



## **Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs**

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## Glossary

**Active Labor Market Programs (ALMPs):** Active labor market programs include all social expenditure (other than education) aimed at the improvement of beneficiaries' prospects of finding gainful employment or otherwise increasing their earnings capacity. This category includes spending on public employment services and administration, labor market training, special programs for youth in transition from school to work, labor market programs to provide or promote employment for the unemployed and other persons (excluding young and disabled persons) and special programs for the disabled.<sup>1</sup>

**Cream-skimming:** When service providers focus on the beneficiaries who are most likely to achieve results in absence of the program.<sup>2</sup>

**Design features:** The specific parameters of the RBF instrument, including the selection of the results to be paid for, how results will be verified, and the total payment to be made for the achievement of results.<sup>3</sup>

**Developing countries:** In this report, this term is used to refer to both low- and middle-income countries, based on World Bank categorization.

**Differential pricing:** When prices for the same results vary for different subsets of the target population.<sup>4</sup>

**Dynamic pricing:** Adjusting the price of outcomes to changes in economic conditions, such as the local unemployment level, during the implementation of a program.<sup>5</sup>

**Employability:** Transferable competencies and qualifications that enhance an individual's capacity to make use of education and training opportunities available in order to secure and retain decent work.<sup>6</sup>

**Employment services:** A wide range of interventions aimed at overcoming access constraints in matching employees to jobs. Interventions can include sharing information on returns to training and providing beneficiaries with access to employer networks. It can further involve transport or housing subsidization, relocation of training centers, and mentoring support. Ultimately, these interventions aim to improve knowledge, lower search costs, and overcome signaling issues.

**Entrepreneurship support:** Activities targeting barriers to successful small-scale businesses. This can involve addressing market failures related to credit access, information gaps, and skills. These programs often focus on youth and are particularly prevalent in low- and middle-income countries with high rates of labor market informality.

**Full and productive employment and decent work:** "Employment which is aimed at increasing labor productivity (with focus on high value added and labor-intensive sectors), reducing the unemployment rate especially for young people, and improving access to financial services and benefits, which would be essential components of sustained and inclusive economic growth."<sup>7</sup>

**Funder:** Also referred to as 'outcome payer', a funder who makes payments conditional on the achievement of predefined results within an RBF instrument. Note that outcome payers are a subcategory of funders.<sup>8</sup>

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<sup>1</sup> OECD 2002.

<sup>2</sup> Instiglio 2017.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> ILO Thesaurus.

<sup>7</sup> UN Sustainable Development Platform. UN 2017.

<sup>8</sup> Instiglio 2017.

**Impact evaluation:** A rigorous evaluation method which measures a program's ex post impact.<sup>9</sup>

**Informal sector:** A sector that produces (legal) goods and services for sale or other form of remuneration. It covers both informal enterprises (small, unregistered or unincorporated enterprises), and informal employment outside of informal enterprises (for example, street vendors). Informal entrepreneurs and workers share one important characteristic: they are not recognized or protected under existing legal and regulatory frameworks. This definition excludes the criminal economy and the reproductive or care economy.<sup>10</sup>

**Lower middle-income countries:** For the current 2019 fiscal year, low-income economies are defined as those with a Gross National Income (GNI) per capita, calculated using the World Bank Atlas method, between US\$ 996 and US\$ 3,895 in 2017.

**Low-income countries:** For the current 2019 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of US\$ 995 or less in 2017.

**Measures of employment:** Indicators such as job placement, job retention, and earnings linked to the job.

**Outcome payment:** Payments conditional on the achievement of predefined results within an RBF instrument.<sup>11</sup>

**Payment metrics:** The results that are paid for in an RBF.<sup>12</sup>

**Perverse incentives:** Incentives which encourage service providers to 'game the system' by maximizing their payments in a way that does not maximize the program's intended impact or the beneficiaries' welfare.<sup>13</sup>

**Randomized Control Trials:** Measuring the impact of a program ex post by comparing the results of a randomly-selected 'treatment' group (which receives an intervention) to the results of a randomly-selected 'control' group (which does not receive the intervention).<sup>14</sup>

**Results:** A generic term for outputs, outcomes, and impact.<sup>15</sup>

**Results-Based Financing:** A program financing arrangement in which payments are contingent upon the achievement of predefined results, which are usually verified by an independent evaluator. In the field of international development, this can mean, for example, that a government (an outcome payer) makes payments to a nonprofit organization (an implementer) only after it delivers increased child literacy rates (a predefined result).<sup>16</sup>

**Service provider:** An agent that delivers an intervention to program beneficiaries. A service provider can be a public, private, or non-governmental organization.

**Soft skills:** Interpersonal skills that characterize a person's relationships with other people and the environment. Soft skills complement **hard skills**, which refer to a person's technical and occupational knowledge.

**Theory of change:** The expected causal pathway from activities to the desired impact. It defines the activities, outputs, outcomes, and desired impact, and the expected causal links between them.

<sup>9</sup> Ibid.

<sup>10</sup> ILO Thesaurus.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

**Training and skills development:** Programs which address a population's underinvestment in relevant and necessary skills. These interventions augment both technical skills through vocational and remedial programs, as well as soft skills related to employment readiness.

**Underemployed:** The state of working fewer hours, earning less income or using occupational skills incompletely; in other words, carrying out an activity which is below desired and potential productivity.<sup>17</sup>

**Unemployment:** The state of being over 15 years of age and, simultaneously being without employment, meaning having not worked for at least one hour during the reference week; being available to take up employment within two weeks; having actively looked for a job in the previous month or having found one starting within the next three months.<sup>18</sup>

**Vulnerable employment:** Own-account workers and contributing family workers who both have a lower likelihood of having formal work arrangements that constitute decent employment, such as adequate social security and a voice at work. These two statuses together constitute 'vulnerable employment', while wage and salaried workers together with employers constitute 'non-vulnerable employment'.<sup>19</sup>

**Vulnerable populations:** Covers beneficiaries who face barriers to sustainable employment because of factors such as limited education or work experience, geographic marginalization, or discrimination. For instance, women often face multiple socio-economic and socio-cultural barriers to entering and retaining decent and productive employment.<sup>20</sup>

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<sup>17</sup> ILO 1999.

<sup>18</sup> ILO Thesaurus.

<sup>19</sup> ILO n.d.

<sup>20</sup> ILO 2017a.



## Abbreviations

<b>ADB</b>	Asian Development Bank
<b>ALMPs</b>	Active Labor Market Programs
<b>ANAPEC</b>	National Agency for the Promotion of Employment and Competencies
<b>BISP</b>	Benazir Income Support Programme
<b>DIB</b>	Development Impact Bond
<b>DFID</b>	Department for International Development, UK
<b>DOT</b>	Digital Opportunity Trust
<b>DWP</b>	Department for Work and Pensions
<b>ESA</b>	Employment Services Assessment
<b>GESIF</b>	Gender Equality and Social Inclusion Framework
<b>GPG</b>	Guizhou Provincial Government
<b>GTZ</b>	German Technical Assistance
<b>GVEDP</b>	Guizhou Vocational Education Development Program
<b>IDA</b>	International Development Association
<b>IADB</b>	Inter-American Development Bank
<b>IEG</b>	Independent Evaluation Group
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>JN</b>	Job Network
<b>JSA</b>	Job Services Australia
<b>JSCI</b>	Job Seeker Classification Instrument
<b>M&amp;E</b>	Monitoring & Evaluation
<b>MYASD</b>	Ministry of Youth Affairs and Skills Development
<b>NEET</b>	Not in Education, Employment or Training
<b>NEIS</b>	New Enterprise Incentive Scheme
<b>NEP</b>	National Employment Program
<b>NVQs</b>	National Vocational Qualifications

<b>OTEC</b>	Technical Capacity Organism
<b>PBC</b>	Performance-Based Contract
<b>PBL</b>	Performance-Based Loan
<b>PECP</b>	Program for Permanent Education and Capacity
<b>PSG</b>	Priority Skills for Growth
<b>RBF</b>	Results-Based Financing
<b>RCT</b>	Randomized Control Trial
<b>RMA</b>	Rapid Market Appraisal
<b>RPL</b>	Recognition of Prior Learning
<b>SDC</b>	Swiss Agency for Development and Cooperation
<b>SDD</b>	Skills Development Division
<b>SDG</b>	Sustainable Development Goals
<b>SECO</b>	State Secretariat for Economic Affairs of Switzerland
<b>SIB</b>	Social Impact Bond
<b>SKY</b>	Skills and Knowledge for Youth
<b>SSDP</b>	Skills Sector Development Program
<b>TVET</b>	Technical and Vocational Education and Training

## Executive Summary

Achieving *full and productive employment and decent work for all* is a global challenge which disproportionately affects women and youth in low- and middle-income countries.<sup>21,22</sup> While Active Labor Market Programs (ALMPs) are designed to address this challenge, they do not always deliver the desired benefits for the people they serve. Results-Based Financing (RBF) has increasingly been used by policy makers to enhance the effectiveness of ALMPs. Since 2006 at least 20 ALMPs in low- and middle-income countries have used RBF. While the use of RBF with ALMPs is increasing, it remains poorly documented and understood. This report responds to this gap by offering analysis and guidance for practitioners on the use of RBF in ALMPs.

The report's insights are drawn from 12 in-depth case studies of ALMPs using RBF, a comprehensive mapping of all such programs in low- and middle-income countries, and a review of the literature assessing ALMPs. The report also draws on Instiglio's practical experience designing and implementing RBF projects for ALMPs and other social programs across various contexts.

### Enhancing ALMPs with RBF

RBF has the potential to enhance the effectiveness of ALMPs through three drivers of impact: (1) increasing the focus on the intended results, (2) aligning the incentives of actors with these intended results, and (3) supporting iterative adaptability. These drivers can help address the typical barriers to the effectiveness of ALMPs relating to the service provider procurement, program design, and implementation stages.

At the service provider procurement stage, tying payments to performance encourages self-selection of high-capacity service providers to enter the system. Over time, RBF can also inform the selection of service providers or intervention models through the evidence it generates on program effectiveness.

In relation to design, RBF that incentivizes performance can improve alignment of ALMPs with the needs of employers and program beneficiaries. Targeted RBF designs can also incentivize service providers to focus on vulnerable groups such as women and youth. RBF can also provide service providers with greater flexibility, allowing them to adapt their program to the evolving context, creating greater scope for experimentation and management to results.

### Design challenges

Despite its potential, the value-add of RBF for ALMPs is not always realized. The report identifies three key design challenges to the use of RBF with ALMPs and provides corresponding recommendations.

The first design challenge is ensuring service providers focus on the intended impact, such as creating sustained employment. An RBF project is designed poorly if service providers' financial incentives are not aligned with the intended impact. To address this challenge, the RBF strategy must pay for the right results and price these results appropriately. Ideally this would involve paying for results closely related to the intended impact – such as sustained long-term employment or increased beneficiary income. However, in practice tying payments to such long-term metrics is often implausible. Therefore, payment metrics should collectively predict long-term success by combining metrics focused on short-term employment outcomes with metrics focused on improved marketable skills or employability of program participants. This is reflected in the metrics used across the case studies, with all but one of these examples using a mix of payment metrics spanning from outputs, such as training received, through to outcomes such as 6-month job retention.

A second challenge is ensuring a focus on vulnerable populations that face barriers to succeeding in the labor market, such as women and youth. An RBF project is designed poorly if service providers have an incentive to instead target populations that are relatively likely to achieve good employment outcomes even in the absence of the intervention. The most common methods for responding to this challenge with RBF are (1) introducing eligibility criteria to only include specific populations and (2) using differential pricing where higher prices are attached to results for populations

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<sup>21</sup> UN 2017.

<sup>22</sup> World Bank 2018a.  
ILO Thesaurus.

that face higher barriers to succeeding in the labor market. All the cases reviewed entailed some form of eligibility criteria, often including a combination of measures relating to youth, poverty and education levels. Differential pricing was used in a third (four) of the cases reviewed, often based on factors such as geographic location, gender and ethnicity.

The third challenge is to set the appropriate rigor of the results verification process used to determine payment. The trade-off between rigor and costs of verification is salient in RBF for ALMP. In fact, none of the ALMPs reviewed for this study used a randomized control trial or other rigorous methods to attribute the results achieved to the service provider. To make sustaining and scaling RBF interventions cost-effective, verification costs should be reduced over time. However, at the start of introducing a new and experimental approach such as RBF for ALMP, there will often be a strong case to invest in more rigorous results verification and evaluation practices as it can generate more reliable evidence on the effectiveness of RBF and the channels through which RBF drives results.

Based on theory and our review of ALMP's using RBF, the report provides clear guidance on how to design RBF interventions: (1) focus on the intended impact; (2) focus on populations that face greater barriers to impact; (3) focus on improving the rigor of results verification for new RBF for ALMP and then reducing associated verification costs over time.

### **Future research questions**

This report has contributed to closing the knowledge gap in the use of RBF with ALMPs. However, we still know too little about the extent to which RBF enhances the results of ALMPs relative to traditional activity-based contracting. Likewise, we need a better understanding of how RBF contributes to improved ALMP results and the conditions under which it is most effective. Addressing these questions will require more ALMPs to be implemented with RBF and for these projects to be accompanied by appropriate evaluations and well-defined learning agendas. These research needs pose a significant opportunity for greater collaboration between local and international researchers and practitioners.



# Introduction

## I. Introduction

Achieving “full and productive employment and decent work for all” is a pressing priority to further develop inclusive and productive economies around the world.<sup>23</sup> The challenge of quality employment is particularly acute for women and youth; women aged 15 to 24 are three times more likely than young males to be neither employed, nor in education or training (“Not in Education, Employment or Training”, NEET) across low- and middle-income countries.<sup>24</sup>

Active Labor Market Programs (ALMPs) are a tool to address this challenge which can be financed through Results-Based Financing (RBF).<sup>25</sup> RBF is a financing arrangement in which some payments are contingent on the achievement of predefined and verified results. By tying funding to measurable results, RBF aligns incentives between service providers and governments, and offers service providers the flexibility to foster a problem-solving mindset. Service providers can thus focus on developing and iterating more effective solutions for the people they serve.

As an innovative means to improve effectiveness, RBF has grown increasingly popular with governments, service providers, funders, and development agencies around the world. In 2008 to 2018, at least US\$ 25 billion of development spending has been disbursed through RBF mechanisms in 89 low- and middle-income countries, up from just a few billion in the decade before.<sup>26</sup> This trend is expected to continue, as development funders increasingly emphasize the achievement of measurable results given scarce resources.

Yet despite its popularity and potential, RBF is far from a cure-all. Using RBF to deliver better employment outcomes requires a thoughtful and context-specific approach which draws on the emerging experiences of RBF’s application to ALMPs. Efforts to consolidate, curate, and draw insights from this evolving space have been limited.

This report is a response to the gap in knowledge and practical guidance available for practitioners interested in RBF’s use for ALMPs. By reviewing the global literature on this topic, this report will identify the value-add and key design challenges for effectively using RBF in such programs, especially with a focus on women and youth. We hope that the insights and guidance provided here will support greater and more effective use of RBF in ALMPs, ultimately resulting in more benefits for millions of people.

The report is structured as follows:

- **Section 2** presents a primer on ALMPs; outlining the rationale for these programs, summarizing their common uses, reviewing evidence on their effectiveness, and identifying some of the key barriers that can undermine them.
- **Section 3** introduces RBF, considering its potential to make ALMPs more effective and summarizing the experiences of RBF for ALMPs from examples identified during our research. It ends with a brief review of the case studies which inform the analysis in subsequent sections.
- **Section 4** first describes the two most significant challenges which can emerge in the application of RBF to ALMPs and then considers how these challenges can be addressed by effective RBF design. These challenges are: i) how to pick payment metrics that focus on intended results; and ii) how to incentivize serving vulnerable populations. The section closes with a discussion on the verification of results, a key component of any RBF instrument.
- **Section 5** looks to the future of this practice and identifies key pending research questions.

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<sup>23</sup> UN 2017.

<sup>24</sup> ILO 2018.

<sup>25</sup> This publication assumes the reader has a basic familiarity with both ALMPs and RBF. For a more detailed discussion of RBF concepts, please refer to Instiglio’s 2018 report developed with the World Bank’s Global Partnership for Output Based Aid (A Guide for Effective Results-Based Financing Strategies) and Instiglio’s 2017 report with World Vision (A practitioner’s Guide to Results Based Financing – Getting to impact).

<sup>26</sup> Instiglio RBF Database 2018.

# 2

## Active Labor Market Programs: An Introduction

## 2. Active Labor Market Programs: An Introduction

### Section 2 – Key messages

#### 2.1 Rationale for Active Labor Market Programs

- Full and productive employment and decent work for all, and especially for women and youth, is a pressing challenge for low- and middle-income countries.
- ALMPs can help overcome common market failures which limit employment outcomes. By doing so, they can lead to improved employability and employment outcomes, furthering social inclusion and development.

#### 2.2 ALMP Interventions

- ALMPs tackle supply-side challenges to labor market outcomes through one or more of the following interventions: i) training and skills development; ii) employment services; and iii) entrepreneurship support.

#### 2.3 Evidence on ALMPs

- Evidence on the effectiveness of ALMPs shows that these programs can have a substantial impact on labor market outcomes, but these results vary significantly across contexts and populations.

#### 2.4 Barriers to results for ALMPs

- The mixed results of ALMPs are driven by several barriers which emerge along the service delivery value chain, including challenges with:
  - Selecting the best service providers to deliver ALMPs;
  - Designing ALMPs to appropriately respond to the context and beneficiary needs;
  - Effectively implementing ALMPs given program rigidities or inability to course-correct.

This section introduces the rationale and use of Active Labor Market Programs (ALMPs) to improve social inclusion and economic development, with a particular focus on vulnerable populations in low- and middle-income countries.<sup>27</sup> This section first outlines the challenge that ALMPs seek to address and justifies their use in this regard. It then briefly summarizes how ALMPs are categorized according to their specific objectives and activities. The section continues to assess the merits of such interventions and ends by explaining the main barriers which should be addressed to improve results for the people these programs aim to serve.

### 2.1 Rationale for Active Labor Market Programs

As reflected by the United Nation's Sustainable Development Goals, "full and productive employment and decent work for all" is a major global policy objective.<sup>28</sup> It is particularly significant in low- and middle-income countries where an estimated 52 percent of the labor force is either unemployed or in vulnerable employment, compared to only 15 percent in high-income countries.<sup>29</sup> Active Labor Market Programs (ALMPs) respond to this challenge.

ALMPs are driven by two key rationales. First, ALMPs can advance social inclusion by expanding access to decent employment for poor and marginalized groups, particularly women and youth. For example, women are significantly less likely than men to participate in the labor force and more likely to be unemployed.<sup>30</sup> Even when employed, women are more likely to be in the informal sector, in vulnerable employment, or underemployed, and to earn less than their male

<sup>27</sup> In this report, 'vulnerable populations' covers beneficiaries who face barriers to sustainable employment because of factors such as limited education or work experience, geographic marginalization, or discrimination. For instance, women often face multiple socio-economic and socio-cultural barriers to entering and retaining decent and productive employment.<sup>27</sup>

<sup>28</sup> UN 2017. The UN defines 'full and productive employment and decent work' as employment that is aimed at increasing labor productivity (with focus on high value added and labor-intensive sectors), reducing the unemployment rate especially for young people, and improving access to financial services and benefits, which would be essential components of sustained and inclusive economic growth." UN 2017

<sup>29</sup> World Bank 2018b. ILO Thesaurus.

<sup>30</sup> World Bank 2018b.



counterparts.<sup>31</sup> Among employed women in low-income countries, over 80 percent are in vulnerable employment, 10 percentage points higher than for men.<sup>32</sup>

Likewise, youth face particular labor market challenges. A comprehensive 2007 survey of 60 developing countries by the World Bank found that young people take an average of 1.4 years to find stable employment after finishing their education.<sup>33</sup> Unemployed youth also do not get a chance to build professional skills. As a result, they are more at risk for higher unemployment, career downgrades, and lower wages later in life. These challenges are particularly acute for young women, with 34 percent not in employment, education or training in low- and middle-income countries, almost three times the equivalent rate for young men.<sup>34</sup>

The second key rationale for ALMPs is that they focus on advancing economic development by ensuring that workers can meet existing or anticipated labor market needs necessary to grow certain industries, increase productivity, and increase overall national growth. Illustrative of the challenge are the high aggregate jobs-to-skills mismatch rates found in many developing countries.<sup>35</sup>

Public investment in ALMPs advances both social inclusion and economic development by addressing three employment challenges which markets often do not fully resolve because of certain ‘market failures’, summarized in appendix 1.<sup>36</sup> First, there is often too little investment in relevant skills. Global trends in technological change, international trade, and demographics are leading to faster structural economic change at the national level. As a result, employers demand more flexible workforces able to adjust their skills, making upskilling and re-training necessary.<sup>37</sup> The skills which workers do acquire are often poorly aligned with labor market needs.<sup>38</sup>

Second, employment outcomes are constrained by market failures relating to matching job seekers with vacancies. Employer networks through which information on vacancies is disseminated can often be difficult to access. High job search costs can deter job seekers, particularly poor and marginalized groups, from applying or even pursuing the work.

Third, market failures also limit opportunities for entrepreneurship and productive self-employment. Access to credit to start or expand small businesses is often limited, in part due to financial institutions’ limited ability to assess credit-worthiness. Access to credit is also often constrained by a lack of experience and insufficient access to collateral.<sup>39</sup> This is a particularly pressing issue in low-income countries where self-employment is the most viable option for many jobseekers.

The challenges outlined here are often particularly pronounced for vulnerable populations such as women and youth. This is partly because women and youth often lack access to the social networks which can help overcome market failures.<sup>40</sup>

## 2.2 Active Labor Market Programs interventions

This report focuses on how ALMPs can address these challenges affecting labor supply, the nature of the workforce, and labor market intermediation (the connection between workers and employment opportunities). It does not focus on policies addressing labor demand or the availability of jobs in the economy. We classify ALMP interventions into three typologies:<sup>41</sup>

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<sup>31</sup> World Bank 2018b.

<sup>32</sup> World Bank 2018b.

<sup>33</sup> World Bank 2007.

<sup>34</sup> ILO 2018a.

<sup>35</sup> Handel, Valerio, and Sanchez 2016.

<sup>36</sup> A summary of the market failures that contribute to these circumstances is presented in Appendix 1.

<sup>37</sup> ILO 2018c.

<sup>38</sup> Field, et al. 2009.

<sup>39</sup> Vezza et al. 2014.

<sup>40</sup> Robalino, et al. 2013.

<sup>41</sup> Wage subsidies and similar interventions are sometimes counted as within ALMPs but are excluded here due to this reports’ focus on the role of service providers.

1. **Training and skills development.** These programs address underinvestment in relevant skills. They augment technical skills through vocational and remedial programs, as well as soft skills for employment readiness.
2. **Employment services.** This includes a wide range of interventions aimed at overcoming access constraints in matching employees to jobs. Interventions can include sharing information on returns to training and providing beneficiaries with access to employer networks. It can further involve transport or housing subsidies, relocation of training centers, and mentoring support. Ultimately, these interventions aim to improve knowledge, lower search costs, and overcome signaling issues.
3. **Entrepreneurship support.** This covers activities targeting barriers to successful small-scale businesses. This can involve addressing market failures related to credit access, information gaps, and building key skills. These programs often have a focus on youth and are particularly prevalent in low- and middle-income countries with high rates of labor market informality.

Each of these interventions include a variety of activities, as outlined in Table I below.

*Table I: ALMP intervention types*

Intervention type	Common activities
<b>Training and skills development</b>	Vocational skills training
	Soft skills training
	On-the-job training (e.g., internship)
	Remedial skills training (e.g., reading, writing)
<b>Employment services</b>	Information sharing (e.g., on returns of training and education, employer networks)
	Coaching / mentoring
	Job placement
	Post-placement follow-up
	Contact initiation (e.g., referral system)
<b>Entrepreneurship support</b>	Transportation / housing vouchers
	Entrepreneurship skills training
	Coaching / mentoring
	Access to seed funding (e.g., grants, microcredit) to start a business
	Support to access markets and supply chains

## 2.3 Evidence on Active Labor Market Programs

We now review the evidence on ALMPs to determine the extent to which these types of programs deliver results or could be improved. Our review points to two key conclusions. First, there is significant evidence that ALMPs can generate substantial positive results. Second, despite this potential, the literature shows mixed effectiveness across ALMPs, indicating there is room to reduce variance and offer consistent, positive results.

Several studies demonstrate the strong potential for ALMPs to improve employment outcomes. A meta study covering 113 global youth employment programs found that programs tend to have strong average effects for low-income and vulnerable populations, with effect sizes of up to 11 percent.<sup>42</sup> In terms of macroeconomic results, a study by the IMF has also identified evidence that increased public spending on ALMPs contributes to broader economic outcomes: a 10 percent increase in spending on ALMPs is associated with a 0.3 percent increase in output and employment within four years.<sup>43</sup>

However, other studies have shown more mixed results, pointing to the lack of effectiveness of some ALMPs in certain contexts. For instance, a review of the evidence in Latin America shows ALMPs have generated widely varying results – including some that had no effect at all.<sup>44</sup> Similarly, if we focus on the effects on youth, results are muted. Only one

<sup>42</sup> Kluve et al. 2016.

<sup>43</sup> Duval and Furceri 2018.

<sup>44</sup> IADB 2008.

third of the reviewed ALMPs in the aforementioned meta study of 113 programs had clear positive impacts for young people.<sup>45</sup>

Indeed, the evidence on ALMPs shows significant heterogeneity across populations, with results for women and youth differing significantly from those of men and prime-aged individuals. For instance, a meta-study of 207 ALMPs for all ages found generally larger effects for women, especially where programs can adjust to the specific needs of women in terms of job search, placement, and broader human capital development.<sup>46</sup> The direction of these results are supported by studies such as Escudero et al (2017), in a review of evidence for Latin America, Colombia and Panama, and in Nepal.<sup>47</sup>

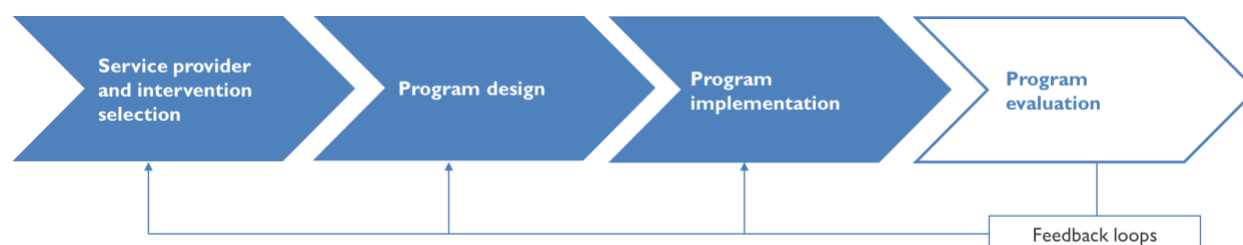
Overall, the literature demonstrates the potential of ALMPs to deliver impact but also highlights the variation in the effectiveness of ALMPs. A review by Blattman and Ralston highlights that the effects of such programs on poverty are limited and the authors argue for iterations based on local context to create best-fit, high-impact ALMPs. They make a case for focusing on results and strategically scaling what works best.<sup>48</sup> The varied effectiveness of ALMPs across populations thus indicates the importance of specifically focusing on improving results for target populations prior to deployment at scale.

## 2.4 Barriers to results for Active Labor Market Programs

The mixed effectiveness of different ALMPs reflects certain barriers to results. For the purposes of this review, we assess these barriers as they emerge across the components of a stylized service delivery value chain. The service delivery value chain encompasses the processes, behaviors, and interactions between stakeholders that collectively aim to translate funding to impact. The barriers to results are the problems which emerge at each of these stages.

The components of this chain, summarized in Figure 1, are service provider selection, program design, program implementation, and program evaluation.<sup>49</sup> While the different stages can be thought of sequentially, there is an emerging consensus in the implementation science literature that insights generated in the program evaluation phase must iteratively inform the prior phases by establishing robust data-driven feedback loops.<sup>50</sup>

Figure 1. Service delivery value chain



### Service provider and intervention selection

For ALMPs to produce improved results over time, iterative experimentation and selection mechanisms for finding the most impactful interventions and service providers need to be in place. Such mechanisms can either be deliberately introduced in a public system or can emerge from a market system in which many providers compete. These mechanisms drive results improvements by iteratively selecting and thus scaling the most impactful programs over time.<sup>51</sup>

<sup>45</sup> Kluve et al. 2016.

<sup>46</sup> Card, Kluve and Weber 2017.

<sup>47</sup> Escudero et al. 2017., Ibarra & Shady 2008., Chakravarty et al. 2016., ILO 2017a., IADB 2008., World Bank 2016., Kluve et al. 2016.

<sup>48</sup> Blattman and Ralston 2015.

<sup>49</sup> In this context program evaluation refers to any type of data-driven performance assessment. This definition encompasses impact evaluations as well as more routine data collection that are part of a M&E or performance management system. Since this stage links back to all the previous steps, it is not discussed below as a separate component.

<sup>50</sup> Andrews, Pritchett and Woolcock 2017.

<sup>51</sup> Andrews, Pritchett and Woolcock 2017.

Central to the success of such a mechanism is the funder's ability to select the best service providers and interventions based on cost-effectiveness. The ability to do so can be severely constrained by a lack of accessible and reliable evidence on program impact and costs.

