

## TC Document

### I. Basic Information for TC

▪ Country/Region:	COLOMBIA
▪ TC Name:	Institutional strengthening and results-based financing for better jobs in Bogota
▪ TC Number:	CO-T1683
▪ Team Leader/Members:	Gonzalez Velosa, Carolina (SCL/LMK) Team Leader; Zegarra Azcui, Francisco (SCL/MIG) Alternate Team Leader; Barbara Buchbinder (SCL/MIG); Barbosa Taves De Gouvea, Heleno (ORP/REM); Casco, Mario A. (ITE/IPS); Cecilia Siccha (SCL/LMK); Diana Bocarejo (SCL/GDI); Gaston Ferrin (SCL/LMK); Gomez Gerena, Maria Fernanda (SCL/LMK); Gonzalez Herrera, Beatriz Maria (SCL/LMK); Mendoza Benavente, Horacio (LEG/SGO); Mendoza Centellas, Mariana Beatriz (ORP/GCM); Tres Viladomat, Joaquin (SCL/MIG)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	
▪ Beneficiary:	Government of Bogota
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Canada Cooperation Framework(CCF)
▪ IDB Funding Requested <sup>1</sup> :	US\$368,421.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months (including the Execution period)
▪ Required start date:	December 2022
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	SCL/LMK-Labor Markets SCL/MIG-Migration Unit
▪ Unit of Disbursement Responsibility:	CAN/CCO-Country Office Colombia
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Gender equality; Institutional capacity and rule of law; Social inclusion and equality

### II. Objectives and Justification of the TC

- 2.1 The project aims at supporting the Government of Bogota in the institutional strengthening of the District Employment Agency through the implementation and evaluation of *Bogota Trabaja*, a large-scale employment program that will operate through results-based financing. The District Employment Agency oversees Active Labor Market Policies (ALMPs) with interventions such as training, intermediation, job search assistance, or hiring subsidies aimed at connecting job seekers to formal jobs. The District Employment Agency directs its services mainly to the vulnerable population. With *Bogota Trabaja*, the Bogota aims at placing at least 21,000 beneficiaries in formal

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<sup>1</sup> These funds will be administered by the IDB through a Project-Specific grant (PSG). Canada Cooperation Framework will contribute CAD \$8 million, which is equivalent to US\$6.34 million at the exchange rate of 1.26118 CAD to US\$ as of April 13, 2022.

jobs and will contract out the operation to service providers that will receive payments contingent on the achievement of pre-defined and verified results in formal job placement. This financial model is an innovation in service delivery, uncommon in Colombia and Latin America and the Caribbean, that seeks to promote an incentive alignment among beneficiaries, social providers, and the government thereby increasing the effectiveness of the intervention. The payment structure and coverage goals will incentivize the provision of services for populations with limited access to the labor market, especially migrants and women.

