

GOYN 2023

GLOBAL CONVENING



INVESTING IN YOUTH: PROMISING FINANCING SOLUTIONS

8 NOVEMBER 2023, 1.30-3.00PM

GLOBAL OPPORTUNITY
YOUTH NETWORK
THE FUTURE IS YOUNG
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Incubator

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AGENDA

1 Introduction (10 min)

- Context and objectives of the session
- Overview of the FinYouth framework and case studies

2 Product deep dives & case studies (75 min)

- Product #1: Results-Based Financing/Workforce Development Outcomes Fund (25 min)
- Product #2: Career Financing/Career Impact Bond (25 min)
- Product #3: Livelihoods Fund (25 min)

INVESTING IN YOUTH: PROMISING FINANCING SOLUTIONS

SESSION SPEAKERS



JOANNA RAMOS-ROMERO
Senior Technical Advisor,
Catholic Relief Services
(Moderator)



FATUMA ALI
Social Entrepreneur &
Founder, Sulha Africa



RAFAEL ARIAS
Education and Employment Manager,
Fundación Corona



CYRIELLE AUFRAY
Manager,
Global Development Incubator



ALICE GUGELEV
CEO,
GDI Africa

FinYouth reviewed the existing landscape of financing mechanisms for youth employment and entrepreneurship

Challenges observed

*New financing models are emerging to fund youth employment & entrepreneurship initiatives, **but:***

- **Stakeholders lack familiarity** with these products
- There is **limited guidance** on how and where to use these products
- There are limited opportunities for stakeholders to come together to **share knowledge and coordinate efforts**

Project objectives

Produce a landscape report to:

- **Map** out the suite of existing financing mechanisms for youth employment and entrepreneurship
- **Analyze** gaps and opportunities for scale in existing products
- **Highlight** promising products to pilot and/or scale up

Outputs



- **Landscape report** based on 60+ stakeholder interviews and secondary data
- Comprehensive **analytical framework and product mapping**
- **200+ programs & products** reviewed
- **42 detailed case studies**
- **12 key recommendations and 11 highlighted products** showcasing scalable, effective financing mechanisms for youth employment and entrepreneurship

The financing problems we're trying to solve

1. It's about the pipeline:

Disbursement of capital is the biggest challenge due to lack of pipeline (not aggregating capital, many funds out there)

2. The world is in 2 rooms:

Seekers of capital and deployers of capital do not speak the same language and don't understand each other

3. Inappropriate/inefficient use of capital

Often the wrong kind of capital is deployed that crowds out investor (e.g. crowd out banks or government financing)

4. Lack of knowledge about financing mechanisms and tools

Investors and seekers of capital do not use the right tool for the challenge they are trying to solve (e.g. incentive structure, wrong products)

5. Low usage of grant and risk capital mix / blended and follow-on capital structures

Use of grant, concessionary capital and commercial risk capital

6. Small scale

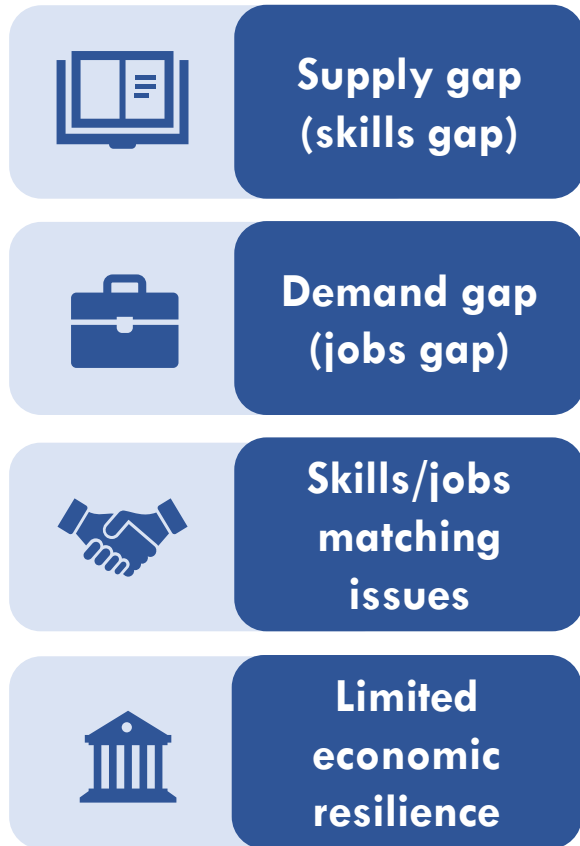
Scalability remains a challenge as most investments fail to influence FINANCIAL SYSTEMS (government budgets, commercial capital); one-off deals and small funds are still the majority of the efforts