### Program design

Results from active labor market interventions are sensitive to the context in which they are delivered. As such, failure to adequately account for this context in the design stage can undermine the effectiveness of such interventions. For instance, a factor which limits the results of many programs is a lack of alignment between the skills developed in training programs and market needs.<sup>52</sup> In an evaluation of the impact of job training programs in Latin America, the Inter-American Development Bank (IADB) found that a key assumption driving the ineffectiveness of active labor market programs was “the existence of training providers that are responsive to the private sector.”<sup>53</sup>

Some programs are poorly targeted to the specific needs of different beneficiaries and carry faulty underlying assumptions on labor constraints or market failures.<sup>54</sup> As noted in the Abdul Latif Jameel Poverty Action Lab's (J-PAL) review on the effectiveness of skills training programs in Latin America, “to increase participation and reduce dropout, programs need to focus more on targeting, selection, and an initial diagnosis of participant needs.”<sup>55</sup> This can be challenging with groups who traditionally face labor market disadvantages. For instance, women can be underserved by ALMPs which do not provide tailored support to meet their specific needs, such as training programs with flexible hours to accommodate family responsibilities, safe transportation to and from training centers, or approaches to support the stigma against women progressing to higher-quality employment or to sectors which are traditionally dominated by men.<sup>56</sup> For example, in Pakistan, an intervention providing group transport for women was a cost-effective service delivery mechanism to improve access to the training programs.<sup>57</sup>

### Program Implementation

Employment outcomes can also be limited by rigid implementation processes. When providers are required to follow prescriptive delivery guidelines, it can be difficult to adjust their intervention during implementation. They may not be able to adapt their approach in response to emerging information on the relative effectiveness of different intervention components or changing circumstances on the ground. In general, giving discretion to providers or fund recipients allows them to pursue a range of strategies and approaches based on providers updating their local knowledge and incorporating insights from performance assessments.<sup>58</sup>

Implementation can also be impeded by a lack of effective internal learning mechanisms and feedback loops. ALMPs cannot be effectively adapted to the local context during implementation without quality monitoring and evaluation systems and the incentives to use this information for evidence-based course corrections.<sup>59</sup>

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<sup>52</sup> J-PAL 2017.

<sup>53</sup> IADB 2008.

<sup>54</sup> IZA 2016.

<sup>55</sup> J-PAL 2017.

<sup>56</sup> Urzúa and Puentes 2010.

<sup>57</sup> Khwaja et al. 2014.

<sup>58</sup> Perakis and Savedoff 2015.

<sup>59</sup> Instiglio 2017.

# 3

## Introduction to the use of Results-Based Financing in ALMP

### 3. Introduction to the use of Results-Based Financing in ALMP

#### Section 3 – Key messages

##### 3.1 Active Labor Market Programs and Results-Based Financing

- The application of Results-Based Financing (RBF) – a financing arrangement in which some payments are contingent on the achievement of predefined, verifiable results – to ALMPs has increased in recent years.

##### 3.2 RBF's potential for enhancing ALMP effectiveness

- By aligning stakeholders on the most relevant results and by incentivizing providers to iteratively adapt their ALMPs, RBF can help overcome these programs' typical challenges; ultimately enhancing the cost-effectiveness of these programs and achieving greater impact.

##### 3.3 Mapping of ALMPs by RBF instrument

- Three RBF instruments have been used across 20 RBF ALMPs identified in developing countries: nine Performance-Based Loans (PBLs); eight Performance-Based Contracts (PBCs); and three Impact Bonds, of which two are Development Impact Bonds (DIBs) and one is a Social Impact Bond (SIB).
- PBCs are the simplest of the three instrument types and also the most versatile in terms of the variety of stakeholders involved and the size of the ALMPs. Impact Bonds represent an opportunity for greater experimentation, while PBLs are quite different, as these are instruments which incentivize governments (not service providers) and are often large nation-wide projects which seek improvements at a systemic level.

##### 3.4 Case studies

- 12 case studies of RBF ALMPs were developed to inform this report; these were selected to provide insights relevant to incentivizing service providers (i.e., Impact Bonds and PBCs), to enabling the effective implementation of RBF in low- and middle-income countries, and to cover both the social inclusion and economic development objectives of ALMPs.

This section introduces Results-Based Financing (RBF) and its application to ALMPs in low- and middle-income countries, setting the scene for the subsequent design section. We begin with a brief explanation of the concept of RBF and paint a picture of how RBF is used in ALMPs across developing countries. Second, we explain how various characteristics of RBF mechanisms can drive greater impact by addressing the common barriers to ALMP results identified in section 2. A discussion of the three different types of RBF instruments used in active labor market programs, and how these are distributed across regions follows. We conclude with an overview of 12 case studies, which are referenced again in Section 4 to shed light on various design features and approaches.

#### 3.1 Active Labor Market Programs and Results-Based Financing

RBF is a financing arrangement in which some payments are contingent upon the achievement of predefined, verifiable results. For example, in the case of a vocational training intervention for unemployed youth, an RBF funder would pay for every young person who obtains and retains a formal job – the intervention's output. This contrasts with a traditional financing mechanism, which typically would pay for the delivery of the training itself – the input.

There is increasing interest from governments, service providers, and development agencies in exploring and applying these instruments. Since 2008, at least US\$ 25 billion of development spending has been disbursed through RBF mechanisms in low- and middle-income countries, up from just a billion in the previous decade.<sup>60</sup> This trend is expected to continue as funders place increasing emphasis on the achievement of measurable results.<sup>61</sup>

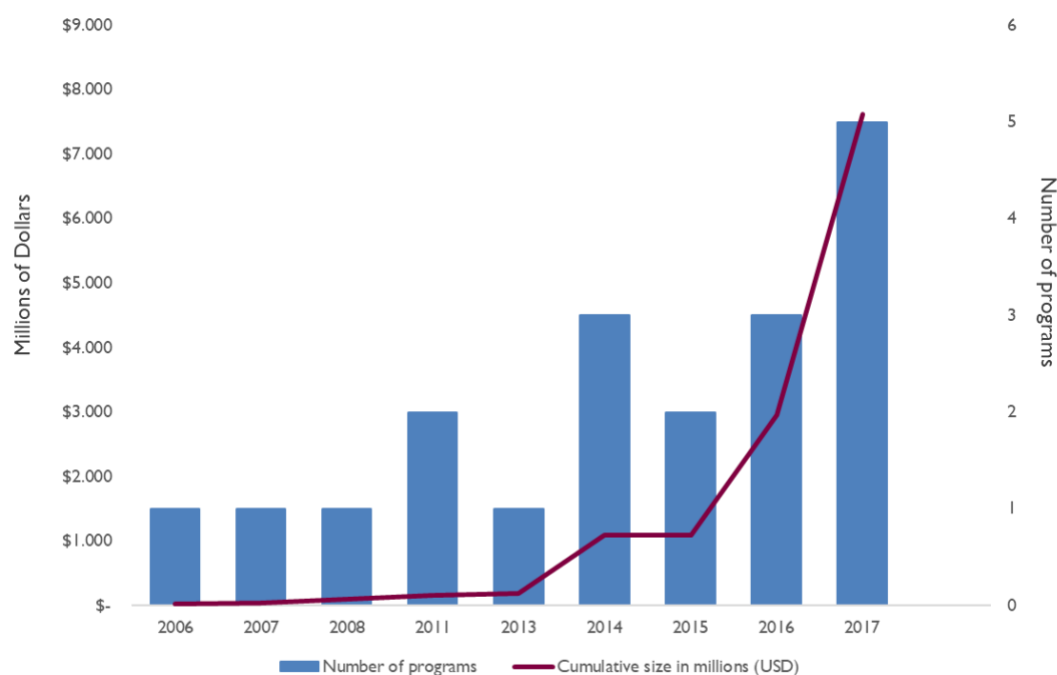
The application of RBF to ALMPs has also grown in recent years, in terms of financial volume and number of projects.<sup>62</sup> Our search identified 20 ALMP RBF programs since 2006, entailing spending of US\$ 7.6 billion (Figure 2).

<sup>60</sup> Instiglio RBF Database 2018.

<sup>61</sup> Instiglio 2017.

<sup>62</sup> The analysis presented includes all RBF projects completed or in implementation in the ALMP sector at the time this report was developed (i.e., it excludes projects in the design stage). This set also includes the Village Enterprise Development Impact Bond, which although categorized as poverty graduation, offers entrepreneurship support services as a key component of its intervention.

Figure 2. The use of RBF in ALMP (developing countries)



Source: The Instiglio RBF Database 2018

### 3.2 Results-Based Financing's potential for enhancing ALMP effectiveness

The growing use of RBF for ALMPs demonstrates the confidence in RBF as a tool to improve the cost-effectiveness of international development programs more generally.<sup>63</sup> Through the following three drivers of impact, RBF may contribute to overcoming barriers arising along the service-delivery value chain identified in Section 2:

1. **Focus on results.** Paying for results requires defining, prioritizing, and measuring the results that all stakeholders agree matter most. RBF makes these results visible and draws the attention of all actors to continuous program performance.
2. **Incentives alignment.** RBF promotes alignment between the interests of the funder, the service provider, and the beneficiaries. It does so by rewarding service providers for delivering results. Paying for results also provides an incentive to invest in data collection and analysis systems to be able to adapt interventions as they are implemented.
3. **Iterative adaptability.** By paying for results, funders can relax their control over activities, creating more flexibility for service providers to iteratively adapt their program to improve results. Service providers can use this flexibility to try new approaches, learn and adapt in response to new contexts and information (e.g., beneficiary feedback), and pursue more effective solutions. A service provider would be able to adjust its program without requiring prior funder approval.

Thus, RBF can overcome barriers at the design and implementation stages of ALMP interventions. For example, in activity- or input-based ALMPs, the most visible performance metric for providers is the number of people who participate in the program. However, program participation does not equal impact.<sup>64</sup> J-PAL's Youth Training Program Review highlights that "program implementers are incentivized to focus on [training] attendance rather than on learning

<sup>63</sup> Perakis and Savedoff 2015.

<sup>64</sup> Gatta and McCabE 2006; Forrest A 2014.

or long-term employment outcomes.”<sup>65</sup> This incentive leads service providers to focus on inputs rather than outcomes. It can constrain innovation and reduce the interest in generating information on results.<sup>66</sup> Input-based financing motivates the question ‘are we implementing according to plan?’ while RBF instead motivates providers to ask, ‘are we on track to achieving the desired results?’

By tying funding to outcomes, RBF creates the pressure and grants the flexibility for service providers to adapt and better align the design and the delivery of their interventions with local labor market demand or with the needs of a particular group of people (e.g., vulnerable young women living in a remote rural area). As we have seen in the previous section of this report, this alignment is a widely recognized ingredient for the success of ALMPs – which providers would not be able to afford to overlook under an RBF agreement. One potential positive externality is that, as service providers seek to course-correct via data-driven feedback loops, their present-day investment in better performance management systems would yield benefits for future programs as well.

At scale, an RBF system can create a dynamic by which impactful interventions and service providers are autonomously selected and scaled based on objectively verifiable performance. Providers or interventions that perform well will earn relatively more results payments, which can be directly used to scale up operations. In a multi-phase RBF program, only the higher performing providers would get their contracts renewed for the next round. Reinforced by the drivers of impact, this would lead to a continuous improvement in the overall quality of the service provider pool and interventions. Similarly, an RBF design can explicitly model market-share shift mechanisms, whereby providers that are performing well in initial phases of the program are successively allocated a greater population to serve, whereas the population allocated to poor performing service providers is successively shifted to other providers. These mechanisms work best in circumstances in which multiple providers can compete fairly, and can thereby foster the development of an ecosystem of impactful interventions.

Note that by making payments contingent on results, high-performing service providers are relatively more likely to self-select into an RBF program in the first place, as their ability to produce results lowers the risk of participating in a performance-based contracting mechanism.

Table 2 below provides a summary of how RBF’s drivers relate to the challenges to produce ALMP results.

Table 2. RBF value-add for ALMPs against select barriers to results

	Difficulties	RBF responses
Selection	Selecting high-performing service providers and impactful interventions	<p>RBF <b>aligns incentives</b> with outcomes, such that high-capacity providers self-select into the procurement process and only the most impactful interventions are scaled over time.</p> <p>RBF focuses <b>attention</b> on and requires <b>measuring results</b>, generating data about relative provider performance.</p>
Design	Aligning interventions to the local market and effectively targeting beneficiary needs	<p>RBF can create pressure to <b>align</b> intervention design with labor market needs, since the achievement of employment results becomes a tangible signal and effective feedback mechanism.</p> <p>RBF can <b>incentivize</b> service providers to target interventions to the particular needs of various populations through various design choices.</p>
Implementation	Understanding the effectiveness of interventions and adapting the approach to the local context	<p>Data on effectiveness of intervention components can help inform <b>course corrections</b> to improve program impact.</p> <p>RBF provides <b>adaptability</b> in the delivery of the intervention, such that service providers have the flexibility to experiment and innovate to respond to context-specific information.</p>

<sup>65</sup> J-PAL 2017.

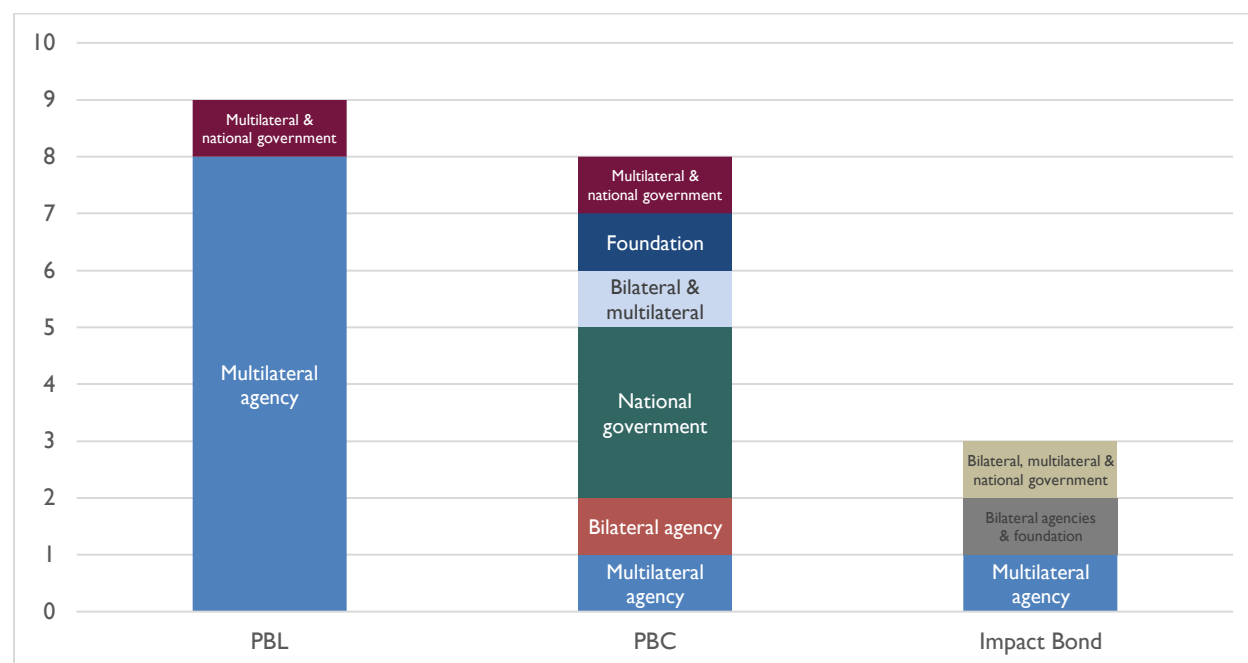
<sup>66</sup> Instiglio 2017.



### 3.3 Mapping of ALMPs by RBF instrument

The report identified 20 cases of ALMPs using RBF in low- and middle-income countries that are either in implementation or completed. Figure 3 displays the three different types of RBF instruments that have been used in these cases: nine Performance-Based Loans (PBLs); eight Performance-Based Contracts (PBCs); and three Impact Bonds, of which two are Development Impact Bonds (DIBs) and one is a Social Impact Bond (SIB). See Appendix 2 for further information on the instrument types and Appendix 3 for the full mapping details.

Figure 3. The number of ALMPs by RBF instrument and outcome payer type



Note: 'Multilateral agency' includes the World Bank, the Asian Development Bank and the Inter-American Development Bank; 'Bilateral agency' includes the United States Agency for International Development (USAID), Department for International Development UK (DFID), and the State Secretariat for Economic Affairs of Switzerland (SECO).

PBCs are the simplest of the three instruments and have the greatest versatility in their usage. In a PBC, the outcome payer conditions part of its payment on the achievement of verified results. In half of the ALMP PBCs identified, bilateral or multilateral development agencies were the outcome payers, while in the other half national governments were the outcome payers. Across all eight PBCs, both public and private service providers were contracted.

In an impact bond, typically all payments are contingent on results. Given the lack of pre-financing by the outcome payer, impact investors are needed to provide the working capital and absorb the risk of program failure. In these cases, the outcome payers were a national government (in the SIB) and bilateral aid agencies (in the DIBs).

In PBLs, bilateral or multilateral agencies take on the role of the outcome payer, paying national governments for results. In five of the PBLs, the outcome payer was the World Bank; in four, it was the Asian Development Bank.<sup>67</sup>

The average transaction size for each instrument type varies significantly.<sup>68</sup> PBLs are over US\$ 800 million on average, reflecting that PBLs have become the standard lending instruments for multilateral development banks. PBCs range from US\$ 0.44 million to US\$ 12.97 million, reflecting the variety of contexts in which these are used. Impact bonds are relatively smaller, with an average volume of US\$ 3.34 million. This reflects the experimental nature of the instrument in international development and the higher risk associated with conditioning 100 percent of funding on results.

<sup>67</sup> The Asian Development Bank (ADB) and the World Bank are co-outcome payers in one of the nine identified PBLs, where the ADB is the lead.

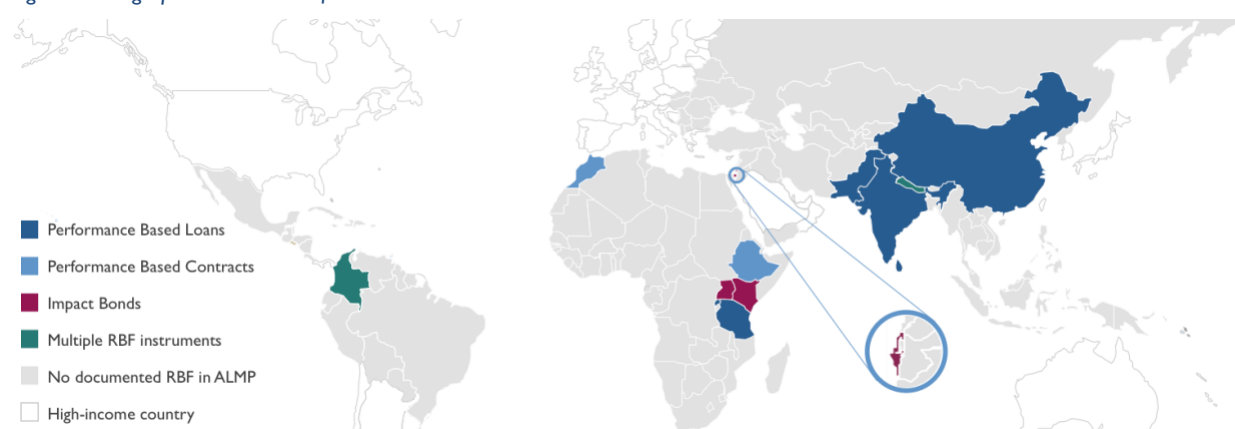
<sup>68</sup> Information on the outcome payments (amount of funding disbursed for the achievement of verified results) is not available for all cases identified.

A key difference between the instruments is the actor who is being incentivized. Contrary to the direct effect of Impact Bonds and PBCs on service providers, PBLs only indirectly affect service providers. In PBCs, the incentivized agent is the service provider. In impact bonds, the investor and typically also the service providers are jointly incentivized. In contrast, in PBLs, the incentivized agents are national governments. As this report aims to compile the lessons on how the service provision in ALMPs can be enhanced through RBF, we will focus on PBCs and Impact Bonds and only draw lessons from PBLs where they offer specific insights on service provision.

As reflected in Figure 3, PBLs are primarily funded by multilateral agencies such as the World Bank that provide loans. This reflects the substantial use of RBF by multilateral agencies, such as the World Bank's Program for Results. Compared to PBCs and Impact Bonds, these instruments involve more diverse actors, often in collaboration, reflecting the greater use of RBF to engage service providers by bilateral donors, national governments and foundations.

Figure 4 maps the geographic distribution of RBF instruments. In line with its reputation as a hotspot for innovation in international development, South Asia has the most RBF ALMP examples, with a total of 10 projects. Sub-Saharan Africa is the next most active region, with four projects. Three projects were identified in Latin America, all of which operate in Colombia.

Figure 4. Geographic distribution of RBF instruments in ALMP



Source: The Instiglio RBF Database 2018. The classification of countries by income follows the World Bank's 2019 fiscal year country classification.

### 3.4 Case studies

To inform this report's analysis, a series of 12 case studies of ALMPs using RBF was developed. The following criteria were employed in selecting the case studies. First, case studies were selected based on whether the RBF instrument directly affected the service provision of ALMPs. As a result, RBF instruments that directly incentivized service providers such as impact bonds and PBCs were given preferences over PBLs. Second, case studies needed to provide insights for both the social inclusion and economic development rationales of ALMPs. Most of the Impact Bond and PBC examples were motivated by a desire to enhance social inclusion; to complement these, we identified four PBL cases which focused on economic development. We refer to these PBL case studies when generalizable insights for service providers can be drawn. Third, three case studies from high-income countries were selected to enrich and contrast the lessons learned from low- and middle-income countries. Lastly, a few mapped RBF programs had to be excluded despite fitting the selection criteria because too little information about the transaction was made available to the authors.

The 12 selected case studies can be found in Appendix 4. Table 3 provides an overview of the case studies.

Table 3. ALMPs with RBF selected as case studies

	Program Name	Country	Region	Program Size (in US\$ millions)	Outcome payments (in US\$ millions)	Project Stage
<b>Performance-Based Contracts</b>	JobActive	Australia	East Asia and Pacific	5,500	2,900	Implementation
	Chile Califica	Chile	Latin America and the Caribbean	150	44.1	Completed
	Skills and Knowledge for Youth Program	Ethiopia	Sub-Saharan Africa	0.65	0.37	Implementation
	TAEHIL Workforce Development Program	Morocco	Middle East and North Africa	54.3	Not available	Implementation
	Employment Fund Nepal	Nepal	South Asia	27.93	27.93	Completed
<b>Impact Bonds</b>	Colombia Employment Social Impact Bond	Colombia	Latin America and the Caribbean	Not available	0.76	Implementation
	Rotterdam Social Impact Bond	Netherlands	Europe and Central Asia	1.24	Not available	Completed
	UK Innovation Fund	United Kingdom	Europe and Central Asia	39.6	Not available	Completed
<b>Performance-Based Loans</b>	Guizhou Vocational Education Development Program	China	East Asia and Pacific	150	135	Implementation
	Rwanda Priority Skills for Growth	Rwanda	Sub-Saharan Africa	Not available	120	Implementation
	Benazir Income Support Programme	Pakistan	South Asia	108.7	40	Implementation
	Sri Lanka Skills Sector Development Program	Sri Lanka	South Asia	650	193.6	Completed

Source: Multiple sources where consulted to develop these 12 case studies (see Appendix 4). Reliable information on the outcome payments (amount of funding disbursed upon the achievement of verified results) was not available for all cases identified. The program size, which is the overall amount of funding directed to a program, or to the ALMP relevant components, was also not always available.

# 4

Design challenges

## 4. Design Challenges

### Section 4 – Key messages

#### 4.1 Incentivizing the right results

- RBF can only be successful if it incentivizes the achievement of the intended results and avoids creating ‘perverse incentives’, where service providers can focus on maximizing their payments rather than maximizing results.
- Ensuring service providers focus on the intended results is critically dependent on selecting payment metrics aligned with the desired impact and pricing these appropriately.
- The capacity to create an RBF system which encourages a strong focus on the desired results can be limited by practical constraints, such as the availability of appropriate verification data.

#### 4.2 Focusing on vulnerable populations

- An RBF design must avoid creating the perverse incentive of ‘cream-skimming’, where service providers focus on the program participants for whom it is easier to achieve results, at the expense of more vulnerable populations who need the program most.
- The risk of cream-skimming can be mitigated through five key design options:
  - Establishing eligibility criteria that target specific population groups (e.g., young people below the poverty line).
  - Using ‘differential pricing’, where different prices are paid for the same results across different beneficiaries.
  - Using rigorous impact evaluations to verify results and ensure these are attributable to the program.
  - Including intermediary and complementary payment metrics which are easier to achieve for vulnerable populations and which are linked to the desired impact.
  - Using quotas or caps in which the numbers of or portion of the vulnerable population is defined.

#### 4.3 Verifying results effectively

- Investing in effective results verification is central to RBF’s functionality and can help build evidence on program effectiveness but can also entail significant cost.
- The case for investing in rigorous results verification is particularly strong in a program’s early experimental stages to generate the evidence needed for future program refinements.
- It is also important that verification costs are reduced over time to ensure the program’s financial sustainability as it is scaled or replicated.

#### **Summary note on addressing unequal labor market opportunities for women**

- RBF has the potential to support the effectiveness of ALMPs for women, primarily through differential pricing, as in the cases of Australia, Ethiopia and Nepal.
- The tracking of results required for results verification also provides insights on the extent to which successful outcomes for women are being achieved, offering an opportunity for program refinement in favor of women.
- However, these opportunities are not widely embraced. While more than half of the programs reviewed stated they had a focus on women, few put this into practical effect. This represents a missed opportunity, especially compared to other areas, such as education, where RBF has been used effectively to advance gender equity.

RBF has great potential to enhance the effectiveness of ALMP interventions but is not free of challenges. Even in the best circumstances for its use, the effectiveness of RBF depends on its design. Good RBF design adds value by responding to the barriers to results in the local context: while ALMPs face many common barriers, the precise nature of these will vary across contexts.

This section assesses the design choices for RBF relating to ALMPs, focusing on three challenges:

1. **Incentivizing the right results** to ensure the achievement of the intended benefits of a program.
2. **Focusing on vulnerable populations** to ensure value for the program’s participants who are the least likely to gain employment without the program.

### 3. Verifying results effectively to achieve rigorous measurement and learning gains at reasonable cost.

Sections 4.1 and 4.2 outline these challenges and illustrate how different design choices can address them, as summarized in Table 4 below. The section also provides guidance for tailoring an RBF design to the context at hand, highlighting the trade-offs between design choices and how various design features can reinforce the same objective.

Table 4. Key challenges in the application of RBF to ALMPs and related design features

	Payment metrics	Pricing structure	Targeting methods	Verification approach
Incentivizing the right results	✓	✓		
Focusing on the intended population	✓	✓	✓	✓

The last subsection, 4.3, highlights the need to choose a verification approach that avoids excessive cost while also contributing to the program's evidence base.

## 4.1. Incentivizing the right results

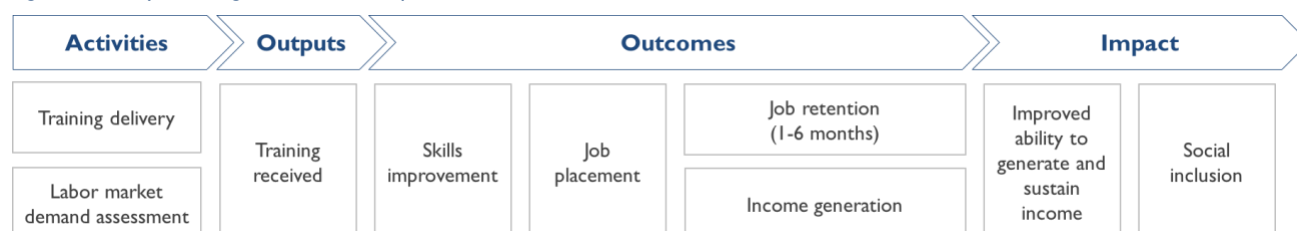
Designing payment to achieve the intended benefits is seldom straightforward. Perverse incentives can undermine the achievement of the intended benefit. These occur when service providers are incentivized to maximize their payments in a way that does not maximize the program's intended impact and beneficiaries' welfare. Selecting payment metrics aligned with the desired impact and pricing these appropriately is critically important to limiting perverse incentives and achieving the intended benefit. These two points are reviewed in turn below.

### 4.1.1. Selecting results that align with the desired impact

Payment metrics should reflect the objective of the specific ALMP in terms of social inclusion and/or economic development. As described in Section 2, this report deals primarily with ALMPs that aim to advance social inclusion by improving the employability of poor and marginalized populations, particularly women and youth, and expanding their access to decent employment.<sup>69</sup> Box 4 below offers further details on two ALMPs focused on advancing economic development.

Social inclusion focused ALMPs lead to an improved ability to generate and sustain increased lifetime earnings among beneficiaries, as depicted by the theory of change in Figure 5.

Figure 5. Theory of change for ALMPs that promote social inclusion



<sup>69</sup> All 12 case studies cover ALMPs focused on social inclusion, except for the Rwanda Priority Skills for Growth program which is focused solely on economic development. Five of the case studies also aim to provide sector specific skills in response to market needs: The Employment Fund in Nepal, the Ethiopia Skills and Knowledge for Youth Program, Morocco's TAEHIL program, the Sri Lanka Skills Sector Development Program, and the Guizhou Vocational Education Development Program in China.

Suitable payment metrics here would include measures of employability (e.g., training completion, skills development), and measures of employment (e.g., job placement, job retention, earnings linked to the job). Often, there may be a temptation in RBF design negotiations to de-emphasize employability because it is harder to measure. However, it is a critical aspect of ALMP; especially given that many beneficiaries who obtain jobs often lose these jobs within 6 months. Without improved employability, the beneficiary may not be better able to find a future job.

Table 5 provides insights on how RBF designers are weighing these trade-offs and emphasizing employability versus employment measures. It shows the various payment metrics used across the eight case studies relating to Impact Bonds and PBCs (excluding PBLs as per Section 3.3). To give a sense of the relative importance given to each metric, the table also shows associated normalized payment weights for each payment metric. Any requirements that need to be fulfilled before payment disbursement are indicated with the letter “R”.

Table 5: Examples of payment metrics and associated normalized payment weights

	Social Impact Bond			Performance-Based Contract					
	Colombia SIB*	Netherlands SIB Rotterdam	UK Innovation Fund**	Australia Jobactive***	Chile Califica	Ethiopia SKY program	Morocco TAEHIL program****		Nepal Employment Fund
							FCE	FQR	
Training received	R	-	-	-	35% (enrolment)	30% (mid-training)	80%		R
Skills improvement	-	-	53%	15%	65%	50%	-		40%
Job placement	45.5%	-	-	-	-	-	20%		-
Job retention: 1 month	-	-	-	15%	-	-	-		-
Job retention: 3 month	45.5%	-	30%	31%	-	20% (4 months)	-		25%
Job retention: 6 month	9%	-	17%	39%	-	-	-		35%
Reduced reliance on welfare benefits	-	100%	-	-	-	-	-		-

Notes: \* The nine percent payment for six-month retention in the Colombia Social Impact Bond is a bonus. \*\* The UK Innovation Fund is a rate card scheme. The numbers are the maximum outcome payments per outcome measure that a provider may receive in Round Two of the program. \*\*\* For illustrative purposes, the payment weights refer to the percentage of the total outcome payment that a provider can receive for the full-time employment of an individual who has been unemployed for more than 60 months in a non-regional location. The figures represent the average for the three streams. The payment function considers an individual's stream, period of prior unemployment, location, and type of placement. \*\*\*\* Information on the distribution of payment across metrics for the *Formation Qualifiante ou de Reconversion* (FQR) program is not available.

