211.00 (one million one hundred fifty-four thousand two hundred eleven dollars of the United States of America) promptly following the signature of this Administrative Agreement and upon written request from the IDB;
  - b. Three installments, together totaling U.S.\$3,000,000.00 (three million dollars of the United States of America), for pay-for-success contracts; each installment to be made by the Donor will be subject to the non-objection of the Donor in respect of each pay-for-success contract proposal ("Proposal") and the Donor will provide its non-objection, or otherwise communicate its decision regarding each Proposal, in writing within ten (10) business days of receipt of the respective Proposal from the IDB. For the avoidance of doubt, the Donor will provide its non-objection to each Proposal if the Proposal meets the following three criteria: it focuses on the employability of vulnerable populations, it ties payments to outcomes, and it involves the Colombian government. The Donor's failure to respond within the indicated period shall be construed as a confirmation of non-objection. Following the Donor's non-objection, the Donor will deposit the respective installment within fifteen (15) business days of receipt by the Donor of a written request from the IDB; and
  - c. U.S.\$30,000.00 (thirty thousand dollars of the United States of America) upon written request from the IDB and not later than sixty (60) months after the signature of this Administrative Agreement, notwithstanding anything to the contrary in Sub-paragraph 4.1.4 of the Framework Arrangement.

The IDB will send the aforementioned written requests for payment to the following address:

Staatssekretariat für Wirtschaft (SECO)  
c/o DLZ FI EFD

CH-3003 Bern  
SWITZERLAND

The IDB will also submit the requests for payment via the E-Billing system of the Swiss Federal Administration. In the requests, the IDB will include the Donor's project number "UR 00970.10.01" and the Donor's order number, which will be provided by the Donor promptly following the signature of this Administrative Agreement.

3. The Contribution is subject to annual budget appropriation decisions by the Swiss Federal Parliament.
4. The Contribution is for a PSG, as defined in Sub-paragraph 1.2(a) of the Framework Arrangement, and will be used exclusively for the purposes described in the project document titled, "Pay-for-Success Financing for Innovations in Urban Workforce Development (CO-T1434)" (the "Project Document"), attached hereto as Annex A.
5. The Donor acknowledges that the IDB's commitment to use the Contribution as contemplated herein will be subject to the IDB's formalization of all internal approvals necessary for the Project and/or the Project Document.
6. Pursuant to Sub-paragraph 4.2.7 of the Framework Arrangement, the IDB will charge a non-refundable 5% administrative fee upon the receipt of the first tranche of the Contribution.
7. Pursuant to Sub-paragraph 5.1.1 of the Framework Arrangement, the IDB will provide annually to the Donor an unaudited annual report following the "Progress Report" template attached hereto as Annex B and written in the English language, no later than the last calendar day of February. The annual report will include a concise review of activities and results achieved in respect of the Project's objective and against the results matrix, actual and forecast expenditures, a projected disbursement schedule and an assessment of project achievements. The IDB will also provide annually to the Donor an update following the format of the MIF's project status report, or its equivalent, written in the Spanish language with an executive summary written in the English language, no later than the last calendar day of August. Within ten (10) business days after receipt of each report, the Donor will confirm acceptance thereof. The Donor's failure to respond within the indicated period shall be construed as an acceptance of the respective report. Further, the Parties, including a representative from the Donor's field office in Colombia, will meet, virtually or in-person, at least once annually during the third quarter of the year, or at another time agreed upon by the Parties, to review the Project execution and discuss implementation plans. The venue, if applicable, and the timing of the meetings will be agreed upon by the Parties.
8. Unless otherwise agreed by the Parties, this Administrative Agreement will remain in effect until the later of: the date when both the Contribution has been fully utilized by the IDB in accordance with the terms of this Administrative Agreement and the obligations set forth herein have been fulfilled; and June 30, 2022. The Parties intend to launch the pay-for-success contracts by December 31, 2019.

9. Where appropriate, the IDB will acknowledge the Contribution and will use the Donor's logo, which the Donor will provide to the IDB, when the IDB refers to the Project in publications, speeches and press releases. The IDB will also inform the Donor of any relevant events that it identifies that may warrant participation by the Donor's field office in Colombia.
10. In accordance with the IDB's policies and procedures, including the Sanctions Procedures ([www.iadb.org/document.cfm?id=39676437](http://www.iadb.org/document.cfm?id=39676437)), the IDB will take appropriate measures in connection with the use of the Contribution to prevent corrupt, fraudulent, collusive, coercive and obstructive practices (each a "Prohibited Practice"). The IDB will include provisions in its agreements with counterparts to give full effect to the relevant IDB guidelines on Prohibited Practices. In the event that the IDB determines that there are credible and material allegations of Prohibited Practices in relation to the activities of third parties that are financed by the Project and that result in the IDB opening an investigation into such allegations ("Investigation"), the IDB, in accordance with its applicable policies and procedures:
- a. will take timely action that the IDB determines to be appropriate with respect to such allegations and, where relevant, seek appropriate redress, including potential sanctions;
  - b. will inform the Donor, as soon as practicable, of the outcome of the Investigation;
  - c. will decide, on a case by case basis, whether and to what extent to share with the Donor information about an active Investigation;
  - d. may, if it determines that a Prohibited Practice has occurred, in its sole discretion, take such actions as it deems appropriate to recover funds related to the Prohibited Practice; and,
  - e. to the extent that any funds are returned to the IDB following a determination that a Prohibited Practice has occurred, will consult with the Donor regarding the use of such funds.

The Donor will treat all information that it receives from the IDB pursuant to this Paragraph 10 as confidential, unless and until the IDB notifies the Donor in writing that such information does not require confidential treatment.