- 2.2 **For decades, Colombia has had very high unemployment and labor informality rates, relative to the rest of Latin America and the Caribbean.** With a structural unemployment rate of approximately 10% and informality rates of 60%, Colombia is one of the countries in Latin America and the Caribbean with greater difficulties to generate good quality jobs (Gonzalez-Velosa, 2022). Unemployment and informality rates dramatically increased during the COVID-19 crisis and despite some recovery, access to jobs is still limited. By the end of 2021, the unemployment rate was 13.7% and the rate of informality in urban areas was 48% (DANE, 2022).
- 2.3 **Access to quality jobs is even more restricted among women.** Gender gaps in labor market outcomes in Colombia are among the largest in the region and substantially increased with the COVID-19 pandemic, which had a disproportionate impact on female employment<sup>2</sup>. Between the third semester of 2019 and the third semester of 2020, women lost 1,8 million jobs whereas men experienced a high, but smaller loss of 1 million. Female job losses were largely explained by childcare center closures, which affected female participation, and a disproportionate shock in sectors with large female employment, like tourism and hospitality. Since 2020, there has been a steady recovery, but access to jobs has been uneven, with faster growth in male than in female jobs (Banco de la República, 2022).
- 2.4 **Migrants from Venezuela also face greater barriers in the labor market.** Colombia had the largest inflow of Venezuelan migrants in the world and Latin America and the Caribbean. After a sudden, massive inflow between 2017-2022, approximately 2.5 million migrants from Venezuela are living in Colombia, of which 51% are women and 27% of them between 18 and 39 years old. This community is impacted by the health and economic crises, especially women and recent migrants. In 2021, the unemployment rate of people who lived in Venezuela 12 months ago was 24.4% whereas for those who lived in Venezuela 5 years ago was 14.9%. For women, these rates are higher: 33.8% and 23.1%, respectively (DANE, 2022). Migrants from Venezuela encounter barriers to access the labor market, related to (i) documentation, such as formalizing their migration and legal status in Colombia; (ii) administrative procedures, including the difficulty to validate the qualifications obtained in Venezuela and the lack of flexibility of public and private entities to include migrants in programs offered; and (iii) cultural barriers and xenophobic attitudes in society, i.e. some employers have a low preference to hire Venezuelan personnel. Women migrants face additional barriers, as the lack of support networks and stereotypes regarding the roles of women in labor markets (CUSO, 2020; Fedesarrollo, 2022).

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<sup>2</sup> It is important to note that the gender gap is big in unemployment and wages, but not in informality. Conditional on being employed, the informality rate is similar across genders. In 2017, for example, the informality rate for women and men was 61%. Post-pandemic, in 2021, for women was 60% and for men, 62% (SIMS, 2022).

- 2.5 **Unemployment and informality rates in Bogota are large and access to quality jobs is uneven.** Even before the pandemic, in 2019, unemployment rates in Bogota were high by regional standards, 10.6% for women and 8.9% for men. Unemployment levels increased during the pandemic, especially among women, and while in 2021 there was an important recovery, figures remain very high: at 13.4% and 11.3% for women and men, respectively. In the case of young adults, unemployment rates are even higher, reaching almost 20%. Labor informality is widespread: by the end of 2021 two out of every five workers in Bogota had informal jobs (Secretaría de Desarrollo Económico de Bogota, 2022).
- 2.6 **Bogota has the highest number of Venezuelan migrants, who face larger barriers in access to quality jobs.** Bogota is home to 495,236<sup>3</sup> Venezuelan migrants<sup>4</sup>, representing 20% of all Venezuelan migrants residing in the country and surpassing the total number of Venezuelan migrants and refugees in other countries (Chile 448,138; Brazil 351,958; Argentina 170,316, etc.)<sup>5</sup>. This has posed enormous challenges for the City in terms of guaranteeing basic public services.
- 2.7 **Active labor market policies to promote employment.** Governments in the region have increased their investments in ALMPs. In Colombia, pre-pandemic investments were already significant, amounting to at least 0.3% of GDP at the national level (Gonzalez-Velosa, 2022). Investments in these programs increased in the aftermath of the pandemic. For instance, the national government implemented an intervention (*Programa de Apoyo al Empleo Formal*) that subsidized 40% of the minimum wage for new hires with expenditures amounting to at least 0.6% of GDP. In Bogota, the budget assigned to ALMPs increased 27.5 times from 2019 to 2021. The city is currently spending at least USD 27 million in 2022 for training and employment services for the general population and hiring subsidies for youth. The 2020 Development Plan aimed to achieve considerably large employment goals: 200,000 individuals inserted into the labor market for the quadrennium 2020-2023 (70,000 of them women), and 50,000 individuals trained. However, the lack of technical capacity and the economic impact of the pandemic have imposed challenges on their attainment.
- 2.8 **To attain these employment goals, the city is revamping its employment agency and has launched ALMPs like *Bogota Trabaja* and *Empleo Joven*.** In 2019 the District Employment Agency turned into a critical institution to provide employment services to vulnerable populations in Bogota, such as migrants and women disconnected from the labor market. Due to a 2019 Constitutional Court ruling<sup>6</sup>, the *Cajas de Compensación Familiar (CCF)*, which operated as major employment agencies in the city providing universal services, are now greatly limited in their provision. To a large extent, the CCF is now only able to provide services to unemployed individuals with formal labor history. Thus, the District Employment Agency is seeking to become the primary provider of employment services to those with no formal labor history, like migrants, vulnerable workers, women, and youth. To institutionalize this role, the District Employment Agency has set the target of supporting the insertion of at least

