

Executive Summary

Impact Evaluation

Empleando Futuro, First Social Impact Bond in an Emerging Country

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Governments usually implement an array of active labor policies in labor markets to improve their functioning. These policies aim to achieve labor insertion of vulnerable populations or promote the re-hiring of unemployed workers who have difficulties in finding formal jobs. Inclusion programs based on job training are the most common active labor market policies. These programs seek to increase participant's human capital as a critical element in order to achieve their hiring and retention in formal jobs.

There are several mechanisms to finance social programs which are focused on training and labor market insertion. The most common mechanism covers costs with public resources under a scheme of average cost per served person. Under this mechanism, the budget of social programs is not associated with their quality or effectiveness, which implies that consequences from a low-quality program are assumed by public entities and vulnerable population involved. In the last decade, alternative mechanisms to finance social programs based on payment upon results have emerged. Pay-for-performance schemes seek to modify incentives, redistribute risk, and expand funding sources for social programs, even those that include labor market insertion and retention programs.

The Social Impact Bonds Program in Colombia (SIBs.CO) is an initiative funded by the Innovation Laboratory of the Inter-American Development Bank (IDB Lab), the Swiss State Secretariat for Economic Affairs (SECO), the Department of Social Prosperity (DPS) and Fundación Corona, as the executing entity. Social Impact Bonds are a mechanism that finances social programs through resources that come from private investors, where governments, alone or with other interested parties, condition the return of the investment to measurable and previously agreed results. SIBs.CO led the implementation of "Empleando Futuro", the first Social Impact Bond in Latin America.

"Empleando Futuro" is based on inclusion and retention program for vulnerable population in the formal labor market. The intervention scheme developed in this program tried to identify the limitations of participants for an adequate insertion in the labor market, offered several training programs in order to develop different skills (hard and soft), supported job search and placement processes, with the goal of keeping participants in their new jobs for at least 3 months. "Empleando Futuro" was implemented between March 2017 and December 2018 in the cities of Bogotá, Cali, and Pereira.

This document explains the impact evaluation of "Empleando Futuro". The effects of the program were measured through several difference-in-differences analyses, a statistical method that seeks to infer the impact of a program by calculating the gap between a control and a treatment group at two different points in time, before and after the intervention.

The treatment group consists of 1,616 people who completed their training and job placement stages in "Empleando Futuro". Each received between 100 and 300 hours of training. The control group consists of those individuals who met the eligibility criteria to participate in the program but did not proceed with the enrollment process. The control group has 2,795 individuals. The 2,795 individuals in the control group are similar to the 1,616 persons in the treatment group in several observable characteristics during the pre-treatment period, regarding their access to the formal labor market and sociodemographic traits found in the SISBEN database (cut-off date of January 2016).

The individuals who participated in "Empleando Futuro" completed their training process in different dates between July 2017 and August 2018, which means that the treatment and post-treatment period is unique to each person. The econometric analyses of the impact evaluation consider this an important source of heterogeneity at an individual level.

The support received from the Department of Social Prosperity (DPS), the Labor Ministry and SIBs.CO made possible the consolidation of a database that combines three sources of information: (1) the information of all the those that registered in the management and monitoring platform of the program; (2) socioeconomic variables in SISBEN 3 database; and (3) work histories of individuals in the national registry of social security contributions (PILA), between January 2015 and March 2020. Therefore, it was possible to reconstruct basic elements of the work history of individuals in both control and treatment groups. Access to the formal labor market for individuals in the control group is similar to the access for those individuals in the treatment group during the two years prior to the kickoff "Empleando Futuro".

The impact evaluation of "Empleando Futuro" focused on two outcome variables associated with participant's performance in the labor market. The first outcome variable measures people's access to formal jobs (indicator of formality and rate of formality). The second outcome variable measures the stability of these labor contracts (indicator of full-month contributions to the national health insurance fund). Models of aggregated difference in-differences were estimated and considered the post-training period specific to each person. Models of dynamic difference in-differences dynamic showed the effects of the program month after month once the training process was completed.

The assumption of parallel trends was tested by placebo models. Graphical analyses and statistical tests indicate that the assumption of parallel trends was achieved, for the entire sample and by gender, for the two outcome variables focused on this study (the formality indicator and the full month indicator quoted to health).

