Guiding MCC's use of Results-based Financing: Driving improved employment outcomes

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Abbreviations

ANAPEC	National Agency (of Morocco) for the Promotion of Employment and Competencies
DIB	Development Impact Bond
EF	Nepal Employment Fund
EIF	Entry into force
EOI	Expression of Interest
ERR	Economic Rate of Return
IDB	Inter-American Development Bank
IM	Investment Memo
LMIC	Low and-middle income countries
M&E	Monitoring and Evaluation
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MTIP	Ministry of Labour and Professional Integration
NRF	New results framework
OECD	Organisation for Economic Co-operation and Development
PBC	Performance-Based Contract
PEA	Political Economy Analysis
PPAM	Project Proposal Assessment Memo
PPG	Program Procurement Guidelines
RBF	Results-Based Financing
RCT	Randomized controlled trial
RFP	Request for proposals
RMA	Rapid Market Assessments
SIB	Social Impact Bond
SKY	Skills and Knowledge for Youth
TOR	Terms of reference
WFD	Workforce Development
YES	Youth Employment through Skills enhancement

Guide Summary

This Guide aims to support the Millennium Challenge Corporation (MCC) staff to effectively use Results-Based Financing (RBF) in relation to workforce development (WfD) programs. To this end, MCC staff should engage with three key stages, as depicted in Figure 1 and described below.

Figure 1. The Pathway to RBF
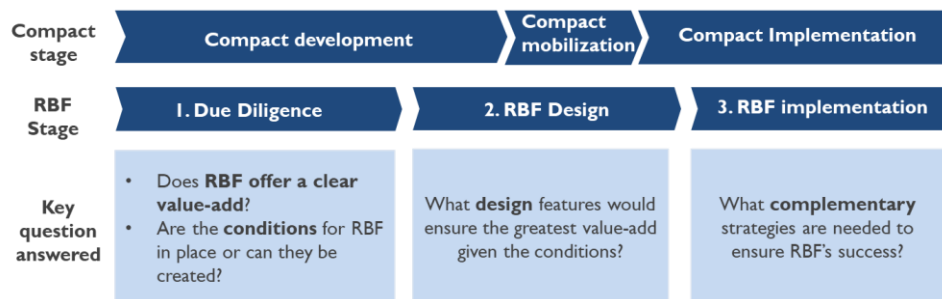
Stage 1: Undertaking the Due Diligence

As in other sectors, this stage is necessary to identify if there is a case to use RBF for a given WfD program and how it might be used. The due diligence should build on the Project Proposal Assessment (PPAM) and be completed before the Investment Memo (IM) to inform key project parameters. This stage has three key topics:

1. MCC staff should first **understand what barriers might limit WfD results** in the country context and whether RBF could address those barriers through value-adds such as improved incentive alignment and programmatic flexibility. This is important since, for example, issues with performance of service providers are more likely to be addressed by RBF than issues with the training venue infrastructure.

2. MCC staff should seek to **understand whether the conditions for RBF's effective use are in place,** and if not, the extent to which they can be created within reasonable cost and time. For example, understanding the capacity of local WfD service providers can determine if and how RBF should be used.

3. A **high-level RBF strategy should be developed** to inform the IM. This should include the objective of using RBF, the type of RBF instrument, key details on design features such as total program spending and potentially suitable results metrics, and an identification of key complimentary strategies to ensure overall program impact.

Stage 2: Designing the RBF approach

Design work should be started as early as possible following the IM and completed as soon as possible during Compact Implementation. This is important to provide time to develop a technically rigorous RBF approach which:

1. Drives enhanced employment outcomes by **aligning the incentives of service providers with the desired impact** and avoids perverse incentives.

2. **Delivers value-for-money on MCC's investments** by aligning with MCC's Cost-Benefit and Economic Rate of Return (ERR) Analysis and Cost Principles.

3. Is **tailored to the specific objectives of a defined program and context**, including considerations to support program sustainability and future scale-up.

Developing an RBF approach to meet these objectives requires MCC staff making appropriate choices on numerous design features. The most important of these design choices are the following five topics:

1. What results should be selected as payment metrics?

Selecting the right payment metrics is essential to ensure the appropriate incentives are in place for providers. As depicted in Figure 2, it is generally desirable to pick metrics closely linked to the desired impact, such as long-term employment retention or increased income. Doing so helps align incentives, reduce perverse incentives, and increase flexibility. However, selecting such metrics is not always possible or might need to be combined with other shorter-term metrics (such as training completions) to reduce measurement costs and help ensure that WfD service providers can plausibly achieve them within reasonable timelines (managing their risk and cash flow).