From the table above, we can gather general trends, especially if we exclude the Rotterdam SIB as an outlier:

1. All programs required or put weight on employability measures (training received and skills improvement) with between 15 percent to 80 percent of payment tied to employability. This reinforces the point that ALMPs are as much about employability as they are about employment. Some of these payment metrics are also in place to decrease payment risk, minimize cream-skimming, and decrease measurement costs.
2. Interestingly, we notice that few programs consider placement as a measure of success worth paying for. This is likely due to the highly gameable nature of this metric.
3. In terms of job retention, three or six months are considered appropriate checkpoints. This reflects the fact that many countries have two- to three-month job-trial periods.

4. Finally, no program in the sample has paid for more than six months retention, although in some of the most mature RBF systems (Australia, Nepal), 35 to 39 percent of weight is given to six months retention.

In the remainder of this subsection we review the characteristics of the most common job metrics used across the case studies and consider their relative merits and challenges.

### Training and skills improvement

All except two of the case studies reviewed conditioned some payments on the delivery or completion of training or some associated skills improvement. Training received was used as the basis of payment in the Chile, Ethiopia, and Morocco cases; skills improvement was used in the UK, Australia, Chile, Ethiopia, and Nepal cases.

The benefit of using training as a payment metric is that it can be easily measured based on participant enrollment, either at the start of the course (Chile) or during the course (Ethiopia). It can also be paid for based on the number of hours delivered (Morocco). The shortcoming of this measure is that it is an input, not an outcome: participation does not guarantee improved skills, much less employment outcomes. As such, paying for participation allows for perverse incentives to arise since service providers can easily maximize their payments with little consequent benefits.

Reflecting this possibility, over half of our example ALMPs include payment metrics which involve some form of skills assessment, used as a proxy for training quality. For instance, in the Ethiopia case, payment is made based on skills assessments conducted in accredited assessment centers. Likewise, the Rwanda Priority Skills for Growth program pays for program graduation, while the Chile case includes payments based on the number of program participants who passed the learning module (detailed in Box 1 below).

Payment metrics which involve a measure of skills improvement represent an advance on training delivery since they identify a more direct link to the desired improved employment prospects. These measures can provide good incentives for service providers to enhance beneficiaries' employability beyond the horizon of the RBF activity. This can be particularly useful where other outcomes, such as job placement and retention, are hard to achieve because of factors out of the control of the service providers. For instance, if there are limited employment prospects even good service providers will have limited success helping participants find and maintain jobs. However, if the participants' skills have improved they would have increased her likelihood of getting a job in the future.

#### *Box 1. Perverse incentives linked to paying for trainings in Chile*

The Chile Califica Program, jointly designed and executed by the Ministry of Education, the Ministry of the Economy, and the Ministry of Labor and Social Security, was introduced with the objective of "laying the foundation for a system of lifelong learning and training in Chile," which in turn would support social inclusion through improved access to employment.

The providers received 35 percent of the total outcome payment based on participant enrollment, while 65 percent of funding was tied to the number of participants who passed the learning module tests. However, the payment metric for 'passing the test' actually created a perverse incentive, since service providers lowered the standards of the test.

*Source: Chile Califica Case Study, Appendix.*

### Job placement and retention

Job placement and retention are commonly used measures of impact for social inclusion-focused ALMPs. Compared to measures of skills and training, job placement and retention as payment more directly relate to the intended benefit of gaining sustainable employment. By incentivizing service providers to focus on these measures, their incentives are better aligned with labor market demand. We can observe this beneficial alignment in the Nepal and Morocco cases; further details are outlined in Box 2.

Job placement: Only two out of the eight cases chose job placement as a payment metric. This is likely because job placement is a potentially gameable metric, since it does not imply any payment from the employer but rather the



signature of a contract, which can be faked. The Jobactive program of Australia, which is the most mature system among the eight cases, gets around this issue by paying for one-month retention. This is a strategy other RBF programs can employ, since it ensures that beneficiaries have a genuine job, without transferring significantly more risk to the providers.

In addition, job placement alone is arguably a poor proxy for improvements in employability because hard-to-place beneficiaries often have lower rates of job retention. If the goal is long-term employment outcomes, job placement may hide retention issues.<sup>70</sup>

**Job retention:** Most cases paid for some measure of job retention, a less gameable metric and one more directly related to the intended results of increased long-term employment. Job retention is a useful proxy of whether the beneficiary has been placed in a suitable job and equipped with the necessary skills for its retention. Six of the eight case studies outlined in Table 5 used this measure. An important design choice for this measure is the duration of employment retention which should be paid for. To focus service providers on achieving genuinely sustainable employment outcomes, it would make sense to pay for long-term retention, perhaps measuring in terms of years. However, because of several practical constraints discussed in Section 4.1.3., these measures are normally much shorter, with examples ranging from one to six months.<sup>71</sup>

**Controlling for the quality of the job:** For job placement and retention to be good proxies of upward mobility in vulnerable populations, a minimum standard of job quality is commonly defined. This ensures service providers cannot target low-quality jobs (for example, low-paying, risky, or informal jobs). Thus, payment metrics focus on the ability to gain and maintain employment which meets basic minimum standards. For example, in Colombia, the SIB only paid for formal sector jobs which pay minimum wages and offered standard health access. In an upcoming and new SIB design within the Colombian program, we are recognizing that some contracts are of higher quality than others and will reflect this in the design of the second SIB.

#### *Box 2. Rapid Market Assessments in Nepal and Employer commitments in Morocco*

The Nepal and Morocco PBC case studies utilized two different market-led approaches. The Nepal Employment Fund required service providers to conduct preliminary Rapid Market Appraisals (RMA) to facilitate provider engagement with employers. RMAs helped providers build relationships with the private sector and identify skills relevant to current and future labor market needs. Providers had strong incentives to conduct thorough RMAs as the information obtained could be used to design effective interventions for jobseekers and maximize the likelihood of receiving full payment.

In the Moroccan PBC's 'Contractual Training for Employment' (FCE for its French acronym) component, employers select the service providers based on their capacity to deliver specific skills training. Service providers deliver the intervention to a group of jobseekers which are jointly selected by the employer and service provider. This operates based on an agreement between private sector employers, service providers, and the government agency, all of whom have to agree on the type of training. The market-led approach is illustrated by the commitment of employers to hiring participants upon completion of the program, thereby aligning the training curriculum to their specific needs.

*Source: Morocco TAEHIL Workforce Development Program Case Study and Nepal Employment Fund Case Study, Appendix.*

## **Beneficiary income**

For ALMPs driving social inclusion increases in beneficiary income are a particularly useful indicator. Increases are the most direct measure of improved beneficiary welfare and can also act as a leading indicator of future income increases.<sup>72</sup>

<sup>70</sup> Butler, D. et al. 2012.

<sup>71</sup> The only example identified with longer term results payment is a SIB being developed in Buenos Aires in which there is a 40 percent bonus attached to 12 months of sustained formal employment in a period of 20 months (not necessarily continuously, or with the same employer). This example is not included among the case studies as it is yet to be implemented. Details here: International Initiative for Impact Evaluation. 2018.

<sup>72</sup> Income may also be a suitable measure for economic development interventions as a proxy for the desired productivity gains. However, this prospect is complicated by the fact that increasing the supply of sector-specific skills in the labor market could diminish the associated salaries.

Beneficiary income can be incorporated into an ALMP through two methods. First, a threshold approach can be used where the minimum job standard includes a minimum income level. This approach is used in the cases of Colombia, Ethiopia, Sri Lanka, and Nepal. In Nepal, for instance, payments for six-month job retention required that participants earned a wage (whether in self-employment, formal or informal employment) above a predefined monthly minimum income level of 4,600 Nepalese Rupees (approximately US\$ 46).

Second, payment can also be based on some continuous function of income gains among beneficiaries. No examples of this approach were identified in the case studies; however, this approach is used in the Village Enterprise Development Impact Bond. In that example, payments to the service provider are based on the beneficiary's consumption levels and net assets – these are a proxy for income.<sup>73</sup> This approach is appealing since it provides incentives which are better linked to beneficiaries' welfare improvements, but its use is limited by measurement difficulties – it is notoriously costly and difficult to implement accurately.

### The importance of combining payment metrics

To avoid perverse incentives in favor of quick and easy short-term gains, payment metrics should collectively represent the key outputs and outcomes that lead to long-term impact. For instance, if job retention is incentivized while skills improvement is not, this could create a perverse incentive to focus on short-term gains over long-term impact. Service providers might try to place program participants in easy-to-place jobs without great economic benefit or potential.





This can be addressed by combining several different payment metrics, such as a blend of employability and employment metrics. Combining them incentivizes improved employability while minimizing performance risks and the accompanying financial risks. Therefore, such combinations are recommended in most cases. Table 5 shows that most case studies examined in this report combine a blend of employability and employment metrics with different time horizons. An example of some of the factors of payment metric selection is provided below in Box 3.

#### *Box 3. Choosing results to be measured and verified for payment in Colombia*

The process followed in the Colombia SIB for selecting payment metrics illustrates the considerations involved in striking this balance between choosing metrics closely related to the desired impact (sustained formal employment for vulnerable populations) and practical feasibility. In this process, the stakeholders considered the following payment metrics:

- **Training delivery and completion:** Although training delivery and completion are relatively easy to measure and largely within the manageable control of the service provider, these metrics were not selected given the distance from the desired impact of long-term sustainable employment.
- **Job placement and three-month and six-month retention:** These metrics were selected as they are both closely linked with the desired impact and data collection was administratively feasible. There was an interest in including job retention, given that six-month retention is highly correlated with long-term employability. Because retention is further from the provider's control, combining both job placement and retention metrics had the advantage of creating a balance between incentivizing meaningful results without generating too much payment risk. A lower payment weight in the form of a 10 percent bonus payment was given to the six-month retention metric to compensate for lack of service provider control and to encourage learning.
- **12-month retention:** Although this metric is most aligned with the desired impact, it was not selected given that it is harder to verify and would transfer significant risk to the providers. Moreover, the timeframe of this project also impeded selecting this metric.

<sup>73</sup> Instiglio 2018b.

	Activities	Outputs	Outcomes			Impact
Payment metric options	Training delivery	Training completion	Job placement	Job retention		
				3 months	6 months	12 months
Payment metric decisions						Sustained formal employment for vulnerable populations

Source: Colombia Employment Social Impact Bond Case Study, Appendix.

#### Box 4. ALMPs focused on advancing economic development

In contrast to the social inclusion focus, ALMPs that focus on advancing economic development need to ensure that workers can meet existing or anticipated labor market demand for certain industries and national economic growth. In this context, payment metrics are linked to improved sector-specific workforce productivity. These programs thus focus on developing sector-specific skills, measured through training completions and competency certifications. For example, the PBL cases in China and Rwanda, described below, focus on strengthening specific sectors' labor supply to advance economic development.

In 2016, the Asian Development Bank issued a US\$ 150 million results-based loan to the People's Republic of China to finance the Guizhou Vocational Education Development Program (GVEDP). This program was developed to bridge the gaps between a severe shortage of skilled labor in several priority sectors: construction, logistics, light industry equipment manufacturing, information technology, agricultural engineering, and tourism. In 2013, Guizhou was the poorest province in China in terms of GDP per capita, and these sectors were deemed a priority to increase the province's low industrialization levels. To improve the responsiveness of training institutions to sector-specific labor market trends, the program rewards institutions that implement a competency-based curriculum that meets the needs of occupations in these priority industries.

In 2017, the World Bank committed US\$ 120 million under its PforR to the government of Rwanda, which launched the Rwanda Priority Skills for Growth (PSG) as part of its National Employment Program. The PSG seeks to expand opportunities for acquiring quality, market-relevant skills in key sectors for economic growth. These sectors included energy, transportation and logistics, and manufacturing. To incentivize and strengthen the participation of the private sector in skills development, the program disbursed 25 percent of funding to new or updated training programs accredited for occupations in the selected sectors and four percent to updated or new programs taught by staff in industries related to the sectors of interest.

Source: China Guizhou Vocational Education Development Program Case Study and Rwanda Priority Skills for Growth Case Study, Appendix.

### 4.1.2. Paying for results to align with desired impact

To unlock the value-add of RBF, the distribution of payment weights across metrics needs to align the incentives of service providers with the desired impact. Even if metrics have been selected which are closely aligned with impact, incentives may not be drawn to the desired impact if these metrics are not priced effectively and if their relative pricing does not reflect what matters most.

The case of Morocco TAEHIL illustrates the importance of an adequate payment distribution that accounts for the specific context in which a program unfolds. In this case, 80 percent of the payment is tied to training completion and 20 percent to job placement. Given that providers could cover their costs through the training provision alone, and

taking into account that the verification of job placement imposed a heavy burden on them, this incentive structure did not encourage providers to focus sufficiently on getting program participants into jobs.

Figure 6 summarizes the level of funding attached to different categories of payment metrics across the eight case studies (excludes the PBLs).

Figure 6: Payment metrics weight by price across 8 case studies



Note: This table includes the total percent of funding tied to different results categories from across the eight case studies (excluding the four PBLs). For example, the job placement column represents the sum of 46 percent of the payment tied to this metric in the Colombia case study and the 20 percent tied in Morocco.

This figure reveals significant trends. These include:

1. Completing a training is weighed relatively more than beginning one.
2. Reflecting the benefits of measuring skills improvement, relative to training completions, for assessing employability, skills improvements is the more commonly used measure across the studies reviewed here. That said, we have found a lack of consistency in defining skills and a lack of affordable and standardized means of measuring skills are key challenges. This may explain why training completion is still a prevalent payment metric.
3. When combined, programs weigh employability measures about as much as employment outcomes; although job retention is more significant than training completion and skills improvement. Some of that may be explained by the measurement issues around employability described above, but in our experience, there might also be some political motivations behind this. From a political perspective, in most cases, the success of ALMPs is primarily linked to the number of job placements they generate, which is the easy to report and a politically salient goal. Funders may feel pressured to weigh those measures more heavily. The cautionary note here is that by drawing more attention to employment (especially in absence of rigorous impact evaluations), we are potentially undermining longer-term employability measures and opening the door to cream-skimming and other gaming behaviors.
4. Finally, significantly more weight is given to job retention compared to job placement, for reasons discussed previously linked to the gameable nature of job placement.

#### 4.1.3. Constraints to selecting and paying for results aligned with impact

As outlined above, ideally an ALMP RBF approach would select and pay for results closely related to impact. However, several practical constraints mean that this often is not possible, necessitating the use of metrics which are relatively distant from impact. Pricing appropriately is often made difficult by changing market conditions, which can directly affect employment outcomes. These constraints, and other practical issues, are outlined below.

## Time horizon of results metrics

It is often impractical to tie funding to long-term results such as beneficiary earnings or employment status over a 10-year period and hence the RBF funding time horizon is typically much shorter. Due to institutional constraints, typical outcome payers cannot commit funding for more than one to five years. Unless service providers find very patient pre-financing, long time horizons can also cause cash flow issues for them. Reflecting these challenges, the longest-term outcome measure identified in the case studies is for six-month job retention (Table 5).

## Manageable control of results metrics

Program results that are closely linked to the intended impact are generally less within the manageable control of providers, especially given that labor market shocks directly influence employment outcomes. Paying for results which are less within the provider's manageable control can introduce intolerably high risk for service providers and funders. High risk can deter service providers from participating in the RBF program if they cannot find appropriate mitigating mechanisms. For instance, while a service provider might be confident that they can produce certain learning outcomes through vocational training, they might be more hesitant to ensure that the program's beneficiaries are employed 12 months after the training. Ensuring the latter could be quite risky, especially for service providers with relatively low capacity and limited evidence on their past success at delivering the defined results. Equally, funders can be deterred by low manageable control of results metrics because the associated increase in risk necessitates increases in risk premiums or increases their own disbursement risks.

## Data for pricing

Pricing payment metrics appropriately is a critical part of an RBF scheme's incentive structure. If the price is too low, it can discourage the participation of relevant service providers. Worse, if a participating service provider figures out that the price is too low downstream, it may resort to perverse behaviors to minimize financial loss. On the other hand, if the price is too high, it may provide funders with poor value for money. Setting prices accurately requires the availability of appropriate data to estimate targets, price results, and assess payment risks for both funders and providers. For instance, data is required relating to topics such as cost of service delivery, evidence on past program performance, and labor market conditions.

Funders and providers can set targets and price results by cross-validating cost and benefit estimations from various data sources. Providers can, for instance, estimate fixed and variable intervention costs based on past experiences while funders can use cost and pricing data from similar programs as a benchmark. Estimates of provider success rates can also inform the likelihood of achieving employment outcomes and be used to estimate realistic targets. Box 5 describes how a lack of appropriate data was a challenge in the Colombia SIB case and how this was overcome.

### Box 5. Overcoming a lack of available outcomes pricing data in Colombia

Due to a lack of data on historical provider performance and outcome costs, stakeholders in the Colombia SIB used a hybrid approach to price outcomes, triangulating between the following four data inputs:

- Cost estimates per activity in government programs.
- Average of costs per additional activity of three potential service providers interested in participating.
- Costs of management and estimated investor return.
- Average success rates of the three shortlisted service providers.

From these data points stakeholders estimated payments for each payment metric.

*Source: Colombia Employment Social Impact Bond Case Study, Appendix.*

Even when data is available, unless it is very time- and context-specific, it can be particularly difficult to 'get the prices right'. This is particularly true for ALMPs which involve anticipating and intervening on evolving market dynamics. Slight shifts in population demographics or market conditions can impact results. For instance, employment opportunities may increase or decrease as the economy accelerates or slows, impacting beneficiaries' employment outcomes.

A number of strategies can address this challenge. In-context price discovery should be undertaken in each market RBF is being introduced for ALMPs, rather than relying on outdated data or data obtained from other markets. RBF designers can institute a dynamic pricing strategy linked to market conditions (rate of growth, unemployment rates, etc.) or explore a two-staged approach, whereby the first stage serves as a discovery phase, and feeds critical context-specific and up-to-date information for pricing more sophisticated incentive structures in a second stage.

### Cost of results verification

The choice of metric can also be constrained by the cost of accurately verifying results. In settings in which outcomes metrics, such as employment status or income, are routinely collected by the government, RBF can leverage this data cheaply. When no administrative data is available, new data must be collected to verify results. Output data is typically more readily observable and therefore cheaper to collect than outcomes data, which may lead to a focus on paying for training completions rather than labor market outcomes. In one example of efforts to lower the verification cost in a data-scarce environment, when Helvetas implemented its new program in Ethiopia, it changed the approach it had used previously in Nepal, reducing the period of job retention required for payment from six to four months to reduce the verification burden and reducing the use of in-person verification for the same purpose.

## 4.2. Focusing on vulnerable populations

In addition to ensuring a focus on intended results, an effective RBF approach for ALMPs must incentivize service providers to focus on the intended beneficiaries. That is, the RBF design must avoid creating a perverse incentive of ‘cream-skimming’, where service providers focus on program participants who are easiest to place in jobs while limiting their investment in people who are more disadvantaged.

As noted in Section 2, ‘vulnerable populations’ in this context means beneficiaries who face barriers to sustainable employment because of factors such as limited education or work experience, geographic marginalization, or discrimination. For instance, women, as evidenced by the disparate labor market trends presented in Section 2, often face multiple socio-economic and socio-cultural barriers to entering and retaining decent and productive employment.<sup>74</sup> These barriers are rooted in the complex interplay of unequal access to education, discrimination, differential roles within the household, preferences and prejudices.<sup>75</sup>

Cream-skimming creates problems since it can reinforce inequitable results and reduce the program’s value-add. Where cream-skimming occurs, it implies funders are paying for results which would have been achieved anyway and limits results for vulnerable populations.

The risk of cream-skimming can be mitigated through various design features described in the following sub-sections.

### 4.2.1. Eligibility criteria

The most basic method to address cream-skimming is establishing eligibility criteria for program participation. All the cases reviewed for this section involved some form of eligibility criteria. As reflected in Table 6, common eligibility criteria include:

- Age-based eligibility criteria to promote a youth focus; used in Colombia, Netherlands, Ethiopia, the UK, and Nepal.
- A pro-poor focus through approaches such as setting maximum allowable income levels (Nepal), government definitions of vulnerability (Colombia) and, in high-income countries, measures of welfare dependence (Australia, UK, and the Netherlands).
- Minimum education levels; used in the UK, Colombia, Chile, Ethiopia, Morocco, and Nepal.<sup>76</sup>

<sup>74</sup> ILO 2017a.

<sup>75</sup> ILO 2017a.

<sup>76</sup> Note that six out of the eight case studies include minimum education requirements. However, this targeting is not necessarily to limit cream-skimming, but could for instance be due to the additional complexity of placing people who have not received basic education. In the case of Colombia, this requirement was intended to support the comparison of the program with similar government programs which often require minimum education levels and, moreover, it was thought that the intervention could help close the gaps that high school graduates face in accessing the labor market.

Table 6. Eligibility criteria across the case studies

		Eligibility Criteria			
		Age	Pro-poor	Education	Other
<b>Colombia SIB</b>		18 to 40 years old	Qualifying poverty measure score, ultra-vulnerable or internally displaced	High-school graduates	Have not participated in government agency employment programs in the last two years
<b>Netherlands SIB Rotterdam</b>		17 to 27 years old	Receiving municipal unemployment benefits	-	-
<b>UK Innovation Fund</b>	<b>1st round</b>	14 years old and above	Are Not in Education, Employment or Training (NEET) or at risk of becoming NEET	-	-
	<b>2nd round</b>	Young people	-	Still at school	-
<b>Australia Jobactive</b>		-	Receives defined welfare payments (unemployment benefits, youth allowance etc.)	-	-
<b>Chile Califica</b>	<b>Criteria 1</b>	15 years old and above	-	Have completed 4 - 6 years of basic education	-
	<b>Criteria 2</b>	18 years old and above	-	Have completed 1-3 years of middle school	-
<b>Ethiopia SKY program</b>		18 to 30 years old	-	8 to 12 years of education	-
<b>Morocco TAEHIL program</b>	<b>FCE program</b>	-	Be registered with government agency	High-school graduates	Identified by an employer during a prior recruitment process
	<b>FQR program</b>	-	Be registered with government agency	High-school graduates	In need of skills aligned with labor market requirements
<b>Nepal Employment Fund</b>		16 to 40 years old	Poor economic status (non-farm per capita household income of <US\$ 40 per month or <6 months of food sufficiency for farming families)	10 years and above of formal education	-

One factor not used for any of the eligibility criteria identified in the cases was gender. This is perhaps surprising given that many of these programs explicitly mention a gender focus. However, gender-based eligibility criteria are not common across ALMPs in general (whether they use RBF or not): in one review of 107 ALMPs, only 16 were targeted exclusively at women, compared to 45 with eligibility criteria based on measures of low-income or disadvantage.<sup>77</sup> Further, there are other more nuanced ways of ensuring a gender focus in ALMPs using RBF, in particular differential pricing as discussed below.

The benefit of eligibility criteria is that criteria can be easily observable. For instance, the pro-poor measures in Colombia, Australia, and Netherlands are based on government administrative data. Age-based eligibility criteria are also often available as administrative data.

The main weakness of relying on eligibility criteria is its bluntness. Many of these criteria are imperfect proxies of the employability levels of beneficiaries, and can lead to “false positives” (including participants who do not need the program, and therefore returning to the cream-skimming problem) or “false negatives” (excluding participants who would benefit from the program). Program designers must strike a balance between criteria that is neither too broad (such as all unemployed) nor too narrow (such as female youth from a specific region). For these reasons, setting target populations is a useful first step to limit cream-skimming but is best complemented by one or more of the following methods as well.

<sup>77</sup> Kluve et al. 2016.



### 4.2.2. Differential pricing

Differential pricing is a more sophisticated method to limit cream-skimming and entails varying the price of the same metric for different beneficiaries. For example, in the Australian case, which operates the most sophisticated differential pricing system of the sample, pricing is based on a person's period of unemployment, their geographic location, and a host of personal characteristics – such as gender, age, ethnicity, education levels, and disability status. As reflected in Table 7 below, similar but simpler approaches are used in both Nepal and Ethiopia, with payments adjusted based on factors such as gender and ethnicity.

Table 7. Differential pricing across case studies

	Differential pricing	
	Result payments range per participant (approx. \$US)	Criteria for outcome payments variations
<b>UK Innovation Fund</b>	\$ 5,000-21,000	Beneficiaries were classified into groups based on their degree of being hard to place (age, location, disability, housing status, benefits received, previous employment). Jobseeker's Allowance (US\$4,900 – 8,500) for Groups 1 – 4, Employment and Support Allowance (US\$4,800 – 17,700) for Groups 5-7, Incapacity Benefit (up to 4,200) for Group 8.
<b>Australia Jobactive</b>	\$1,200-10,500	Geographic location (25% more for non-regional), period of unemployment, barriers to employment (such as, education level, language skills and ethnicity) term of employment: part-time, full-time or self-employment (partial outcomes are 40% of full outcomes).
<b>Ethiopia SKY program</b>	\$ 250-270	Training costs vary according to how resource-intensive the training is, intermediation costs increase for target groups identified as having labor market-related disadvantages (such as women, internally displaced, single parents), payments increase for these harder-to-place population groups.
<b>Nepal Employment Fund</b>	\$300-500	Financial bonuses were paid for disadvantaged individuals, such as women. For instance, outcomes for women poor and disadvantaged women were set at 80% more than training costs.

1/ 2015 exchange rate

2/ 2017 exchange rate

Differential pricing can be used for two ends. First, service providers can be incentivized to serve all populations, by setting differential prices equal to differential costs of generating results for different populations. Second, service providers can be incentivized to preferentially serve a marginalized group, by setting differential prices above the differential costs. In the report's case studies and in the literature, differential pricing has been found to be a powerful tool to limit the cream-skimming that adversely affects marginalized groups.<sup>78</sup>

The benefits of differential pricing relative to eligibility criteria is that the former allows for more nuanced targeting. While eligibility criteria are a binary process (you are either in or out of the program), differential pricing can enable differentiated support levels based on an individual's needs. This increases program cost-effectiveness and may also have advantages in terms of perceived fairness.

Differential pricing is also the most prominent approach for ensuring a specific focus on women. While no programs used gender as the basis of eligibility criteria, all the case studies which used differential pricing place a significant focus on gender. As described in Box 6, for the Nepal case, this means paying service providers higher rates for the results achieved for women. Differential pricing also enables a particularly strong focus on women who face multiple barriers to employment, such as age, geographic location, and ethnicity. Reflecting this focus, service providers in Nepal received an additional payment worth 80 percent of training costs on top of normal payments for employment outcomes achieved for women from the marginalized Dalit community or with special needs (e.g., ex-combatants and women with disabilities).

<sup>78</sup> Courty, P., D.Kim, and G.Marschke 2011.



The disadvantage of differential pricing is that it can be challenging to design in data-scarce environments. In such contexts, differential pricing can involve a lot of guess work regarding the identification of which individuals are the hardest-to-place. Reflective of this challenge, an evaluation of the UK government's Work Programme found that differential pricing was less effective in the absence of the necessary data.<sup>79</sup>

#### *Box 6. Differential pricing system in Nepal*

One of the key rationales for using RBF in the Nepal case was to enable appropriate targeting as per the government's Gender and Social Inclusion (GESI) priorities. To achieve this sort of targeting for women and other disadvantaged jobseekers, the Nepal Employment Fund used a differential pricing system where a financial bonus was paid when disadvantaged individuals were trained and placed into employment. The financial incentives were calculated as a percentage of training costs and increased gradually, the higher the group's priority level.

The highest priority level would reward providers with an incentive payment of 80 percent over their training costs; this was for achieving outcomes for women who were both poor and disadvantaged. The incentive for placing poor women was set at 70 percent over training costs, while those for (1) poor and disadvantaged men and (2) poor men were set at 50 percent and 40 percent, respectively. Beneficiaries were considered "disadvantaged" if, for example, they had disabilities, came from the Dalit caste, or were violence-affected.

This incentivized service providers to adjust their programs to better target the needs of these different groups. For instance, to address the needs of women, some providers combined training with childcare services, while others offered evening classes to accommodate family obligations.

*Source. Employment Fund Nepal Case Study, Appendix.*

### 4.2.3. Paying for causal results: impact evaluations

The risk of cream-skimming can also be mitigated by the utilization of a rigorous impact evaluation to verify an ALMP's impact. A rigorous impact evaluation can reliably differentiate between impact that is attributable to the ALMP from impact that is attributable to other factors. This reduces the incentive to cream-skim, as the provider is now seeking to maximize its true value-add.

The disadvantage of employing rigorous impact evaluations is that they are often costly to implement. It may also not be feasible to identify an adequate control group in the case of national programs or for political or ethical reasons. Reflecting these limitations, this study has not identified any examples where ALMP results have been verified as the basis for payment with rigorous evaluations, such as Randomized Control Trials (RCTs), in developing countries. Across RBF programs more generally, beyond ALMPs, our research shows RCTs have been used in only one percent of all projects in low- and middle-income countries.<sup>80</sup>

### 4.2.4. Selecting achievable intermediary quality measures as payment metrics

Cream-skimming can also be mitigated by including intermediary results in the payment metrics. For example, measures of employability – rather than actual employment – are a more forgiving metric for hard-to-place participants that may struggle to find employment soon after program completion. Another intermediary outcome is training quality; most case studies from our sample used a training quality or activity payment metric to complement labor outcome metrics (see Table 5).

### 4.2.5. Quotas and caps

Quotas and payment caps can also be used to ensure a focus on vulnerable populations. A quota defines the percentage of program participants from a certain population that should participate in a program. For instance, a quota could

<sup>79</sup> Department for Work and Pensions UK 2014.

<sup>80</sup> Instiglio 2018b.

stipulate that 50% of program participants should be women. If there are more men than women in the training, the service provider will not be paid for results associated with the excess men.

A payment cap stipulates the amount of results payment that can be derived from a certain target population. For instance, a payment cap might limit the possible payment for results associated with men to \$500,000 in a program in which overall result payments are capped at \$1,000,000. Alternatively, payment caps could also be designed such that they only allow for payment based on a fixed proportion of results among different groups.