The dynamic models permit calculating effects at three, six, nine, twelve and fifteen months after the training is completed, which allows studying the relationship between the design of pay-for-performance contracts and the effects of the program. The contract stipulated a compensation to the investors, through the intermediary¹ entity, in cases where each participant managed to maintain work engagement for three months and gave an additional compensation for those cases that managed to maintain work engagement for three additional months, in other words, up to six months after hiring.

The results showed that participation in "Empleando Futuro" had a positive effect on the probability of accessing formal employment. It estimated an effect of 12 percentage points on the probability three months after completing the training phase. The effect is slightly higher (15.7 percentage points) six months after the training process has been completed. These results show a high degree of persistence regarding the effects that training had on the participants of "Empleando Futuro". Also, the pay-for-performance mechanism on the permanency of participants in formality for three and six months generates important short- and medium-term effects. The results also showed that, starting at sixth months, the effect of training and intermediation begins to decline, although it remains positive. After one year and three months, an effect on the probability of accessing formal employment is observed, close to 7.8 percentage points.

This evaluation also identified significant differences in results by gender. The aggregate effect of "Empleando Futuro" on the probability of women accessing formal employment during the post-training period is about 8.4 percentage points. Instead, in men's case, results showed that there is no statistically significant effect of the training processes on the probability of accessing formal employment. These results suggest that the training and intermediation received in "Empleando Futuro" presents important benefits in job placement of women, making them more likely to be placed in formal employments.

"Empleando Futuro" had a positive effect on the probability of contributing to the public health insurance fund for a full month for those who participated in the training and labor

¹ The intermediary entity or the articulator of an alliance is who brings together several entities through a contractual agreement and has direct relationship with providers and the payers. In the case of "Empleando Futuro", Fundación Corona assumed the role of articulator and relied on Corporación Inversor as an expert in capital management and impact investment (Instiglio, 2019).

intermediation program, a sign of job stability. Initially the effect is small, but it begins to increase after the first months of the post-training period. In men's case, the effect at three months was close to 6 percentage points; three months later, the effect doubled to 12.8 percentage points. No statistically significant effect was found for women three months after the training process was completed, but at six months and nine months, effects were found to be close to 11 percentage points. After reaching the maximum level for both genders, the effect begins to diminish over time. Fifteen months after completing the training stage, the effect for both men and women on the probability of having a job that generates full-month health contributions is close to 4.6 percentage points. These results demonstrate that "Empleando Futuro" not only had positive effects on access to formal jobs, but also had a positive impact on the possibility of accessing more stable jobs.

In terms of the intensity in the number of hours in the training process, considering the type of skills the participants needed to thrive through the program, "Empleando Futuro" required service providers to offer a minimum of 100 hours of training courses in both soft and hard skills. The results show that a participant who received hard skills training at an intensity of 70 hours or more increased their probability of being placed in a formal employment by nine percentage points compared to a person who did not receive the above-mentioned training. In other words, a high intensity in hard skill training generates significant increase in the probability that the individual will be formally employed, evidencing the importance of this type of training in job stability. In the case of short- and medium-term effects of training in hard and soft skills on the probability of having a stable job during the entire month, a high effect was found during the first six months after training, which then drops slightly without the effect vanishing completely. The effect of soft-skill training is slightly greater than the effect of hard skill training, particularly in the first few months after the intervention. When soft skill training happened 50 hours or more, the results show that the probability of having a stable job increases by approximately 13 percentage points six months after the intervention. After one year of completing the training, this probability increases by almost eight percentage points, and after 15 months the effect settles at five percentage points.

Training programs often have effects on formal employment that aren't evident in the short run. Card et al (2010) showed the effects of training programs, operated most of the time in developed countries, are not perceived in the short term, but positive evidence of these can be found over time. Furthermore, in the case of Latin America, Gonzales et al (2012) examined the effects of job training programs in different countries in the region and discovered that short-term programs do not make the participants more likely to get a job. By contrast, this impact evaluation presents evidence of significant positive effects on labor market outcomes for participants of "Empleando Futuro". These

effects decreased over time but did not disappear completely. The above mentioned conclusions suggests that pay-for-performance schemes and change in incentives for all participants may be an antidote that helps generate short-term effects and extends positive effects of future training and labor intermediation programs.