Figure 2. Trade-offs in selecting payment metrics for WfD programs
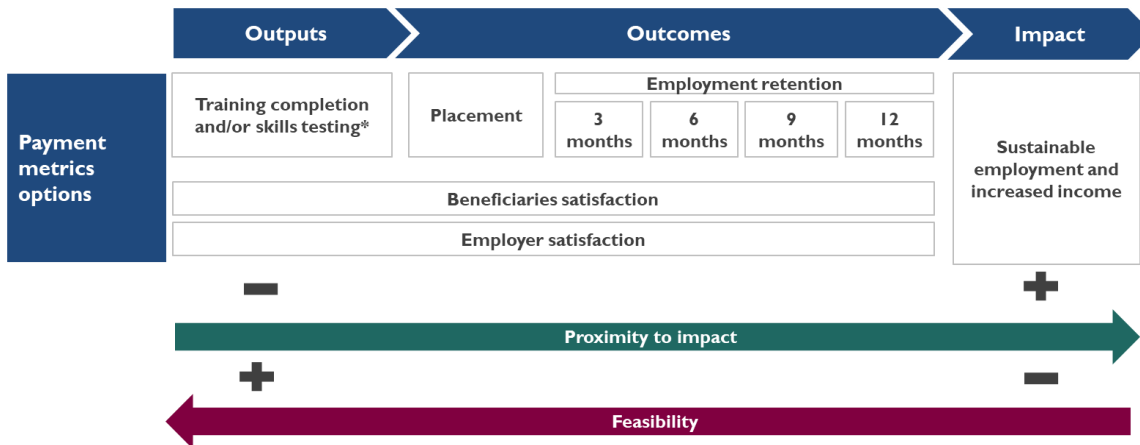
2. How should results be priced?

Rigorous pricing is critical to align incentives and deliver value-for-money. This requires that prices are closely aligned with the cost faced by WfD service providers and provide incentives to achieve the desired results. To ensure rigor and compliance with MCC's Cost Principles, competitive tendering is likely to be critical in setting RBF prices in WfD programs. Pricing may be set with competitive tendering practices alone or in combination with other approaches, such as assessments of service provider costs or benchmarking.

3. How should these results be measured and verified?

An RBF system requires that results can be measured and verified as the basis of payment. The measurement approach defines what data is needed, who collects the data, when, and how. The verification approach refers to how results are verified to determine the payments for achieved results. The rigor of this process is important to shape the incentives faced by WfD service providers, but must be balanced against costs so that the overall administrative burden are not excessive. Measurement and verification should also be designed to help promote the generation of information, which is useful to help the WfD service providers, the Millennium Challenge Account (MCA), and MCC make program improvements. Attention should also be given to aligning measurement and verification with government systems, helping to reduce the programs cost and support the prospects of future government scale-up.

4. How should service providers be selected to deliver on these results?

The process and criteria for service provider selection is critical to ensuring that the desired results can be achieved. In terms of process, competitive tendering is usually the best option, helping to identify the most suitable service providers and providing valuable input into the price setting process. Effective competitive tendering processes can be supported by good practices such as benchmarking exercises, Rapid Market Appraisals, and sharing information through market events or publishing documents from previous employment programs. In terms of selection criteria, key measures include value-for-money (proposed price per result), evidence of past results, demonstration of required capacities, and ability to integrate and collaborate with government. It is important to balance the use of criteria, without overweighting any of them. For instance, while value-for-money is of central concern, overreliance on these criteria can lead to the

selection of WfD service providers with unrealistically low prices, creating a 'winners curse' where selected providers are unable to deliver the required results within their proposed budgets.

5.   How should governance be established and what details should be included in project contracts?

Once the RBF technical design has been finalized, the administrative arrangements for the RBF need to be defined. This includes: 1) Defining a clear governance structure to oversee implementation (including the roles and responsibilities of different stakeholders) and to ensure that RBF-related decisions are taken in a transparent and effective manner, and 2) designing the service provider contracts reflecting the design details outlined above. Work on both these topics should be aimed at preserving the value-add of RBF by ensuring the contract faithfully transmits the desired focus on results to service providers and give them the practical flexibility to deliver on these results.

Stage 3: Implementing the RBF approach and supporting performance management

Successfully implementing a WfD program using RBF requires building the capacity of service providers, MCAs, and governments to manage the technical aspects of RBF and to bolster that RBF with effective performance management.

Performance management is the dynamic iteration of the program design and delivery practices of service providers, driven by real-time data and insights, to improve performance and deliver the results required for RBF payments. For RBF to deliver its full potential as a means to drive enhanced results, it is critical that service providers are supported to develop strong performance management capacities. Well-functioning performance management systems rely on: i) relevant and well-timed data on intervention implementation and results; ii) an information system that collects and processes this data to generate clear insights for decision makers; and iii) a team with the skills, culture, and incentives to transform performance insights into improved practices. Supporting service providers in achieving this requires making the adequate investments in terms of staffing and infrastructure.

MCAs likewise have a critical role in performance management requiring capacities in four key areas. First, MCAs must be able to track results and support service providers performance management efforts, providing technical and managerial backstop to help build capacity across the whole pool of service providers. Second, MCAs should help ensure a focus on jobseekers and employer satisfaction. Third, MCAs must be able to manage unexpected risks and disputes which could impact the program and its results. Fourth, MCAs must perform active contract management, including making contract adjustments or termination in the case of underperformance, unforeseen events, or irresolvable disputes.

Governments can also play a critical role in improving performance over time. Government adoption is a key pathway for MCC projects focused on WfD development to have sustainable impact. To facilitate this adoption, it is important to invest in building government buy-in and alignment, including aligning with government data systems, and to build their capacity to administer this system, either leading on or eventually taking over the performance management role of the MCA.

Finally, program evolutions and refinements should be informed by learning agendas gathering insights on what works, how, and why. Learning agendas should draw on insights and information from performance management practices to support broader adjustments to the current or future RBF program. Learning agendas should identify key research questions and generate in-depth insights on the design and implementation of the program, as well as recommendations on how these can be improved for the current RBF program, subsequent RBF programs or broader service delivery to achieve greater impact.