The advantage of a quota over a payment cap is that it ensures that all subpopulations participate in the program as desired. The advantage of a payment cap is that it focuses on results not on participation in activities. If the proportional rules are applied with payment caps they can also ensure that results across groups are equal. The disadvantage of applying such a rule is that it prevents service providers from responding to external factors such as the differential demand for its trainings from men and women.

No examples of caps and quotas were identified through the mapping of ALMPs using RBF, nor have we identified examples from other RBF programs beyond ALMPs, but in theory they have some advantages relative to other approaches. For instance, in the context of limited data and high uncertainty, relative to differential pricing, quotas and caps offer greater certainty that the desired groups will be targeted since they introduce formal requirements rather than relying on setting the appropriate prices. The drawback of quotas and caps is their rigidity: if the targets are set too high, they will be very difficult and expensive for services providers to achieve; if set too low they will be too easy to achieve and the gains for the vulnerable populations will be limited.

### 4.3. Effective results verification

Paying for results requires that results can be measured and verified. As noted in 4.1 and 4.2, the choice of verification method is important in ensuring the RBF approach incentivizes the right results for the right population. Further, results verification can also be an important source of evidence, enabling course corrections and building our understanding of program effectiveness. However, results verification also entails costs which need to be managed to ensure the programs' financial sustainability. This section reviews the costs and benefits of results verification for ALMPs, highlighting how these can be balanced by tailoring the approach to the objectives and circumstances of the case at hand.

#### 4.3.1. The costs of results verification

RBF results verification can present a significant cost and administrative burden for funders and providers. In some contexts, this might mean verifying that, for instance, job placements reported by providers are reliable and correspond to pre-agreed upon measures of quality. This means stakeholders need the capacity to establish thorough and independent verification systems; encompassing data collection, management, and analysis.

The challenges of verification are well illustrated by the Nepal case. As outlined in Box 7, establishing a sophisticated verification system to ensure results were accurately reported was a large focus of the program, with an estimated 80 percent of program administration resources allocated to these activities. These expenses can be even greater where payment is based on causal estimates and must be assessed through more sophisticated verification approaches, such as RCTs.

##### *Box 7: Issues of verification cost, Nepal*

The Employment Fund (EF) used a substantial monitoring system to verify that the agreed results were achieved, with verification activities accounting for up to 80 percent of program administration resources. To verify payments based on the National Skills Testing Board, EF staff physically monitored 80 percent of beneficiaries sitting for the Nationals Skills Test. For the subsequent three-month job placement payment metric, a 10-15 percent stratified random sample was used, while a 30-40 percent stratified random sample was used for physical six-month follow-up employment and income verification.

These measures were complemented by other validation processes, such as:

- Training quality assessment based on (1) pre-training monitoring of trainees and venue selection, during which 60-75 percent of training events were monitored and (2) in-training monitoring, where all training events were monitored up to three times,
- Cross-verification, swapping monitors from different regions,
- Data collection from close family members and employers, and
- Phone verification in cases where physical verification was not possible.

All monitoring was carried out directly by EF staff, which included the contracting of dedicated field monitors to conduct most of the verification process. A centralized database containing monitoring information about beneficiaries, training achievements and employment details was also developed and made accessible to all training providers and staff throughout the project.

*Source: Nepal Case Study, Appendix.*

The verification demands of RBF can also create challenges for service providers. One of RBF's benefits is its potential to reduce the administrative burden faced by service providers associated with reporting on inputs and activities. Measuring results, rather than inputs, is central to RBF's potential to drive results-oriented innovation and improvement. However, at least in the short-term, the transition to reporting results can impose additional costs as service providers adapt to this approach. Moreover, in some cases, inefficient design can create a persistent and excessive burden on providers, undermining the program's sustainability and effectiveness. This potential is illustrated in the context of the Morocco case in Box 8.

#### *Box 8: Administrative Condition Example: Morocco, 2007*

To verify outcomes in the Morocco case, substantial supporting documentation was required from services providers to demonstrate their claimed results to the government. This documentation included records of beneficiary training attendance, quarterly training progress reports, and a copy of beneficiaries' employment contracts for placement verification. Providing and assessing these documents created a significant administrative burden for both service providers and the government.

Gaining access to the beneficiary's employment contact created a particularly onerous burden for service providers, since it often relied on the employer's goodwill to provide accurate information. Moreover, the process of getting this contract from the employer to the service provider and then to the responsible government agency routinely took several months or even longer. Simple clerical mistakes meant the documentation process had to be repeated.

It was reported that the costs and time delays these verification processes created discouraged some experienced service providers from participating in the system entirely. Minimizing these sorts of verification burdens is central to developing sustainable and impactful ALMPs using RBF.

*Source: Morocco Case Study, Appendix.*

### 4.3.2. Benefits of results verification

Sections 4.1 and 4.2 have outlined the importance of selecting verification processes which properly target incentives to the intended results and populations. In addition to these considerations, monitoring, evaluation and verification should also be informed by the potential to generate more and better evidence on how ALMPs are working.

For instance, RBF verification can generate data which enable evidence-based course-corrections.<sup>81</sup> This may entail enabling service providers to adjust their training by revealing which types of training translate into sustainable employment opportunities for beneficiaries. In the Colombia case it was found that results were being constrained by high program dropout rates. The service providers improved their retention strategies by providing participants with

<sup>81</sup> In addition to the insights from the standard verification required for RBF, program effectiveness will often benefit from a dedicated system of data-driven Performance Management, such as described in Instiglio's (2017) *A practitioner's Guide to Results Based Financing – Getting to impact*.

more cost-effective subsidies (e.g., snacks, transportation subsidies), involving members of the participants' families, and organizing regular, structured events.

An RBF approach can also reveal the cost of results per beneficiary, differentiating these costs among population groups and allowing funders to make better decisions when it comes to targeting interventions. The improved data around the cost of results was another argument for launching the Colombia SIB. Prior to this, the government was funding multiple labor market programs without knowing which program had the lowest cost per the impact on each beneficiary.

RBF approaches may also provide direct insights into a program's overall effectiveness. This is the case where results are assessed against a counterfactual, usually with an RCT. Though this approach has not been adopted for any ALMPs, it has been used in other RBF projects, such as one for income graduation (the Village Enterprise DIB) and one school education program (the Educate Girls DIB described in Box 9).<sup>82</sup> This sort of evidence can provides insights on the heterogeneity of impact across populations, for example the impact specific to women and youth (see Box 10). Over time, the insights on program effectiveness this evidence yields can provide the basis for funders to compare different programs, select better providers and scale the best interventions.

*Box 9: Generating insights on program effectiveness - Educate Girls DIB*

The world's first DIB was launched in 2015 with the goal of increasing enrollment of out-of-school girls (20 percent of the outcome payment) and improving learning outcomes for boys and girls (80 percent of the outcome payment) for over 7,000 marginalized girls and boys in 166 public schools in Rajasthan, India. In this DIB, UBS Optimus Foundation acted as the investor, providing upfront capital for the intervention, which Educate Girls delivered. The Children's Investment Fund Foundation was the outcome payer, committing to pay the investor its initial investment plus a return, depending on the achievement of enrollment and learning outcomes – as verified by IDinsight, an independent evaluator.

In July 2018, the final results of this first pilot were released, demonstrating the intervention's effectiveness. Although students' progress on learning still lagged after the first two years of the program, at the end of the DIB's third and final year, Educate Girls had achieved 116 percent of the enrolment target and 160 percent of the learning target. The targets were established based on Educate Girls' past performance as measured by an RCT, 92 percent of all the out-of-school girls identified in the program area were enrolled in school in the final year of the DIB, while the difference in learning gains between Educate Girls students and others quadrupled compared to year one.

The verification system in this RBF project contributed to the evidence base behind Educate Girls' intervention. The Educate Girls DIB results have been evaluated by IDinsight using a clustered RCT. The students' learning progress was measured using the Annual Status of Education Report (ASER) assessment, a widely used test of basic numeracy and literacy developed by the ASER Centre.

Source: Educate Girls Development Impact Bond. 2018. <http://instiglio.org/educategirlsdib/>

Weighing the costs and benefits of verification, the business case for substantial investments in verification approaches is generally strongest during an ALMP's early experimental stages, after which verification costs should be reduced over time to ensure the program's financial sustainability as it is scaled or replicated. This pattern, for instance, is reflected in Helvetas' work. As noted in Box 7, their first ALMP using RBF in Nepal entailed substantial verification costs as it was refined and experimented with up to 80% of program administration resources allocated to verification. While acknowledging the benefits of this verification process, the significant expense it entailed was a concern among program funders. As a consequence, in Helvetas' subsequent Ethiopia program, efforts were made to reduce verification costs by conditioning payment on shorter-term and easier-to-measure four-month milestone, rather than the six-month

<sup>82</sup> Note, though these programs use an RCT to assess results, the prescription on the program design for both programs remained limited to provide the flexibility for program adaptation – this is in contrast to typical RCTs, which do not allow for such flexibility. See Instiglio (2018) "Village Enterprise Development Impact Bond for Poverty Alleviation." [http://villageenterprise.org/wp-content/uploads/2018/02/VE-DIB-Design-Memo-Public\\_14FEB2018.pdf](http://villageenterprise.org/wp-content/uploads/2018/02/VE-DIB-Design-Memo-Public_14FEB2018.pdf) and Instiglio. 2015. "Educate girls development Impact Bond: Improving education for 18,000 children in Rajasthan." <http://www.instiglio.org/wp-content/uploads/2016/05/EG-DIB-Design-2.pdf>

milestone used in Nepal. In other programs, such as Colombia and MCC, efforts to reduce verification costs focused on making effective use of already collected administrative data.

This discussion highlights the potential of RBF to enable better evidence-based decisions but in many cases it may be more appropriate to generate insights for course correction from a dedicated system of data-driven performance management or process evaluations.<sup>83</sup> Likewise, rather than building an impact evaluation into the RBF verification process, it may help to keep the RBF verification simpler and more fit-for-purpose by establishing a separate evaluation not linked to verification to assess program impact. These evaluative undertakings could be supported by greater use of independent researchers, which were only rarely drawn on in the cases reviewed.<sup>84</sup> More broadly, making wider and more effective use of process and impact evaluations for ALMPs and the related use of RBF would help fill a significant research gap, as described in Section 5.

*Box 10: Addressing unequal labor market opportunities for women.*

Section 4 has shown that RBF has the potential to enhance the effectiveness of ALMPs for vulnerable populations, such as women. Differential pricing is the main method identified for this gender focus, as discussed in Section 4.2.2., where higher prices are attached to results for women relative to men across cases in Australia, Ethiopia and Nepal. Likewise, as described in Section 4.3, the tracking of results for an RBF approach can also provide insights on the extent to which successful outcomes for women are being achieved or impeded by factors such as program drop-out or placement in unsustainable employment.

However, from this review, it seems that these opportunities are not being as widely embraced as possible. While more than half of the programs reviewed stated they had a focus on women, few put this into practical effect using RBF. Most of the programs did not use gender-focused differential pricing or any other of the approaches identified in Section 4.2. Moreover, few of the cases presented results in terms of the rate of success for women. This represents a missed opportunity to understand and build the evidence on how effectively different interventions are addressing the barriers women face in getting productive and decent employment.

This missed opportunity is all the more evident given the effective use of RBF to address gender disparities in other contexts. For instance, in the Educate Girls DIB, one intervention stream was exclusively targeted at girls, with 20 percent of the total outcome payment being tied to the enrollment of marginalized girls. The verification process for this DIB revealed that, by the final year, 92 percent of all the out-of-school girls identified in the program area were enrolled in school – a significant improvement. This is just one example of the potential to use RBF to effectively address inequality, a potential which should be more widely embraced in relation to ALMPs.

<sup>83</sup> For discussion of Performance Management systems, see: Instiglio (2017) *A practitioner's Guide to Results Based Financing – Getting to impact*

<sup>84</sup> In the cases reviewed verification has generally been undertaken internally by the funding organizations. Some exceptions to this are the China case, where an expert was appointed by the ADB in consultation with the government, and the Colombia case, where Deloitte was contracted. Separate to verification, some of the cases also included independent evaluations, such as the Nepal case, evaluated by the World Bank's IEG.

# 5

Future research questions

## 5. Future research questions

### Section 5 – Key messages

- We have identified two key questions which further research should address to advance our shared knowledge on the use of RBF for ALMPs:
  - How does RBF compare to activity-based contracting and financing?
  - How does RBF improve services and what are the preconditions that enable that?
- From a methodological perspective, there is both a gap in rigorous evidence and in operational research to address these two overarching questions.
- This presents an opportunity for researchers to collaborate with funders and service providers in pursuit of better quality experiments and scale-up and an increased application of evidence-based approaches to RBF

Policymakers are increasingly utilizing RBF to enhance the impact of ALMP interventions and systems. Providing prescriptive guidance on where and how RBF should be designed and implemented is not desirable, as labor market challenges and the appropriate policy responses differ widely across contexts. By reviewing the experiences to date of ALMPs with RBF, this report gives a starting point for exploring the opportunities and challenges of implementing RBF.

While the application of RBF to ALMPs is becoming more popular, only twenty RBF ALMPs have been undertaken in developing countries thus far, thirteen of which are still in implementation. As a result, the data and literature on these cases are still sparse. Because of the scarcity of existing evidence, further theoretical, empirical, and operational research would greatly enhance policymakers' ability to evaluate RBF designs and implementation.

This section outlines two key research questions that require more investigation and considers methodologies which can be used to answer these questions. The first question is concerned with examining whether RBF adds value to ALMPs, while the second deals with how RBF can unlock this value-add.

### How does RBF compare to activity-based contracting and financing?

This report identified promising observational evidence that RBF can successfully drive labor market outcomes for vulnerable populations. However, no rigorous evidence exists that evaluates the impact of ALMPs financed through RBF with those financed through more traditional activity-based contracting. Despite the compelling rationale for applying RBF to ALMPs, more rigorous evidence and operational research on the extent to which RBF improves short- and long-run employability and employment outcomes would be beneficial. While it is difficult to generalize across RBF ALMPs – given how context-specific they must be – closing the knowledge gap on the overall, average effectiveness of RBF for ALMPs could inform policy makers on whether and how to adopt RBF.

One potential risk of RBF is that it can incentivize a focus on quantifiable (and thus payable) measures to the detriment of other, harder to measure or longer-term outcomes. Assessing future RBF ALMPs would help practitioners understand the impact of RBF over longer periods of time, beyond traditional payment metrics of employment and employability, to identify if impacts persist, decrease, or reverse. For instance, it is critical to consider:

- **The beneficiaries' capacity to find employment.** It is possible that RBF provokes a short-term spike in employability to enable the person to find a job, but that tactics employed to improve employability are short-sighted and do not lead to long-term capacity improvement. Improving employability is a key predictor of long-term outcomes, as it empowers beneficiaries to find future employment opportunities on their own, a particularly important goal for vulnerable populations. Measures of employability, as explained in Section 4.1, tend to be limited to training completion and tests for skills improvement. However, it would be valuable to find other proxy metrics for employability and to compare these metrics against each other. Different metrics could include: measures of job search tactics and their effectiveness, interviewing skills, behavior on the job, and ability to perform on the job. These metrics would be tracked over time and standardized (to allow comparison across programs).
- **Long-term employment, income, and welfare trajectories.** Given the common criticism that RBF can incentivize focus on short-term outcomes, researchers should attempt to compare long-term employment and



income trajectories of beneficiaries from RBF and traditionally-financed programs. It is critical to measure income levels to ensure that RBF has not locked beneficiaries into low skill, easier-to-find jobs. Assessing other welfare metrics, such as household investments in education or health, could shed light on whether RBF has displaced other potentially better or more lucrative informal employment opportunities. Investigating these questions would further the understanding of RBF's relative long-term impact.

### How does RBF improve services and what are the preconditions that enable that?

While pursuing answers to the previous question would further our understanding on the extent of RBF's value-add, practitioners also need to better understand how RBF works (or does not) to create this value-add. The operational 'black-box' of RBF contains under-studied questions related to the behavioral changes that specific design features provoke, as well as the conditions under which RBF incentives can either align incentives or lead to perverse incentives. This research could seek to assess the following interactions:

1. **The relationship between design features and perverse incentives:** How do the different design methods to avoid cream-skimming identified in Section 4, such as differential pricing or eligibility criteria, work across different contexts? How do programs that use these methods fare when it comes to improving labor outcomes for women, compared to programs where no specific gender lens is considered? Do particular design features exacerbate undue pressures on beneficiaries to stick to low quality jobs, or encourage gaming behaviors from providers?
2. **The interaction between design features and the internal incentives and the capabilities of service providers:** How do RBF incentive structures change the practices of organizations, in terms of the internal incentive structure for their staff, the motivation of field teams, the culture of learning and improvement, their internal systems to manage performance, or the type of talent they recruit? To what extent can any performance improvements be sustained beyond an RBF program? What capabilities, organizational predispositions, or cultural traits enable organizations to respond to incentives productively and how can this readiness be accelerated?
3. **The relationship between design features and program design and delivery practices:** Do specific features lead to provider innovation and the emergence of new ways of engaging with beneficiaries? Does the verification of results, disaggregated by gender, lead providers to modifying their interventions for the specific needs and barriers faced by women? Is the financial alignment of incentives sufficient to drive impact given that it encourages service providers to pay closer attention to labor market needs? Do certain payment metrics encourage information sharing and coordination between providers and employers? Given the changing nature of labor market challenges, how important is giving service providers the flexibility to adapt their services during implementation?
4. **The relationship between design features and long-term results:** Which metrics drive long-term outcomes and which parts of the incentive structure contribute most significantly to this? On a systems level, can RBF be utilized to allocate funding to higher-performing service providers and create a mechanism by which the highest-performing and most innovative service providers scale?
5. **The conditions that enable the impact of RBF:** How do market and political conditions encourage or discourage the development of RBF in low- and middle-income countries? What contexts are best suited for the RBF approach?

### Research methodologies

**From a methodological perspective,** there is both a gap in rigorous evidence and in operational research to address the two overarching questions described above.

A rigorous impact evaluation, such as an RCT, would compare the relative impact of RBF to traditional, activity-based financing; different indicators to measure employability and employment outcomes could be compared. To facilitate randomization, the project would need to be sufficiently large to engage a range of service providers who can take on a sufficiently large population, as well as a variety of employers, stratified by industry. This type of experiment would be most appropriate within sufficiently mature ecosystems of service providers who have ideally worked with RBF before.



Complementing this impact evaluation, the following knowledge-generation activities could prove effective:

First, building on this report with a research agenda specific to the social sector would prove very valuable to practitioners. At a high level, RBF is the practice of leveraging incentives, rewards, and recognitions to drive performance. There is an emerging and growing literature, mostly from the study of management science, on the effect of these incentives on organizational performance: when they work and when they do not. However, the literature is focused on internal incentives given to individuals within organizations (such as staff bonuses); and a gap remains in relation to how incentives work on organizations as a whole. Given that much of the evidence comes from the private sector, where employee and organizational motivation may be different, not all findings are relevant to the social sector, where intrinsic motivation plays an important role.

Second, innovative RBF projects should be accompanied by operational research. RBF projects represent a laboratory of innovation and learning that can contribute to our understanding of which RBF design features produce meaningful change. This would not only grow the existing literature but also provide context-specific insights on how incentives can influence organizations and their programs; shedding light on how design features drive results.

Third, satisfaction surveys can offer critical insights about how services truly prioritize the needs of key stakeholders (jobseekers and employers). Designing different ways of closing the feedback loop with program participants can be instrumental to designing the most impactful, cost-effective services. Expanding research in this area would allow us to better understand, design, and deliver programs.

Lastly, there is a need for coordinating, aggregating, and standardizing a global learning agenda. Currently, operational research is not only rare but, most importantly, it varies significantly in rigor, scope, and objectives. This results in non-standardized and hard-to-aggregate outputs. Operational research is also not shared openly, given the lack of a centralized coordinating mechanism or repository that disseminates, moderates, and advances this agenda.

### **A growing opportunity**

Given the nascent state of experimentation with RBF for ALMPs, every new project is an opportunity to test and learn. Capturing, documenting, and sharing experiences in a systematic and rigorous manner would ensure: higher quality in future experiments and scale-ups; an increased application of evidence-based approaches to RBF; and ultimately better services for the most vulnerable populations.

Investing in such a research agenda is one of the most important contributions that could be made. Similar efforts have proven to be valuable in other sectors. For instance, the Health Results Innovation Trust Fund carried forward a large push for evidence in RBF for the health sector.<sup>85</sup> This initiative significantly contributed to the evidence base around how RBF can improve results in the delivery of basic health services, both in pilots and national scale-ups.

An opportunity for a growing community of researchers is at the center of the agenda outlined here. Researchers, based in both donor and recipient organizations and countries, have a key role to play in assessing and learning from the application of RBF to ALMPs.

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<sup>85</sup> HRITF 2018.

# Appendixes

## Appendix I – Summary of market failures affecting labor market outcomes

Market failure (associate problem)	Description
<b>Training externalities</b> <sup>86,87</sup> (Underinvestment in skills)	All future employers benefit from a worker's current decision to invest in skills. Employers, jobseekers and employees underinvest in their own skills training if they do not include this positive effect into their training decisions.
<b>Information problems</b> <sup>88</sup> (Underinvestment in skills and barriers to entrepreneurs)	Workers may not know about the returns to different skills and therefore underinvest in skills which offer high labor market returns. Likewise, workers may not have efficient ways to 'signal' their skills to employers and employers may not be able to signal the skills they need, again leading to underinvestment in the skills needed in the market. Information problems also affect entrepreneurs in terms of access to social networks from which they could seek support to start their businesses.
<b>Matching issues &amp; search costs</b> <sup>89</sup> (Matching problems)	Lack of information about vacancies and workforce can lead to matching / coordination issues and an equilibrium where both jobseekers and employers underinvest in searching.
<b>Credit market access issues</b> <sup>90,91</sup> (Underinvestment in skills and barriers to entrepreneurs)	Financial institutions have little information about the returns to training and the creditworthiness of jobseekers. This creates information asymmetries and associated credit access barriers for some jobseekers, limiting their capacity to invest in skills development. Information asymmetries also affect entrepreneurs by limiting financial institutions' capacity to differentiate between good and bad types of borrowers seeking business loans.

<sup>86</sup> Acemoglu 1997.

<sup>87</sup> Pigou 1912.; Almeida, Behrman and Robalino 2012.

<sup>88</sup> Almeida, Behrman and Robalino 2012.

<sup>89</sup> Mortensen 1986.

<sup>90</sup> Almeida, Behrman and Robalino 2012.

<sup>91</sup> Acemoglu 2001.

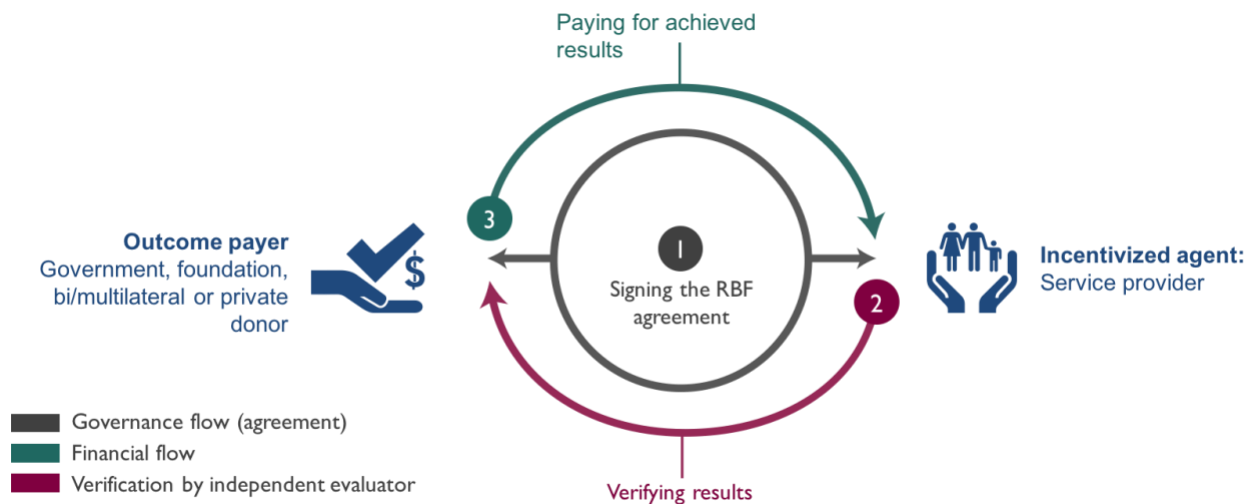
## Appendix 2 – Results-Based Financing Instruments

### (I) Performance Based Contracts (PBC)

In a PBC, the outcome payer conditions part of its payment to one or more service providers on the achievement of predefined results. After an independent evaluator has verified the results achieved, the outcome payers disburse a payment to the providers based on performance. Figure 7 depicts the structure of a PBC.

The portion of funding tied to the achievement of results can vary but is often small compared to the total contract size, as this limits the amount of payment risk transferred to the providers. Instead of tying the funding to results, some PBCs provide additional bonus payment for extraordinary performance.

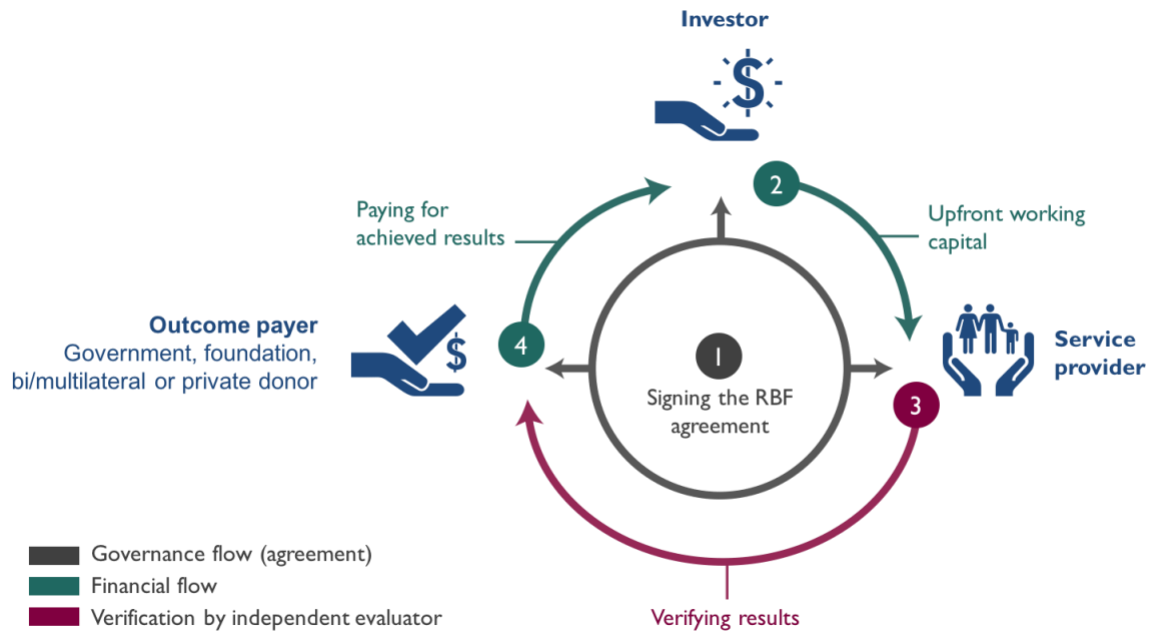
Figure 7. Performance-Based Contract structure



## (2) Impact Bonds

In an Impact Bond, the outcome payer conditions all its payment based on desired results, with an investor providing upfront working capital to the service provider to deliver the intervention. The outcome payer repays the investor, often with a return, only if results are achieved and have been verified by an independent evaluator. In a SIB, the outcome payer is a government, while in a DIB the outcome payer is a donor – such as a foundation or multilateral development agency. Impact bonds shift the financial risk of not achieving results from the provider to the investors. Figure 8 depicts the structure of an Impact Bond.

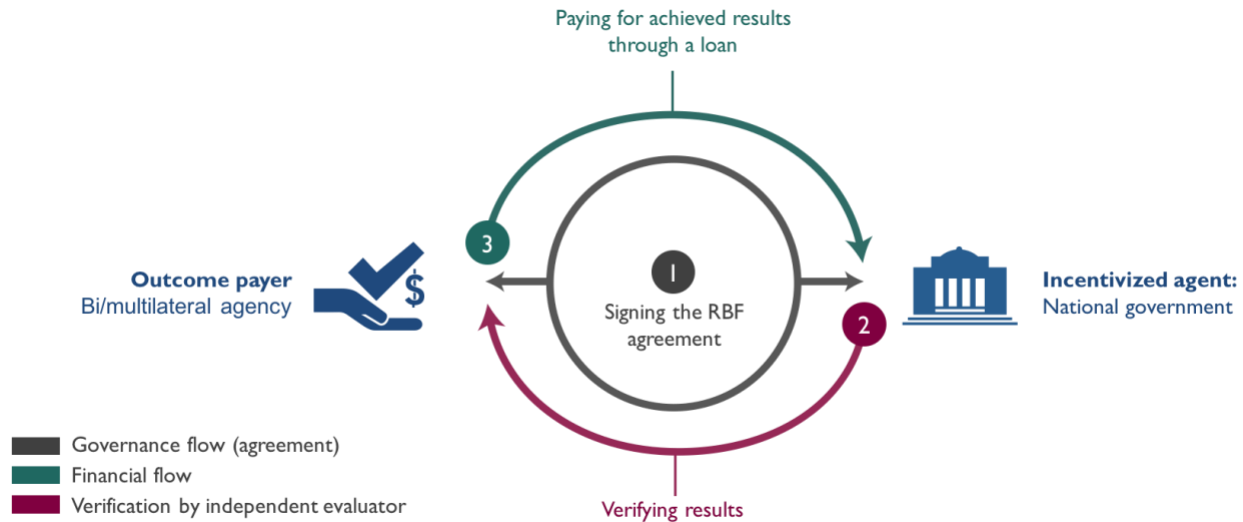
Figure 8. Impact Bond structure



### (3) Performance Based Loans

In a PBL, a bilateral or multilateral agency (typically a development bank) provides a loan to a government with disbursements conditioned upon the achievement of predefined results. Figure 9 depicts the structure of a PBL.