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<sup>3</sup> Ministerio de Relaciones Exteriores, 2022. [Distribución de Venezolanos en Colombia corte de febrero de 2022](#).

<sup>4</sup> In March 2022, 51.34% of the individuals pre-registered under the temporary protection status system in Bogota were women (the total number of pre-registered persons in the city was 375,370). This percentage is a proxy indicator of the number of migrant women that live in Bogota.

<sup>5</sup> Source: [Inter-agency coordination platform for refugees and migrants from Venezuela](#)

<sup>6</sup> Ruling C-474/09.

34,000 individuals by the end of 2022, providing employment services to at least 11,000 women. Also, it seeks to improve the specialized services offered to vulnerable populations and the strategic approach towards employers considering specific challenges and needs faced by women, migrants, and other vulnerable populations. Moreover, Bogotá is investing in *Bogotá Trabaja*, an intervention that will be financed through results-based financing models<sup>7</sup>, emphasizing access to women and immigrants, and was designed using lessons learned from recent innovations in results-based financing made in Colombia<sup>8</sup>. Specifically, some interventions in the program are providing additional financial incentives to service providers that demonstrate that women participating in the program have been inserted into the labor market. The Government of Bogotá has also included specific eligibility requirements, tailored to vulnerable populations and determined by the SISBEN<sup>9</sup> (System of Identification of Social Program Beneficiaries), as an additional strategy to avoid cherry-picking among service providers. Additionally, the Government of Bogotá is requiring program operators to provide specialized services, such as support for childcare, safe travel to work, among others, to improve employability conditions of women and mitigate barriers to access and maintaining formal employment.

- 2.9 **In the last decade, Colombia made major innovations in results-based financing models (e.g., social impact bonds, performance-based contracting, and outcomes funds) that have put the country at the forefront in Latin America and the Caribbean** (Agusti and Ronicle, 2021, Brookings 2020, Brookings 2022). Preliminary evidence shows that these interventions have had a positive impact on the labor market outcomes of the beneficiaries (Gonzalez-Velosa 2022). This is consistent with a large body of international evidence showing that the introduction of results-based financing arrangements can improve ALMPs' effectiveness (Kluve et al, 2019).
- 2.10 **Results-based financing arrangements are likely to deliver better employment outcomes, but their design and implementation pose important design and implementation challenges.** By tying funding to verified results, results-based financing aligns incentives between service providers and governments and offers service providers the flexibility to tailor service provision to the profile of the beneficiary and the employers' needs. Moreover, it promotes the development of a culture of achieving results, monitoring, and accountability in which employment outcomes are measured, tracked, and reported. Also, using resources from an array of sources (public, private or social organizations) helps ensure that there is greater accountability for costs and results. However, results-based financing, if ill-designed, may create perverse incentives that exclude the more vulnerable population such as creaming or cherry-picking. Creaming occurs when service providers select participants that are more likely to achieve expected outcomes, thus the payment attached to these outcomes, and leaves outside individuals with higher barriers to enter the labor market. The design of outcome metrics and pricing also impose technical challenges that can affect implementation if financial risks are not adequately distributed. Lastly, service providers often need support to measure and report outcomes.

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<sup>7</sup> In results-based financing models, governments contract out the provision of active labor market policies to service providers through a financial arrangement in which some payments are contingent on the achievement of pre-defined and verified results.