1. Introduction

Pursuing its mission to spur economic growth to reduce poverty, MCC has established a record of investing to ensure workers, particularly the poor, have the skills to fill available jobs and to ensure the private sector has the skills needed to grow and compete[1]. Since 2007, MCC has committed over $340 million for WfD programs, achieving many outputs targets, yet evaluations have failed to demonstrate projects have achieved the intended labour market outcomes[2].

WFD programs are used by governments to target supply-side labor market challenges relating to skills gaps and job search issues. While the evidence on WfD programs is ambiguous, it represents a large area of government spending across many countries[3]. As such, enhancing the cost-effectiveness of WfD programs can deliver substantial economic and social value. RBF is one means of delivering such enhancements as detailed throughout this Guide.

RBF entails contracting service providers and conditioning their funding on measurable results such as skills development and job retention, in contrast with traditional funding approaches which pay for activities and inputs such as training enrolments or job search support. By paying for results, RBF can help align service provider's incentives with the desired results and create greater flexibility for them to attain these results. RBF also helps ensure accountability for taxpayer dollars by providing a value-for-money guarantee that funds are only disbursed when results are achieved.

RBF has a growing record of use and impact for WfD. In high-income countries, RBF approaches have been widely used and have demonstrated impact from niche pilots through to national-scale programs, particularly in Australia and the United Kingdom.[4] While often facing greater challenges than in high-income countries, this approach has also been increasingly applied in low and-middle income countries (LMICs). For instance, actors including the World Bank created the Nepal Employment Fund (EF) as a national program providing RBF to engage 57 public and private training providers who trained and placed over 90,000 beneficiaries from 2008 to 2015.[5] A rigorous evaluation of this program found that the Fund had statistically significant positive effects on diverse labour market outcomes, including an average income increase of 72 percent among trainees.[6] Similar approaches have since operated in countries including Colombia, Ethiopia, and Palestine, along with MCC's own program as part of the Morocco Compact II.

Given the promise of RBF and WfD, this guide provides MCC's staff with the practical insights needed to easily assess where and how RBF can be used to enhance WfD programs' effectiveness. The report is based on a thorough review of relevant literature and past experiences, including interviews with leading practitioners and experts. To ensure this guide concretely responds to MCC's specific needs, it focuses on the lessons of MCC's experience in Morocco and reflects substantial engagement with MCC staff on RBF's use in relation to MCC specific policies and procedures, such as the Cost Principles and the Program Procurement Guidelines (PPG).

This guide is intended for MCC staff interested in RBF and MCC practitioners interested in engaging with RBF in WfD. In particular, this guide will help MCC staff understand: (1) the overall process for considering the use of RBF to strengthen WfD programs; (2) the process for considering where to apply RBF within WFD programs; (3) how to design an impactful RBF program for WfD, and (4) how to implement an RBF program. This guide is one part of a broader initiative to build MCC's capacity to assess the value-add and use RBF, which includes the development of tailored guides such as this one. For further details on this initiative and more general guidance on MCC's use of RBF, MCC staff may refer to *MCC's Results-Based Financing Guide (forthcoming)*.

This guide covers the following topics:

- **Section 2 sets the stage:** This includes a) recounting the role of WfD programs; b) MCC's related experience including identified challenges; and c) an overview of RBF's potential to add-value in response to these challenges.

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[1] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation. pp 2
[2] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation. pp V
[3] Mckenzie D (2017). How Effective Are Active Labor Market Policies in Developing Countries? A critical Review of Recent Evidence. I Z A Institute of Labor Economics
[4] OECD (2014). Connecting People with jobs: Activation policies in the United Kingdom. OECD Publishing. pp 193
[5] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 81
[6] Chakravarty S et al. (2016). The Role of Training Programs for Youth Employment in Nepal: Impact Evaluation Report on the Employment Fund. World Bank Group. pp 3

- **Section 3 provides an overview of the process and analytical topics** across the entire cycle of using RBF in support of WfD programs.

- **Section 4 summarises the due-diligence process,** outlining the process and topics which should be considered by MCC staff as they assess the relevance of RBF for a specific WfD program.

- **Section 5 provides a detailed design guidance** for MCC staff, covering the objectives and challenges of using RBF with WfD programs and a comprehensive guidance on how key design features can respond to these issues.

- **Section 6 details key considerations for implementing RBF using a performance management,** including building the necessary capabilities among service providers, MCAs, and government counterparts.

2. Setting the stage: RBF and WfD programs

This section reviews MCC's experience with WfD programs, focusing on the challenges faced and how RBF can be used with WfD programs to drive improved employment outcomes.[7] This section first provides an overview of common WfD program objectives and interventions (Section 2.1). It then reviews MCC's experience in designing and implementing WfD programs (Section 2.2) and introduces how RBF can be used to increase the effectiveness and impact of MCC's WfD programs (Section 2.3). Last, it provides evidence from the increased use of RBF in WfD programs in high and low-and-middle income countries (Section 2.4).

2.1. Objectives and overview of WfD interventions

MCC has implemented WfD programs to advance its objective of promoting economic growth and economic and social inclusion of the poor. WfD programs can contribute to economic growth by ensuring that workers can meet existing or anticipated labor market needs necessary to develop specific industries and increase productivity or income. They can also advance economic and social inclusion by expanding access to decent employment for poor and marginalized groups (particularly women and youth), which is often a challenge for LMICs.