7. Financing as the end as opposed to the means (for impact investors)

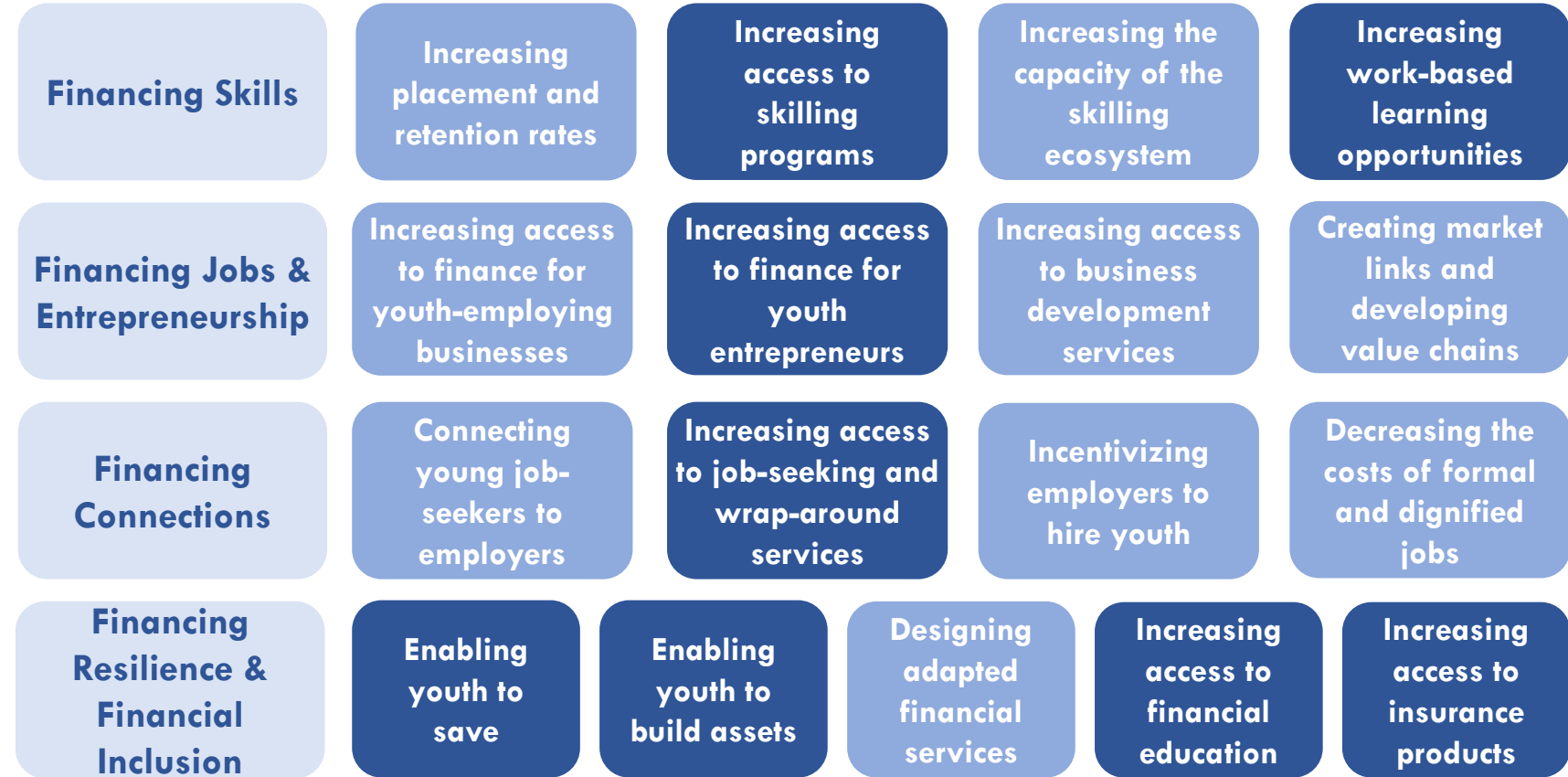
Focus on the impact you want to have and the most appropriate scalable financing tools; include using financing as an incentive shifting mechanism