<sup>8</sup> This RBF model includes lessons learned from the Social Impact Bonds implemented in Colombia.

<sup>9</sup> A household vulnerability index that is used to identify the beneficiaries of social assistance programs in Colombia.

- 2.11 **Bogota has started to implement a results-based financed employment program, *Bogota Trabaja*, with an ambitious scale; the largest to date in the country, that seeks to provide at least 21,000 formal jobs and 12,000 of them for women. Thus far, the attainment of these goals has proved challenging due to the difficult conditions of the post-pandemic labor market and the technical complexity that RBF entails.** This operation seeks to provide technical and financial assistance to the City of Bogota for the evaluation of this intervention.
- 2.12 **Alignment with the Institutional Strategy.** The TC is consistent with the updated Institutional Strategy (UIS) (AB-3190-2). **Development challenges:** (i) social inclusion and equality by promoting access to better job opportunities for vulnerable populations, particularly women, through the strengthening of Bogota's Employment Agency, the responsible entity for the provision of employment services to vulnerable individuals and ultimately, delivering better employment outcomes. **Crosscutting axes:** (i) Gender Equality, by strengthening and promoting the increase of economic opportunities for the socio-economic integration of women and vulnerable migrant population; in particular women, following the Gender and Diversity Sector Framework Document (GN-2800-8), the Gender Action Plan (GN-2531-19), and (ii) Institutional Capacity and Rule of Law by strengthening the institutional capacity of Bogota's Employment Agency to deliver adequate services to better meet the needs of target populations. The non-reimbursable technical cooperation is aligned with IDB Group Country Strategy with Colombia's (2018-2022)<sup>10</sup> priorities: (i) increase productivity; (ii) improve public management effectiveness, and (iii) ensure greater social mobility and consolidation of the middle class. It has also envisaged three cross-cutting areas: (i) gender and diversity; (ii) climate change; and (iii) integration. Additionally, the program will contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) through the beneficiary indicators of initiatives supporting migrant and host populations, and employment initiatives. It is also consistent with the following Bank sector frameworks: (i) Migration (GN-3021); and (ii) Labor (GN-2741-12).

### III. Description of activities/components and budget

- 3.1 **Component 1 (US\$110,000). Technical support to strengthen the District Employment Agency's capacity.** Activities to enhance the Agency's capacity in delivering adequate services that meet the needs of target populations, with a focus on the migrant population and women. This includes technical assistance in: (i) developing an assessment and a roadmap for institutional strengthening of the Agency at the strategic, administrative, and operational levels; and (ii) designing employment specialized services<sup>11</sup>, such as targeting, profiling, tailored training, and employers' engagement, for migrant and vulnerable populations, particularly women. Specifically, strategies and best practices from international consultants and other public employment services designed for women and migrant populations shall be included.
- 3.2 **Component 2 (US\$240,000). Technical support for program evaluation and sustainability.** This component will finance: (i) an independent evaluation of processes and results that will inform the design of future results-based financing interventions. Those mechanisms seek to incentivize the insertion of women into the labor market. The evaluation will analyze and document the effectiveness of the financial incentives

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<sup>10</sup> <https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1474758834-8>

<sup>11</sup> These services might be implemented through results-based financing mechanisms or more traditional models (such as fee-for-service contracts).

to encourage formal labor insertion of women; (ii) an assessment of the barriers that public and private operators face in supporting women and migrants access the labor market, including opportunities and difficulties employers identified<sup>12</sup>; and (iii) communication strategies and tools such as a dissemination event of the initiative and its main results with private and public entities in the region relevant for scaling up results-based financing programs in employment and working sessions with instances within and outside the IDB to share lessons learned throughout the RBF implementation. Results and lessons learned of both challenges detected and opportunities originated throughout the intervention will be documented and disseminated to inform new interventions at the local and national levels and with other countries of the region. Results will also inform the Payment for Results for More and Better Jobs Initiative in Latin America and the Caribbean (RG-T3858) which seeks to mainstream results-based financing for employment programs on large regional scale.