To achieve this objective, WfD programs, including those supported by MCC, target supply-side labor market challenges relating to skills gaps and job search through two types of interventions. First, **training and skills development programs** offer beneficiaries technical and vocational education (for specific trades or occupations) as well as soft skills training. Second, **employment services** include a wide range of interventions aimed at overcoming constraints in matching employees to jobs such as information sharing or providing beneficiaries with an employer network. Specific interventions included under those programs are outlined in Table 1 below.

Table 1. Typical workforce development intervention[8]

Intervention type	Common activities
Training and skills development	Technical education
	Vocational skills training
	Soft skills training
	On-the-job training (e.g., internship)
	Apprenticeship training (combines on-the-job training, with academic/theoretical instruction)
	Remedial skills training (e.g., reading, writing)
Employment services	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)
	Transportation / housing vouchers

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[7] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation
[8] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 6

2.2. MCC's experience to date in workforce development

While the aim of MCC's WfD programs have remained consistent, programmatic approaches have varied over time and can be broadly classified into three generations of programs[9]. First generation programs focused on training and enrollment into government-operated WfD programs as well as some infrastructure interventions. Second generation programs (still ongoing) have moved towards measuring outputs and outcomes such as placement and retention and a greater involvement of the private sector. In an eventual third generation, MCC aims to apply its a new results framework (NRF) which explicitly places the focus on results both for workers (jobs and income) and employers (productivity and competitiveness) and outlines a more complex system of interaction between jobseekers, government, and service providers. The NRF puts *accountability* at the center of WfD programs and outlines the roles that different actors can and have to play in addressing the accountability constraints for jobseekers as explained below.

A key focus to enhance MCC's WfD programs is "**operationalizing accountability relationships in service delivery"** where service providers are accountable to jobseekers and employers. With this framework, MCC builds on the World Development Report framework to understand how service delivery can serve the beneficiaries: a "short route" accountability where service providers are directly responsive to the needs of the intended beneficiaries, either directly or through the *involvement of the private sector,* and a "long route" which can ensure accountability through the *intervention of the government.*

The accountability chain is broken when service providers do not have the right incentives and appropriate scrutiny to provide quality training and placement services at scale. Both routes of accountability are weakened by common approaches to training and placement services. The short route is weakened by imperfect competition, distorted labor market prices[10], a lack of repeat transactions (most jobseekers only attend training once), and information asymmetry between service providers and jobseekers. The long route is weakened because governments often do not understand the needs of their constituents and are not directly involved in the actual transaction between service providers and jobseekers.

Related to these accountability issues and from its experience running WfD programs, MCC has identified a set of insights to improve the effectiveness of WfD programs[11]. Related insights for the use of RBF include:

1. **Programs should provide mechanisms to realign incentives of service providers with government, private sector, and jobseekers. These mechanisms should support:**

    - Demand-driven services in response to a skills gap through effective orientation to private sector needs.
    - The development of labor market skills and access for women and the poor.
    - Government scrutiny and support of service providers through effective regulatory frameworks and providing information to service providers, jobseekers, and private sector.

2. **Program should focus on and deliver results in line with the NRF.** In particular, it is important that programs:

    - Have an emphasis on placement and retention with improved income to ensure quality of job placement.
    - Continue trying to measure complex outcomes such as differential impact across providers or models or comparing the impact of WfD programs against status quo.
    - Show and measure impact for jobseekers.

3. **WfD programs need to be adaptable in response to the changing nature of the labor market**. Therefore, WfD programs need to:

    - Provide flexibility to adapt interventions to the rapid changing nature of job market demand.

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[9] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation. pp V
[10] State and state-related interventions in the labor and skills market means that jobseekers can often not choose the service providers or the price of the intermediation service.
[11] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation. pp 35

- Demonstrate impact and cost-effectiveness to be sustainable so that only those interventions that successfully respond to changing conditions to deliver results are scaled-up and replicated.

These lessons provide important insights on how future reforms, such as greater use of RBF, should be targeted to enhance WfD programs. As such, we map below these insights to the potential value-add of RBF, providing a framework to understand when and how RBF can be targeted to enhance the effectiveness of MCC's WfD programs.

2.3.   RBF's value-add for workforce development programs

RBF provides one means of adjusting the incentive and accountability environment faced by WfD service providers to respond to several key insights identified by MCC to improve employment results. It also provides a mechanism to drive impact in a cost-effective way. Specifically, RBF offers four drivers of impact to adjust the behavior of service providers: first, it drives a stronger focus on results; second, it aligns their incentives with results; third, it grants them flexibility to decide how those results will be achieved; and fourth, it increases accountability[12]. How these drivers respond to the insights from MCC's work on WfD programs is detailed below and summarized in Table 2.

1. **Focusing on results**

RBF shifts the emphasis to results. It does so by defining and measuring the desired results. Service providers do not face prescription on how to improve labor market outcomes but are held accountable to them. RBF can be used to ensure a focus on the results from the NRF such as skills development, achieving jobs placements and income growth. This focus on results promotes the scale-up of the most successful interventions and retention of the most impactful service providers.

2. **Aligning incentives**

RBF promotes incentive alignment by rewarding service providers for achieving results defined and prioritized by MCC and government counterparts. When designed well, RBF ensures that service providers are incentivized to achieve labor market outcomes. This can include incentivizing results for specific groups who face labor market barriers, such as women or non-degree holder jobseekers, another important concern for MCC.