Figure 9. Performance Based Loan structure



PBLs mainly differ from PBCs and Impact Bonds in the incentivized agent, which in the case of PBLs is a country government (whereas in a PBC the incentivized agent is the service provider and in an impact bond it is the investor, and usually the service provider as well). This explains the greater magnitude of this instrument: while PBCs and Impact Bonds are mostly applied at a programmatic/transactional level, PBLs represent large –often nationwide– agreements, aiming to achieve structural reforms.

Given the greater scale of this instrument, it is no surprise that the 9 PBLs account for 98 percent of the total funding in this sector, which also explains why South Asia has accumulated most of the total funding across regions. Development banks play a fundamental role in these instruments, which explains why they are the type of outcome payer with the largest participation in RBF for workforce development (60 percent), both in terms of number of projects and funding.

### Appendix 3 – Mapping summary statistics

The below table summarizes the 20 projects across six pages with the different variables covered on each page. Definitions of these variables are as described in Appendix 4.

Program name	Country	Region	Start year	End year	Size (in Million USD)	Funding tied to results (in Million USD)	RBF instrument	Incentivized agent name
1. Colombia Workforce SIB	Colombia	Latin America & the Caribbean	2017	2018	0.765	0.765	Social Impact Bond	Delta Fund
2. Education and Skills for Productive Jobs Program (ESPJ)	Tanzania	Sub-Saharan Africa	2016	2021	250.00	120	Performance-based loan	Development Alternatives Incorporated
3. Employment Fund Nepal	Nepal	South Asia	2007	Unknown	21.622	12.97	Performance-based contract	Government of China
4. Enhanced Vocational Education and Training Project - Layer 1	Nepal	South Asia	2011	Unknown	60.9	50	Performance-based loan	Government of Nepal
5. Enhanced Vocational Education and Training Project - Layer 2	Nepal	South Asia	2011	Unknown	Unknown	Unknown	Performance-based contract	Government of India
6. Guizhou Vocational Education Development Program	China	East Asia & Pacific	2016	2020	1610	150	Performance-based loan	Government of India
7. Kenya and Uganda Graduation Model	Multiple	Sub-Saharan Africa	2017	Unknown	5.3	4.3	Development Impact Bond	Government of Nepal, Ministry of Education
8. Palestine Finance for Jobs (F4J)	West Bank and Gaza	Middle East	2016	2020	5	5	Development Impact Bond	Government of Pakistan
9. Rwanda Priority Skills for Growth (PSG) Program for Results	Rwanda	Sub-Saharan Africa	2017	2020	1153.00	120	Performance-based loan	National Government of Rwanda
10. Skill and Knowledge for youth (SKY)	Ethiopia	Sub-Saharan Africa	2018	2021	Unknown	Unknown	Performance-based contract	Government of Sri Lanka

11. Skill India Mission Operation	India	South Asia	2017	2023	3188.875	237.5	Performance-based loan	Government of Tanzania
12. Skills Development Project	Nepal	South Asia	2013	2018	25.00	Unknown	Performance-based contract	Asociación Colombiana de Contact Centers y BPO
13. Skills for Employment Project	Nepal	South Asia	2006	Unknown	25.00	Unknown	Performance-based contract	Fundación Padre Carlos Valiente
14. Skills Sector Enhancement Program	Sri Lanka	South Asia	2014	2018	650.00	193.6	Performance-based loan	Training institutions
15. Skills Strengthening for Industrial Value Enhancement Operation	India	South Asia	2017	2022	318.00	120	Performance-based loan	Employment service providers
16. Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	India	South Asia	2014	2018	148.50	100	Performance-based loan	35 private sector training and employment providers (T&Es)
17. TAEHIL Workforce Development Program	Morocco	North Africa	2008	Unknown	54.342	Unknown	Performance-based contract	Around 30 public, community, and private training institutions
18. Waseela-e-Rozgar program (workforce development component of the BISP - Benazir Income Support Program)	Pakistan	South Asia	2014	2018	108.70	Unknown	Performance-based loan	Private and public training providers
19. Workforce Development Government project - BPO	Colombia	Latin America & the Caribbean	2015	2015	0.440	0.440	Performance-based contract	Private and public training providers
20. Workforce Development Government project - FPCV	Colombia	Latin America & the Caribbean	2015	2015	1.666	1.666	Performance-based contract	Fundación Bolívar Davivienda, Fundación Mario Santo Domingo, and Fundación Corona



Program name	Outcome payer	Verification Approach	Evaluation approach	Beneficiaries	Youth or women focus?
1. Kenya and Uganda Graduation Model	State Secretariat for Economic Affairs of Switzerland, Government of Colombia (Prosperidad Social), the Inter-American Development Bank	Experimental	Experimental		Women
2. Palestine Finance for Jobs (F4J)	World Bank	Observational	Unknown	Youth aged 18–29 and a targeted share of 30 percent women	Women / Youth
3. Guizhou Vocational Education Development Program	Swiss Agency for Development and Cooperation, Department for International Development, UK, World Bank.	Observational	Unknown	Nationals	Women
4. Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	World Bank	Observational	Unknown	Students of the State's and State-aided higher secondary schools and Arts and Science colleges	Women / Youth
5. Skills Strengthening for Industrial Value Enhancement Operation	Government of Nepal	Observational	Unknown	Unkown	Women
6. Skill India Mission Operation	Asian Development Bank	Observational	Unknown	Female trainees and other disadvantaged groups	Women
7. Enhanced Vocational Education and Training Project - Layer I	USAID, Department for International Development, UK, Anonymous donor	Observational	Experimental	Disadvantaged youth, specifically: poor, women, low-caste, and marginalized individuals (e.g. disabled).	Women / Youth
8. Waseela-e-Rozgar program (workforce development component of the BISP - Benazir Income Support Program)	World Bank	Observational	Unknown	Poor families receiving cash transfers	Women
9. Rwanda Priority Skills for Growth (PSG) Program For Results	World Bank	Observational	Unknown	3,477 university students, 1,384 diploma students, 3,371 graduates from certificate programs, 9,000	Youth

					beneficiaries trained under skills development fund	
10. Skills Sector Enhancement Program	HELVETAS Swiss Intercooperation	Observational	Unknown	Nationals		Women / Youth
11. Education and Skills for Productive Jobs Program (ESPJ)	World Bank	Observational	Unknown	1,000 additional university students; 4,000 additional technical students; 0,000 vocational students; 15,000 beneficiaries of alternative programs		Women / Youth
12. Workforce Development Government project - BPO	Asian Development Bank, Government of Nepal	Observational	None	Vulnerable people, poor people, and/or internally displaced		Youth
13. Workforce Development Government project - FPCV	Asian Development Bank	Observational	None	Vulnerable people, poor people, and/or internally displaced		Youth
14. Skill and Knowledge for youth (SKY)	Asian Development Bank, World Bank		Unknown	Young people from poor families in the Ethiopian regional state of Amhara		Youth
15. TAEHIL Workforce Development Program	World Bank	Observational	None	Young graduates and hard-to-place people		Women / Youth
16. Employment Fund Nepal	Asian Development Bank	Observational	Experimental	Aimed to achieve 80% of beneficiaries from disadvantaged groups and 50% women.		Women / Youth
17. Enhanced Vocational Education and Training Project - Layer 2	Government of Morocco, ANAPEC	Observational	Experimental			Women / Youth
18. Skills Development Project	Asian Development Bank, Government of Pakistan	Observational	None	Women and disadvantaged groups, with a goal to enrol 40% women and 30% from disadvantaged groups.		Women
19. Skills for Employment Project	Government of Colombia (Prosperidad Social)	Unkown	Observational	Poor, female, low-caste, and vulnerable people		Women
20. Colombia Workforce SIB	Government of Colombia (Prosperidad Social)	Observational	None	Vulnerable populations		No special focus

Program name	Intervention type	Type of results paid for	Results metrics
1. Colombia Workforce SIB	Multiple	Outcomes	Job placement, 3 months retention, 6 months retention (bonus)
2. Education and Skills for Productive Jobs Program (ESPJ)	Multiple	Outcomes / outputs	Number of beneficiaries: Increase in number of enrolled students in short-term, TVET and university-level programs in selected economic sectors (of which % female); Percentage of graduates of training programs in selected economic sectors (of which % female); Percentage of graduates of short term training programs in selected economic sectors employed within 1 year of graduation; Percentage of employers' satisfied with performance of graduates of short-term, TVET, and university-level programs in selected economic sectors; Percentage of training programs achieving full accreditation in selected economic sectors Indicator on high level skills
3. Employment Fund Nepal	Multiple	Outcomes	Enrollment and skills testing; 3-months employment verification; 6-months employment and income verification
4. Enhanced Vocational Education and Training Project - Layer 1	Multiple	Outcomes / outputs	Employment rate of beneficiaries 3 and 6 months after graduation from program; enrollment in training programs
5. Enhanced Vocational Education and Training Project - Layer 2	Multiple	Outcomes / outputs	
6. Guizhou Vocational Education Development Program	Training and skills development	Outputs	Institutions produce skilled graduates, improved facilities, trained teachers, trained managers, established monitoring systems
7. Kenya and Uganda Graduation Model	Multiple	Outcomes	
8. Palestine Finance for Jobs (F4J)	Multiple	Unknown	
9. Rwanda Priority Skills For Growth (PSG) Program For Results	Training and skills development	Outcomes / outputs	
10. Skill and Knowledge for youth (SKY)	Training and skills development	Outcomes	Number of trainees that find a steady employment or have successfully established their own business

11. Skill India Mission Operation	Multiple	Outcomes / outputs	
12. Skills Development Project	Multiple	Outcomes / outputs	Additional places available for basic skills training; completion of training by beneficiaries; employment of program graduates
13. Skills for Employment Project	Multiple	Outcomes / outputs	skills standards, employment, and income generated by trainees
14. Skills Sector Enhancement Program	Multiple	Outcomes / outputs	Improved quality of TVET provision, Enhanced industry partnership for TVET planning and provision, Increased participation and improved equity in TVET, Improved TVET sector management to implement policy, institutional, and operational reforms
15. Skills Strengthening for Industrial Value Enhancement Operation	Multiple	Outcomes / outputs	(1) Increase in the number of graduates from ITIs that have signed PB Grant Agreements; (2) Improvement in industrial training and employment outcomes for trainees and graduates of ITIs that have signed PB Grant Agreements; (3) Reduction in ITIs' trainer vacancies and improvements in training of trainers; (4) Number of Participating States that have conducted tracer studies; (5) Number of ICs that have introduced at least 2 different apprenticeship programs within their participating (member) industries; (6) Increase in female enrollment rate in ITIs with PB Grant Agreements and ICs receiving IAI Grants
16. Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education	Multiple	Outcomes / outputs	Enrollment, training, employability
17. TAEHIL Workforce Development Program	Multiple	Outcomes / outputs	Hours of training, placement
18. Waseela-e-Rozgar program (workforce development component of the BISP - Benazir Income Support Program)	Multiple	Outcomes / outputs	Completion of training, average cost of trainee, employment (3 months after completion of the program)
19. Workforce Development Government project - BPO	Employment services	Outcomes	2 month employment
20. Workforce Development Government project - FPCV	Employment services	Outcomes	2 month employment

## Appendix 4 – Case studies

As a basis for the analysis presented in this report, Instiglio undertook a comprehensive research project on the experiences with RBF and ALMPs. This research resulted in two outputs.

First, a database was developed to summarize all the identified ALMPs which use RBF across low- and middle- income countries. For this process, 24 examples were identified, either in design, implementation, or completed in developing countries.

Second, a series of 12 case studies were developed, as explained in Section 3.4. In addition to drawing these case studies from the database, three examples are taken from high-income countries. These high-income country examples, and particularly the example from Australia, illustrate the potential of RBF with ALMPs when allowed to develop over time and operating in a context with higher capacity across service providers and funders. The experience of all these case studies were central to informing the lessons and insights developed throughout this report.

Reflecting different levels of available information, the case studies cover the following categories of information:

1. **RBF Project details** – This category characterizes the project in terms of:
  - a. Country of operation.
  - b. Type of RBF instrument: the specific Results-Based modality employed in the program.
  - c. Outcome payer(s): the funders (e.g., philanthropic donors, multilateral and bilateral donor organizations, governments, etc.) who commit and make payments conditional on the achievement of predefined results within an RBF instrument.
  - d. Investor(s): for Impact Bonds, the organizations that provide upfront working capital to implementers for an RBF instrument and receive payment on verification of the results. Examples of investors include impact investors, foundations, private organizations, and nonprofit organizations.
  - e. Service Provider(s): the organizations that execute a program to achieve the predefined results within an RBF instrument. Implementers are typically nonprofit organizations, or private service providers.
  - f. Development stage: the status of the program at the time of inclusion in this report (i.e., in design, in implementation, or completed).
  - g. Type of WFD intervention: whether a program implements one or more interventions as per the terminology used in part I (i.e., training and skills development, employment services, and entrepreneurship support).
  - h. Target number of beneficiaries: the people the program seeks to benefit, with regard to both demographical characteristics and size.
  - i. Outcome payment commitment: the portion of the funds of the program which is tied to the achievement of results.
2. **Timeline** – The time bounds of the program, which capture the total duration (the start date refers to the start of the intervention's implementation and the end date to the last outcome payment).
3. **Project background** – This category provides a high-level introduction to the program, including relevant information on the challenge, objectives, and specific context.

4. **Rationale for RBF** – This section provides the theoretical justification for the use of RBF (and of a specific instrument) within the particular context of the program. The most significant drivers are marked by checkboxes.
5. **Intervention** – This section provides details on the set of planned and interrelated activities aimed at achieving defined objectives and on the selection criteria for the people who receive them.
6. **Conditions for RBF** – This category refers to the technical, administrative, and political factors which shape the effectiveness of the RBF instrument.
7. **RBF design overview** – This is a summary of the program’s key design parameters, including for example payment metrics and details on the price setting method.
8. **Verification methodology** – This section offers a synopsis of verification methodologies used as the basis of payment. This can include verification of the results achieved, along with validation of the eligibility of participants and of the content of the intervention delivered.
9. **Evaluation approach and results** – This section captures whether program has been evaluated and any reported results.
10. **Learnings** – this section may include findings, conclusions, recommendations and lessons from the case with regard to:
  - a. The RBF value-add: addressees both the benefits and the challenges experienced during the implementation of the design of the RBF program; describing shortfalls and unintended or unforeseen implications, and directly responding to how the ‘drivers of impact’ played out in practice.
  - b. Additional learnings: expands on any lessons from the particular experience, which can go beyond RBF, applicable to a generic situation rather than to a specific circumstance.

# Case Studies

# Australia

*Jobactive Australia*<sup>88</sup>



Outcome Payer(s)	Australian Government, through the Department of Employment.
Service Provider	65 service providers, including 44 employment service providers.
RBF Instrument	Performance-Based Contract (PBC).
Target No. Of Beneficiaries	750,000 job seekers at any given time in the program.
Type of WFD Intervention	Training and skills development, employment services, entrepreneurship support.
Outcome Payment Commitment	From 2015-2020, the Government estimates that the program will cost AUD\$ 7.3 billion (approximately US\$ 5.5 billion). <sup>89</sup> Outcome payments represent AUD\$ 3.8 billion <sup>90</sup> (approximately US\$ 2.9 billion) of the total program cost estimate.



Implementation  
From 2015 to 2020

## Project Background

Jobactive, the current federal employment services program, seeks to “promote stronger workforce participation and help more job seekers move from welfare to work.” It is the third of three successive rebranding reforms in employment services provision aimed at streamlining and centralizing government services:

- **Job Network (JN)** In 1998, the Australian government outsourced the national provision of employment services to a network of employment service providers under the JN program. In place until 2009, JN was designed to open the provision of job services to private providers and improve the effectiveness of employment services through the use of RBF.
- **Job Services Australia (JSA)** Under Job Services Australia, which operated from 2009 to 2015, a single government contract integrated Job Network services with six previously separate programs. Job seekers were categorized into four ‘streams’ depending on the severity of the barriers they faced to find employment.
- **Jobactive** In place since 2015, Jobactive has introduced a greater focus on employment results compared to its predecessor which focused more on investment in skills and workforce participation. Jobactive also lays emphasis on the mutual obligations of job seekers (i.e. reported motivation to find a job, attendance at Jobactive appointments and actively looking for work) and service provider performance.



- Jobactive has introduced various contract specification changes (i.e., contract length, payment model, etc.) and has reduced job seekers' streams<sup>91</sup> from four to three and the number of service providers from 116 to 65 (including 44 employment service providers).

## Intervention

Jobactive is delivered in 51 employment regions across Australia. Participation in the program is compulsory for individuals who receive income support payments and have been identified by the Department of Human Services as being able to actively look for work. Jobactive counts upon two main services (listed below) to support its beneficiaries.

### *Jobactive Employment Services*

44 employment service providers help job seekers prepare for, secure and sustain employment. This is done by performing the following activities:

- Helping people meet their participation requirements
- Assisting people to overcome personal barriers
- Facilitating work experience
- Helping people access training courses
- Assisting with résumés or interview techniques
- Providing advice on how to look for a job
- Connecting job seekers with employers

Employment services are the largest component of Jobactive, with a forecasted average annual expenditure of AUD \$1.31 billion.

### *New Enterprise Incentive Scheme (NEIS)*

This scheme provides services that support job seekers in creating and operating their own business. The 21 NEIS providers deliver a range of services, including accredited small business training, business mentoring and advice for up to 52 weeks.

Other complementary Jobactive services include the **Harvest Labour Services** and the **National Harvest Labour Information Service** which aims to facilitate the incorporation of beneficiaries into the agricultural sector and the **Work for the Dole** whose

objective is to provide on-the-job training for job seekers, thereby signaling to employers that they are ready to work and make contacts who can be referees.

Once a job seeker starts in Jobactive, their barriers to employment are assessed using the Job Seeker Classification Instrument (JSCI), a questionnaire the job seeker and the welfare agency (Centrelink) fill out together. Sometimes, an additional assessment is required, called an Employment Services Assessment (ESAt). This additional assessment helps to identify job seekers with additional barriers to employment who may benefit from more intensive support in Stream C (Job seekers are allocated to one of three streams, based on their JSCI score and the kinds of barriers they are likely to face in obtaining employment).

## Rationale for RBF

The government first introduced RBF through the JN program to help address the following identified challenges:

- Lack of integration between government departments, which led to ineffectiveness and duplicated efforts (e.g., employment programs and benefits were managed through independent networks of service delivery offices).
- Over-emphasis on compliance at the expense of employment results.
- Overly complex programs
- Lack of flexibility to address job seekers' unique needs

Though JN and JSA sought to overcome these challenges, an Advisory Panel established in June 2011 by the Minister for Employment Participation highlighted some remaining weaknesses in the federal provision of employment services:

- Absence of a strong link between training and job placement
- Poor post placement support
- Population under 21 years of age unconnected to government services
- Poor initial assessment process for the identification of job seekers' needs and barriers.

Jobactive emerged as a response to these challenges by tying an increased amount of funding to job placement and retention.

## RBF Design Overview

### *Proportion of Payments Tied to Results*

Service providers are paid both fixed administration fees and payments depending on the completion of determined results. Outcome payments vary depending on participants' streams, their geographical location and the length of their periods of unemployment. Overall, administration fees (i.e. payments not tied to results) account for 48 percent of the total payment to service providers, while outcome payments account for 52 percent of the total. This is a greater proportion of payments tied to results compared to JSA, under which outcome payments represented 33 percent of the total payment.

### *Payment Metrics and Structure, and Price per Result*

Service providers can claim payments from the Government for the achievement of both employment and education outcomes, which are further listed below.

### *Eligibility Criteria*

Every participant needs to meet the following minimum requirements:

- Be a beneficiary of an income support payment program, such as Newstart Allowance, Youth Allowance, or Parenting Payment, and have mutual obligation requirements.
- If the person is not getting income support payment, or is receiving income support but does not have mutual obligations, he/she may be able to volunteer for the services if he/she: a) Is not working or studying full-time, and b) has the right to work in Australia

### *Employment Outcomes*

Payments are made when beneficiaries obtain and maintain a job for 4, 12 or 26 weeks. The size of the payment varies according to four considerations:

- *Participants' geographic location (regional or non-regional):* payments for participants in regional locations are 25 percent larger than for participants in non-regional locations
- *Participants' period of unemployment (less than 24 months, 24-59 months or 60 months or more):* payments for participants that have been unemployed for longer periods of time are larger; reflecting the increasing difficulty of placing these people
- *Participants' stream (A, B or C):* payments for participants with characteristics that make them harder to place in jobs are the largest. Stream A job seekers are the most competitive and ready for work and include volunteers (this stream accounts for 43.8 percent of the overall caseload). Stream B have some assessed barriers, such as language barriers (38.8 percent). Stream C are the most disadvantaged job-seekers and face multiple barriers such as drug and alcohol addiction (17.1 percent).
- *Level of outcome achievement:* payments are made differently for the attainment of the full or partial outcome, with partial outcomes meaning that the participant is in part-time employment or self-employment. Partial outcomes are paid 40 percent of the full outcome payment.

### *Education Outcomes*

Service providers can claim a payment of AUD\$ 1,000 in non-regional locations and AUD\$ 1,250 in regional locations when a participant completes one of the following educational options:

- Six months of a Qualifying Education Course
- Qualifying Training Course that is 12 weeks or more in duration
- Qualifying Training Course that is less than 12 weeks in duration, where either the Course leads directly to employment that is related to its content within 8 weeks of completing the course, or the participant achieves a 4-week period employment outcome

For the service provider to get paid, the participant should have commenced the relevant course when he/she was 15 to 17 years old or 15 to 21 years old for participants that were Early School Leavers.

## Payment Frequency

Under Jobactive, administrative fees are paid every 6 months (as opposed to every 13 weeks under JSA), and outcomes payments are made on week 4, 12 and 26 (as opposed to week 0, 13 and 26 previously).

## Contract Duration

The Jobactive contract is a 5-year contract while the duration of the JSA contract was 3 years.

## Contract Flexibility

Contractual flexibility is enabled by ‘principles-based’ guidance to Jobactive providers. This guidance includes two Jobactive Deeds and 31 guidelines that cover broad topics, such as activity management, eligibility, referral and commencement, job seeker insurance and more. The Department of Employment made a conscious effort to move away from “the prescriptive approach used in Job Services Australia [...] with the intention that providers would be able to deliver flexible solutions based on a job-seeker’s circumstances”. The Australian National Audit Office however noticed that “on occasion, this has led to some inconsistency in the interpretation and application of the guidelines”.

## Service Providers’ Performance Management

The Department of Employment manages service providers’ performance through an elaborate assurance strategy that aims at detecting, deterring and correcting non-compliance from service providers. This strategy aims to “provide assurance that the contracted services are effective and of suitable quality”. Within this strategy there are two noteworthy mechanisms for performance management of employment service providers, namely the Star Rating system and Compliance Indicators:

- **Star Rating** An employment service provider’s Star Rating is a reflection of its performance relative to the national average and is calculated based on specific performance measures. These performance measures include efficiency, effectiveness and quality and assurance KPIs. Service providers that obtain 4 to 5 stars are considered high-performers. Providers rated as 1 or 2-star, however, are subject to a “business reallocation”

process, defined as “the process whereby the department has discretion to reduce an employment service provider’s market share in an employment region (to zero if necessary), or to notify the provider that they must discontinue delivering services at a particular site”.

- **Compliance Indicator.** Calculated for each of the 44 employment service providers to measure their compliance with Jobactive Deeds and guidelines. This indicator is constructed from a combination of the previous 12 months of the ‘Rolling Random Sample’,<sup>93</sup> targeted activities and contract management review outcomes. Service providers are expected to meet the Department of Employment’s target of at least 95 percent compliance level (with a 12 percent margin of error). When necessary, the Department of Employment manages non-compliance through a ‘Remedial Action Framework’. In addition, a provider’s Star Rating is reduced by half a percentage for every point that the compliance indicator is below 83.

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## Verification Methodology

Payments are made to all service providers who **make a claim** in accordance to the guidelines and supported by the required evidence. Evidence must be provided to show that the provider is entitled to the payment, has delivered the services relevant to the claim and has done so in accordance with the Deeds and guidelines. The Department of Employment then conducts **regular random reviews** of a sample of claims to assess their accuracy. This is also known as the ‘Rolling Random Sample’ process. If the sample review identifies a proportion of invalid claims, the Department of Employment may treat up to that proportion of the total outcome payment as invalid. For instance, if the Department selects a provider, reviews 15 percent of its claims for Stream C participants for the past 3 months, and finds that 20 percent of those claims are invalid, then the Department will recover its payment to the service provider by up to 20 percent of the total outcome payment. Between July 2015 and March 2016, the Department of Employment reviewed 5 percent of all the claims it had received, and 6 percent of those led to recovery of payments (equivalent to AUD\$ 282.339).

The process gives the opportunity to service providers to dispute an assessment (e.g., by providing additional evidence) prior to it being finalized.

## Evaluation and Results

The Department of Employment conducted two evaluations of Job Services Australia in 2014 and 2016. These evaluations found that:

- Jobactive produced higher education outcomes than Job Network, but gradually lower employment outcomes
- The “estimate of red tape expenditure declined by nearly 20 percent between 2014 and 2016 (from \$321.9 million to \$259.3 million per annum), but this was still significant [...] and largely borne by providers (84.5 percent)”

In July 2016, at a meeting of the Employment Steering Committee and the Employment Branch Managers Committee, the performance of the first year of Jobactive was reported to have “met or exceeded 12 of the 19 targets set for 2015–16”.

In 2017, the Australian National Audit Office made the following key observations:

- 48.9 percent of job seekers were in employment three months after participating in the program
- From those job seekers who were employed, 22.8 percent were in full-time employment, 26 percent were in part-time employment and 54.3 percent were in casual employment
- More than 370,000 job placements were recorded in this time; 62.9 percent of them led to a 4 week retention outcome payment, 54.9 percent led to a 12 week retention outcome payment and 37.8 percent led to a 26 week retention outcome payment.

## Learnings

### RBF Value-add: Benefits

**Focus on Results.** According to Finn (2011), the Australian approach to RBF for workforce development contributed to **better results** over time and a **reduction** in service provision **costs**. The author writes: “Job Networks delivered more outcomes for half the cost of the previous system”. Finn also states that RBF enabled a greater **focus on**

**results**, since it incentivized service providers to focus on “helping participants gain entry into sustained employment rather than on simply managing inputs and programme commencements”.

**Flexibility.** Another value-add of Jobactive is to “allow providers to deliver **flexible** solutions tailored to an individual job-seeker’s circumstances”. Finn (2011) also identified this as a benefit, stating that RBF “allowed case managers to tailor services to different participants, provide continuity of support, test methods for motivating job seekers, and provide various post placement services”. In addition, Jobactive was designed to **improve accountability to beneficiaries** through the Star Rating system. All employment service providers receive a Star Rating from 1 to 5 depending on their performance, which is publicly available and easily accessible on the Jobactive website.<sup>94</sup> The objective is to “allow job seekers to differentiate between the providers in their employment region based on performance”.

Finn (2011) also wrote about the design and implementation lessons of Job Services Australia for the British context. Some interesting takeaways include:

- The Australian workforce development system evolved over time and there was lot of “learning by doing” and **constant adaptation**”
- Undertaking regular sample **surveys of jobseekers** and employers, as in Australia, is useful to capture information on participants’ pathways not recorded as part of the system in place
- The Australian system rewards service providers for delivering **partial outcomes** (i.e. part-time employment or education), while the British system doesn’t. To Finn, this is a valuable practice as participant in part-time job or education are reducing or will reduce income support payments and generate cost-savings for the government.
- In Australia, the non-profit sector plays a major role in service delivery. To Finn, “their involvement is critical for ensuring coverage in areas that are less attractive to larger for-profit providers, either because of location or the particular characteristics of client groups”.
- Since the RBF contract is not prescriptive on activities, the outcome payer “loses insight into the why and how of ‘what works’ and it is challenging

to establish what drives good performance and why”. For that reason, the Australian Department **evaluated and disseminated** emerging best practices. Doing so can accelerate capacity building within the market.

## RBF Value-add: Challenges

Certain non-profit service providers raised some concerns about RBF or were openly critical of the “program design, sanctions and of the impact that contract changes have had on their viability and service provision.” For instance, introducing conditional payments was sometimes seen as contrary to their values and the relationship with such providers was somewhat uncomfortable for the Government.

**Cream-Skimming.** The RBF design and implementation of the Australian workforce development system evolved over time. Finn (2011) wrote that despite a positive start, service providers delivering the Job Network program gradually started to “use their flexibility to manipulate the incentive system” and that “problems emerged with ‘parking’ and ‘creaming’”. In response to this, the Job Services Australia design was adjusted to encourage service providers to work with harder-to-serve job seekers. This was done by introducing **differential pricing** methods - rewarding providers proportionally to the level of need and associated cost of placing the different beneficiaries they serve - and by encouraging a stronger link between skills training and employment outcomes.

**Administrative Burden.** During the reform process, more **compliance requirements and regulations** were also introduced, which in turn reduced the scope for flexibility and innovation. When consulted by the Australian Government in 2012, an Advisory Panel on employment services found that “the employment services model [was] complex in design and administration, and that there was a level of ‘hyper specificity’ in administrative requirements” which produced a “risk-averse culture”. This raised questions on how to maximize provider flexibility while also building adequate safeguards for beneficiaries. Later, when introducing Jobactive, the Australian Government aimed to correct certain **design flaws** identified in the Job Services Australia program.

This involved making administrative requirements less burdensome for service providers, improving post-placement support, incentivizing long-term unemployed job seekers through a ‘job commitment bonus’, better connecting people that are not in education, employment or training (NEET) with government services, and more.

## Additional Learnings

A report written by the Australian Government in 2012 highlighted lessons for best serving Indigenous Australians who on average face greater levels of labor market disadvantage: The three main takeaways from the report can be summarized as follows:

**Staffing.** Employing Indigenous staff in is an effective way to improve a provider’s ability to work with Indigenous beneficiaries.

**Relationship Management.** Poor relationships between service providers and job seekers can hamper results.

**Differential Behavior.** In comparison to non-Indigenous job seekers, Indigenous job seekers are less likely to attend the required appointments; as a result, any **compliance sanction** imposed by the Department of Employment is likely to affect Indigenous job seekers disproportionately.

88. The following documents were consulted to create this case study:

- Finn 2011.
- Australian Government Department of Jobs and Small Business 2017.
- Beeck Center 2014.
- Australian National Audit Office 2017.
- Australian Government 2017.
- Australian Government Department of Education, Employment and Workplace Relations 2012a.