11. The officers responsible for coordination of all matters related to this Administrative Agreement are:

For the Donor:

Christian Brändli  
Program Manager  
State Secretariat for Economic Affairs SECO  
Economic Cooperation and Development  
Private Sector Development Division  
Holzikofenweg 36, 3003 Bern  
SWITZERLAND

Tel.: +41 58 464 09 85  
E-mail: christian.braendli@seco.admin.ch

For the IDB

- a. All communications pertaining to Donor relations and resource mobilization will be directed to:

Manager  
Office of Outreach and Partnerships  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, D.C. 20577  
UNITED STATES OF AMERICA  
Tel.: +1-202-623-2107  
E-mail: partnerships@iadb.org

- b. Day-to-day communications regarding the management of the Contribution and the implementation of this Administrative Agreement will be directed to:

Chief, Grants and Co-financing Management Unit  
Office of Outreach and Partnerships  
Inter-American Development Bank  
1300 New York Ave., NW  
Washington, D.C. 20577  
UNITED STATES OF AMERICA  
Tel.: +1-202-623-2018  
E-mail: orp-gcm@iadb.org

12. Subject to their respective policies and procedures with respect to the disclosure of information, the Donor and the IDB may make this Administrative Agreement publicly available.
13. Capitalized terms used but not defined in this Administrative Agreement will have the meanings ascribed to them in the Framework Arrangement.
14. This Administrative Agreement satisfies the requirement of a Contribution Letter for the purposes of Sub-paragraph 4.1.1 of the Framework Arrangement.

*(The remainder of this page is intentionally left blank.)*

15. The Administrative Agreement may be amended only by written consent of the Parties.

I would like to propose that this letter, upon your confirmation where indicated below, constitutes an Administrative Agreement under the Framework Arrangement between the Donor and the IDB.

Sincerely yours,



Raymond Furrer  
Ambassador

Delegate of the Swiss Government for Trade Agreements  
State Secretariat for Economic Affairs SECO

**Confirmed and agreed:**  
Inter-American Development Bank



Luis Alberto Moreno  
President

**Witness**



Mauricio Cárdenas Santa María  
Minister of Finance and Public Credit  
Republic of Colombia

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**COLOMBIA**

**PAY-FOR-SUCCESS FINANCING FOR INNOVATIONS IN URBAN WORKFORCE DEVELOPMENT**

**(CO-T1434)**

**DONORS MEMORANDUM**

This document was prepared by the project team comprised of: Zachary Levey (MIF) and Christine Ternent (MIF), co-team leaders; Cesar Buenadicha (MIF), Alex Honijyo (MIF), Mariana Wettstein (MIF), Ana Lucia Munoz (SPH), Carolina Gonzalez (LMK), Miguel Aldaz (ORP), Claudia Oglialoro (GCM), George Rogers (GCL)

This document contains confidential information relating to one or more of the ten exceptions of the Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. The document will be disclosed and made available to the public upon approval.

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## PROJECT SUMMARY

### PAY-FOR-SUCCESS FINANCING FOR INNOVATIONS IN URBAN WORKFORCE DEVELOPMENT

#### (CO-T1434)

Colombia faces important challenges with ensuring access to formal employment for vulnerable populations and disadvantaged groups. While Colombia has a relatively low unemployment rate, inequality persists and certain populations remain largely excluded from the formal employment marketplace. The Colombian government is interested in improving the results and cost effectiveness of its workforce development programs that target vulnerable populations and victims of conflict in urban areas. In order to do so, it would like to develop a pay-for-success financing model that will allow it tie funding to achievements of results and support innovations to tackle this entrenched social issue by paying only when they work.

Since 2014, the MIF and the IDB have engaged with public and private sector partners in Latin America to explore the application of social impact bonds (a type of pay-for-success financing) in the region, by helping to raise awareness, design pilots and analyze opportunities to invest directly in the region's first social impact bonds. Because of the MIF and IDB's early leadership on social impact bonds in Latin America, the State Secretariat of Economic Affairs of Switzerland (SECO) is interested in partnering with IDB/MIF to develop a Colombia-focused project on pay-for-success financing to improve employment outcomes of vulnerable populations and victims of conflict and support innovations around this challenge. The proposed project will build upon MIF and IDB's early learnings with social impact bonds and will co-pay for employment outcomes alongside the Colombian government as a way to support the development of a market for impact investing, social impact bonds, and outcome-based financing approaches. Specifically, the project will issue up to three pay-for-success contracts, where funding will be tied to independently verified improvements in labor market outcomes for vulnerable populations and victims of conflict. The project will also include technical assistance resources for market development and capacity building.

The project will include an array of key partners that are critical for scaling, including SECO, several agencies of the Colombian government, Fundacion Corona, which will serve as the executing agency, and Fundacion Bolivar Davivienda and Fundacion Mario Santo Domingo, which use their foundations' resources and high credibility and leadership in impact investment in Colombia to help catalyze investment in the first social impact bonds.

The project represents an important contribution to IDB Group's commitment to development effectiveness and results-based approaches, and may serve as model for linking resources to outcomes in future operations of the Bank Group. This will also be the first initiative in the Latin America and the Caribbean region to create a pool of resources to issue multiple pay-for-success contracts for the same thematic area providing a unique platform for phased learning and market acceleration.

The project has been developed in coordination with the IDB Social Protection and Health (SPH) division, the IDB Labor Markets Division (LMK) and the IIC.