FinYouth breaks down youth unemployment into four key issues

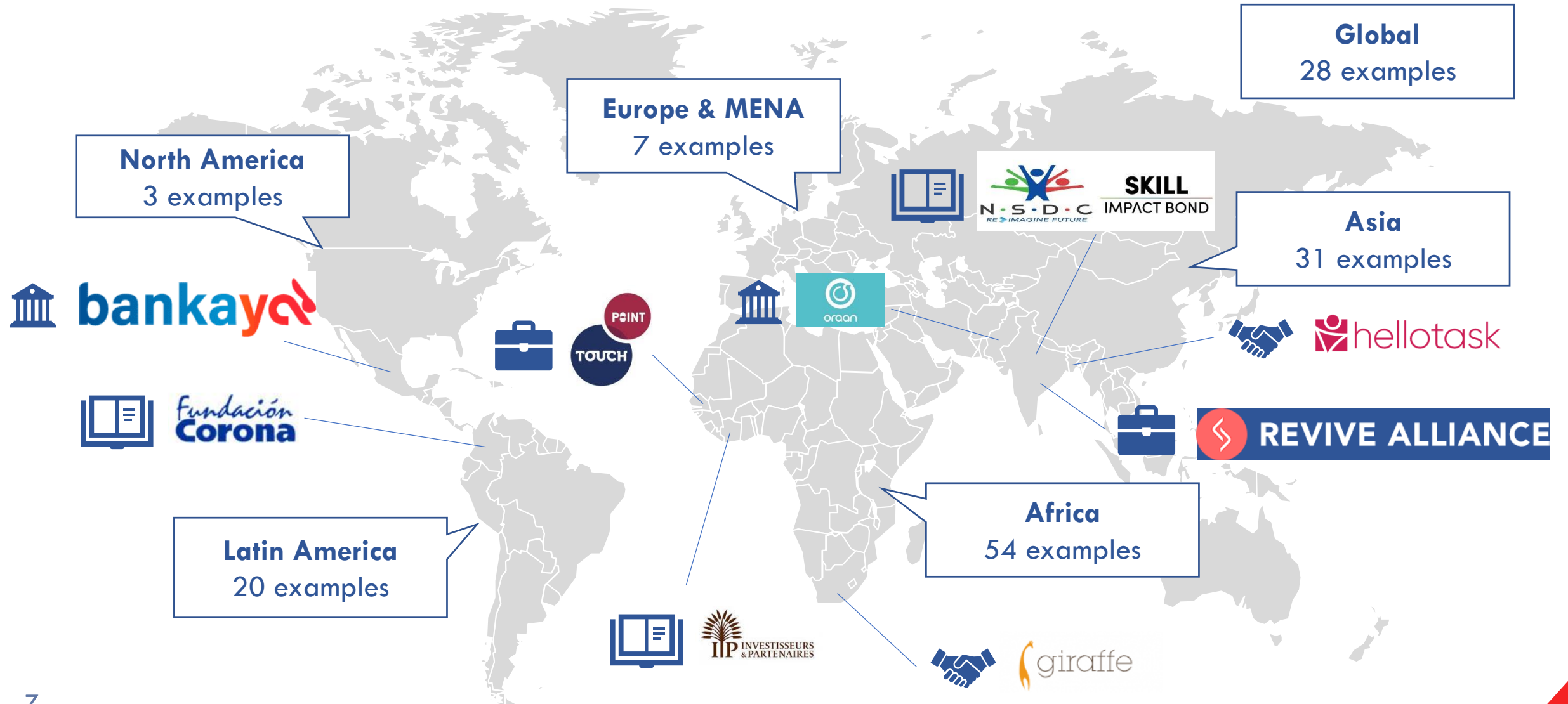
FOUR EMPLOYMENT ISSUES



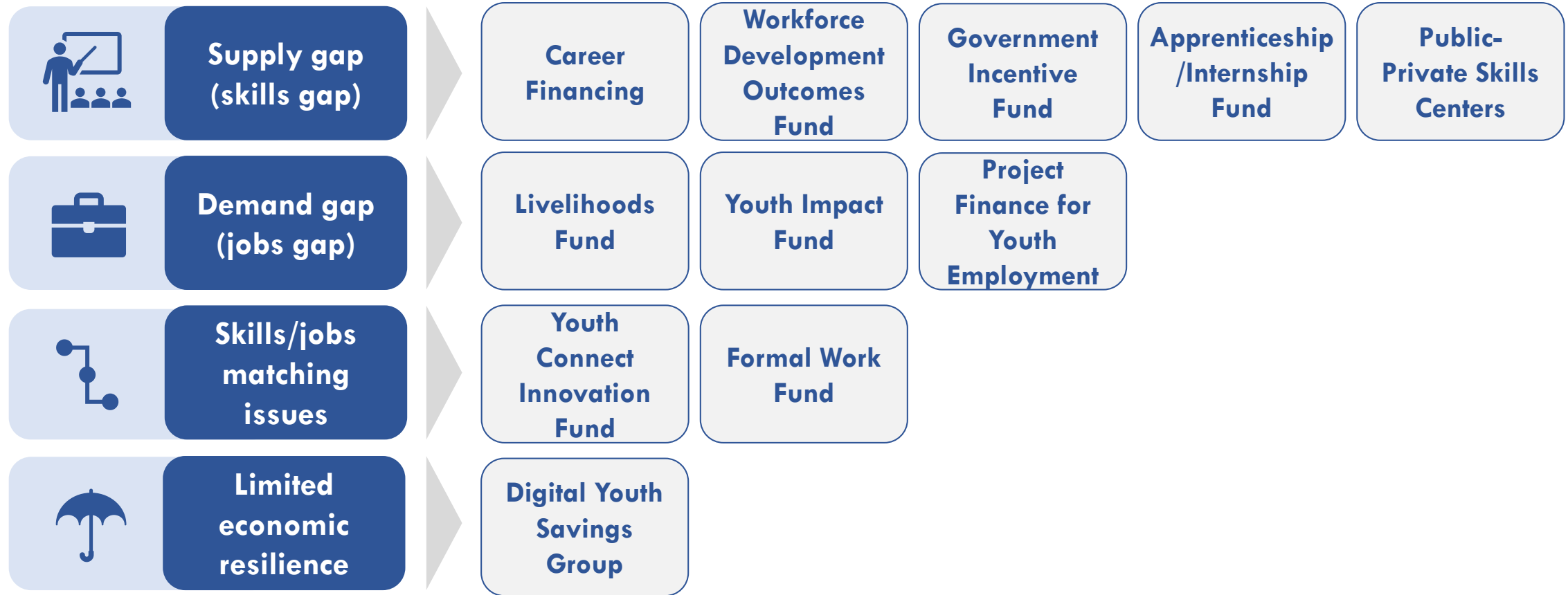
13 SOLUTION AREAS



FinYouth includes 140+ examples from all over the world



FinYouth includes 11 product recommendations



Product #1: Results-Based Financing/Workforce Development Outcomes Fund

What is Results-Based Financing?

- Results-Based Financing (RBF) covers a broad range of financing products where payments to service providers are partly or fully conditioned on the achievement of specific outcomes (“outcome payments”).
- In the context of youth employment, RBF models seek to link outcome payments to students’ employment outcomes, such as placement and retention rates.