89. All currencies included in this case study use the exchange rate from March 2017.

90. Outcome payments correspond to 52 percent of the total funding. See: Australian National Audit Office (2017).

91. A stream refers to a category used to classify job seekers according to their work readiness.

92. All guidelines can be accessed through the following website <https://docs.jobs.gov.au/collections/jobactive-guidelines>.

93. See Verification Methodology section of this case study for more detail on the Rolling Random Sample.

94. See service providers’ Star Rating on the jobactive website: <https://jobsearch.gov.au/serviceproviders?jsk=1>.



# Chile

*Chile Califica*<sup>95</sup>



Outcome Payer(s)	Government of Chile, World Bank.
Service Provider	Private and public providers of adult education services.
RBF Instrument	Performance-Based Contract (PBC).
Target No. Of Beneficiaries	Unemployed youth, workers living in conditions of poverty, and those who seek a second chance to improve their employability and quality of life. 250,000 unemployed people were trained through the program.
Type of WFD Intervention	Training and skills development, institutional strengthening.



Completed  
From 2002 to 2009

## Project Background

The Chile Califica Program, jointly designed and executed by the Ministerio de Educación, Economía, Trabajo y Previsión Social (Ministries of Education, Economy, and Labour and Social Security), was introduced with the objective of "laying the foundation for a system of lifelong learning and training in Chile," which in turn would support social development and employment in the country.

The program was initiated in response to a diagnosis by the Chilean Government and the World Bank of the professional training and education sector in Chile, which found that:

- Professional training was of poor quality, operating under an outdated curriculum. Programs were not demand-driven nor attuned to the needs of the productive sector
- The coverage of professional training for higher skill levels was insufficient

- The different levels of training programs were not linked to each other and lacked content progression
- No mechanism enabled or incentivized lifelong learning
- It was difficult for the population to access quality information about professional training and education

To tackle these issues, the program was divided into four main components aimed at generating more professional training and education opportunities for the target population, and reforming the professional education system to be more integrated and better linked to the professional world.

The program sought to achieve these goals by offering refresher courses, providing new training and certification opportunities (including for teachers), and

developing an information portal to support education and lifelong learning. It provided an adult education alternative which offered:

- A better curriculum
- Decentralized and independent testing and certification
- Flexible hours
- Free tuition, textbooks, and other educational materials
- Closer proximity of learning centers

The program has four main components:

1. Providing new opportunities for lifelong learning
2. Improving the quality and increasing the coverage of technical/professional education
3. Establishing instruments to support the provision of lifelong learning and training services
4. Institutional strengthening

Component 1 was results-based. It aimed to expand learning opportunities through the Flexible Adult Basic and Secondary Education Program (Nivelación de Estudios), which provided more flexible pedagogical strategies and schedules for adults. Students are evaluated through a newly established Sistema Nacional de Evaluación y Certificación de Estudios, which they need to pass in order for the provider to be paid.

Component 1 was delivered by private providers, while component 2 was delivered by regional networks of multiple stakeholders that included technical secondary schools, tertiary technical education institutions, training providers, employers, and workers. RBF was only used in a sub-component of the first component, with the goal of making the best use of public funds by introducing incentives, reducing the deficit in education, while also raising skill levels and productivity.

The eligible beneficiaries were:

- Adults with incomplete basic and/or secondary education, particularly those in the three lowest income deciles, including indigenous groups;
- Workers in need of training, particularly those in SMEs, and those choosing to certify and upgrade their work competencies; and

- Students in technical-professional educational paths

## RBF Design Overview

### *Program Size and Percentage of Funding Tied to Results*

At appraisal, the total project cost was pegged at US\$ 150 million, of which 39.2 percent was allocated to Component 1.

### *Payment Metrics*

For Component 1, 25 percent of the funding directed to private adult education providers was paid upon enrolment and 75 percent of the funding was tied to the number of adults who passed the learning module tests. Services are fixed-price and based on an approved adult learning module called La Modalidad Flexible de Nivelación de Estudios established by the Ministry of Education.

In 2003, to make it more attractive for eligible suppliers to respond to the increased demand for adult education and certification, the pre-payment was increased to 35 percent.

### *Eligibility Criteria*

Every beneficiary needs to meet the following minimum requirements:

- Basic education: Must be at least 15 years old and have completed at least 4 to 6 years of basic education
- Mid-level education: Must be at least 18 years old and have completed at least 1 to 3 years of middle school

The beneficiary is required to present their ID and Certificado de Estudio of their most recent year of schooling. Otherwise, they would need to take a diagnostic exam.

## Verification Methodology

The program used an observational verification methodology (which applied to the RBF): The National Service for Training and Employment (SENCE) hired external consultants to visit each one of the participants and conduct a labor competency assessment.

Moreover, this external verification was complemented with government data registries from SENCE, the Ministry of Education, the Technical Capacity Organism (OTEC) and the Program for Permanent Education and Capacity (PECP) to verify activities and enrolment.

The Ministry of Education's Departamentos Provinciales (DEPROV) also supervised service providers regularly with respect to their facilities, activities, schedule and qualification of personnel.

## Evaluation and Results

Santiago Consultores conducted an impact evaluation of the Chile Califica program in 2008-2009 (commissioned by the Chilean tax office DIPRES), reporting the following:

- The evaluation “did not identify program impacts on younger age groups. Positive monthly wage impacts were found for participants older than 40 years of age and individuals from metropolitan regions, as well as for trainees who received certification of job competencies but not for those who did not pass the certification. There is no impact on employment; however, formalization of employment increased especially for individuals above the age of 40”.
- ✧ Moreover, the evaluation “may overestimate the program’s success due to sample selection bias. The role of skills certification in addressing information constraints was also difficult to disentangle from the effects of other employment services”

The Independent Evaluation Group (IEG) conducted a review in 2008-2009 for the World Bank, noting the following:

- ✧ An unintended positive impact of Chile Califica was that women were “more likely to participate in flexible adult education. This was particularly noteworthy because female participation in regular adult education programs was low.”
- ✧ The information collected to assess the program’s outcomes on earnings was not adequate. For this reason, IEG emphasized that “deficiencies in anticipating the information requirements of monitoring and evaluation for education projects are likely to undermine the robustness of impact evaluations”.

## Learnings

In their 2009 review, the IEG found that “linking payments of education providers to enrolment and completion outcomes of their trainees can enhance the likelihood of delivering those results.” They reached this conclusion after comparing the results of components 1 and 2 of the program:

- Component 1, a flexible adult education program, which paid education providers against the number of students that completed independently tested course work, was a success.
- Component 2, a technical education component, where provider budgets were monitored.

The payment metric for ‘passing the test’ created a perverse incentive, whereby service providers lowered the standards of the test. The Ministry of Labor of Chile decided in turn to mix the program’s beneficiaries with other students in order to maintain and improve the quality and academic requirements.■

95. The following documents were consulted to create this case study:

- IEG 2012<sup>a</sup>.
- Ministry for Work and Social Planning 2009.
- World Bank 2002.
- OEI 2007.
- DIPRES 2009.
- SIB Rotterdam Brownbag at Instiglio's offices 2015.



# China

## Guizhou Vocational Education Development Program<sup>96</sup>



Outcome Payer(s)	Asian Development Bank.
Incentivized Agent	Guizhou Provincial Government.
RBF Instrument	Performance-Based Loan (PBL).
Target No. Of Beneficiaries	Low income households in Guizhou province.
Type of WFD Intervention	Technical and Vocational Education Training (TVET) and human resources capacity building.
Outcome Payment Commitment	Committed outcome payments (disbursed upon achievement of results): US\$ 150 million. <sup>97</sup>

Implementation  
From 2016 to 2019

## Project Background and Intervention

In 2013, Guizhou was the poorest province in China in terms of GDP per capita. Agriculture and traditional services made up most of Guizhou's economic activity and industrialization levels remained low relative to the rest of the country. The labor market faced "a severe shortage of highly skilled workers in priority sectors such as construction, logistics, light industry equipment manufacturing, information technology, agricultural engineering, and tourism". This shortage reflected a number of underlying issues related to the provision of TVET including:

- A high student/teacher ratio (30:1, the fourth highest ratio in the country)
- A lack of qualified teachers (16 percent unable to meet the necessary academic qualifications)

- Inadequate relevance of the curricula to labor market needs
- Low enrollment in TVET colleges

In this context, the Guizhou Provincial Government (GPG) launched the Guizhou Modern TVET System Establishment Plan to increase student enrollment and improve the quality of TVET institutions. To support the Plan, the Asian Development Bank agreed to issue a US\$ 150 million results-based loan to the People's Republic of China in order to finance the Guizhou Vocational Education Development Program (GVEDP). This program aims at strengthening human resources and TVET throughout the province. The loan is part of a larger initiative to bridge the gap between high demand and low supply of skilled labor in the rapidly growing provincial economy.

The GVEDP will support the Guizhou Modern TVET System Establishment Plan (2013 - 2020) by creating vocational education in secondary schools and

colleges that meet the province's long-term development needs. The outcome of the project will be an "inclusive and responsive TVET system, measured by the number of graduates produced by the Demonstration TVET Institutions".

There is a strong focus on three main outputs that are fundamental for the success of the project:

**Strengthening the quality of teaching in TVET institutions.** The GVEDP aims to increase the number of practical training facilities in Demonstration TVET Institutions and to train teachers across the province to strengthen their pedagogical skills and subject knowledge.

**Improving the responsiveness of TVET institutions to the market trends.** The program will develop an updated competency-based curriculum that meets the needs of occupations in the priority industries.

**Strengthening the TVET management capacity.** The GBEDP will:

- Train school and college managers to improve capacity for implementing reforms
- Establish and strengthen a provincial TVET management and monitoring system including an integrated management and information system (MIS) platform to improve program planning and coordination
- Improve provincial coordination between the departments and institutions responsible for TVET

2. Number of teachers trained in pedagogy and subject knowledge across Guizhou TVET schools and colleges with at least 40 percent of female teachers, and 30 percent of teachers from ethnic minority

- Financing disbursed: 20 percent
- Target: 45 practical training bases (baseline in 2014 of 30)

3. Number of Demonstration TVET Institutions that prepare/update and implement industry responsive competency-based curricula with associated learning materials and teachers' guides for at least 2 majors

- Financing disbursed: 15 percent
- Target: 8 institutions

4. Number of managers trained with 20 percent female and 20 percent from an ethnic minority

- Financing disbursed: 15 percent
- Target: 800 managers trained

5. Establishment of an integrated management information system (MIS) platform

- Financing disbursed: 20 percent
- Target: The whole system is established

## RBF Design Overview

In order to achieve the proposed outcomes and outputs of the project, six Disbursement-Linked Indicators (DLI) were established. Each DLI has a target and a share of financing disbursed upon completion:

1. Number of graduated students from Demonstration TVET Institutions
  - Financing disbursed: 10 percent
  - Target: 34,000 students in 2019 (baseline in 2013 of 30,279)

The ADB loan will be disbursed over 4 years subject to the achievement and verification of the DLIs. Partial disbursement is allowed for three of the six DLIs (1,3, and 5) if intermediate results are achieved. For DLIs 3 and 5, partial disbursements are allowed as long as the achievement level is 70 percent, and in such cases the level of partial disbursement will be proportional to the achievement. For DLI 1 the required achievement level for partial disbursement is 50 percent. Additionally, there will be an initial disbursement occurring after the loan effectiveness and upon verification of the prior results. These results include: preparing a provincial teachers' training plan and a

provincial management training plan, and at least eight GVEDP schools and colleges will have submitted to Guizhou Education Department (GED) their training base upgrade plans for agreement by ADB. The initial disbursement includes advance financing of US\$ 15 million for year 1 DLIs.

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## Verification Methodology

Outcomes and outputs are validated through observational data obtained from the Guizhou Education Department (GED) or by an independent review performed by an expert appointed by ADB in consultation with GED. The GED may undertake an audit at three demonstration secondary technical schools and/or tertiary TVET colleges selected randomly, or where a particular school or college return causes suspicion (e.g., increase much higher than expected). GED will also carry out periodic inspections of practical training bases to ensure that they continue to be fit for purpose and remain in use. ADB review missions will undertake random inspections of the completed practical training bases to confirm that they continue to be fit for purpose and remain in use.

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## Evaluation and Results

The program team is planning to implement an impact evaluation of learning outcomes in Guizhou using separate resources to assess the impacts of various aspects of the program's interventions in 2016–2018. ■

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96. The following documents were consulted to create this case study:

- IEG 2012c.
- Ministry for Work and Social Planning n.d.
- ibid. Ministry for Work and Social Planning, n.d.
- Sib Rotterdam Brownbag at Instiglio's offices 2015.
- Asian Development Bank 2017a.

97. All currencies included in this case study use the exchange rate from March 2017.

# Colombia

## Workforce Development Social Impact Bond<sup>98</sup>



### Outcome Payer(s)

Government of Colombia, Prosperidad Social, Inter-American Development Bank's Multilateral Investment Fund (IADB/MIF) with funds from the State Secretariat for Economic Affairs of Switzerland (SECO).

### Investor(s)

Three Foundations:

- F. Mario Santo Domingo.
- F. Bolivar Davivienda.
- F. Corona (also plays the role of an intermediary)

Additionally, financial and performance management contributed by Corporación Inversor.

### Service Provider

Four private sector organizations, of which the last three are NGOs:

- Kuepa.
- Volver a la Gente.
- Fundación Carvajal.
- Fundación Colombia Incluyente.

### RBF Instrument

Social Impact Bond.

### Target No. Of Beneficiaries

514 unemployed vulnerable individuals.\*

### Type of WFD Intervention

Training and skills development.

### Outcome Payment Commitment

Committed outcome payments (disbursed upon achievement of results): COP 2.2 billion (approximately US\$ 0.76million).<sup>99</sup>

### Implementation

From 2017 to 2018

## Project Background

The unemployment rate in Colombia for youth aged 15-24 years is one of Latin America's highest (at 16.5 percent in 2016). The Colombia Workforce Development Social Impact Bond (SIB) aims to achieve greater cost-effectiveness in workforce development projects for difficult to place populations, while also serving as a learning tool for evidence-based policy making. By funding interventions that place vulnerable populations in longer-term formal employment, the SIB ultimately aims to promote the development of a broader market for social investment programs to scale government programs.

This SIB – the first launched in a developing country – is part of a broader five-year, US\$ 8.5 million program in Colombia. The first component of the program seeks to develop two more SIBs as a learning process; components 2 and 3 focus on market building and knowledge sharing. Learnings from one SIB will inform the next SIBs, ultimately seeking to arrive at a proven model that can be scaled by the Colombian government.

\* The target and budget was modified during the later 5-month expansion of the SIB.

## Intervention

The SIB funds 4 service providers (selected through a closed bid managed by Fundación Corona, an expert in this field) who deliver complementary training interventions corresponding to the target population's needs, specifically: training for technical and social-emotional skills, psychosocial support, orientation and intermediation services for job placement and retention.

The SIB's participants were selected based on the main following eligibility requirements:

- Have a SISBEN score (Colombian identification index of social program beneficiaries) of 0 to 41.74, are registered in Red Unidos (ultra-vulnerable group) or are victims of displacement due to the armed conflict;
- Are between 18 and 40 years old;
- Are high-school graduates;
- Have not participated in Prosperidad Social's employment programs in the last two years.

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## Rationale for RBF

A number of common challenges were identified by stakeholders, including:

- Lack of evidence on the effective alignment to local needs (for example, addressing the distinct needs of the large displaced and vulnerable population, and having training programs that respond to market needs).
- Limited incentives for the effectiveness of employment programs (in terms of employment results) due to the focus on inputs and activities.
- Lack of evidence on what worked, which hampers the development of an effective employment policy at scale.
- Lack of data on which to base informed decision-making.

In response to these challenges it was anticipated RBF could enhance results by:

- Increasing public spending on longer-term employment interventions.

- Allowing service providers greater flexibility to adapt and improve their programs to achieve better results. This implies addressing the heterogeneous needs of the participants, as well as the varying labor market conditions more effectively.
- Aligning incentives of investors and providers with the achievement of employment outcomes.
- Increasing attention to results by tracking the performance of providers through a real-time performance management system. The improvement measurement introduced with this system is also expected to contribute to better evidence so that workforce development programs can be enhanced over time.

Reasons for selecting a SIB as the RBF instrument included:

- The SIB provided incentives and flexibility for investors and service providers to pursue greater results by tying 100 percent of funding to results.
- An interest in impact investing from private foundations with capacity to take the risk needed to innovate in a low-data environment.

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## RBF Design Overview

### *Program Size and Percentage of Funding Tied to Results*

Outcome payers committed COP 2.2 billion (approximately US\$ 0.76 million) for outcome payments – this amount corresponds to the funding tied to results. Just under half of the outcome payment for this project was provided by Prosperidad Social (the Colombian Government entity), who were the first to disburse outcome payments in order to meet their budget cycle requirements. The remaining payments were made by IADB, with funds provided by Switzerland. In case of non-disbursement of outcome payments committed by the IADB and Switzerland, these funds could be recycled into the next two SIBs within the broader program. This SIB, as a first experiment, is relatively small to encourage learning and reduce the associated risk.

## Return on Investment and Up-front Capital

Nominal return on investment was set at 8 percent to establish the price during the design process. However, the amount to be invested and the return was not set up front and was left to the discretion of the investors. The investors provided the up-front capital needed for the implementation, as well as payments based on achievement of milestones to the service providers (for which the investors used recycled capital after receiving the first outcome payments). Total payments from the investors to service providers have totaled COP 1.34 billion (approximately US\$ 0.45 million) to date and are projected to reach COP 1.54 billion (approximately US\$ 0.52 million).

## Payment Metrics

Payments to providers were weighted as follows:

- Job placement, for which providers receive 50 percent payment per capita (it is not possible to achieve more than this solely through job placements, to encourage providers to focus on retention);
- 3 months retention, for which providers receive the remaining 50 percent payment per capita;
- 6 months retention, resulting in a 10 percent bonus payment.

The above weighting of the payment metrics aimed to align incentives: While the measurement of job retention rather than job placement is more aligned with the ultimate goal of long-term employment, it is further from the service providers' control. Therefore, a balance was struck across these two metrics to focus on the ultimate result of the program without transferring too much risk to the investors (which translates into a higher cost). In addition, the six-month retention metric was set up as a bonus payment to compensate for the greater lack of control and to encourage learning around incentives for longer-term retention.

During the design phase, stakeholders in this first SIB considered the inclusion of a variable to account for quality of employment, which is directly associated with the type of labor contract. However, given the

high rate of informality in Colombia (42 percent), it was assumed that any formal employment already ensured minimum standards of quality – since these contracts, albeit to a varied extent, offer legally stipulated social benefits (such as health care or pensions).

## Price Setting Method

Due to lack of data on cost placement, the stakeholders used a cost-plus hybrid approach to price outcomes, using the following 4 inputs:

- Estimated costs per activity in government programs
- Average of costs per additional activity of three potential service providers interested in participating
- Costs of management and estimated investors' return
- Average success rates of the three shortlisted service providers

## Outcome Payment Structure

- Maximum payment for each beneficiary who is placed and retains their job for 3 and 6 months: COP 4,277,691 (~ US\$ 1,500)
- Cap on outcome payments for both placement and 3-month retention: COP 999,424,170 each (~ US\$ 340k)
- Cap on outcome payment for 6-month retention: COP 199,884,834 (~ US\$ 69k)<sup>100 101</sup>

## Structure of the Intervention

The intervention's value-chain specified 11 stages, where a minimum of 100 hours was required for 'training in technical and socio-emotional skills.' The first stage was the 'socialization, call for applications, and registration' of potential beneficiaries, where service providers were to convene participants using Prosperidad Social's databases and leveraging mass media channels (such as call centers, radio, community organizations, social media, etc.). In case the demand for the services exceeded the supply, a weighting system to prioritize among eligible applicants was designed.



## Verification Methodology

Results are reported by service providers and then validated through administrative data from the Ministry of Health's registry of full-time employees. Stakeholders also agreed on alternative methods in case of delays or discrepancies between the Ministry of Health's data contained in PILA (an online social security contribution system) and the provider's report. The alternative methods included copies of employment contracts, labor certificates, and certificates of contribution to PILA.

The following verification methods were also agreed upon:

- **Intervention content:** Deloitte (the auditor) verifies that each provider's program complies with the intervention model approved by the stakeholders.
- **Beneficiaries' eligibility:** High school diplomas and copies of identification cards (for proof of age) needed to be provided by service providers and the auditor would verify a random sample. Prosperidad Social would verify vulnerability criteria using their databases, which the auditor would oversee. Employability criteria was verified by the auditor using public government data sets from the Ministry of Health registry.
- **Intervention received by the participants:** There was a minimum number of hours of training required for every participant to be eligible for payment. This was verified with attendance records.

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## Evaluation and Results

Results as of June 2018:

- Participants placed in formal jobs: 607
- Participants retained in formal jobs for three months: 396
- Participants retained in formal jobs for six months: 200

These results only take into account verified outcomes.

## Learnings

### *RBF Value-add: Benefits*

Though the SIB is still in implementation, listed below are examples of its promise and potential to drive enhanced results. It is important to highlight the active role of Fundación Corona, the intermediary and performance manager, in the following:

**Aligning incentives.** In terms of aligning incentives with improved employment outcomes, stakeholders have reported that the 3-month retention metric was perceived to be particularly effective in changing behaviors. In this SIB, service providers also had a portion of their payments tied to results, which increased their incentives to achieve the outcomes. Service providers incorporated and strengthened components in their intervention which were not in place before or to which they were not paying sufficient attention. These components included: effectively tailoring trainings to beneficiaries' needs and market requirements, strengthening the psychosocial support provided, and giving more importance to accompanying beneficiaries after they were placed in jobs. One provider also reported that partnerships with private sector companies during the training phase increased participants' motivation to attend trainings.

**Attention to results.** The increased attention to results is reported to have helped providers make evidence-based course corrections during implementation. Service providers, with the active support of the intermediary and the other investors, were constantly identifying lessons and best practices through collaborative workshops and the establishment of a platform to collect data for performance management. For instance, one service provider reported learnings and corrections between cohorts. In response to high dropout rates, for example, service providers enhanced their retention strategies by providing participants with more cost-effective subsidies (e.g., snacks, transportation subsidies), involving members of the participants' families, or organizing more regular and structured events. These mid-program adjustments have shown some success.

**Enhancing flexibility.** The SIB was also reported to have significantly increased the flexibility enjoyed by the providers, enabling them to make adjustments to their program during implementation, as seen in the preceding examples.

## **RBF Value-add: Challenges**

Listed below are some examples of emerging challenges which could constrain the RBF value-add.

**Insufficient Focus on Long-term Outcomes.** Early experience indicates the 6-month retention bonus did not provide a strong enough incentive to develop strategies to achieve this result (i.e., not enough weight was given to this to compensate for the extra costs required to implement follow up mechanisms in the 6 months after placement). It is also important to keep in mind that this incentive was introduced later in the design and was not taken into consideration by operators in their initial work plan. The timeframe of the program also posed a challenge to achieving 6-month retention.

**The Challenge of Balancing Flexibility with Prescription.** Despite having contracts based on milestones, which granted flexibility to the providers and allowed an increased focus on results, one of the providers noted that even if most of the participants needed the required 100 hours of training, in a few cases it prevented them from optimizing their resources or preventing participants who did not need this training service from leaving the program.

**Unanticipated Verification Challenges.** There were delays in the verification of eligibility, since some data provided through the Ministry of Health could take up to a month to update and thus the auditor could not access it in a timely manner. The providers and investors expressed that these delays presented an additional difficulty to meet targets within the SIB timeline, and this may have also led to increased abandonment of the program at the beginning of implementation. Moreover, the verification of the results was perceived to be complex and presented challenges. For example, the Ministry's data (PILA) can present inaccuracies for the first 3-4 months, which can in turn create delays and might not generate enough agility to implement this model on a larger

scale within the current timeframe (under 2 years). The stakeholders drew on alternative verification methods (see section above for more information); however, providers also struggled to obtain the alternative supporting documents needed to verify results.

**Challenges With Hard-to-place Jobseekers.** Service providers reported that some groups, such as victims of conflict, mothers who are heads of households, or people with disabilities, are harder to place than others. However, the data analysis stands in contrast to this perception, as it does not show that some groups are harder to place than others.

## **Additional Learnings**

**Stakeholder Engagement and Design Process (Impact Bond Specific).** Engaging all stakeholders early and taking the time to establish and align on objectives enabled the relatively fast design of the instrument. Engaging donors (in this case the IADB and Switzerland) helped overcome barriers of working with government (particularly the government's budgeting process which requires that funds be spent within the year), since they provided the technical assistance and reduced the risk for the government. They also facilitated the bonus payment and allowed for a longer implementation timeline (6 months retention). Furthermore, stakeholders will launch two other SIBs following this experimental learning process, allowing them to be more flexible.

**Targeting Sustainable Outcomes.** This SIB shed light, for the first time, on the trajectory of employment for participants in these types of programs in Colombia, where 6-month retention tends to represent a greater challenge than placement or short-term retention. Going forward, a number of strategies can be considered to achieve more sustainable employment outcomes. For example, in order to generate more effective incentives, the proportion of payment tied to each outcome could reflect the comparative cost of achieving it (provided it is the case that achieving longer term outcomes in this SIB is in fact more costly or difficult) or the timelines could be extended. Differential pricing systems might also merit consideration for the next SIBs in this program, given that some participants may need an additional focus or



a different set of strategies and that there will be more data available following the first SIB to build informed differential prices. In addition, particularly vulnerable populations could require 'social stabilization interventions' at the start of an employability program to arrive at a successful result. Finally, increased public spending in longer-term employment and longer implementation cycles could be justified as a response to this challenge and due to their potential value-add.

**Performance Management Systems.** The next SIBs are likely to incorporate improved performance management systems and workshops for the providers, given the proven value drawn from building providers' capacity to manage results and iterate their programs during implementation. The data platform, a tool made possible by the investor and intermediary to centralize information and increase accountability and rigor, is a significant step in this regard. Moreover, a culture of learning and a dynamic analytical and course-corrective function complements such technology platform.

**Verification Challenges.** The verification challenges identified above could have potentially been mitigated through more timely contracting of the verifier, ideally engaging them in relevant design decisions. However, there is also a steep learning curve, given that this rigorous verification mechanism had not yet been implemented in similar programs. ■

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98. The following documents were consulted to create this case study:

- Prosperidad Social 2017.
- La Tercera Mirada 2017.
- Instiglio 2018a.
- World Bank 2016b.
- OECD 2016.

99. All currencies included in this case study use the exchange rate from March 2017.

100. After 514 beneficiaries, there can be no more disbursement of outcome payments.

101. Due to lack of information on the successful rates for six month retention, this outcome was introduced late in the design in order to test the effectiveness of the incentive. A bonus payment was put in place for this purpose.

# Ethiopia

## *Skills and Knowledge for Youth (SKY)<sup>102</sup>*



**Outcome Payer(s)** Helvetas/ Ethiopia Swiss Intercooperation.

**RBF Instrument** Performance-Based Contract (PBC).

**Target No. Of Beneficiaries** 2,000 young people (50% women).

**Type of WFD Intervention** Training and placement.

Completed  
From 2015 to 2017

## Project Background

In 2015, the Ethiopian workforce comprised 35 million people and was characterized by low skill levels and educational attainment. Approximately 75% of the workforce was concentrated in low-skill employment sectors and over 40% were self-employed in the informal sector. Helvetas also estimated that less than 50% of the urban workforce was working in wage employment, with a significant portion active only in family businesses. Furthermore, unemployment was diagnosed to be primarily a “youth, female and urban phenomenon”.

In this context, the Skills and Knowledge for Youth (SKY) program was established by Helvetas in the city of Bahir Dar, which is currently experiencing a large influx of young people from the countryside.

SKY aims to increase employability of youth and generate employment opportunities by supporting youths to set up their own businesses. Further, SKY seeks to empower youths by providing them with soft skills training and helping them to escape the poverty trap.

## Intervention

The SKY program provides trainees with market-driven training, life skills and entrepreneurship training. Trainings last three months on average and aim to place trainees into jobs earning them at least US\$ 2 per day. Based on a preliminary market needs assessment, the six training fields chosen were: textiles, basic metalwork, food preparation, urban agriculture, construction, and hairdressing.

- **Quarterly Stakeholder Meetings.** Helvetas has developed a network of employer representatives including the Chamber of Commerce, the Association of Hotels, the Association of Car Mechanics, and also sector representatives from business associations, and the Amhara national Regional State Bureau of Technical, Vocational and Enterprise Development, Women and Children affairs and Youth and Sport. This network is leveraged on a quarterly basis to identify trends in labor market demand and the skills gap in the market.
- **Private Sector Trainers.** Helvetas contracts private both public and private training centers. Trainers must provide certifications recognized by the Government of Ethiopia.
- **Training Follow-up.** Trainers are expected to coach and support trainees as they transition from training to employment.
- **Tracer Studies.** Helvetas contracts a local consultancy to follow up with participants using tracer studies. These studies are meant to assess graduates' satisfaction with training and employment status.

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## Rationale for RBF

Helvetas initiated the SKY program in a context where public training programs were often inaccessible and not sufficiently responsive to youths' needs. Helvetas further considered that private training providers put too little focus on the quality of their interventions and "did not care about what [happened] to graduates after they [had] graduated". RBF was seen as a useful tool to focus providers' attention on long-term employment outcomes and align their financial incentives accordingly.

The SKY program was largely inspired by the successes of the Nepal Employment Fund, a Helvetas-administered program which also used an RBF approach.

## RBF Design Overview

### Size

The first phase of the project had a budget of CHF 646,779 (approximately US\$ 651,920). 1,753 out of the 2,000 targeted beneficiaries participated in the program.

### Target Group

The SKY program targets youths aged 15-30 from socioeconomic groups characterized by Helvetas as "low skill levels/no skills – no job – no income". SKY also targets young people with disabilities, single-parent or female-led households, and internally displaced people.

### Eligibility Criteria

To participate in the program, participants must be aged between 15-30 years old and have between 8 - 12 years of education. Beneficiaries were selected in collaboration with the Regional Technical, Vocational and Enterprise Development (TVED) Bureau.