### Indicative Budget

Activity/Component	IDB/Fund Funding	Total Funding
Component I. Technical support to strengthen the District Employment Agency's capacity	US\$110.000	US\$110.000
Component II. Technical support for program evaluation and sustainability, and disseminating knowledge	US\$240.000	US\$240.000
Administrative Fee (5%)	US\$18.421	US\$18.421
Total Amount	US\$368.421	US\$368.421

**3.3** Canada Cooperation Framework (CCF) expects to commit US\$ 368.421 to this project.

**3.4** Resources of this project have been received from the Government of Canada, acting through the Department of Foreign Affairs, Trade and Development through a Letter of Contribution to Donor Account dated March 31, 2022. Such resources will be administered by the IDB as Project Specific Grants (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 and in abovementioned the Letter of Contribution, the commitment by the Government of Canada will be established through a separate confirmation of the Donor's intention to fund this project. The resources for this project will be administered by the Bank and the Bank will charge a non-refundable administration fee of 5% of the contribution to this project, which is identified in the budget of this project. The 5% administration fee will be charged upon the Bank's approval of the operation and following the transfer from the General Donor Account (GDA) to the Canada Cooperation Framework Account (CCF), where the resources of this project will be administered from.

## 4 Executing agency and execution structure

<sup>12</sup> This includes guidelines on gender-based analysis and intersecting identity variables.

- 4.1 The project team will be responsible for the preparation and submission to the donor of the project reporting, as well as for all other actions and deliverables pertaining to project execution and agreed with the donor in the Administration Agreement.
- 4.2 The project will be executed by the Inter-American Development Bank (IDB), at the request of the Government of Bogota, in accordance with the guidelines and requirements established in the Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the social sector (SCL/LMK & SCL/MIG), and at the request of the beneficiary. This is due to the Bank's experience in supporting evaluation processes in payment for results-based programs, and its capacity, to advise and transfer lessons learned from other countries in this specific topic, as well as the promotion of best practices from within and outside the region on the subject. The IDB will supervise the consulting services, each dedicated to its respective component, and may provide technical inputs to the consultants' reports. The ownership of the intellectual property rights belongs to the Bank; however, a license for the use of the products will be granted to the beneficiary government, if applicable.
- 4.3 All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-28 for logistics and other related services.
- 4.4 In terms of the supervision of this TC, under the direction of the team leader specialist and the alternate team leader, the project team will be responsible for monitoring and facilitating the activities required to achieve expected results. The TC will be monitored and evaluated in accordance with Bank requirements and through the Results Matrix. Annual and final reports will be prepared in Convergence, as established in OP-1385-4.

## **5 Major issues**

- 5.1 The increased migratory flow from Venezuela may exceed the institutional capacity of the Municipality, which could lead to greater needs for financing and technical assistance. Mitigating measure: focus on targeted areas that become pilots for future interventions of the program in other neighborhoods and identify economies of scale to reduce costs when replicating the program on a larger scale.
- 5.2 Addressing the risk of results-based financing, if ill-designed, may create perverse incentives that exclude the more vulnerable population such as creaming or cherry-picking. Creaming occurs when service providers select participants that are more likely to achieve expected outcomes, thus the payment attached to these outcomes, and leaves outside individuals with higher barriers to enter the labor market. Mitigating measure: focus only on vulnerable populations and hiring service providers with experience working with vulnerable populations.

## **6 Exceptions to Bank policy**

- 6.1 No exceptions to Bank policy apply.

## **7 Environmental and Social Strategy**

- 7.1 This TC will not finance feasibility or pre-feasibility studies for investment projects or associated environmental and social studies and therefore does not meet the applicable requirements of the Bank's Environmental and Social Policy Framework.

### **Required Annexes:**

[Request from the Client - CO-T1683](#)

[Results Matrix - CO-T1683](#)

[Terms of Reference - CO-T1683](#)

[Procurement Plan - CO-T1683](#)