Benefits of RBF

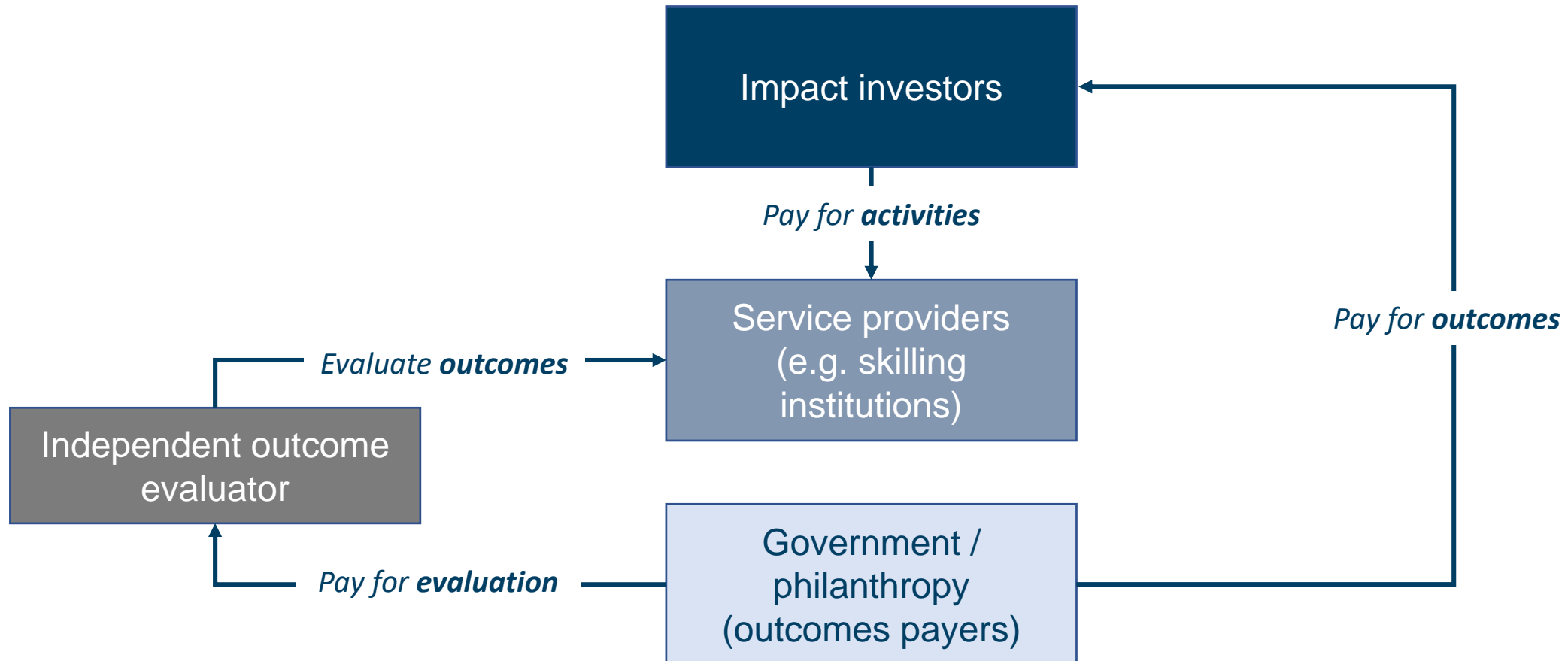
- Service providers are incentivized to deliver outcomes, not activities. RBF directs funding to the most effective programs.
- Less micro-managing of activities enables service providers to innovate and test different approaches.
- RBF can bring in a more diverse crowd of funders (e.g., impact investors).

Challenges of RBF

- Requires extensive and accurate Monitoring & Evaluation systems.
- Implementing a RBF model can be lengthy and costly, making them hard to scale.

Product #1: Results-Based Financing/Workforce Development Outcomes Fund

RBF example: Social Impact Bond

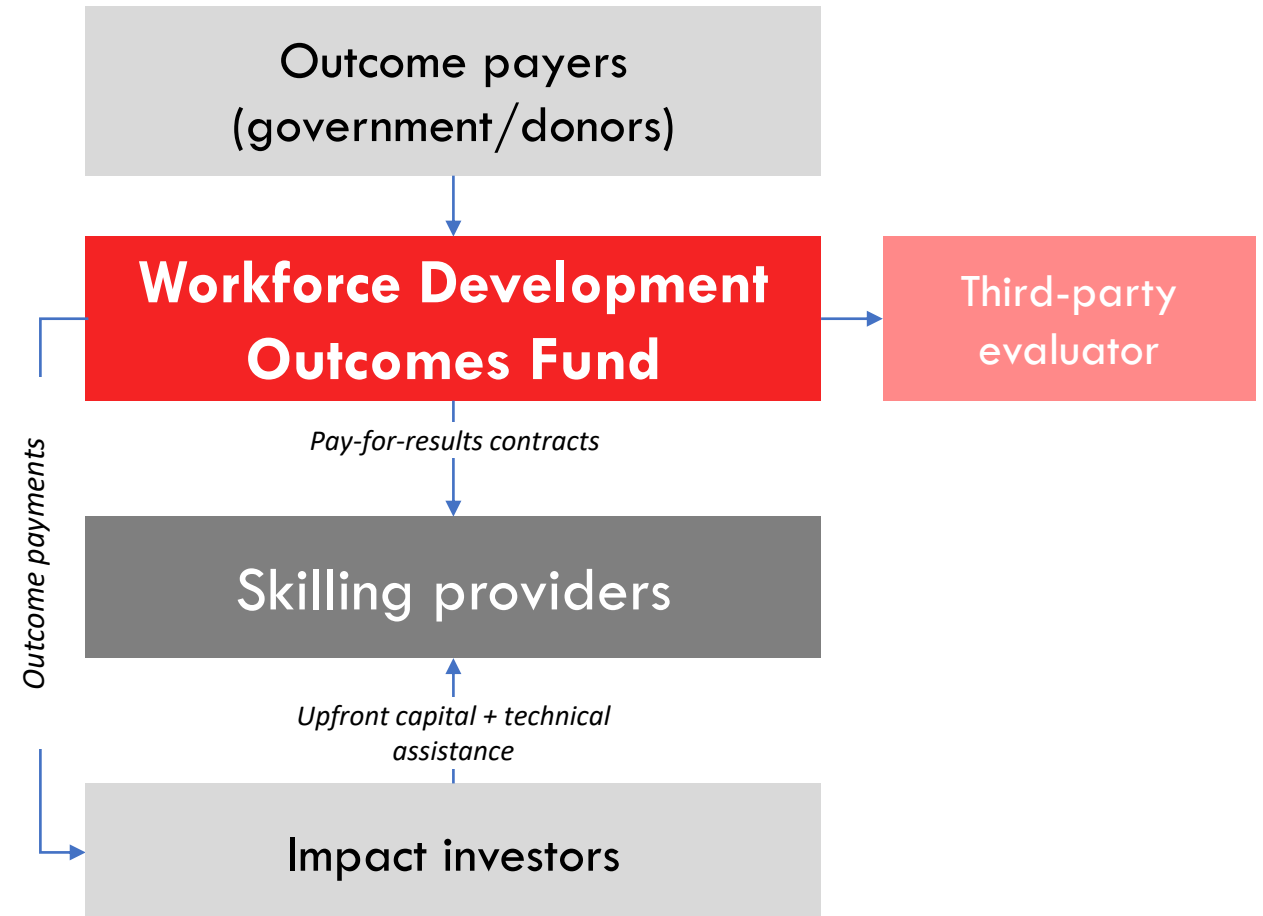


Effective... but how to scale?