### Outcome Metrics and Payment Structure

Trainers are paid according to the following scheme:

- Middle of Training: 30% of the total outcome price
- End of training: 50% of the total outcome price. This part of the payment is tied to skills assessments conducted in accredited assessment centers. To obtain a National Qualification Certificate, a candidate must demonstrate competence in all units of competence for a particular qualification level
- Trainee placement or self-employment: 20% of total outcome price plus incentive

### Outcomes Pricing Method

A differential pricing system was used to compensate providers for costs in training jobseekers, in terms of different trades and differential beneficiary needs. Cost estimates for delivering interventions for different trades and target groups were the result of a triangulation between private provider data, public provider data and market research collected by Helvetas staff before the beginning of the program.



Total outcome payments consist of:

- Training costs, which are the same across beneficiary groups but vary according to how resource-intensive the training for each trade is. Training costs are reimbursed conditional on providers placing at least 40% of beneficiaries into employment.
- Incentive payments for placement and retention results, which increase for target groups identified as having specific labor market-related disadvantages (women, internally displaced populations, single parents, etc.).

Outcome payments per participant range between US\$ 250-270, the higher end of the range corresponding to outcome payments for disadvantaged women. Training costs per participant range between US \$193-204.

## Intervention Guidelines

SKY provides intervention compliance guidelines at two levels:

- **Intervention Content:** Technical training interventions follow trade-specific curricula known as Occupational Standards (OS) developed at the national level. Each OS specifies a minimum hourly requirement for the intervention and specific learning outcomes – for example, the Furniture Maker OS includes learning outcomes such as “Use and Maintain Hand and Power Tools” and “Produce Hand-Made Timber Joints”.
- **Process Evaluation:** Criteria for the procedural evaluation of interventions include certifications of providers, trade-specific learning material requirements and learning facilities requirements.

## Verification Methodology

### Results Verification

SKY verifies trainees’ National Qualification Certificates. To trigger the skills improvement tranche of the payment, at least 80% of trainees in a given

training cohort should successfully pass the assessment. As skills assessments are delivered by accredited assessment centers, there is no need for monitors to be present during assessment.

The SKY Secretariat also verifies 4-month retention outcomes with random visits to employers. At least 30% of outcome claims are verified through physical verification, while the rest are monitored through telephone with trainees and employers.

## Compliance

SKY requires providers to share training assessment reports describing the intervention delivery. Field monitors then randomly visit providers at different stages of the intervention to verify that activities comply with both the content and procedural guidelines outlined above. SKY also requires providers to share training assessment reports.

## Beneficiary Selection Monitoring

Compliance with eligibility criteria is ensured from the onset as trainees are selected by the sub-city and approved by SKY.

## Evaluation and Results

Out of the 2,000 targeted youths, 1,753 participated in SKY training interventions of whom 79% were employed and 69% gainfully employed at 4-month verification. On average, participants took less than a month to find employment. 92% of trainees reported being satisfied with their jobs.

The regional government considered the first phase of the project, which ran from 2015 to 2017, to be highly successful. The government is now letting Helvetas use state-owned training facilities and has declared the SKY curricula as the standard for short training courses for the entire Amhara region.



# Learnings

## **RBF Value-add: Benefits**

**Intervention Design.** RBF stimulated training providers to orient their interventions towards labor market needs.

**Flexibility.** SKY has also given providers the flexibility to adapt their intervention models to beneficiary needs. For example, some providers offered evening and weekend classes to accommodate trainees who had daytime obligations. Other providers combined intervention delivery with child care services to allow mothers to participate in the program.

**Focus On Outcomes.** SKY has shifted providers' focus to achieving long-term outcomes, as illustrated by 69% of trainees having achieved gainful employment upon 4-month verification.

**Achieving Outcomes for Disadvantaged Groups.** Out of 1,753 graduates from the first phase of the project, 75% were women.

**Stakeholder Collaboration.** The SKY project has introduced a culture of collaboration and a sense of 'shared responsibility' for graduates' job placement.

## **RBF Value-add: Benefits**

**Verification.** Helvetas noted that rigorous and accurate monitoring of graduates was resource-intensive.

**Scale.** Only a few providers had both the capacity and the motivation to engage with the program in its initial stages. There is still an insufficient number of providers in sectors such as metal work, furniture making and auto mechanics.

**Attrition.** 15-20% of trainees were dropping out in the initial stages of the program. The SKY Secretariat interpreted high initial drop-out rates as a sign of mismatched expectations. By providing trainees with personalized coaching and career orientation, SKY has since managed to reduce drop-out rates to 5-7%. ■

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<sup>101</sup>. The following documents were consulted to create this case study:

- Helvetas 2018.
- USAID 2018.

# Morocco

## Taehil Workforce Development Program<sup>103</sup>



Outcome Payer(s)	Government of Morocco, National Agency for the Promotion of Employment and Competencies (ANAPEC).
Service Provider	Training and education service providers.
RBF Instrument	Performance-Based Contract (PBC).
Target No. Of Beneficiaries	TAEHIL reaches approximately 20,000 beneficiaries annually.
Type of WFD Intervention	Training and skills development, employment services.

Ongoing  
Since 2008

## Project Background

In 2008, 18.5 percent of young people in Morocco aged 15-24 were unemployed. In this context, the Moroccan government introduced the TAEHIL program, a RBF workforce development program that sought to address increasing unemployment rates amongst the country's high school and university graduates. The two programs preceding TAEHIL, "accompagnement integral" ("comprehensive support program") and "accompagnement à l'insertion" ("placement support program"), were also results-based but were suspended due to poor performance. The main problems identified in the previous programs were:

- Few NGOs with the desired expertise were willing to participate in the procurement process, in part due to heavy administrative burden and low perceived return to participating in the programs.
- The providers who self-selected into the procurement process had little expertise in

delivering services to the target population (making it harder to place job seekers).

- High beneficiary attrition rates, in part due to job-seekers often being located far from providers.
- Providers engaged in cream-skimming, targeting jobseekers who were already motivated to find jobs and had clear career plans.

## Intervention

TAEHIL is comprised of three programs, two of which pertain to training and placing jobseekers<sup>104</sup>: the "FCE" ("Formation Contractualisée pour l'Emploi") program and the "FQR" ("Formation Qualifiante ou de Reconversion") program.

As described in the Procedure Manual, the FCE program supports the training of young people who have been personally identified by an employer during a prior recruitment process. It is a tripartite contract between ANAPEC, employers, and service providers.



The key steps of the program are as follows:

- During internal recruitment processes, employers identify jobseekers they are interested in hiring and refer them to ANAPEC to go through the FCE skills training program.
- Employers commit to recruiting the program beneficiaries upon completion of the training program. After receiving ANAPEC's approval, the employer selects a training service provider capable of delivering the desired skills training.
- All three parties – ANAPEC, the employer, and the training service provider – agree on the type of training that will be delivered. Service providers must then approve the list of beneficiaries taking part in its intervention.
- The service providers deliver the training, while reporting to ANAPEC and complying with its verification processes. They can also arrange for optional on-the-job training with employers.
- Beneficiaries who complete the training receive a certificate signed by the training provider and the employer.
- Employers contract trainees; if they refuse to contract a trainee they had committed to hiring at the beginning of the intervention, they must provide a formal justification for their decision on a case-by-case basis.

The FQR program aims to retrain its beneficiaries to learn skills relevant to current labor market needs. The key steps of the program are as follows:

- ANAPEC's local and regional agencies identify the sectors in which there is a need for training. ANAPEC then launches a call for proposals for interventions that respond to the needs identified during the preliminary market assessment. Providers then bid to participate in FQR; once their plan is validated, ANAPEC contracts service providers to implement relevant trainings.
- The training service providers select beneficiaries from a list of preliminary candidates compiled by ANAPEC. Providers then return a shortlist of candidates to ANAPEC who validate the final beneficiary selection.

Service providers then develop a more specific training program in line with beneficiary needs which must be approved by the Regional Technical Monitoring Committee (“Comité Régional Technique de Suivi”). After the training program has been validated, providers deliver training while regularly reporting to ANAPEC and complying with its verification processes. The program's terms of reference also allow for on-the-job training to be included as part of the intervention.

Once the beneficiaries complete the training and receive their completion certificates, the service providers facilitate their placement into relevant employment. The FQR program does not however include prior employer commitments to hire jobseekers upon training completion.

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## Rationale for RBF

RBF in this context was used to generate greater accountability amongst employment service providers, and in turn improve employment outcomes in Morocco. Both FQR and FCE were introduced to shift providers' focus from training completion to job placement.

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## RBF Design Overview

### Size

From 2008 to 2014, the TAEHIL programs reached over 122,000 beneficiaries.

### Eligibility Criteria

To participate in the FCE program, jobseekers must be:

- Registered with ANAPEC
- In possession of a high school completion certificate or equivalent
- Identified by an employer during a prior recruitment process

To participate in the FCE program, jobseekers must be:

- Registered with ANAPEC
- In possession of a high school completion certificate or equivalent
- In need of skills more aligned with labor market requirements

## Outcome Metrics and Payment Structure

For the FCE program, the results-based payment is structured as follows:

- Payments based on training completion: 80 percent of the payment is a function of the number of hours of training delivered (an hourly rate which varies by service provider with a ceiling of 40 Moroccan Dirham/hour), and the number of beneficiaries who attended each training. Furthermore, ANAPEC only pays providers for trainings where 60 percent of beneficiaries are placed.
- Payments based on placement results: 20 percent of the payment is the gross value of the contract multiplied by the rate of successful placements.

For the FQR program, the results-based payment is structured as follows:

- Payments based on training completion: Every quarter, service providers receive a payment that depends on the number of hours of training delivered, an hourly rate (price varies per service provider, maximum 30 Moroccan Dirham/hour) and the number of beneficiaries who completed the training.
- Payments based on placement results: Service providers receive 2000 Moroccan Dirham per beneficiary placed and retained for 3 months or more.
- Outcome pricing method: Providers propose a price for hourly training below the ceiling set by ANAPEC in the program's terms of reference – 30 Moroccan Dirham per hour of training delivered.

## Verification Methodology

### Results Verification

The Procedure Manual establishes a list of required documents for providers to be able to claim outcome payments. For both programs, in order to demonstrate results, training service providers have to provide a number of documents, including training attendance lists initialed by the beneficiaries, quarterly

training progress reports and a copy of beneficiaries' employment contracts for placement verification.

The Trésorier-Payeur (Paymaster General) is responsible for evaluating the conformity of the documents with the Procedures Manual and for authorizing the payment when he is satisfied with the validity of every single piece. If the Trésorier-Payeur identifies an issue with a file, ANAPEC returns the file to the service provider for correction.

### Compliance

In the FQR program, a jury presided over by a representative of the sector to which the training intervention is relevant is tasked with evaluating training activities. The jury also provides an end-of-training report to ANAPEC describing results, working methods and challenges encountered for each service provider involved in the program. In the FCE program, providers keep track of beneficiaries' attendance and inform ANAPEC about beneficiaries' behavior. Employers hold monthly evaluations on trainee progress based on information collected by providers.

### Beneficiary Selection Monitoring

ANAPEC must approve the beneficiary list before implementation for both programs.

## Evaluation and Results

TAEHIL results were analyzed by Instiglio through a basic observational method. It was found that:

- The FCE program delivered good results in terms of placements, an estimated 75 percent of the beneficiaries got placed into employment. In addition, the involvement of employers in the training and its monitoring was praised.
- The FQR program placed 53 percent of its beneficiaries, according to ANAPEC's follow-up calls 12 months later. However, those results were often not directly attributable to the providers' efforts.

Despite some positive results, many bottlenecks have been identified in both programs.



## Verification

ANAPÉC's procedures contain bottlenecks, in particular with regards to verification. Service providers faced a particular challenge in accessing employment contracts from employers. As employment contracts are a key input for providers to be able to claim payments for placement outcomes, very few payments were made to service providers for placement results. In addition to limiting the impact of RBF mechanisms, these procedural issues also discouraged other providers (some of which might have more expertise with intermediation services) from working with ANAPÉC.

An impact evaluation of the TAEHIL programs is under way but has yielded no results as of June 2018. A process evaluation has been completed but no results have been published as of June 2018.

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## Learnings

### RBF Value-add Challenges

**Cumbersome Verification.** The rigidity of the verification system can:

- Discourage existing providers to report their placement results or lead them to limit their involvement in these activities.
- Discourage more experienced service providers from engaging with the government.
- Severely limit providers' flexibility in an RBF contract.
- Contribute to the incentive structure responding inadequately to the marginal cost of achieving placement outcomes.

**Perverse Incentives.** Sound RBF mechanisms must be designed to avoid perverse incentives. For instance, the placement rate used as the outcome metric did not provide the right incentive for service providers and discouraged them from undertaking these activities.

**Cream-skimming.** This particular factor may have been an issue in the FCE, as beneficiaries were recruited by the employers. For FQR, cream-skimming issues may have arisen due to the fact that beneficiaries were selected subject to agreement between ANAPÉC and service providers.■

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103. The following documents were consulted to create this case study:

- World Bank. 2017.
- ANAPÉC 2008.
- Instiglio 2015b.

104. The third TAEHIL component is "Secteur Emergent."

# Nepal

*Employment Fund*<sup>105</sup>



Outcome Payer(s)	Swiss Agency for Development and Cooperation (SDC), Department for International Development (DFID) and the World Bank.
Service Provider	57 public and private training providers.
RBF Instrument	Performance-Based Contract (PBC).
Target No. Of Beneficiaries	100,000 people (53% women and 80% disadvantaged people). <sup>106</sup>
Type of WFD Intervention	Training and skills development, employment services.
Outcome Payment Commitment	Total funding: CHF 28.72 million (approximately US\$ 27.93 million).

Completed  
From 2008 to 2015

## Project Background

In 2008, almost 90% of the youth entering the Nepalese labor market each year were unskilled, and 46% of youth were either unemployed or underemployed. In response to these challenges, Helvetas Swiss Intercooperation Nepal established the Employment Fund (EF), an ALMP which financed skills training and employment services for poor and disadvantaged youth through private sector service providers. The program's main objective was to improve the employability of young people through quality training and market-oriented skills building.

The SDC worked in close collaboration with Helvetas to set up the project. Once the main design had been finalized, DFID and the World Bank agreed to join

SDC as outcome payers for the project. The Fund was steered by a committee composed of representatives from the Government of Nepal and from the three outcome payers.

## Intervention

The EF contracted training providers on an annual basis through a two-stage competitive bidding process. The initial screening round involved assessing providers against a set of basic legal eligibility and minimum capacity requirements. In the second round, service providers were required to conduct a Rapid Market Appraisal (RMA) in collaboration with the private sector to identify the skills sought by potential employers. The EF then assessed providers' market appraisals alongside their proposed budget, capacity

and experience. Finally, outputs and outcomes were agreed between the EF and each service provider that was selected to participate in the program.

The training providers were then given the freedom to recruit trainees within a set of guidelines provided by the EF. The skills trainings were provided in training centers or as mobile trainings for 1 to 3 months, with many including on-the-job training. In addition to being taught about technical skills, trainers were required to build in a life skills and business skills component in which trainees were taught about subjects such as household knowledge, labor rights, HIV/ AIDS and reproductive health and basics of the business skills respectively.

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## Rationale for RBF

Prior to the Employment Fund, Helvetas had been working with a sole centrally based service provider that oversaw the activities of several smaller providers across the country. This program structure resulted in a lack of clarity on the performance of individual service providers and uncertainty about program impact. By working directly with service providers and tying funding to pre-defined outcomes, Helvetas sought to gain a clearer understanding of differential provider performance and program impact.

Helvetas was also driven by a desire to place a greater emphasis on employment outcomes such as placement and retention rather than intermediate outcomes such as training completion. Using RBF here was considered to have a strong potential to “generate i) high employability of graduates through market-oriented quality training, and ii) gainful employment of graduates through job placement, career counseling, entrepreneurship training and networking with potential employers.” ii) appropriate targeting as per the government’s Gender and Social Inclusion (GESI) priorities.

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## RBF Design Overview

### Size

The Employment Fund targeted 100,000 youths and women through a network of over 57 training providers.

## Eligibility Criteria

Three eligibility criteria were used:

- Age (from 16 to 40 years old)
- Education (below School-Leaving Certificate obtained in 10<sup>th</sup> grade or less than 10 years of formal education)
- Self-reported economic status. People were considered as poor if they reported a non-farm per capita household income of less than 3000 Nepali Rupees (approximately US\$ 40 in 2010) per month or less than 6 months of food sufficiency for farming families

## Outcome Metrics and Payment Structure

Results-based payments were structured as follows:

- No pre-financing
- Training completion and skills test of the National Skills Testing Board (NSTB) – 40% of outcome price
- 3 months employment verification – 25% of outcome price
- 6 months employment and income verification – 35% of outcome price

## Outcome Pricing Method

Outcome prices were the result of negotiations between service providers and Helvetas. To anchor these prices, a triangulation approach was used taking into account providers’ estimates of how much interventions would cost and Helvetas’ own market research including the cost comparison with other like mandated project/programs. Prices depended on:

- The area in which interventions were being implemented (e.g., providers received higher payments for delivering trainings in remote areas).
- The target groups for which outcomes were achieved. Helvetas used a **differential pricing method** through which a financial bonus was paid when women and disadvantaged individuals gained employment. Helvetas calculated the total outcome payments to providers for delivering interventions to each target group.

The total outcome payment was calculated as the sum of estimated training costs, considered to be the same across target groups, and the “incentive payment”, which varied depending on how hard to place Helvetas considered each group to be. For example, Helvetas set the total incentive for achieving outcomes for poor disadvantaged women to be 80% on top of training costs, while for poor men it was set at 40% over training costs. Total outcome payments per beneficiary varied in the range of approximately US\$ 300-500.

Through differential pricing, providers that had the capacity to work with vulnerable populations stood to receive higher payouts but also faced higher risk in achieving outcomes. This differential pricing strategy encouraged higher-capacity providers to pool resources towards working with beneficiaries who may have been sidelined under traditional financing arrangements.

## Compliance Incentives

Helvetas also provided incentives in the form of IT equipment to service providers that did well on a set of pre-defined non-outcome related performance indicators (i.e. collaboration, compliance, monitoring results). These performance indicators were used to select service providers in consequent service procurement cycles.

Compliance performance indicators included:

- Quality of technical content assessed against pre-defined and trade-specific curricula developed by the Council for Technical Education and Vocational Training
- Integration of a life/business skills component into the training intervention
- Beneficiary satisfaction with technical and soft skills training
- Capacity of the provider to accomplish the agreed results in terms of contracted targets
- Monitoring the providers in terms of reported versus verified results

These incentives created a competitive environment between service providers on process related performance.

# Verification Methodology

## Results Verification

The Employment Fund had a rigorous monitoring system in place to verify that the agreed upon outputs and outcomes were achieved. For the first tranche of the payment, EF staff physically monitored training completion reports (via attendance) and beneficiaries sitting for the Nationals Skills Test (via NSTB report). A 10-15 percent stratified random sample was used for physical three-month employment verification, while a 30-40% stratified random sample was used for physical six-month employment and income verification.

Several verification methods were used, including:

- Increasing own monitoring team capacity through pre and post verification reflection and coaching
- Contracting and increasing capacity of additional field monitors to conduct the verification process (in case of higher targets)
- Cross-verification, swapping monitors from different regions
- Data collection from close family members and employers
- Telephonic verification in cases in exceptional cases where physical verification was not possible.

The online database system (<http://www.employmentfund.org.np>) established by the project was instrumental in ensuring the timely reporting of the employment and income details of each graduate and their verification by the project team. It was also a scientific and automated instrument which could calculate minor calculations like number of graduates, inclusion, employment percentage, incentive etc. thereby providing a final financial report of each of the providers.

## Quality Compliance

Helvetas monitored and verified the following:

- Pre-training monitoring of trainee and venue selection, during which 60-75% of training events were monitored at least once

- In-training monitoring, where all training events are monitored up to three times to ensure to compliance against the training quality indicators detailed in the bilateral contract

Furthermore, a centralized online database containing monitoring information about beneficiaries, training achievements and employment details was accessible to all training providers and staff throughout the project.

## Beneficiary Selection Monitoring

Helvetas also monitored whether beneficiaries selected for the EF met the eligibility criteria they set out in the contracting process.

All verification was carried out directly by EF staff, which included the contracting of additional dedicated field monitors to conduct most of the verification process. In aggregate, these verification activities entailed the use of an estimated 70-80% of the program administration resources allocated.

## Evaluation and Results

Over its 8 years of operations, the Employment Fund trained and placed 90,000 beneficiaries in total. Out of these 90,000, 53% were women and 80% were considered disadvantaged.

In 2014, the World Bank conducted a quasi-experimental impact assessment of the Employment Fund. The evaluation found that the Employment Fund had positive and statistically significant effects on outcomes such as employment rates, likelihood of finding relevant employment, hours worked and earnings. Trainees experienced an increase in average monthly earnings of approximately 72% and an increase in non-farm employment of 46% (from 29.6% to 45%). The employment impacts were significantly larger for women than for men. Moreover, Helvetas also conducted 3 tracer studies during the project period (each within 2-3 years of beneficiaries' completing their training) which showed that; (i) retention rates of graduates reached more than 65%; (ii) average incomes doubled in the two years following training and, (iii) self-employment rates increased from 43% to 54.5% from the 2009 cohort to the 2011 cohort.

## Learnings

### RBF Value-add: Benefits

The RBF generated positive structural and behavioral changes through a range of channels, as listed below.

**Intervention Design.** The program helped drive improvements in intervention design by aligning providers' financial incentives with improved employment outcomes. For instance, providers felt encouraged to improve the content and quality of their training to match labor market demand.

**Focus on Outcomes.** Providers successfully focused on long-term employment outcomes, with 74% of the 100,000 trainees placed into gainful employment upon 6-month verification.

**Aligning with Labor Market Needs.** The incentives created by the RBF encouraged service providers to focus more on aligning their interventions with labor market needs. In particular, as part of the RBF approach, a Rapid Market Appraisal tool was introduced and conducted by providers to understand labor market skills needs in advance and ensure that training could be aligned accordingly.

**Targeting the Specific Needs of Beneficiaries Such as Marginalized Women.** RBF gave providers the flexibility to adjust their intervention approaches to accommodate the needs of beneficiaries. For example, to accommodate the needs of female program participants, some providers combined their training with child care services, while others offered evening classes to accommodate family obligations. The incentives to target disadvantaged groups appear to have been successful as 80% of the beneficiaries placed were considered disadvantaged.

**Entrepreneurial Mindset of Providers.** The Employment Fund encouraged providers to switch from a donor-dependent mindset to an entrepreneurial mindset, illustrated by the fact that many providers assumed risk by taking on loans to be part of the program.

**Systems Scale-up.** The RBF was adopted by the government on a broader scale after the successes of the Employment Fund in achieving employment outcomes for beneficiaries.

## RBF Value-add: Challenges

Despite its apparent effectiveness, there are some limitations of RBF in this context, as detailed below.

**Difficulties in reaching most vulnerable populations.** Despite positive outcomes being achieved for disadvantaged groups, the program was still not able to achieve satisfactory outcomes for some particularly hard-to-place groups (e.g., Dalits not being offered employment as cooks in some areas).

**Resource-intensiveness of verification.** Nonetheless, RBF was adopted by the government on a broader scale after the successes of the Employment Fund in achieving employment outcomes for beneficiaries.

## Additional Learnings

Helvetas Swiss Intercooperation drew on the lessons learnt from the implementation of results-based financing in Nepal in its 2014 report entitled *Results-based Financing in Technical and Vocational Training: A step-by-step implementation guide*. Their key conclusions were that:

- There are three main drivers of positive employment results: (a) trainees' interest and motivation to work, (b) commitment of training providers to achieve results, and (c) trainings aligned to labor market demand.
- To accomplish positive employment results, getting the service providers to meet technical standards is not enough. Helvetas perceived preventative measures (such as career counseling and systematic interactions with the trainees) and rigorous and regular monitoring of the trainings as essential to the success of the program. These are ways to mitigate the potential negative impact of labor market externalities and trainees' changing situations, motivations and interests.
- Results can be best verified when the monitoring team works closely with the training providers and communicates regularly with them.
- Financial incentives for private-sector providers can enhance inclusion of disadvantaged groups in skills training. Those incentives need to be carefully and appropriately defined based on the indirect costs and profit that they could generate for training providers. ■

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105. The following documents were consulted to create this case study:

- Employment Fund 2013.
- World Bank 2016a.
- Helvetias n.d.
- Tracer Study of Employment Fund Supported Training Graduates of 2011.
- Bharat, Pokharel. Bettina, Jenny. Interview by Instiglio. Bogotá, 22 May 2018.
- Helvetas. Interview by Instiglio. Bogotá, 27 January 2016.

106. Helvetas defined disadvantaged people as: individuals from the Dalit community, individuals from groups with special needs i.e. ex-combatants, internally displaced people, widows, people with disabilities, HIV/AIDS affected people, formerly bonded laborers, and the poor.



# Netherlands

## Rotterdam Social Impact Bond<sup>107</sup>



Outcome Payer(s)	Municipality of Rotterdam.
Service Provider	Buzinezzclub.
Investor(s)	ABN Amro, Start Foundation.
RBF Instrument	Social Impact Bond (SIB).
Target No. Of Beneficiaries	Two cohorts of 80 unemployed young people aged 17 to 27 years, who were receiving municipal unemployment benefits.
Type of WFD Intervention	Training and skills development, employment services, entrepreneurship support.



Completed  
From 2014 to 2016

## Project Background and Intervention

In the past decade, the Dutch government has afforded municipalities increasing responsibility for social policy. This decentralization culminated in 2015 when three acts of government came into force and extended municipalities' role in the provision of social services such as youth care, income support, and social welfare.

Facing budget cutbacks and seeking to externalize some of the financial risk associated with its widening duties, the municipality of Rotterdam engaged with a range of stakeholders to establish continental Europe's first SIB for ALMPs. Regional governments were in constant search of an effective and cost-efficient model of intervention (considering that evaluation of previous attempts to curb youth unemployment were largely inconclusive).

The main goals of the SIB were to curb youth unemployment rates in Rotterdam, which were around 16 percent at the time, and to decrease young people's long-term dependency on social benefits. The city councilor who initiated the SIB said of the project "The social impact bond was a way for us to find an efficient business solution for challenges in the social arena, and working with social investors that do not normally play any part helped us to look at these challenges with completely different eyes."

Importantly, the services commissioned by the Rotterdam SIB were based on the proven approach of a sole service provider, Buzinezzclub. Buzinezzclub had conducted a series of successful pilot programs prior to the establishment of the SIB and has so far helped over 600 youths transition into jobs, education, or training programs. The Buzinezzclub model runs in two phases: the first phase of the intervention consists of an intensive six-month program that includes personal coaching, group training, traineeships, and

and workshops for the target group. In the second phase, Buzinezzclub staff provide additional guidance to those who need it for a maximum period of twelve months.

The intervention aims to do one of the following:

- Provide program participants with the necessary tools to become entrepreneurs (training, workspace, network and role models)
- Help participants find paid employment
- Place them into a university/training course.

The rationale for using a SIB in this case was primarily to promote the use of innovative financing mechanisms in the public policy arena, and was initiated for a number of reasons:

- The intervention is at the municipality level which made the measurement of savings from the benefits easier
- The provider, Buzinezzclub, already has a proven track record
- The proposed intervention focused on entrepreneurship development, creating potential jobs and reducing risk of job market overcrowding

Furthermore, the municipality viewed the SIB as a way to draw on insights from the private sector to address social policy issues. In light of the program's proven track record, the SIB served less to foster innovation in the service provision model and mainly worked as a scale-up mechanism.

The Rotterdam SIB was launched with the backing of two investors, ABN Amro and the Start Foundation, who collectively provided EUR €680,000 (US\$ 748,000)<sup>108</sup>, or 60 percent of the upfront capital. The service provider, Buzinezzclub directly co-invested the remaining 40 percent. Deloitte and Ortec Finance were contracted to monitor and evaluate the project, while the Social Impact Bonds Rotterdam Foundation served as the financial intermediary that managed the flow of funds for the project.

## RBF Design Overview

An investor report on the Rotterdam SIB highlights the following key design characteristics:

### Outcome Metric

The payment metric was the number of days for which benefit payments were saved – for each day of benefits saved, the municipality paid investors back EUR €39,40 (US\$ 43.3).

### Pricing

To calculate savings and therefore the amount to be paid to investors, the payment scheme compared the median observed number of days spent on unemployment benefits with the median predicted number of days spent on unemployment benefits absent the intervention.

The predictions followed a model developed by Ortec Finance which estimated cost savings to municipalities based on how long beneficiaries would have carried on receiving unemployment benefits in the counterfactual. Estimates were computed for each individual based on factors such as the level of education previously attained and the length of time spent on benefits<sup>109</sup>. ABN AMRO and Start Foundation's return on investment was a positive function of the savings incurred by the program – the quicker the target group stopped receiving benefits, the higher the savings and therefore the higher the returns for the investors. Annual returns were capped at 12 percent per annum.

### Service Provider Risk

The SIB contract also incentivized Buzinezzclub based on its performance – the provider stood to share part of the program savings with the investors and the municipality. As with the investors, the annual yield cap was 12 percent. The municipality of Rotterdam agreed to pay Buzinezzclub an additional premium conditional on the cohorts' ability to stay off benefits in a sustainable manner.

## Verification Methodology

Deloitte independently verified how program participants' dependency on benefits evolved on a quarterly basis.



## Evaluation and Results

The results for the first cohort were released in 2016 and can be summarized as follows:

- Out of the 80 beneficiaries, 47 were either placed into paid employment/training or started their own company. This represents an almost 60 percent in-sample reduction in the proportion of young people that depend on social benefits.
- In total, 464 days of unemployment benefits were saved by the municipality of Rotterdam when compared to the benchmark amount predicted by Ortec Finance's model.
- Investors obtained the maximum possible yield for the first cohort.

The results for the second cohort are not available publicly as of January 2018.

Causal interpretation of the results may be compromised by the fact that local authorities cannot always gather precise information about the reasons why beneficiaries stop receiving benefits.

## Learnings

### Targeting Beneficiaries to Address Cream-skimming

By having the municipality of Rotterdam select program participants, the SIB was designed to avoid cream skimming behavior by the service provider. The service provider could, however, reject proposed participants if they were in a situation of homelessness or facing substance abuse issues.

### Aligning Performance Incentives

Buzinezzclub had run several versions of the program and had a good track record before the implementation of the SIB. Yet, a key feature that contributed to the success of the SIB was the additional performance incentive given to the service provider. According to the parties involved, incentivizing the service provider by conditioning potential returns on performance gave investors more confidence in the design phase and was essential in ensuring their initial buy-in.