**ANNEXES**

ANNEX I	Results Matrix
ANNEX II	Budget Summary

**APPENDICES**

Draft Resolution

**INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT  
INFORMATION SYSTEM**

ANNEX III	Detailed Budget
ANNEX IV	Diagnostic of Needs of the Executing Agency (DNA)
ANNEX V	Reporting Requirements and Compliance with Milestones, Fiduciary Arrangements and Integrity Due Diligence

## **ACRONYMS AND ABBREVIATIONS**

<b>DNA</b>	Diagnostic of Executing Agency Needs
<b>IDB</b>	Inter-American Development Bank
<b>IIC</b>	Inter-American Investment Corporation
<b>MIF</b>	Multilateral Investment Fund

**PROJECT INFORMATION**  
**PAY-FOR-SUCCESS FINANCING FOR INNOVATIONS IN URBAN WORKFORCE DEVELOPMENT**  
**(CO-T1434)**

<b>Country and Geographic Location:</b>	Colombia		
<b>Implementing Partner:</b>	Fundacion Corona will be the Implementing Partner for the technical cooperation components II and III. IDB/MIF will implement component 1 pay-for-success contracts.		
<b>Focus Area:</b>	Inclusive Cities		
<b>Coordination with Other Donors/Bank Operations:</b>	The initiative was coordinated with IIC, SPH, LMK, ORP, and GCM. The project is expected to receive a Project Specific Grant (PSG) from the Swiss State Secretariat of Economic Affairs (SECO).		
<b>Project Clients:</b>	Unemployed people that are vulnerable and/or victims of conflict <sup>1</sup> living in cities, with an emphasis on young people.		
<b>Financing:</b>	Technical Cooperation:	US\$ 1,435,000	17%
	<b>TOTAL MIF FUNDING:</b>	US\$ 1,435,000	
	Counterpart:	US\$ 3,000,000	35%
	Co-financing from SECO	US\$ 4,184,211	49%
	<b>TOTAL PROJECT BUDGET:</b>	US\$ 8,619,211	100%
<b>Execution and Disbursement Period:</b>	60 months of execution and 66 months of disbursement.		
<b>Special Contractual Conditions:</b>	Special conditions precedent to first disbursement and signing of pay-for-success contracts under component 1 will be subject to review and approval by MIF management and non-objection from SECO.		
<b>Environmental and Social Impact Review:</b>	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.		

<sup>1</sup>As defined by Law 1448 of June 10, 2011.

<http://wsp.presidencia.gov.co/Normativa/Leyes/Documents/ley144810062011.pdf>. Also see:

<http://rni.unidadvictimas.gov.co/RUV>

## 1. THE PROBLEM

### Problem Description

- 1.1 Colombia faces important challenges with providing access to formal employment for vulnerable populations and disadvantaged groups. While Colombia's overall unemployment rate is relatively low at 9%, certain populations remain chronically excluded from the labor market and have limited opportunity for social mobility. Nearly a fifth of young people between 18 to 24 years old that live in the country's 13 primary metropolitan areas are not in education, employment or training, and more than 47% of people in those cities work in the informal economy.<sup>2</sup> Unemployment rates are as high as 58% among young people that have been victimized and/or displaced by the armed conflict.<sup>3</sup> And the persistence of these high unemployment rates among vulnerable populations, many of which have migrated to cities, threaten to perpetuate a cycle of inter-generational poverty and place stress on urban areas for years to come.
- 1.2 The Colombian government currently invests approximately US\$1 billion per year in employability programs.<sup>4</sup> However, evidence on the impact of these programs has been quite modest<sup>5</sup>. In most countries, including Colombia, active labor market programs are planned centrally, yet information about sector-specific job demand and skills are diffuse, city-specific, and costly to observe. This naturally makes it difficult to develop pertinent and effective job training programs. Vulnerable populations are particularly challenging. These populations have highly complex needs, and the per capita investment and intensity of interventions are often not commensurate with the magnitude of beneficiaries' skills deficiencies.<sup>6</sup>
- 1.3 The Departamento de Prosperidad Social (DPS) of the Colombian government is interested in partnering with MIF and IDB to improve the results and cost effectiveness of its workforce development programs that target vulnerable populations and victims of conflict living in urban areas. In order to do so, it would like to develop a **pay-for-success financing model** that will allow it tie funding to achievements of results and support innovations to tackle this entrenched social issue by paying only when they work.

### Pay for Success and Social Impact Bonds<sup>7</sup>

- 1.4 Pay-for-success financing is an approach to contracting that ties payment for service delivery to the achievement of measurable outcomes, such as the number of people that find a job instead of the number of people that receive training. It provides tool for

<sup>2</sup> Informe Mercado Laboral Urbano: Evolucion de los principales indicadores 2007-2015. Departamento de Planeacion Nacional (DNP), June 2016.

<sup>3</sup> Fundación Corona, 2016.

<sup>4</sup> Servicio Nacional de Aprendizaje (SENA), Presupuesto enero 2016.

<sup>5</sup> Gaviria, Alejandro and Nuñez, Jairo (2002) "Evaluating the Impact of SENA on Earnings and Employment" Archivos de Economía - Departamento Nacional de Planeación. 33.; Attanasio, Orazio, Arlen Guam, Carlos Medina, and Costas Meghir. "Long Term Impacts of Vouchers for Vocational Training: Experimental Evidence for Colombia

<sup>6</sup> Gonzalez-Velosa, C, Ripani, L. Rosas, D (2012). How Can Job Opportunities for Young People in Latin America be Improved? IDB Technical Notes No. 345

<sup>7</sup> Pay-for-success and social impact bonds are sometimes used interchangeably. For the purposes of this project, pay-for-success financing refers to funding that is tied to improved social outcomes through pay-for-success contracts. A social impact bond is generally used to signify a pay-for-success contract accompanied by private investment that shares the risk of the intervention producing results and used to bridge the time lag between when money is needed to pay for services and when payments for outcomes occur.

governments and donors to drive scarce resources toward the most high-performing programs and providers. It also gives service providers more flexibility during implementation to innovate around their intervention models and focus on real-time data collection to measure impact and integrate a system for continuous improvement.