3. **Flexibility**

RBF seeks to provide adaptability in the delivery of interventions. This is important in the context of WfD programs for two reasons. First, changing labor market needs make it important for service providers to adapt their services in response. Second, the most suitable and cost-effective interventions will vary in response to the context so require flexibility to facilitate discovery of contextually appropriate and cost-effective approaches. RBF should provide flexibility for service providers to decide how to achieve those results and iteratively adapt to emerging needs as more data and learnings become available without excessive restrictions from MCC or their government counterpart.

4. **Enhancing accountability**

RBF holds service providers accountable by treating beneficiaries more akin to clients. By ensuring service providers are accountable for achieving results for jobseekers and firms, it can drive a shift toward treating beneficiaries and employers more like clients, placing them at the center of every decision and action. RBF also ensures service provider's orientation to private sector needs since where jobseekers do not meet these needs and are not hired, results payments will not be triggered.

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[12] Center for Global Development (2015). Does Results-Based Aid Change Anything? Pecuniary Interests, Attention, Accountability and Discretion in Four Case Studies. CGD Policy Paper 052

Table 2. RBF value-add

Insights from MCC's WfD work [13]	RBF value-add[14]
Programs should focus on results and deliver impact in line with MCC's results framework for WfD programs.	• **RBF shifts the focus to results** and requires measuring results which means generating data on performance. • **RBF aligns the incentives of service providers with outcomes** such that high-capacity service providers self-select in the procurement process and only the most successful interventions are scaled.
Programs should focus incentives on results, aligning incentives between service providers, the government, the private sector, and beneficiary needs.	• **RBF can align service provider incentives with labor market needs** since achieving employment results becomes a tangible signal. • **RBF can align private sector interests in WfD programs and increase their involvement** by explicitly making programs more relevant to their needs. • **RBF can align incentives of service providers with that of beneficiaries** by using target interventions tailored to needs of various populations through various design choices.
Programs should show cost-effectiveness by ensuring that they remain adaptable to the changing nature of the labor market.	• **RBF provides adaptability** in the delivery of the intervention such that service providers have the flexibility to experiment and innovate. • **RBF requires collecting data on effectiveness** of the intervention which can inform course correction to improve program impact.
Programs should restore accountability for service providers towards jobseekers and employers.	• **RBF holds service providers accountable** by treating beneficiaries and firms more like clients. It also allows government and private sector to hold service providers accountable by increasing transparency.

Therefore, RBF is an innovative mechanism that can help restore the accountability of service providers towards jobseekers and employers and ensure effectiveness of WfD programs. To start, RBF can help restore the *long-route* of accountability through the involvement of the government. Further, in the long-run, RBF can help restore the *short-route* of accountability as employment outcomes can only be achieved if service providers effectively meet employers' labor needs. The remainder of this paper gives practical guidance to MCC on how to effectively design and implement RBF strategies to increase the effectiveness of WfD programs by activating the four drivers of impact identified above.

2.4.   An emerging record of using RBF to drive employment outcomes

Reflecting the benefits outlined above, RBF has increasingly been adopted to support WfD programs to deliver improved employment outcomes. In high-income countries, RBF has led to efficiency and effectiveness gains in contract design, procurement processes, and contract and performance management.[15] In Australia, for instance, employment services were fully outsourced through RBF with the creation of "Job Network" in 1998 and continued with three more iterations to the present JobActive program[16]. Testifying to the value of RBF, costs have significantly declined per employment outcome.[17] Similarly, over the last decade, the British Department for Work and Pensions shifted to an RBF procurement and contracting scheme.

While it can entail more challenges, RBF has also been increasingly implemented in LMICs in WfD programs. In Ethiopia and Tanzania, building on the Nepal program mentioned above, the Helvetas' Skills and Knowledge for Youth (SKY) employment program and the Youth Employment through Skills (YES) were delivered between 2015-2017 and 2018-2021, respectively, using Performance-based Contracts (PBCs) to engage service providers to deliver market-driven and entrepreneurship trainings. In Ethiopia, by year three, the program had delivered trainings for 2,000 beneficiaries, of which 76 percent had been placed on a job[18]. In Colombia, the government in partnership with the Inter-American

[13] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation. pp 35
[14] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 11
[15] Finn D & Johnson R (2014) *Experience of OECD Countries in Contracting Employment Services: Lessons for the Kingdom of Saudi Arabia*. World Bank. p 8
[16] OECD (2014). Connecting People with jobs: Activation policies in the United Kingdom. OECD Publishing. pp 193
[17] Finn D & Johnson R (2014) *Experience of OECD Countries in Contracting Employment Services: Lessons for the Kingdom of Saudi Arabia.* World Bank p 25
[18] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 70

Development Bank and the Swiss Development Agency, created the country's first Social Impact Bond (SIB), the Employing for the Future SIB, to pilot the role of RBF for employment services. This pilot was subsequently replicated with a second SIB (Cali Progresses with Employment) in the Colombian city of Cali, and is now being scaled-up through the creation of an employment-focused Outcomes Fund which is currently funding the "Emergency Innovation" SIB in Colombia. In Palestine, the Development Impact Bond (DIB) created by the World Bank as part of the "Finance For Jobs II" program aims to provide market-driven and cost-effective employment trainings for over 1,500 young Palestinian jobseekers (aged 18-19 years), of which at least 30 percent are expected to be women[19]. Table 3 summarizes the main features of several WfD programs using RBF. These examples will be referenced throughout this document as case studies, providing illustrations of the guidance offered here, and presented in detail in Appendix 2.