Product #1: Results-Based Financing/Workforce Development Outcomes Fund

- **The challenge:** Skilling providers are incentivized to deliver activities, not outcomes.
- **The solution:** A fund that issues pay-for-results contracts to multiple skilling providers.
- **Scale:** 10,000-20,000+ youth trained for a US\$20+ million fund

Product structure



Product #1: Results-Based Financing/Workforce Development Outcomes Fund



Benefits

- Enables the execution of outcomes-based contracts **at scale** through **standardization and economies of scale**
- Drives **systemic change** to reward effective training solutions
- **More effective use of funding**
- **More diverse** donors and investors
- More space for **innovation, learning and adaptation**



Key success factors

- **Growing economy** with high demand for vocational skills
- **High-quality, high-capacity skilling providers**
- **Close links** between skilling providers and employers
- **Standardized outcomes-based contract**
- **Streamlined third-party evaluation process** to validate outcomes
- Supportive **regulatory framework**



Inclusion considerations

- **Higher outcome payments** can be made for specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups

Product #1: Results-Based Financing/Workforce Development Outcomes Fund



Education Outcomes Fund

- *Two outcomes fund for primary education*
 - *270,000 children reached*
 - *Ghana and Sierra Leone*



Nepal Employment Fund

- *100,000 youth trained*
- *80% from disadvantaged groups*
- *90% employed, 75% above minimum wage*



Outcomes-based contracts in Morocco

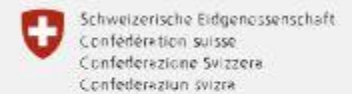
- *Two RBF pilots implemented*
 - *US\$5 million budget*
 - *5800 youth trained*
- *Being adopted as a nationwide program*

SIBS.Co

A system-changer program



Fundación corona



Embajada de Suiza en Colombia
Cooperación Económica y Desarrollo (SECO)

SIBs.Co How the whole story started

Pioneering Payment-by-Results

In 2016, SECO + BIDLab + Fundación Corona joined to make Colombia a pioneer in payment-by-results mechanisms.

Stakeholder Involvement and Public Value

Through results-based finance mechanisms we seek to deliver cooperation while increasing stakeholders involvement to ensure public value creating and long-term sustainability.

Innovation, Collaboration and Cross-Sector Partnerships

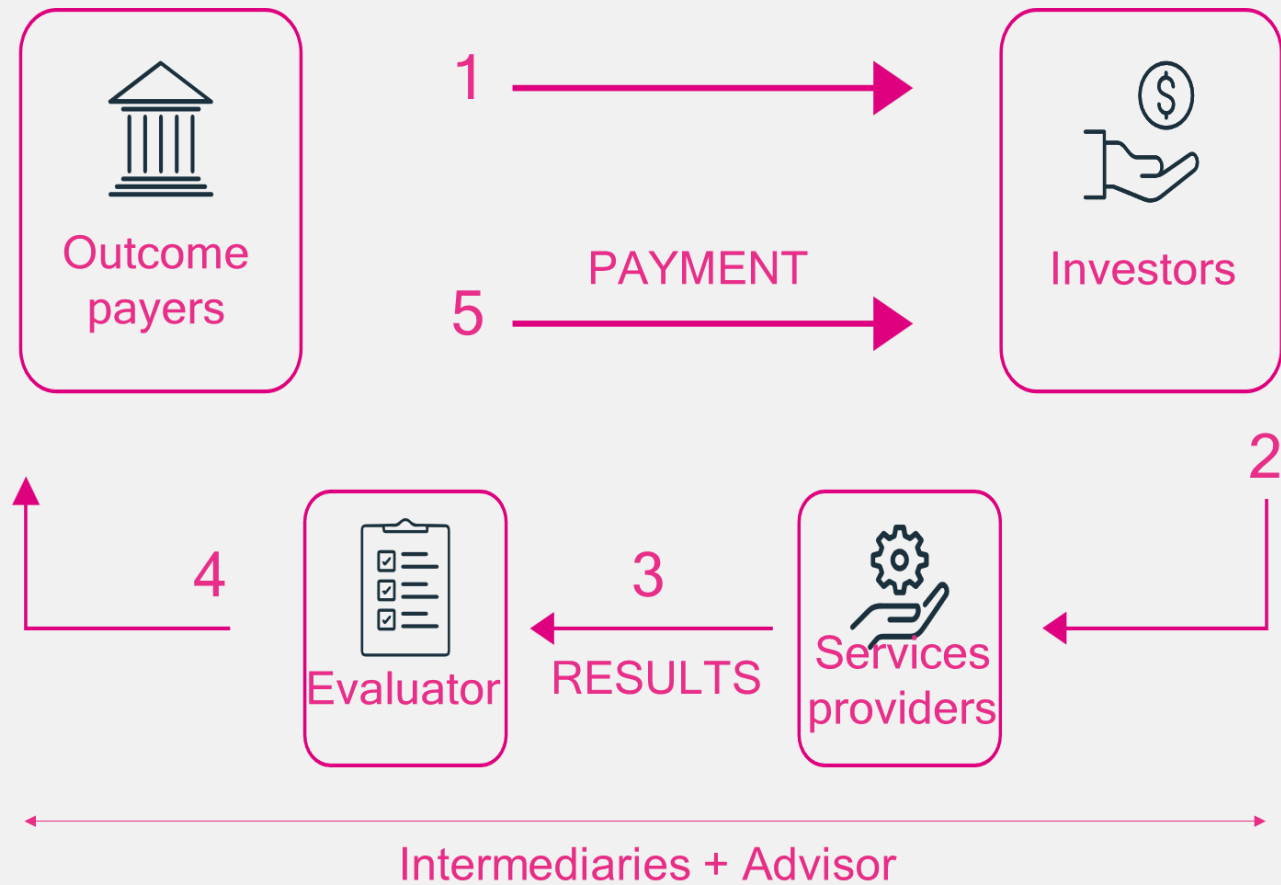
We developed a program that fosters innovation, encourages collaboration between public and private actors, and enables effective interventions to tackle Colombia's complex social challenges.