- 1.5 One challenge that pay-for-success instruments generally face is that most of the organizations that provide the types services needed under these contracts are NGOs, SMEs, foundations and social enterprises. These organizations rarely have the financial strength to pay for the upfront costs of delivering the service under a pay-for-success contract, particularly when the success payments may take three or more years to occur.
- 1.6 Social impact bonds are a type of pay-for-success financing that works as a next-generation public-private partnership where impact investors – not governments or donors – provide the upfront funding for NGOs and SMEs to deliver a program or service to benefit a vulnerable population as part of a pay-for-success contract. Investors put their money at risk and only get repaid if the intervention produces positive outcomes, which are verified by an independent evaluation. Countries around the world are using social impact bonds as a tool to enable NGOs and SMEs to participate in pay-for-success contracts.<sup>8</sup>
- 1.7 Since late 2014, the MIF and IDB have engaged with public and private sector partners in Latin America to explore the application of social impact bonds in the region (RG-M1144). The MIF and IDB are now working with partners in Mexico, Argentina, and Brazil to develop their first pilots and MIF is analyzing the first investment opportunities in SIBs in the region. An early lesson learned is that where outcomes can be clearly defined and measured, social impact bonds can be a powerful tool for resolving complex social problems for Latin American countries. However, because complex social issues often span multiple parts of the public sector, it can be challenging for a single government agency to pay for all of the outcomes achieved, particularly when budgets for first-time innovations, like social impact bonds, are tight. Governments and partners have expressed a need for ‘top-up’ donor funding to co-pay for outcomes to overcome this barrier, which is an approach that was also used in the United Kingdom.<sup>9</sup> A second lesson learned is that most of the primary actors in a pay-for-success model – payers, providers, funders - require substantial technical assistance support and development funding in the early stages of market development.
- 1.8 Because of MIF’s and IDB’s experiences, the Swiss State Secretariat of Economic Affairs (SECO) is interested in partnering with the MIF and IDB to create a Colombia-specific project on social impact bonds and pay-for-success financing focused on employability of vulnerable populations. SECO is expected to provide co-financing for the project through a Project Specific Grant Agreement with IDB/MIF that will be used to co-fund payments for outcomes with the Colombia government as well as fund technical assistance for market development and capacity building.

## 2. THE SOLUTION

### Project Description

- 2.1. The objective of the project is to improve employment outcomes for vulnerable populations and victims of conflict in urban areas of Colombia, and enhance knowledge

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<sup>8</sup> US, UK, Switzerland, Portugal, Germany, Australia, Netherlands, and others.

<sup>9</sup> <https://www.biglotteryfund.org.uk/sioutcomesfunds>

and capacities around pay-for-success finance, social impact bonds and impact investing.

- 2.2. The proposed project will develop and finance three pay-for-success contracts cofinanced with the Colombian government that tie funding directly to the achievement of improved labor market outcomes for vulnerable populations, such as increased levels of formal employment. In addition to paying for improved employment outcomes, the project will include two components that will provide technical assistance for strengthening local capacities, technical advisory support for pay-for-success contract design and set up, knowledge-sharing and transfer, and the development of local market know-how for scale up, which will be implemented by Fundacion Corona.

### Innovation

- 2.3. The project represents an important innovation in how the IDB Group can link resources to outcomes as part the Bank's commitment to development effectiveness, which may provide a tool for future operations of the Bank Group. This will also be the first project in the Latin America and the Caribbean region to create a pool of resources to issue multiple pay-for-success contracts for the same thematic area providing a unique platform for learning, price discovery and accelerating the launch of social impact bonds. In addition, given the pay-for-success approach, the project will provide greater incentives to service providers working with vulnerable populations to test and innovate around the interventions to produce better and more cost effective outcomes.

### Components

- 2.4. **Component I: Payments for improved employment outcomes.** The objective of this component is to design and launch up to three pay-for-success contracts for improved employment outcomes.<sup>10</sup> The pay-for-success contracts will focus on improving the employability of unemployed vulnerable populations and victims of conflict living in urban areas with a SISBEN score (poverty measure) of 0 to 41.74, and that qualify under one of the DPS populations<sup>11</sup>. The contracts are expected to use a tariffed payment approach that will set a price per employment-related outcome with a maximum price per participant. Tariffs will be determined through cost-plus pricing, based on the level of risk transfer and benchmarking the historical costs and cost effectiveness of existing government and provider programs related to workforce development or other appropriate methodology. Tariff levels may be set higher for certain populations, such as victims of conflict, to incentivize providers to work with populations with more complex needs.
- 2.5. The contracts will be designed in partnership with the Colombian government, which will provide counterpart funding for up to 50 percent of the value of each pay-for-success contract. Payments will be linked to an independent evaluation, which may include a rigorous impact evaluation (e.g. randomized control trial) or verification of administrative employment data<sup>12</sup>. The payment metrics will reflect improvements in employability and may include, *inter alia*: (i) Job placement – entry into initial formal employment, (ii) Job

<sup>10</sup> The design of these first ever pay-for-success contracts will be supported by local counsel, in coordination with in house legal advisors. The project budget will include up to US\$70,000 for IDB/MIF to hire legal services, noted in section 4.

<sup>11</sup> <http://www.prosperidadsocial.gov.co/Paginas/Inicio.aspx>

<sup>12</sup> "La Planilla Integrada de Liquidación de Aportes (Pila)" is the platform and database where all people and firms pay into Social Protection System and provides a database for tracking formal employment.

retention - sustained formal employment; and (iii) skills development, such as professional certification.