Table 3. Examples of RBF in WfD international case studies
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Program name	Dates of Operation	Main Outcomes Payer	Target Number of Beneficiaries	Funding level	RBF Instrument Type
JobActive, Australia	2015 to 2020 (last iteration)	Australian Government, through the Department of Employment	Approximately 1.4 million unemployed people	Approximately USD$ 5.5 billion	PBC
Work Programme, UK	2011 to 2020	Department for Work and Pensions (DWP) (UK government)	Approximately 610,000 unemployed vulnerable people	Approximately USD $3.3 billion	SIB
Employment Fund, Nepal	2008 to 2015	Swiss Agency for Development and Cooperation (SDC), Department for International Development (DFID) and the World Bank.	100,000 unemployed vulnerable people (53% women and 80% disadvantaged people)	Approximately USD$ 27.93 million	PBC
SKY, Ethiopia	Phase 1: 2015 to 2017 Phase 2: 2018 to 2021	Helvetas/ Ethiopia Swiss Intercooperation	Phase 1: 2,000 Phase 2: 3,000 unemployed vulnerable people	Phase 1: Approximately USD $712,162 Phase 2: Approximately USD $1,200,000	PBC
Finance for Jobs II, Palestine	2019 to 2023	World Bank Group - State and Peace-building Fund (SPF), World Bank Group - Trust Fund for Gaza and West Bank (TFGWB)	1,500 unemployed young vulnerable people	Up to USD $5.75 million	DIB
Employing for the Future, Colombia	2017 to 2018	*Prosperidad Social* and BID Lab (with resources coming from SECO)	514 unemployed vulnerable people	USD $1,050,491	SIB
Cali Progresses with Employment, Colombia	2019 to 2020	*Alcaldia de Cali* and BID Lab (with resources coming from SECO)	856 unemployed vulnerable people	USD $1,355,300	SIB
Emergency Innovation program, Colombia	Information not available yet	*Departamento de Prosperidad Social* (DPS) and the BID (with resources coming from SECO)	Information not available yet	Approximately USD $4,657,000	SIB
RBF Jobs Fund, Morocco	2020 to 2021	MCA with funds from Millennium Challenge Corporation and the Moroccan government	Information not available yet	Approximately USD $10 million (this can change in the future)	PBC
Project your Future, Argentina	2018-2020 (the termination year can vary)	Government of Buenos Aires City (GCBA)	1,000 young vulnerable people in the city of Buenos Aires	Approximately USD $2 million	SIB
Youth Employment through Skills enhancement (YES), Tanzania	2018 to 2021	Helvetas Swiss-Intercooperation	3,000 young vulnerable people	Approximately USD $650,000	PBC

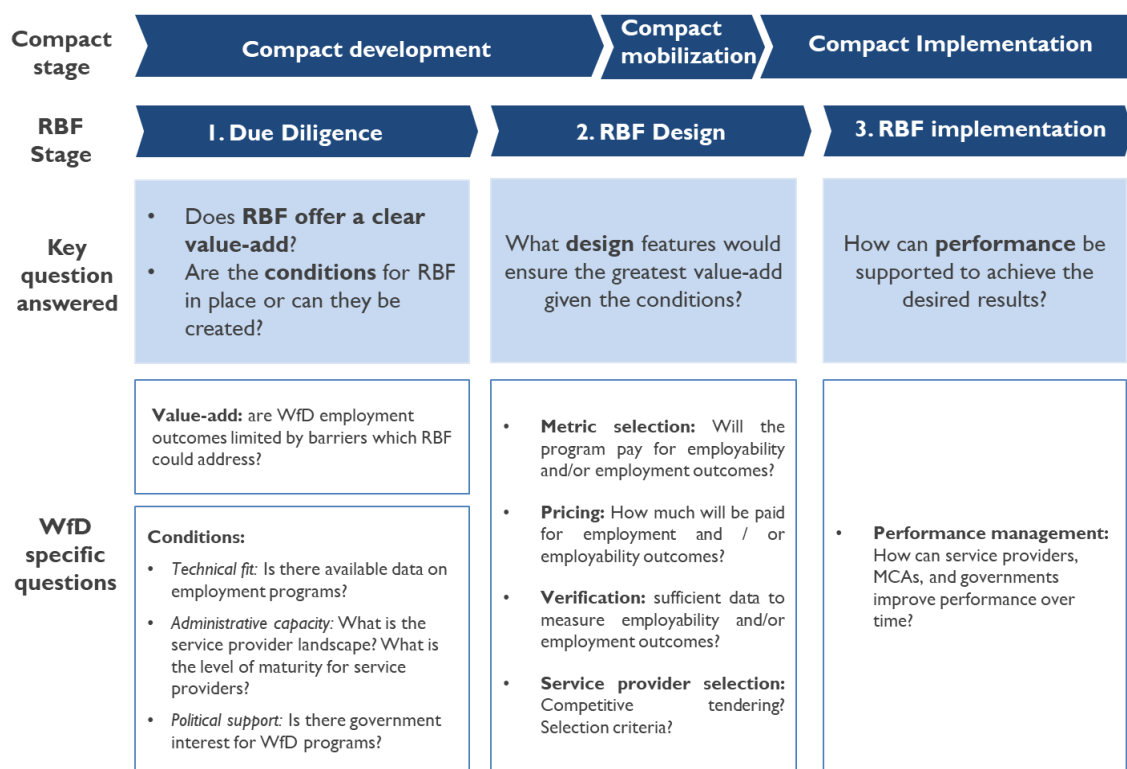[19] University of Oxford, GOLAB (2019). <u>Finance For Jobs Intervention description</u>. pp 1

3. Using RBF for WfD programs

RBF is a powerful tool but can only drive impact when targeting the right problems, with the necessary conditions in place, and when designed and implemented in response to a specific context based on a rigorous design process. This section presents an overview of the pathway to RBF for WfD programs (Section **Error! Reference source not found.**) as well as an example of its application in the Morocco RBF Jobs Fund program (Section 3.2).