Building the market

SIBs.CO is dedicated to supporting the design, implementation, knowledge dissemination, and outcome based payments in alignment with the government's priorities



SIBs.Co Piloting a specific RBF mechanism



In Social Impact Bonds, the objective is to promote greater cost-effectiveness of public spending, while creating incentives for the private sector to assume the financial risk of ensuring the achievement of improved social outcomes.

Through the (phase 1 of the) program, we aim to bridge the employment gap for the vulnerable population, assisting them in securing a stable formal employment and ensuring its retention overtime.

SIBs.Co A journey towards systemic change

Changing the mindset

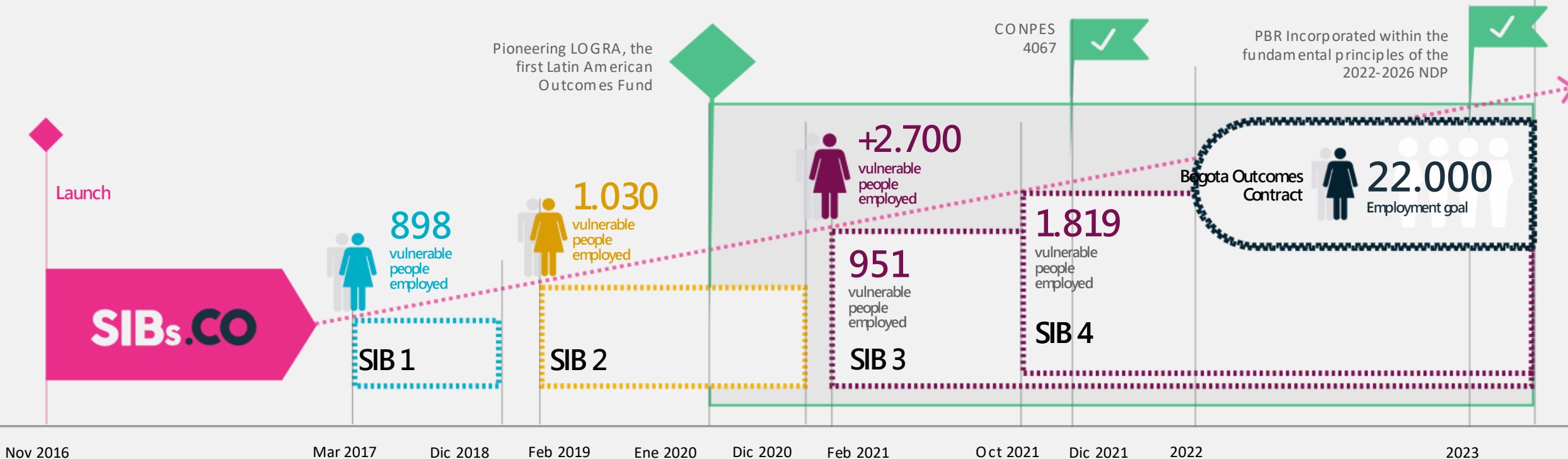
in public spending to execute public resources with a rigorous framework of measurement and achievement of results.

Changing public-private relations

by creating an integrated ecosystem for social outcomes contracting that aligns impact investment with public policy achievements.

Changing structures

by implementing best performance management practices in private providers, and in public policy, by institutionalizing innovation and adopting a payment-by-results approach




What has been achieved in terms of systemic change?

National and international reference in RBF.

Taken the first step towards generating systemic change in the way social challenges are addressed in the country. FBR as a viable and desirable contracting model to address social challenges.

It is essential to ensure the continuity of the progress made in order to consolidate and scale up the initiative.



Availability and existence of data

Knowledge and capabilities of public administrations and donors.

Market's capacity to meet the demand for RBF programs.