- 2.6. Services that could be provided include, but will not be limited to, professional trainings, job placement services, targeted wage subsidies, and non-cognitive skills development. Service providers will be NGOs, operational foundations and SMEs with the experience required to achieve the target outcomes in Colombia. All service providers for job placement have to be registered with the Servicio Nacional de Empleo and Training Providers with the Ministry of Labor's Banco de Oferentes. Private investors and philanthropic funders<sup>13</sup> (e.g. foundations) will provide upfront funding to service providers to deliver services through social impact bond-type financial support agreements. All parties will be subject to relevant integrity checks and due diligence by the IDB/MIF.
- 2.7. The IDB/MIF, in coordination with Colombian government, will execute, procurement and contracting of the three pay-for-success contracts under this component, for an amount up to US\$ 3,000,000. The pay-for-success contracts will be designed and launched in phases to allow for learning, improvements and adaptations to the model. As a proof-of-concept pilot, the first pay-for-success contract will be signed with Fundacion Corona through a single source selection process<sup>14</sup> to facilitate an intense and collaborative ramp up period to refine metrics, develop the measurement framework, design the operational model, raise impact investment for the underlying contracts, and finalize contract design and negotiations. The additional two pay-for-success contracts under this component will incorporate learnings from the first pay-for-success contract as well as other best practices of IDB and the Colombian government.
- 2.8. **Component II: Market Building.** The objective of this component is to strengthen local capacities and create market know-how to support the development of social impact bonds under Component 1 and ensure the development of an expanded high-quality pipeline of pay-for-success contracts, which will be critical for the long-term sustainability and growth of the model. This component will carry out diagnostics of capacity gaps in market ecosystem, support the design of operational and intervention models, strengthen service providers to make them 'investment-ready', support institutional strengthening of employment centers, strengthen data infrastructure for SIBs, develop policy recommendations for facilitating the growth of pay-for-success instruments and impact investing in Colombia, and provide upstream support to build an early pipeline of social impact bonds for new thematic areas of interest to the Colombian government and private sector stakeholders.
- 2.9. **Component III: Scalability strategy activities and dissemination.** The objective of this component is to systematize learnings and communicate them regionally to catalyze the market. The component will support strategies that enhance the scaling up of the model, including documentation of case studies, creation of templates and SIB design

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<sup>13</sup> Two major Colombian foundations – Fundacion Bolivar Davividenda and Fundacion Mario Santo Domingo – have expressed interest in support investment in social impact bonds by using foundation resources to invest directly or de-risk the investment of others through a guarantee.

<sup>14</sup> In accordance with the Bank's Policies for the Selection and Contracting of Consultants (GN-2350-9), such direct hiring to Fundacion Corona will be considered a single source selection covered under paragraph 3.10.d of the policies, which mentions an experience of exceptional value for the services as a reason for the direct contracting. To this end, there is an exceptional value in the knowledge and expertise that Fundacion Corona will bring to this first pay-for-success contract as a result of the foundation expertise in the topic of employment for vulnerable populations and victims of conflict under the new modality of pay for success.



tools to reduce transaction costs, dissemination of lessons learned, promotion of knowledge exchanges through an international SIBs workshop, and other relevant fora and innovation process.

## **Project Results, Impact, and Monitoring and Evaluation**

- 2.10. Given the pay-for-success structure, the project will establish a measurement framework that can help create actionable evidence on innovations surrounding highly complex, high priority populations, such as victims of the armed conflict, at-risk youth, poor women heads of household and others. In implementation, service providers will have greater incentives and flexibility to invest in performance management systems that will help them to innovate around their proposed interventions through continuous data feedback loops.
- 2.11. The project will track results through the payment metrics contained within each of the pay-for-success contracts under component 1 as well as other strategic performance metrics related to the overall project.
- 2.12. The expected results of this project are the following:
- Increased number of vulnerable people that enter into initial, formal employment
  - Increased number of vulnerable people that obtain sustained, formal employment
  - Improved earnings of vulnerable people supported by the project
  - Increased number of vulnerable people with improved skills and employability
- 2.13. The expected impacts of the project are the following:
- Increased funding to pay for outcomes through pay-for-success contracts
  - Increased private investment in social impact bonds and impact investment
- 2.14. *Baseline:* Baselines will be established for payment metrics for each pay-for-success contract. In addition, baselines will also be established around other relevant impact indicators related to the logical framework of the project.
- 2.15. *Monitoring:* The project will develop a monitoring and evaluation system to collection and report on performance indicators and metrics in the logical framework through a final PSR. Each pay-for-success contract in Component 1 will have a comprehensive measurement framework to support collection of data on key performance indicators that create critical feedback loops in implementation.
- 2.16. *Evaluation:* Each pay-for-success contract will include an independent evaluation of results upon which payments will be based. In addition, the overall project will include a mid-term and a final evaluation to capture lessons learned and establish a value-for-money case for pay-for-success financing and social impact bonds.

## **3. ALIGNMENT WITH IDB GROUP, SCALABILITY AND PROJECT RISKS**

### **Alignment with IDB Group**

- 3.1. The project will contribute to the following Strategic Objectives of the IDB Country Strategy for Colombia: (i) improving the quality of expenditure and public investment management capacity; (ii) reducing poverty and informality in the economy; (iii)

promoting quality education and labor training programs that generate higher level skills and competencies; and (iv) increasing productivity and innovation.