3.1. Overview of the pathway to RBF

In WfD programs, the pathway to RBF entails three sequential stages. As depicted in Figure 3, these stages are: 1) conducting due diligence to assess RBF's suitability for a given WfD program and context, 2) designing the RBF, and 3) implementing the RBF. Each stage depends on the previous stage; e.g., the RBF design should be tailored and built from an assessment of how the RBF can add value and whether the necessary conditions are in place, and the RBF implementation depends on how it was designed.

Figure 3. RBF pathway

	Compact development	Compact mobilization	Compact Implementation
Compact stage			
RBF Stage	1. Due Diligence	2. RBF Design	3. RBF implementation
Key question answered	• Does **RBF offer a clear value-add**? • Are the **conditions** for RBF in place or can they be created?	What **design** features would ensure the greatest value-add given the conditions?	How can **performance** be supported to achieve the desired results?
WfD specific questions	**Value-add:** are WfD employment outcomes limited by barriers which RBF could address? **Conditions:** • *Technical fit:* Is there available data on employment programs? • *Administrative capacity:* What is the service provider landscape? What is the level of maturity for service providers? • *Political support:* Is there government interest for WfD programs?	• **Metric selection:** Will the program pay for employability and/or employment outcomes? • **Pricing:** How much will be paid for employment and / or employability outcomes? • **Verification:** sufficient data to measure employability and/or employment outcomes? • **Service provider selection:** Competitive tendering? Selection criteria?	• **Performance management:** How can service providers, MCAs, and governments improve performance over time?

This section focuses on the description of the three stages of the due diligence, along with indicative timelines for the technical work required at each stage.[20] Not that these stages may also be proceeded by a rapid RBF screening to assess if there is a preliminary case for the use of RBF in a given context. This screening process entails understanding potential RBF opportunities and determining if a thorough RBF due diligence should be conducted. The screening process should include a review of past relevant experiences. Given the strong track record of RBF in supporting WfD programs, a rapid screening of RBF for WfD can leverage the large body of past experiences[21].

Due diligence (approx. 3-5 months). This stage should be undertaken prior to the submission of the IM with the objective of identifying if there is a case to use RBF for a given WfD program and context. First, MCC staff should understand what factors are limiting WfD results in this context and whether RBF could address those barriers by activating the drivers described in Section 2. For example, issues with performance of service providers are more likely

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[20] Indicative timelines may be extended to account for factors including MCC/MCA processes.
[21] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 81

to be addressed with RBF than issues with the infrastructure of a training center. Second, MCC staff should seek to understand whether the conditions are in place for RBF to be effective and if not, the extent to which they can be created within reasonable cost and time. For example, the strength of the service provider ecosystem can determine if and how RBF should be used for a WfD program. Section 4 reviews this stage in detail in the context of WfD programs.

RBF design (approx. 4-8 months). This stage should start and be completed as soon as possible during Compact implementation with the objective of developing a rigorous RBF design which is critical to achieve impact. The design should be carefully calibrated in response to the barriers identified in the due diligence stage to provide the incentives and implementation flexibility needed for impact. The effectiveness of the RBF depends on a set of key design choices such as what results should be paid for, how they should be priced and verified, and how service providers should be selected to deliver these results. Design considerations for each feature are described in turn in Section 5.

RBF implementation (approx. 2-4 years). This stage should start as early as possible during Compact implementation, with a focus on pursuing complimentary strategies to support the effective implementation of the WfD program using RBF. A key element of this stage is establishing suitable governance arrangements, defining the role of the MCC and MCA and the nature of their collaboration with government stakeholders and other actors. Critically, investments are needed to support performance management by service providers, MCAs, and governments. This entails providing dedicated support to building service providers' ability to track and adjust their programming in pursuit of targeted results. MCA's also need to develop capacities to support this performance management, manage disputes, and actively manage contracts, including contract termination for underperformance. For government, this might entail building the data and IT systems necessary to measure and verify results. This topic is described in turn in Section 6.

3.2. Example: Morocco RBF Jobs Fund program example

Due diligence (Dec 2015 – June 2016). Morocco RBF Jobs Fund WfD program included an initial assessment focused on the value-add of different innovative financing mechanisms for employment interventions[22]. This assessment found a potential value-add of implementing a SIB as part of the Morocco Compact II to address youth unemployment[23]. Given the results of the assessment undertaken and MCC's interest in SIBs, a further analysis was conducted later in Compact Development to assess RBF's general value-add to the compact and the suitability of different RBF instruments. This analysis was conducted post-IM to assess whether the conditions for RBF were in place or could be created. This analysis provided a diagnostic of the main issues within Morocco's National Agency for the Promotion of Employment and Competencies (ANAPEC), as well as the RBF programs being implemented (the TAEHIL program). This diagnosis highlighted: i) ANAPEC's need for technical assistance to scale the RBF program in the future and ii) an opportunity to build on existing processes and capacities from the RBF programs already in place to support program sustainability. As part of the due diligence, it was decided to use a PBC, rather than a SIB as initially proposed (see Section 4 on the Morocco RBF Jobs Fund program due diligence example).