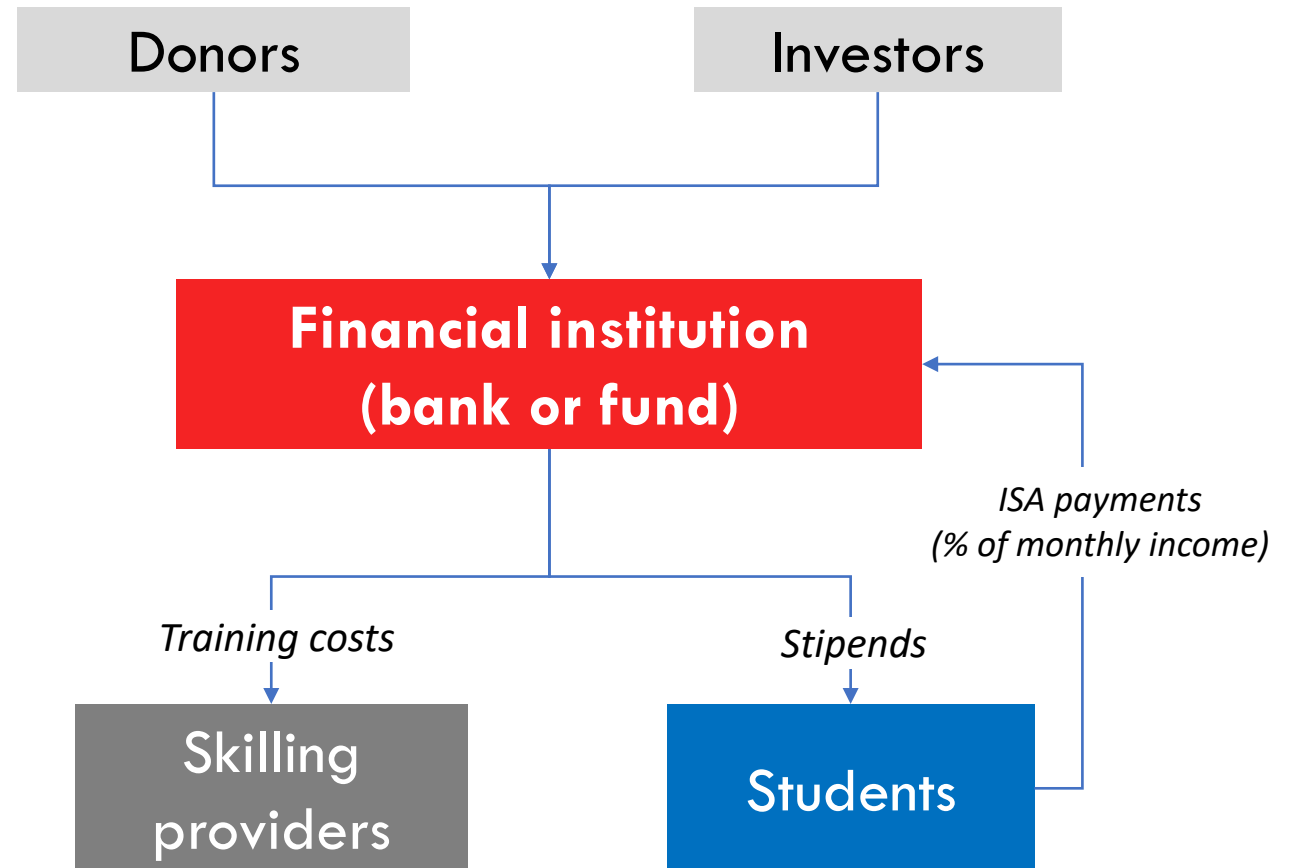
Maturity of the regulatory framework.

Investors' and service providers trust in the robustness of the legal and policy framework

Product #2: Career Financing / Career Impact Bond

- **The challenge:** Youth cannot afford skilling programs and cannot access traditional financing sources.
- **The solution:** A financial institution that issues income-share agreements (ISAs) to youth enrolled in high-impact skilling programs.
- **Scale:** 5,000+ youth trained for a US\$5-10 million fund

Product structure



Product #2: Career Financing / Career Impact Bond



Benefits

- **Self-sustaining financial model**
- **Reduces students' risk of investing in skilling** as they only repay if they earn above a minimum income threshold
- Incentivizes skilling providers to **focus on placement and retention**
- **Incorporates job placement support services** alongside skilling



Key success factors

- **Growing economy** with high demand for technical skills
- Skilling programs leading to **step-change in income**
- **Close links** between skilling providers & employers
- **Wrap-around services** to improve placement and retention rates
- Ability to **track income & collect payments**
- **Supportive regulatory framework**



Inclusion considerations

- **Bonuses for skilling providers** based on placement and retention rates for specific groups, e.g., young women, youth with disabilities, migrant youth and other disadvantaged groups
- **Additional support** for youth from these groups throughout the program (e.g., higher stipends, access to childcare, transportation vouchers, etc.) to account for their specific needs

Product #2: Career Financing / Career Impact Bond – Examples



CHANCEN
International

CHANCEN Intl Future of Work Fund

- *US\$21 million fund*
- *10,000 youth*
- *Rwanda, South Africa, Kenya*



Laboratoria

- *Women-focused*
- *3,500 graduates to date*
- *Latin America*



Google Career Certificates Fund

- *US\$100 million*
- *20,000 youth*
- *United States*

ON



**Fondo
evolución
digital.**



Designing a specific FY product

A **Career Impact Fund** where young people sign an **Income Share Agreement (ISA)** and pay a fixed percentage of their income for a fixed number of months of work upon graduation. ISAs **reduce students' risk** by tying payment with their employment success.

Expected results



Train 1,000 OY in digital pathways, achieving an **employability rate above 80%**.



Provide a high return to investors in social mobility and **estimated financial return of 9% effective annual rate** over a 6 years period.



Align training entities with the employment success of young people by **tying approximately 30% of their payment to job placement outcomes**



Be a source of **exceptional, diverse and inclusive talent for at least 50 companies**.



Global investment goal: USD \$1,5m

- 1 **Investment vehicle:** Autonomous equity (a trust).
- 2 **Investment period:** 24 months.
- 3 **Distribution period:** 5 – 6 years, with semi-annual distributions starting at beginning of the third
- 4 year.

Estimated investment return: 7 – 9% annual rate.

Fees of the asset manager: Lumni

- 1 **Structuring:** 2.5% of invested capital.
- 2 **Management:** 50% of payment culture during studies and working period 9.5% of student
- 3 repayment.

Success: 10.5% of repayments once the 9% annual rate return is achieved.

Funds leveraged

58%

USD \$950k

Leveraged impact investment



USD \$250k already invested

- United Way Colombia
- Instituto Zoraida Cadavid de Sierra

- Fundación Zigma

USD \$700k to be invested

- Fundación Corona
- High-Net-Worth individuals


- 1 Profiles: **OY**, between 17 and 28 years old, with a high school diploma, socioeconomic levels 1 - 4.
- 2 Geographical coverage: **National** with a focus on Bogota.
- 3 The **% of income and # of months (20-49) depends on the program** chosen by the student (e.g., Bootcamp and employability + stipend + English).
- 4 During studies and job search or salary **less than 1.4 minimum wage**, the payment obligation will be USD \$12/month.
- 5 Maximum **ceiling to be paid between USD \$2k – 4,5k**. Students with very high salaries will pay the program early.
- 6 The student's obligation ends when they complete the **pre-agreed number of monthly payments**.