- 3.2. This initiative will also derive important synergies from the IDB's support to the Departamento de Prosperidad Social (DPS), including a policy-based loan with DPS that is being developed by IDB/SPH<sup>15</sup>. The project design team includes members from the IDB's Social Protection and Health (SPH) division and from IDB's Labor Markets (LMK) division, who have expressed interest in the project. Though the IIC is not expected to invest in SIBs under this program, it will monitor this project to support learnings for future investment opportunities.

### Related MIF and Bank Experience

- 3.3. The MIF has built up relevant experience in public-private partnerships, youth employment programs, impact investing and social impact bonds that are highly relevant to this initiative. On youth employment, the MIF has worked in close collaboration with SPH/SCL and LMK/SCL across the region, including two projects on employment opportunities for vulnerable populations in Colombia.<sup>16</sup> In addition, the MIF, in collaboration with other parts of the IDB Group, is supporting governments and private sector stakeholders in Mexico, Brazil, Chile and Colombia with the development and exploration of social impact bonds (RG-M1244). The MIF was also a lead investor in Colombia's first impact investment fund, Fondo Inversor. In addition, the IDB Group also has relevant experiences with results-based instruments that will provide important inputs into this project, such as the IDB performance-driven loan<sup>17</sup>, and the MesoAmerican Health Initiative of the IDB's Social Protection and Health Division<sup>18</sup>.

### Scalability

- 3.4. The project incorporates an array of key partners that will help facilitate scaling of the model, including the Colombian government, SECO, and three of countries' largest and most important foundations – Fundacion Corona, Fundacion Mario Santo Domingo, and Fundacion Bolivar Davivienda. The technical assistance activities of components 2 and 3 will support scaling by creating capacities and reducing barriers facing market actors.

### Project Risks

- 3.5. Gaming risk. There are a number of risks of unwanted side effects associated with tying high stakes to the achievement of targets on outcome-based performance measures, even well-intentioned ones. Among the risks are disincentives to serve the most needy

<sup>15</sup> ATN/OC-15285-CO. (CO-T1388).

<sup>16</sup> The first, which was executed successfully by Fundación Corona, sought to improve employability of people with disabilities (ATN/ME-11368-CO) and overreached all of the expected results and indicators. It is currently being transferred to other organizations and Fundación Corona has established a second phase as part of the sustainability plan. The second, which is on-going, is a New Employment Opportunities (NEO) project that aims to train and employ vulnerable youth in Urabá, Antioquia (ATN/ME-14321-CO and ATN/AS-14322-CO). The coordination and inclusion of lessons learned from both is guaranteed by having Fundación Corona as the Implementation Agency of the proposed project as they have been involved in both.

<sup>17</sup> The IDB's Performance-driven loan disbursed funds against the achievement of a set of objectives specified at the outset. When the objectives are met, disbursement is made against expenditures that can be verified as having been incurred to meet the objectives. The modality was suspended in 2009. More information on the challenges with this instrument is available in OVE's 2013 review of IDB lending instruments:

<https://publications.iadb.org/bitstream/handle/11319/5865/IDB-9%3A%20Lending%20Instruments.pdf?sequence=1>

<sup>18</sup> See: <http://www.iadb.org/en/salud-mesoamerica-initiative/salud-mesoamerica-initiative-home,1904.html>

populations (often referred to as “creaming” or “cream-skimming”), skewing services to focus on the selected outcomes of interest at the expense of other aspects of a program (“tunnel vision”) and winding up with programs that affect the measured indicators but not the underlying outcomes (“teaching to the test”). The risk of creaming can be mitigated by specifying rules regarding the target population or increasing payment when the “less employable” obtain a job. In the case of the risks of tunnel vision and teaching to the test, these risks can be mitigated through well-designed payment metrics that are robust and objective and reflect employability not only in the short-term, but also the long-term, such as skills development.

- 3.6. Execution risk: Pay-for-success contracts and social impact bonds present new operational challenges for all actors involved that could lead to inefficient execution. For example, a service provider may not have the capacity to absorb large amounts of resources to grow services as quickly as anticipated, impact investors may not be willing to fund service models, and the relatively long duration of contracts could increase the likelihood of changes in key government officials that could lead to inadequate execution of the program. This risk will be mitigated through MIF’s close involvement throughout implementation, the involvement of key partners in the project’s governance structure and flexible design of the project.
- 3.7. Outcome payment risks: As a new tool, there are several risks that may impede the timely payment of outcomes, including passing of appropriate legislation to permit the government to meet its obligations, changes in key government officials and political administrations, which can be exacerbated by the relatively long duration of pay-for-success contracts, as well as nonpayment of obligations due to poor contract design or disputes linked to the validity of the evaluation. The project will mitigate these risks through IDB’s close involvement in implementation, through the building of local capacities in non-governmental actors that will endure beyond the current political administration, as well as inclusion of technical assistance resources to support the Colombian government directly and incorporation of global best practices in pay-for-success contract design. In addition, the Colombia government has a strong track record in meeting its payment obligations.
- 3.8. Financial market risks. The initial SIBs in Colombia will pose a number of financial risks to investors that may make it difficult to raise capital necessary for the first SIBs. As a mitigant, two of Colombia’s largest foundations - Fundación Mario Santo Domingo and Fundación Bolívar Davivienda - have expressed interest in facilitating investments in the first social impact bonds, including raising capital and using foundation resources to de-risk the social impact bond.

#### 4. COST AND FINANCING

- 4.1. The Project’s total cost is US\$ 8,619,211. The MIF will contribute up to US\$ 1,405,000 and will leverage the MIF’s contribution with another US\$ 4,184,211 in co-financing from the Swiss State Secretariat of Economic Affairs (SECO) and an estimated US\$ 3,000,000 in local counterpart resources. The execution period will be 60 months and the disbursement period will be 66 months.
- 4.2. SECO is the Swiss federal government’s agency that works on all issues relating to economic and labor market policy of the Swiss government, including the planning and implementation of economic cooperation and development activities with middle income developing countries. SECO also coordinates the Swiss government’s relationship with the IDB Group.