## Collaborative Work Approach

Close cooperation, transparency, and regular contact between investors, the service provider and the government were crucial to the successful implementation of the SIB.

### Data Availability

Buzinezzclub conducted thorough monitoring and evaluation procedures during its previous interventions.

### Alignment of Interests

Both the government and investors expressed a strong willingness to participate in launching continental Europe's first social impact bond. Furthermore, the service provider was eager to scale its existing program prior to the SIB, demonstrating its commitment to the project by contributing 40 percent of the upfront capital.■

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107. The following documents were consulted to create this case study:

- European Commission 2016.
- Van Es B.C., et al. 2016.
- Persberichten Gemeente Rotterdam 2016.
- ABN AMRO 2015.
- Buzinezzclub website n.d.
- Eurocities Report 2016.
- ABN AMRO 2013.
- ABN AMRO 2013. 29-32.
- Instiglio 2015a.
- Sib Rotterdam Brownbag at Instiglio's offices 2015.

108. Exchange Rate Used: EUR 1 = USD 1.1.

109. If the total number of predicted days exceeds the total number of actual days spent on benefits by three months, investors recuperate their initial investment. Any additional savings incurred from foregone benefit payments are divided between the investors, Buzinezzclub and the municipality.

# Pakistan

## Benazir Income Support Programme<sup>110</sup>



Outcome Payer(s)	Asian Development Bank.
Incentivized Agent	Government of Pakistan.
RBF Instrument	Performance-Based Loan (PBL).
Target Beneficiaries	Benazir Income Support Program (BISP) beneficiaries.
Type of WFD Intervention	Training and skills development, employment services.
Outcome Payment Commitment	Committed outcome payments (disbursed upon achievement of results): US\$ 40 million.
Implementation From 2014 to 2020 <sup>111</sup>	

## Project Background

The Benazir Income Support Programme (BISP) is Pakistan's national social safety net program, which aims to promote economic growth through non-conditional cash transfers paid to the female head of targeted poor families. In July 2011, the BISP launched the Waseela-e-Rozgar (WER) program to provide free center-based formal skills training to any selected family member of a beneficiary. The objective of this program was to reduce beneficiaries' dependency on cash transfers by improving income generating capacity and boosting resilience to shocks. Public and private institutions were the training providers in the WER, offering center-based training in various high-demand sectors for a duration of 4 to 6 months in 52 pre-selected professions. The selection of professions and high-demand sectors is carried out using a survey of employment opportunities and skills needs in the 13 districts.

In 2013, 56,600 beneficiaries graduated from both public and private training centers. However, the outreach of the program was limited by the high cost per student (approximately US\$ 500).

In this context, the Asian Development Bank launched the Social Protection Development project jointly with the Government of Pakistan. The project aims to enable the expansion of the BISP's cash transfer program by an additional US\$ 2.4 million for eligible families, contributing to financing their cash transfers. In addition, it supports the strengthening and phased expansion of the pilot health insurance and skills development program (Waseela-e-Rozgar) to increase income and good health for targeted families. The project provides technical support and finances part of the scaling-up costs of both programs using a performance-based allocation. As part of the program, important modifications to the WER skills development program are being implemented in order

to increase beneficiaries' employability and make the program more cost-effective, financially transparent, and accountable. Beneficiaries will be offered improved, targeted skills training in forms that match their personal circumstances, and provide better matches to wage and self-employment opportunities that exist within their districts. The training will be provided to beneficiaries or their family members in communities, companies, and training centers, depending on the needs and abilities of trainees and the skill demands in their locations.

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## RBF Design Overview

**Program size and percentage of funding tied to results.** The Social Protection Development Program has a total size of US\$ 578.3 million. 74.4 percent of this funding (US\$ 430 million) comes from a loan by the Asian Development Bank. The remaining funding (US\$ 148.3 million) is a counterpart provided by the Government of Pakistan. However, as the project supports different aspects of the BISP, not all this money is dedicated to the workforce development component (Waseela-e-Rozgar). US\$ 108.7 million is specifically dedicated to the strengthening of the Waseela-e-Rozgar program. In addition to this funding, the project includes a US\$ 40 million performance allocation fund that will be used to support both the skills development and health insurance programs if the midterm review is successfully completed.

**Payment metrics and weights.** Access to the performance allocation will be based on a variety of considerations, including performance against the targets below:

- Increase of 3 percentage points (from 34 percent to 37 percent) of the skilled employment rate of trained beneficiaries within 3 months of training
- Increase in 226,518 (from 56,600 to 283,118) of the total number of beneficiaries trained, with 40 percent of participants being female
- Reduction in the average cost per trainee from PKR 53,000 to PKR 20,858

Other issues to be considered will include the following:

- Did WER implement agreed activities, including engagement of firms: (i) to conduct economic

opportunities; (ii) to develop and deploy the MIS and M&E system; (iii) to prepare baseline and impact evaluations; (iv) to field social mobilizers; and (v) to conduct third party monitoring?

- Did WER reorganize its existing offices in a timely and transparent way with staff having specialist technical qualifications?
- Did WER deploy Assistant Directors in a timely way in the 13 pilot districts?

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## Verification Methodology

Training providers reported attendance rates by sending paper-based and electronic attendance records to a local government office, which then sent electronic endorsement of attendance records to the WER office in Islamabad. Representatives from this central WER office conducted some announced visits to the training sites.

A midterm review will be performed in order to verify the achievement of the proposed quantitative targets and qualitative goals. The assessment will conclude with a summary rating of performance on a high/medium/low continuum.

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## Evaluation and Results

An impact evaluation for the skills development program was planned to happen in Q1 of 2016.

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## Learnings

Several challenges and barriers constrained the effectiveness of the WER, which point to the importance of the following:

### *Accounting for Beneficiaries' Needs in the Intervention*

The ADB pointed out that the quality of trainings was not optimal, since beneficiaries' needs had not been properly met (most of the trainees were illiterate or semi-literate, but the training courses did not accommodate for this). Thus, the impact of training on the employability of BISP beneficiaries was expected to be very limited.

## ***Establishing an Adequate Verification and Monitoring System***

The WER RBF structure was described as “inadequate” by the Asian Development Bank (ADB). Paying training providers based on a metric that they report on (i.e., attendance) could encourage them to inflate the results. Similarly, having no external monitoring system provided no guarantee of the accuracy of these reports. In terms of improving the verification approach, the ADB recommended the introduction of an external monitoring system to verify training attendance and compliance of service providers. They also suggested switching to biometric-based attendance reports and having “social mobilizers” who would recruit beneficiaries into the training courses.

## ***Ensuring Adequate Capacity and Manpower***

The ADB considered the staffing of the WER central office to be inadequate, given that not all Director positions were filled and there was no technical specialist on the team. Moreover, the WER required a lot of administrative coordination, field monitoring, data collection, and report generation on the ground; however, the program had no direct staff outside of the head office.

## ***Mitigating Risks Induced by Potential Shifts in Political Support***

In 2013, a new administration came into power in Pakistan, shifting the government’s priorities. Shortly after, the WER lost political support and its funding was cut. As a result, various training service providers and trainees did not receive the payments they were owed. The media widely covered this controversy; in 2015, it was estimated that the government owed the trainees and service providers PKR 760 million (US\$ 6.9 million). In 2017, the matter of payments to service providers and trainers was still under consideration according to the BISP. ■

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110. The following documents were consulted to create this case study:

- Benazir Income Support Programme n.d.
- Asian Development Bank 2013.
- Asian Development Bank n.d.
- The Express Tribune 2015.
- The Express Tribune 2017.

111. The original date for the end of implementation was 2019. However, this date was revised and changed to 2020. See project website: Asian Development Bank (2018). Pakistan: Social Protection Development Project. Retrieved from <https://www.adb.org/projects/45233-001/main#project-pds>.

# Rwanda

## Priority Skills for Growth (PSG)<sup>112</sup>



### Outcome Payer(s)

World Bank.

### Incentivized Agent

National Government of Rwanda.

### RBF Instrument

Performance-Based Loan (PBL).

### Target No. Of Beneficiaries

The beneficiaries of the program are distributed as follows:

- 3,477 university students. Long-term students at University of Rwanda (UR).
- 1,384 diploma students. Long-term training at Integrated Polytechnic Regional Center (IPRC) or Polytechnic.
- 3,371 graduates from certificate programs. Short-term training at TSSs, VTCs, IPRCs, Polytechnic and UR.
- 9,000 beneficiaries trained under skills development fund. Short-term training.

### Type of WFD Intervention

Training and skills development.

### Outcome Payment Commitment

Committed outcome payments (disbursed upon achievement of results): US\$ 120 million.<sup>113</sup>

### Implementation

From 2017 to 2020

## Project Background

Despite rapid economic growth over the past eighteen years, Rwanda's labor market is still characterized by informality and low earnings. Seventy percent of workers have their main job in agriculture while only 7 percent of total employment is located in the modern wage sector. Within the "Doing Business" 2016 report, the inadequately educated workforce was ranked as the second most problematic factor in doing business by firms in the country.

In this context, the Rwanda Priority Skills for Growth (PSG) program seeks to expand opportunities for the acquisition of quality, market-relevant skills in selected

economic sectors (which include energy, transport and logistics, and manufacturing).

The program, developed within the Program-for-Results framework of the World Bank, supports the five year (2014 -2019) National Employment Program (NEP) of the Government of Rwanda with an emphasis on two of its pillars (1 and 4).

**Pillar 1:** Skills Development. This pillar aims to provide short-term vocational training and informal apprenticeships, offer targeted rapid response training, strengthen private sector participation in skills building and develop specialized skills at the technician and professional levels.

**Pillar 2:** Entrepreneurship and business development

**Pillar 3:** Market labor intervention

**Pillar 4:** Coordination and Monitoring & Evaluation (M&E). This pillar intends to strengthen the current M&E system.

In particular, the program will focus on strengthening the long-term training program, which has not been a priority of the NEP thus far. It will also focus on expanding the short-term training programs to make them more responsive to the demands of industry. Within both the short and long-term training programs, there will be a strong focus on strengthening the participation of the private sector in skills development and strengthening the governance and management of the skills development system in Rwanda to ensure the concept of developing market-relevant skills translates to operational reality. In addition, the program will support strengthening of the coordination and M&E of the NEP and more broadly, of capacity building and employment services in Rwanda.

## RBF Design Overview

In order to achieve the proposed outcomes and outputs of the project, six disbursement-linked indicators were established:

1. Implementation of a Joint Performance Contract (JPC) that integrates the results of the sector level action plans
  - Financing disbursed: 20.8 percent
  - Target: Implementation completed
2. Number of new or updated programs accredited for occupations in the selected economic sectors
  - Financing disbursed: 25.4 percent
  - Target: 33 for 2020
3. Number of accredited new or updated programs taught by staff participating in industry attachments in the selected economic sectors
  - Financing disbursed: 4.2 percent
  - Target: 15 for 2019

4. Number of graduates of Skills Development Fund (SDF) supported programs by window
  - Financing disbursed: 20.4 percent
  - Target: 9000 for 2019
5. Improved sustainability of financing for long term training programs as measured by student loan recovery
  - Financing disbursed: 8.4 percent
  - Target: At least 11 percentage point improvement from baseline in loan recovery rate
6. Capacity building for targeted entities in five areas, each with progress milestones
  - Financing disbursed: 8.4 percent
  - Target: Completion of milestones in three of the five capacity building areas

Claims for the achievement of results in one 12-month period should be made within six months of the end of the period. Following verification of claims, disbursement of funds will be made directly into the program designated account in the Treasury. The Ministry of Economy and Finance will be responsible for the distribution of funds to the relevant institutions/government agencies.

## Verification Methodology

Outcomes of the program are validated with observational data obtained from the Ministry of Education (MINEDUC), which is responsible for tracking overall results indicators through implementing agencies. The Office of the Auditor General (OAG) will be the independent verification entity and will be responsible for verifying five of the six DLLs under the program. One of the DLLs (#2) will be verified by a third-party verification entity with expertise in assessing the quality of the developed curriculum. ■

112. The following documents were consulted to create this case study:

- Sib Rotterdam Brownbag at Instiglio's offices 2015.
- World Bank 2017.

113. All currencies included in this case study use the exchange rate from March 2017.



# Sri Lanka

## Skills Sector Development Program (SSDP)<sup>114</sup>



**Outcome Payer(s)** World Bank (through the International Development Association; IDA) and the Asian Development Bank (ADB).

### Service Provider

Public, private, and nongovernmental training providers (including at least 80 public providers).

### RBF Instrument

Performance-based loan to the Government of Sri Lanka (Ministry of Youth Affairs and Skills Development).

### Target No. Of Beneficiaries

Youth who wish to gain job-specific skills to join the labor market (estimated cumulative number of beneficiaries: 830,000).

Adults already in the labor market would also benefit from the Project Skill Certification Program (“recognition of prior learning [RPL]”) and through in-service training made possible through easier access to training facilities and programs.

### Type of WFD Intervention

Training and skills development, (Technical and Vocational Education and Training; TVET), Employment services.

### Outcome Payment Commitment

Committed outcome payments (disbursed upon achievement of results): US\$ 193,6 million.

Implementation  
From 2014 to 2018

## Project Background

The Government of Sri Lanka, through the Department of National Planning, launched the Skills Sector Development Program in 2013 (SSDP) to run from 2014 to 2020. The SSDP aimed to expand the supply of skilled workers in the market, particularly in the manufacturing and service sectors, through the provision of high-quality training programs. It was designed at a time when Sri Lanka lagged behind other middle-income countries in terms of the quality, availability, and accessibility of vocational training; which resulted in a shortage of skilled and employable workers.

The long-term objective was to produce a workforce that could meet local and foreign labor market demand by 2020, boosting economic growth. The program was led by the Sri Lankan Ministry of Youth Affairs and Skills Development (MYASD), and received financing from the World Bank, the Asian Development Bank, Exim Bank from South Korea and the German Technical Assistance Corporation (GTZ).

## Intervention

The SSDP has two components, of which only the first uses RBF to support the implementation of three interrelated interventions:

- Strengthening sector governance and management of the sector by a tighter and more intensive focus on results and more efficient use of resources.
- Improving the quality and relevance of vocational training programs offered by all institutions (public, private and NGO).
- Expanding equitable access to quality vocational training and skills development programs through information campaigns, scholarships, and other measures. This pillar also includes a Recognition of Prior Learning (RPL) program, whereby individuals who are already working can be assessed and receive a certificate that specifies their level of qualification. This aims to facilitate workers' participation in vocational training programs and promote job mobility.

This RBF component is supplemented by a capacity building component to support the Ministry in achieving the SSDP expected performance (by strengthening their implementation, coordination, and M&E capacity).

The SSDP is expected to mostly benefit poor people, in alignment with the government's priority to expand equitable access to vocational training. Measures to improve access to the program include:

- Raising awareness of the benefits of vocational training amongst the Sri Lankan public (through TV programs, leaflets distributed across the school system, and other information campaigns).
- Implementing a targeted stipend program to allow deserving low-income students and workers to participate in vocational training.
- Implementing the RPL program described above.

## Rationale for RBF

Stakeholders identified several factors contributing to the shortage of skilled workers, which RBF — coupled with capacity building — could potentially address. These challenges included:

- Lack of institutional capacity to manage the vocational training system.
- Lack of alignment to local needs, in terms of sizeable skills mismatches between training curricula and labor market demand.
- Limited effectiveness and poor quality of training programs, due to a shortage of qualified teaching staff; outdated materials, equipment, and facilities; inadequate quality assurance processes; and a low involvement of the private sector.
- Limited enrollment capacity among educational institutions.
- Tight public budgets.

In response to these challenges it was anticipated that RBF could enhance results by:

- Deepening the focus on results rather than inputs and outputs.
- Incentivizing training providers to enhance diversity and excellence in training and improve accountability for training results, for instance by fostering stronger links with the private sector.
- Strengthening the government system, leading to significant financial savings through a more efficient use of resources.

In addition, the World Bank estimated the program's overall implementation risk was substantial due to issues of limited capacity, a lack of coordination, and budget shortfalls. For this reason, conditioning payments to results partially transferred financial risk to the government.

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## RBF Design Overview

### *Program Size and Percentage of Funding Tied to Results*

The total program cost is US\$ 650 million, including US\$ 101.5 million of World Bank credit — tied to results at 92.2 percent, and US\$ 100 million of ADB funding — tied to results at 100 percent.



## Payment Metrics

The outcome payers (the World Bank and the ADB) worked closely to harmonize payments metrics (DLIs), results frameworks, reporting requirements, and implementation arrangements.

The following payment indicators are used as part of the RBF scheme by the World Bank at the “Project Development Objective” level:<sup>115</sup>

- Number of trainees enrolled in public and private training institutions.
- Completion rate of trainees enrolled in public training institutions.
- Average earnings of graduates in skills development programs relative to earnings of General Certificate of Education (GCE)-O level graduates.
- Index of employer satisfaction.

The following payment indicators are used by the Asian Development Bank

- Employability increased, as measured by the employment rate of graduates from quality assured TVET programs.
- Improved quality assurance mechanism.
- Increased availability of effective teaching staff in priority and emerging skill shortage areas.
- TVET provision based on skills gap analyses.
- Private sector engagement in TVET delivery strengthened.
- Enrolment of students in TVET programs increased.
- Increased efficiency in utilization of TVET sector resources including performance-based financing.
- Coordination and implementation capacity strengthened.
- Improved medium term skills sector budgeting and expenditure.

## Pricing Structure

Price setting method: The DLIs were determined in partnership with the government using the following

three criteria:

- Indicators should generate potential for impact
- They should be achievable yet ambitious
- They should be mostly under the manageable control of the government

The capped annual disbursement amount was evenly divided across all DLIs to determine the price of a DLI.

Outcome payment structure:

- Each DLI has a price and is associated with a specific results target (to be reached by a certain date).
- Eligible disbursement amounts are based on the sum of achieved DLIs multiplied by the DLI price.
- The annual disbursement amount is capped.

## Additional Details of the Intervention

In 2017, a gender equality and social inclusion framework (GESIF) was introduced to complement the results framework of the SSDP. A four-year action plan (2017–2020) detailed the strategies, actions and performance targets to promote gender equality. Some of those strategies included, for example, “making TVET program delivery sensitive to the distinct conditions and needs of male and female students” or “addressing sociocultural barriers and gender stereotypes in occupational choices.”

In particular, the disbursement-linked indicators for the ADB portion include that women should make up 50 percent of students who benefited from the targeted stipend for vocational trainings, and 30 percent of trained vocational teachers.

Amongst other objectives, the capacity building component of the program sought to help the Ministry in designing and implementing innovative policy reforms and facilitating a dialogue between the public and the private sector on skills.

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## Verification Methodology

The data necessary for RBF results verification was retrieved from several sources, including:

- Agencies such as the National Apprentice and Industrial Training Authority and the Vocational Training Authority
- An Education Management Information System developed by ADB-funded projects
- Paper-based information collected by the National Youth Services Council.

The verification process focused on verifying results against the World Bank DLI targets, as follows:

- The Ministry (through its Skills Development Division) reported on DLI results to the World Bank
- The World Bank commissioned an independent consultant to verify the achievement of DLIs (June)
- Both parties discussed the verification report to reach an agreement (September)
- The total disbursement was confirmed and released for a given year (by end of October)

The process with the ADB was as follows:

- The Ministry provided interim unaudited and annual audited financial statements to the ADB along with evidence verifying the achievement of the DLIs and a request for disbursements.
- Disbursements were made annually after the achievement of the corresponding DLIs.
- Certain DLIs also allow for partial disbursement

## Evaluation and Results

Although no rigorous evaluation of the program has been conducted, the results were periodically verified against the ADB and World Bank payment indicators.

The World Bank conducted “surveys and evaluations on sector performance and its determinants” (not available publicly).

The World Bank Implementation Status & Results Report stated that:

“45 percent of funds had been disbursed by November 2017. However, the payment indicators for the early years of the project were more process

oriented (development of policies and guidelines) and were relatively easy to achieve. Moving forward, the achievement of some of the more output and outcome-based indicators to be achieved in the last two years of the project will most likely not be achieved.”

The ADB commissioned a tracer study in 2016 which found that “within 6 months of graduation, 57 percent of vocational courses graduates were employed.” They recommended to “continue efforts to sustain progress, including to better match training with industry demands.”

In addition, as of 2015, 42 percent of the people enrolled in training were women and as of April 2017, 22 percent of workers who received certification were women.

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## Learnings

### RBF Value-add: Benefits

**Stakeholder Alignment and Capacity Building.** The use of disbursement-linked indicators was a joint decision between the donors and the government to create incentives to focus on the goals of the government’s sector development plan. They are a combination of sector specific reforms, sector performance, and monitoring. They also include required actions to improve on sector governance and management systems, including financial management and data collection.

### RBF Value-add: Challenges

**Unanticipated Verification Challenges.** Each source (see above) produced different types of data and capacities varied across agencies, which made the consolidation of data challenging.

**Managing multiple stakeholders.** Aligning donors’ strategies to the program objectives was a challenge as their inputs remained fragmented and the program involves a large number of stakeholders. From the donor side, World Bank and ADB worked together to harmonize reporting requirements, the results framework and implementation arrangements.

**Direct engagement with service providers.** As the ultimate implementers of the program, the World Bank recommended supporting a limited number of training providers to implement relevant reforms and strengthening partnerships with the private sector in order to improve the coordination within the skills development system.

## **Additional Learnings**

**Incentivizing gender results.** Despite its later introduction, the gender equality and social inclusion framework (GESIF) is an interesting addition to the results framework of the SSDP. Although we do not yet have results on the effectiveness of this framework, one could argue for the necessity of considering gender-based indicators in a program's performance framework from the start. ■

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114. The following documents were consulted to create this case study:

- World Bank 2014.
- Asian Development Bank 2017b.
- Ministry of Skills Development and Vocational Training, Government of Sri Lanka 2017.
- ADB 2017. Asian Development Bank 2017b.
- World Bank 2018.

115. Other indicators were used at the pillar-level.

# United Kingdom

*Innovation Fund*<sup>116</sup>



Outcome Payer(s)	Department for Work and Pensions (DWP) (UK government).
Service Provider	Employment and training service providers.
RBF Instrument	Social Impact Bond.
Target No. Of Beneficiaries	Approximately 15,000 disadvantaged or at risk young people aged 14 years and above across the UK.
Type of WFD Intervention	Training and skills development, employment services.

Completed  
From 2012 to 2015

## Project Background and Intervention

The UK government announced in 2011 the creation of a GBP £30 million pilot initiative called the Innovation Fund (IF) to help address youth unemployment and to support social investment projects in youth workforce development. The IF was established as part of a wider initiative by the Department for Work and Pensions (DWP) to assess how innovative social investment models can tackle some of the problems faced by young people aged 14 and above who are Not in Education, Employment or Training (NEET) or at risk of becoming so.

The initial objectives of the IF were three-fold:

- Improve the employability of disadvantaged youth and reduce their long-term dependency on social benefits.

- Assess the wider social and fiscal benefits of the IF to inform the development of similar innovative social investment programs.
- Support replicable interventions to further develop the social investment market and build capacity of small service providers.

Prior to the establishment of the IF, an important part of the government's workforce development activities were organized under the Work Programme, a comprehensive welfare-to-work measure introduced in 2011.

The Work Programme used a payment-by-results approach. Contractors were paid based solely on employment outcomes achieved by program participants following a differential pricing model. According to a first-phase evaluation report, the Programme also followed the principle of "minimum service provision" which afforded providers discretion in deciding which intervention to pursue in order to achieve pre-defined outcomes.

Multiple service providers within each SIB structure were free to implement their own intervention along the supply side of workforce development programs, with a focus on training and placement.

The Work Programme evaluation states that one of the main hurdles faced by its contractors was the difficulty in sourcing upfront capital to finance interventions. Furthermore, over half of Work Programme participants were not employed after the two-year intervention period.

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## **RBF Design Overview**

### **Program Size and Percentage of Funding Tied to Results**

Payments under the IF were 100 percent outcomes-based. The DWP awarded ten SIB contracts through a two-round competitive tender process. Six projects were awarded contracts in Spring 2012, and commenced operation in April that year. Another four projects were contracted in Summer 2012 and began operations in November and December. The process marked the first time a UK government body had commissioned a SIB through an open bidding process. All contracts involved the DWP, one or more investors and one or more service providers, with some including additional intermediaries.

### **Return on Investment and Up-front Capital**

As a pure performance-based programme, the Fund did not provide any set-up cost or base level funding. The outcome payments were the sole source of income and cash flow for service providers.

### **Payment Metrics**

The DWP developed a rate card detailing target outcomes linked to improved employability and the respective maximum price per participant. Outcomes ranged from “improved attitude towards school” to work-based qualifications awarded (National Vocational Qualifications – NVQs) and “sustained employment”. The rate card also indicated an overall maximum amount payable per individual at GBP £11,700.

## **Price Setting Method**

Payment for outcomes was based on the estimated potential benefit savings to the government of preventing at-risk young people from becoming long-term unemployed in the future. For Round One pilots, payments were broadly based on two years of potential benefit savings to the government, taking into account an assessment of likely ‘deadweight’ (what project participants might otherwise have been expected to achieve in the absence of the intervention). This calculation of benefit savings was increased to three years for Round Two projects.

## **Outcome Payment Structure**

The IF used differential pricing in the Second Round. A number of intermediate outcomes were introduced relating to improved attendance and behavior in school and entry-level qualifications. Outcomes for already NEET participants were restricted to higher-level qualifications, training and employment.

## **Structure of the Intervention**

There was flexibility in the interventions but a difference in focus between the two rounds. In Round One, beneficiaries were assessed based on a set of indicators pertaining to their risk of being NEET. Round Two shifted in emphasis away from young people who were already NEET towards early intervention projects with young people still at school. According to the Final Evaluation, the programme was run very much as an ‘active experiment’, with considerable flexibility given to projects to enable them to re-design interventions, restructure delivery plans and implement operational modifications in response to changing circumstances. The interventions include mentoring, coaching, vocational skills training, certification, and literacy support.

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## **Verification Methodology**

The DWP monitored providers’ performance on a continual basis. This observational approach was based on monthly reports communicated to the DWP by providers. The DWP also monitored whether providers were accurately recording and claiming outcomes. Any irregularities were investigated in collaboration with the DWP’s Risk Assurance Division. Oversight of the delivery bodies was agreed to be the responsibility of the investors and intermediaries.

## Evaluation and Results

The DWP commissioned Insite Research and Consulting to conduct a comprehensive qualitative evaluation of the Innovation Fund, to assess the effectiveness of the pilot programs. The evaluation highlights the following points:

- Overall, all 10 SIBs were deemed a success by key stakeholders involved. Schools and beneficiaries also expressed their satisfaction with the projects although they had no direct incentive to do so.
- Intermediary outcomes were largely achieved and target outcomes for many providers were on course to being achieved at the time the final report was written (several months before the end of the contracts).

The main caveat comes from some frontline workers expressing concerns about the program's effectiveness at impacting the lives of those most in need.

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## Learnings

The IF was created to assess the effectiveness of SIBs in tackling youth unemployment and workforce development issues for disadvantaged youth. This institutional willingness was key in paving the way for successful project implementation. The political framework was conducive to RBF in several other dimensions:

- **Market conditions:** a competitive market for workforce development related service provision existed and the DWP had prior experience implementing payment-by-results methods under the Work Programme.
- **Intrinsic Motivation:** investors displayed high levels of intrinsic motivation to generate social returns.
- **Contract Flexibility:** contracts awarded by the DWP allowed for significant amounts of re-profiling and re-balancing of outcomes throughout the course of each program.
- **Outcome Measurements:** Outcomes such as behavior, attendance and test scores could be measured easily through systems that were already in place within schools.

The main hurdle arose from the fact that neither the government, service providers, investors nor the intermediaries had prior experience in designing and implementing SIBs. Furthermore, outcomes such as job entry and sustained employment are difficult to measure due to employer practices.

The Final Report commissioned by the DWP highlights the following lessons from the IF pilot programs:

**Service Provider Risk.** Attaching high payment rates to sustained employment outcomes is not sufficient to incentivize the desired behavior if the risk is perceived as too high. This may arise if the length of time thought necessary by service providers to achieve the outcome exceeds the time horizon of the project.

**Intermediary Outcomes.** Lower-paying outcomes described by shorter time horizons (such as “improved attendance” and “improved behavior”) proved to be essential in ensuring the sustained cash-flow conducive to the successful implementation of the SIBs.

**Dilution of Ultimate Policy Goals.** While intermediary outcomes are essential to ensure investors' sustained support, they may also dilute the importance of ultimate policy goals such as increased employment and lower reliance on social benefits. The change in Round 2 to focus more on school-based interventions also led to some providers not taking advantage of their expertise in dealing with the most at risk and difficult beneficiaries, because the incentive structure had shifted away from those.

**Payment Metrics.** To increase youth employability, payment metrics must be designed such that support does not end abruptly when young people leave school. For instance, some Round One projects included regular follow-up phone calls with youths and their parents to ensure continued support at the time most critical to achieving increased employment outcomes. When designing the payment metrics, it must however be taken into account that extended support becomes highly costly and resource intensive as soon as youths leave the school system.

**Participation Criteria and Screening Methods.** Criteria should be strict enough to avoid “deadweight” (i.e. outcomes that overlap with what participants would likely have achieved in the absence of the intervention). This presents a particular challenge in early prevention programs because the set of participation criteria established are based on predictive characteristics rather than actual characteristics of potential beneficiaries.

**RBF Model Fit.** Over the project’s lifecycle, service providers increasingly concentrated resources towards achieving outcomes related to at risk youths. Some stakeholders expressed concerns that the focus on results had created a need for them to cash in early on intermediary outcomes, which diverted their attention away from the individuals with the most complex <sup>117</sup> needs.

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116. The following documents were consulted to create this case study:

- Department for Work and Pensions UK 2012.
- Lane et al. 2013.
- Department for Work and Pensions UK 2014a.
- Data UK n.d.
- Department for Work and Pensions UK 2016.

117. The IF SIBs were most successful at achieving outcomes for at risk youths rather than already NEET individuals. This can be attributed to two main effects: First, young people who are at risk of becoming NEET are usually still in school where an existing system can be used to measure outcomes and follow their progress (outcomes are far more difficult to ascertain for already NEET youths, who are also more difficult to initially reach out to due to lack of institutional affiliation). Second, NEET individuals’ adjustment issues tend to be deep-rooted and more difficult to overcome in a measurable manner within a time horizon compatible with the SIB structure.



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