Progress

169
Youth




 **27%**
women

 Average salary

 **95%**
Graduate

 **80%**
Placemen

 **82** Economic levels

 **%** ↑ ↓ **11,09% Profitability**
USD \$105k
42% of the investment



Prográmate Academy



3 BOOTCAMPS

Accessing Financing as a Young Entrepreneur: Fatuma's Story

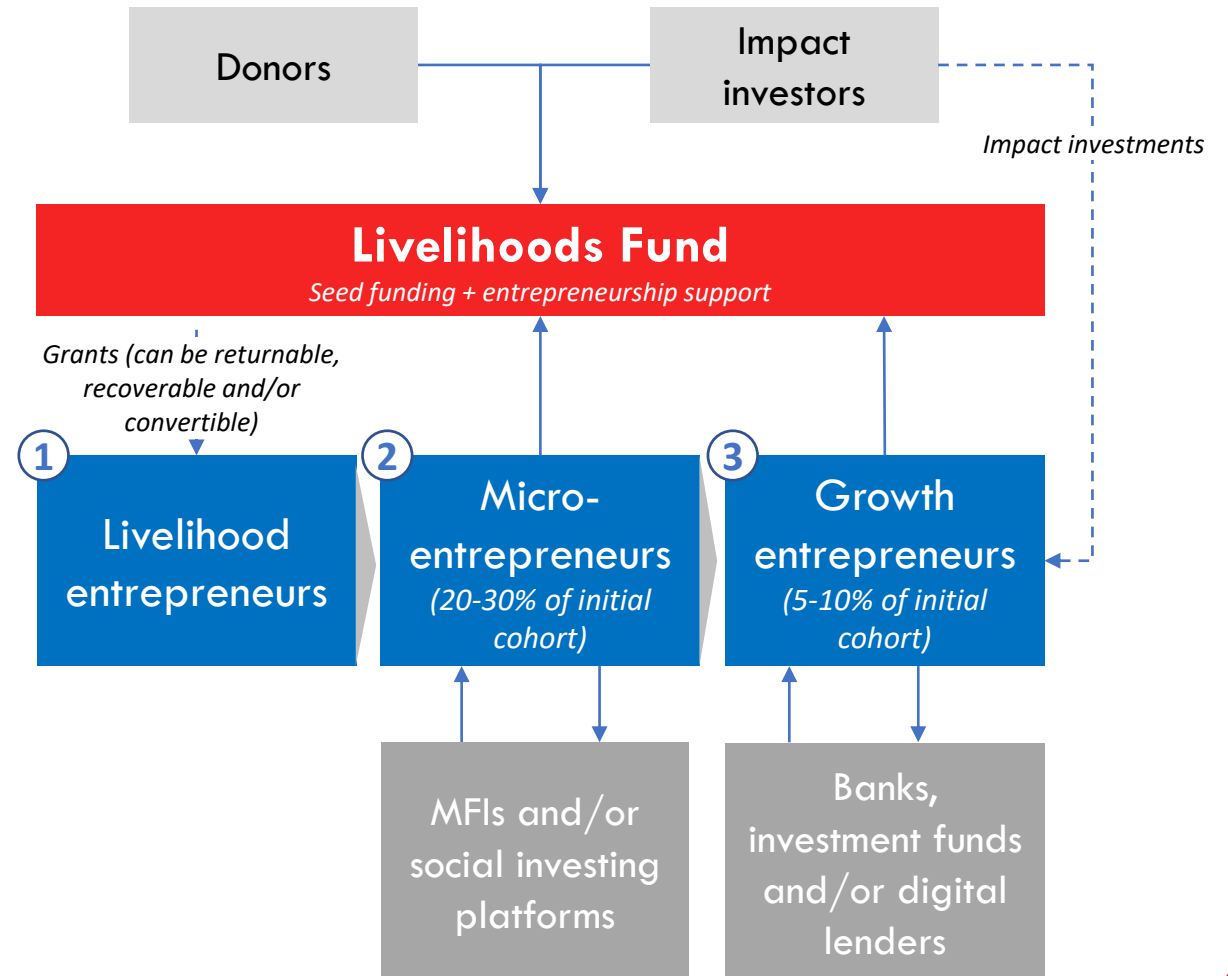


Fatuma Ali - *Social Entrepreneur & Founder, Sulha Africa*

Product #3: Livelihoods Fund

- **The challenge:** Livelihood entrepreneurs struggle to access financing. Impact and commercial investors struggle to find viable businesses to invest into.
- **The solution:** A revolving fund to support livelihood entrepreneurs and build a pipeline of investment opportunities for existing investors.
- **Scale:** 2,500-10,000 entrepreneurs supported for a US\$5-10 million fund

Product structure



Product #3: Livelihoods Fund



Benefits

- De-risking of entrepreneurs over time unlocks broader access to financial services
- Partnership approach leveraging teams and networks of existing financial institutions
- Returns on initial grants improve sustainability



Key success factors

- Strong partnerships with local organizations that have existing connections to aspiring entrepreneurs, and with providers of business development services and entrepreneurship support programs
- Provision of wrap-around services for youth entrepreneurs
- Supportive regulatory framework for entrepreneurship
- Large business mentor network; with sector groups for mentors focused on funding businesses
- Business enabler tools, e.g., "business in a box", franchising, market aggregation platforms
- Technology to create economies of scale



Inclusion considerations

- Requirement to include a minimum % of youth from specific groups in the initial cohort, e.g., young women, youth with disabilities, migrant youth and other marginalized groups
- Provide customized entrepreneurship support to youth from these specific groups