- 4.3. Resources of this project to be received from SECO will be provided to the Bank through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, the commitment from SECO will be established through a separate administrative arrangement. Under such arrangement, the resources for this project will be administered by the Bank and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The 5% administrative fee will be charged after the contribution had been received.
- 4.4. To the extent that a donor contributes resources to support any of the project's components listed herein in the form of a Project Specific Grant (PSG), the IDB may establish a commitment from each donor through an administrative agreement without the requirement of preparing or approving a separate project proposal. Under such administrative agreement, the resources provided by the donor will be administered by the Bank and the Bank will charge an administrative fee of five percent (5%) of the contribution. The 5% administrative fee will be charged after the contribution has been received and converted into US dollars. In all cases, a cost center will be established by ORP/GCM for the administrative fee to be distributed to the Bank's offices supporting the operation execution to cover the administrative costs associated with the administration of the contribution, execution and/or implementation. In order to implement the proposed framework, the Board is therefore requested to authorize the President, or such representative as he shall designate, to enter into such agreements as may be necessary with donors to receive, administer, and allocate to this operation any co-financing resources aimed at supporting and executing the components of this operation.

	MIF	Counterpart	Co-financing	Total
			SECO	
<b>Project Components</b>				
Component 1: Payments for improved employment outcomes	\$0	\$3,000,000	\$3,000,000	\$6,000,000
Component 2: Market Building	\$1,280,000	\$0	\$310,000	\$1,590,000
Component 3: Scalability strategy activities and dissemination	\$125,000	\$0	\$105,000	\$230,000
<b>Execution and Supervision</b>				
Administrative	\$0	\$0	\$405,000	\$405,000
Monitoring and evaluation	\$0	\$0	\$35,000	\$35,000
Additional legal services	\$0	\$0	\$70,000	\$70,000
Ex post reviews of the TC	\$30,000	\$0	\$0	\$30,000
Contingencies	\$0	\$0	\$50,000	\$50,000
<b>Sub-total</b>	<b>\$1,435,000</b>	<b>\$3,000,000</b>	<b>\$3,975,000</b>	<b>\$8,410,000</b>
IDB Administration Fee of SECO Resources of 5%	\$0	\$0	\$209,211	\$209,211
<b>Grand Total</b>	<b>\$1,435,000</b>	<b>\$3,000,000</b>	<b>\$4,184,211</b>	<b>\$8,619,211</b>
<b>% of Financing</b>	<b>17%</b>	<b>35%</b>	<b>49%</b>	<b>100%</b>

## 5. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE

### Project Partner(s) Description

- 5.1. The Fundación Corona will be the Executing Agency of Components 2-3 of this project and will sign the technical cooperation agreement with the Bank. The IDB/MIF will execute Component 1. The Fundación Corona is one of the largest and highly regarded operational foundations in Colombia. Fundación Corona focuses on the transition between education and employment and works closely with the Colombian government and the private sector. Last year, Fundación Corona led a pilot payment-for-performance program on employability called “Alianza para el Empleo”. Fundación Corona has worked with MIF previously in two other projects: (i) Pact of Productivity (ATN/ME-11368-CO), an initiative aimed at improving employment opportunities for people with disabilities and (ii) the New Economic Opportunities initiative (ATN/ME-14321-CO and ATN/AS-14322-CO), which intends to increase employment opportunities for young adults in the Urabá region of Antioquia, with have both show positive results. Fundación Corona will establish an executing unit and the necessary structure to effectively and efficiently execute project activities and manage project resources. Fundación Corona will also be responsible for providing progress reports on project implementation. In addition, Fundación Corona will sign the agreement of the first pay-for-success contract under component 1 and will play an intermediation role in the financing and service provision of the social impact bond.
- 5.2. The project will also work with an array of key private and public sector institutions. Fundación Mario Santo Domingo and with Fundación Bolívar Davivienda – two of the largest foundations in Colombia – have expressed strong interest in supporting investments in SIBs in Colombia, and using their foundations’ resources to de-risk the first pilots to crowd-in new private investment focused on social impact. The Departamento de Prosperidad Social (DPS), which is the federal government agency that leads the work in Social Inclusion and Reconciliation, will co-pay for outcomes with MIF through the pay-for-success contracts that will be developed and launched under component 1. DPS is interested in the potential to scale the model within Prosperidad Social and within other government agencies on other topics. Additionally, the Departamento Nacional de Planeación (DNP), which is the Colombia Government’s agency that designs and controls economic, social and environmental public policies with the technical line ministries and subnational governments and Servicio Nacional de Aprendizaje (SENA) have also expressed interest in joining the initiative. Fundación Pro Bono, which is a Colombian based non-profit that facilitates the pro bono and low cost work of some of Colombia largest and reputable law firms, has expressed interest in providing access to pro bono or low cost legal services to the project due to the project’s innovative nature and the potential to benefit vulnerable and marginalized populations. SECO will provide resources to the project through a PSG with the IDB/MIF, and will participate in periodic governance meetings to capture and disseminate learnings in other areas of SECO’s work.

### Implementation Structure and Mechanism

- 5.3. In coordination with the Colombian government, the IDB/MIF will design, procure and oversee of the pay-for-success contracts developed under component 1<sup>19</sup>. Each pay-for-success contract will be reviewed and approved by MIF Management, and will

<sup>19</sup> These contracts will be service agreements under IDB corporate procurement or will follow any other appropriate contract modality.

require a non-objection from SECO before signing. Contracting processes and contract terms will be harmonized with the Colombian government and other funding parties as appropriate.

- 5.4. The project will establish a steering group (SG) that will consist of MIF, IDB, SECO, DPS and Fundación Corona. Other SG members may participate on an ad hoc basis, such as DNP, Ministry of Finance and APC. The primary tasks of the steering group are to: (i) discuss program progress, advances, lessons learned and plans for the upcoming year; (ii) identify major challenges that might require potential adjustments; (iii) provide strategic guidance on project implementation and develop strategies for scaling. Other technical committees may also be established as deemed beneficial to the project, and could include topic experts and other key stakeholders, such as academics, investors, foundations, lawyers and other government agencies. SECO will participate in periodic governance meetings as well as other ad hoc strategic meetings with stakeholders, in order to monitor project's progress and to capture and disseminate learnings in other areas of SECO's work.

## **6. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 6.1. **Disbursement by Results and Fiduciary Arrangements.** The Implementing Partner will adhere to the standard MIF disbursement by results for procurement and financial management arrangements specified in Annex V for component 2 and component 3.

## **7. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY**

- 7.1. **Information Disclosure.** The project will seek to make as much information public as possible. Nonetheless, contracts and certain elements involving financing and private investors will need to remain confidential.

## Progress Report<sup>1</sup>

<b>Reporting period</b>		<b>Reporting institution</b>	
<b>Reporting manager</b>		<b>Date</b>	

### 1 Key Project Data

<b>Project title</b>						
<b>Duration of project</b>	<i>Current phase</i>		<i>Project launch</i>		<i>Closing date</i>	
<b>Budget</b>	<i>Budget for reporting period</i>		<i>Overall budget</i>		<i>Overall contribution by SECO</i>	

### 2 Executive Summary

<b>Main results, or progress towards achieving results, lessons learned and conclusions</b>	
<b>Main steering implications for next reporting period</b>	

### 3 Introduction

<b>Description of project and intervention strategy</b>	
<b>Review of follow-up measures taken<sup>2</sup></b>	
<b>Relevant context changes and their potential impact<sup>3</sup></b>	

<sup>1</sup> The template is meant as a default option. It may be used by implementing partners and adjusted according to specific needs. SECO suggests that progress reports by implementing partners do not exceed a maximum of 15 pages in font size 10 or 11. The reports should be written in English, French or Spanish.

<sup>2</sup> Since the last progress report.

<sup>3</sup> Sectorial, economic, political and social context with a view of risks and opportunities.

#### 4 Results

<b>Comparison between planned and achieved results<sup>4</sup></b>	
<b>Description of results (outcomes and outputs) or progress towards achieving results, including indicators measured against baseline and target values (if available)<sup>5</sup></b>	
	<i>SECO Standard Indicators (if comprised in the logframe)</i>
	<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> </ul>
<b>Unintended positive and negative effects of the intervention</b>	
<b>Progress of the implementation of SECO transversal themes, corporate governance and gender, based on the monitoring results</b>	
<b>Overall project and SECO visibility</b>	
<b>Other</b>	

#### 5 Sustainability<sup>6</sup>

<b>Measures identified to enhance project sustainability</b>	
<b>Description of exit strategy (if applicable)</b>	
<b>Status of exit strategy implementation (if applicable)</b>	
<b>Other</b>	

<sup>4</sup> Outcomes and outputs, based on agreed logframe.

<sup>5</sup> The description should reflect quantitative and qualitative achievements. The significance and relevance of the achievements should also be explained.

Particular attention should be given to the reporting on SECO standard indicators. In case additional outcomes have been achieved, they should also be indicated.

 Standard Indicators  
English final version.p

<sup>6</sup> As evaluations of SECO supported projects have repeatedly shown sustainability as a weak point, implementing partners are kindly requested to share their réflexion on sustainability in the progress report.



**6 Risks<sup>7</sup>**

<p>Please elaborate a short description of the following potential or already materializing risks, a risk analysis and suggestions for mitigative measures:</p> <ul style="list-style-type: none"> <li>• Development risks</li> <li>• Financial risks</li> <li>• Environmental risks</li> <li>• Social risks</li> <li>• Other risks (e.g. reputational or fiduciary risks)</li> </ul>	
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**7 Institutional / Organizational Development and Human Resources**

<p>General comments on relevant institutional / organizational and HR issues (including diversity management)</p>	
<p>Changes, challenges and mitigation measures that affected the management of the project</p>	
<p>Other</p>	

**8 Finance<sup>8</sup>**

<p>Comment on expenditures based on budget spent vs. planned</p>	
<p>Comments on budget deviations respectively over-/ underspending, and outlook for the rest of the phase</p>	

<sup>7</sup> We recommend to consult the SECO Risk Categories:



<sup>8</sup> Specific guidelines for financial reporting will follow.

Appreciation of efficiency <sup>9</sup> and cost effectiveness <sup>10</sup>	
Other	

**9 Lessons learned**

Key lessons and emerging best practices	
Difficulties, challenges and mitigation measures	
Issues for policy dialogue	
If available, important findings from reviews and self-evaluations	
Other	

**10 Conclusions for Steering and next Steps (with Schedule)**

<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> <li>• ...</li> </ul>

Next Steps	Date

**Annex I:** Logframe including comparison between planned and achieved results, e.g. summary of outcome monitoring

**Annex II** List of activities

<sup>9</sup> OECD DAC Definition: A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.

<sup>10</sup> A measure of how economically financial resources are transformed into development results.

- Annex III:** Activity-based budget and management costs
- Annex IV (optional):** Illustration materials such as copies of press clippings, pictures, testimonies, etc.
- Annex V:** List of abbreviations