RBF design (May 2018 – Jan 2020). A detailed design was developed post-entry into force (EIF) using Compact Funds and established design features such as paying for placement and six-month job retention as the main outcomes of interest. It was also decided that the program would use a competitive tendering and benchmarking pricing methodologies and that service providers would be paid per individual result achieved. As this was the first time that RBF was used by MCC for WfD programs, extensive due diligence had to be conducted to assess compliance of the RBF and its design with MCC processes and procedures, which extended the design phase.

RBF implementation (January 2020 – Jan 2022). During Compact implementation and using Compact Funds, the Morocco RBF Jobs Fund program is implementing several complementary strategies to ensure project success. For example, the program is implementing capacity building activities for providers participating in the program and government agencies in charge of managing the RBF program. Additionally, the program designed a management information system for MCA and providers that seeks to assist MCA in the management and implementation of the program and strengthen service providers' capacity to track and manage results to increase the program's effectiveness. This is achieved through regular meetings with service providers to: 1) build their performance management capacity

[22] Dalberg (2015). Innovative Finance Mechanisms for Employment.
[23] Dalberg (2015). Formulation du Compact II par le Gouvernement Marocain dans le cadre des financements du MCC

and 2) assess the provider's progress to identify any corrective measures that can be implemented to further achieve results.
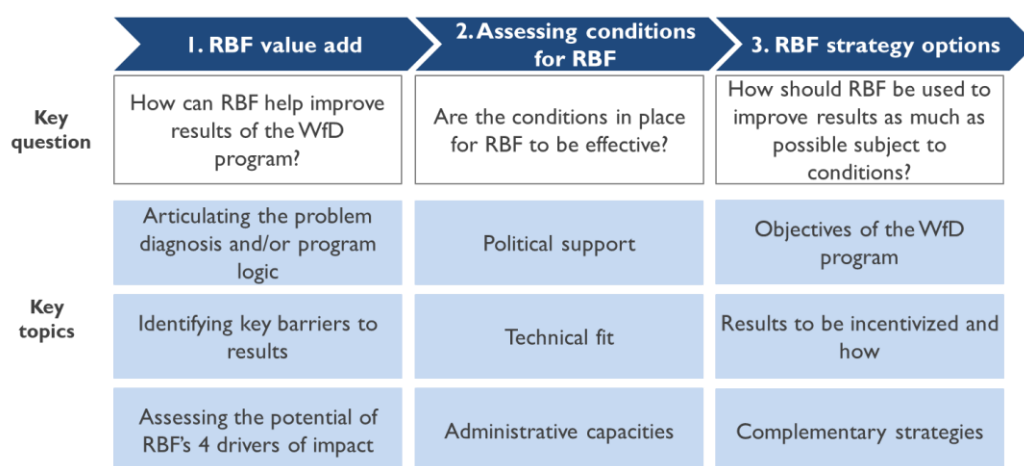
4. Assessing the Suitability of RBF for specific WfD programs

The RBF due diligence process assesses in detail if and how RBF can be used to enhance the effectiveness of a specific WfD program being considered for a Compact or Threshold. This section details the due-diligence phase outlined above and provides an example of the due diligence process from the Morocco RBF Jobs Fund program experience.

4.1. Due diligence process

The due diligence should start before, or soon after, the submission of the PPAM and be completed before the IM is finalized so it can support the project description in these documents. The due diligence for WfD programs should follow the standard RBF due diligence, which includes three stages[24]. This section presents this process specifically for a WfD program. The first stage assesses if and how RBF can add value by identifying the specific barriers to results for a given WfD program and context. In the second stage, to ensure that RBF can enhance a program's impact, the due diligence assesses if the relevant conditions are in place for RBF to be successful, and if not, whether they can be created. In the third stage, a preliminary RBF strategy should be fleshed out to guide the RBF design. Figure 4 provides an overview of the due diligence process. The remainder of this section explains each stage in detail.

Figure 4. Overview of the Due Diligence process

	1. RBF value add	2. Assessing conditions for RBF	3. RBF strategy options
Key question	How can RBF help improve results of the WfD program?	Are the conditions in place for RBF to be effective?	How should RBF be used to improve results as much as possible subject to conditions?
Key topics	Articulating the problem diagnosis and/or program logic	Political support	Objectives of the WfD program
	Identifying key barriers to results	Technical fit	Results to be incentivized and how
	Assessing the potential of RBF's 4 drivers of impact	Administrative capacities	Complementary strategies

4.1.1 RBF value-add

RBF value-add can be assessed through the following steps and topics of analysis.[25] This is covered in-depth within MCC's Results-Based Financing Guide (forthcoming) and is summarized here for the case of WfD programs[26].

1. First, a clear program logic should clarify how the planned WfD programs will deliver results. This step should build on MCC's standard program logic process and Compact Development documents, such as the Constraint Analysis, Root Cause Analysis, and Concept Note, with further detail and analysis to the extent that it is required for the RBF assessment. For example, the program logic should identify the specific problem to address (e.g., youth, female, vulnerable population unemployment, etc.) and how the program or intervention (e.g., skills and training) will deliver results (placement, retention, etc.).

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[24] For further details on the Due Diligence process and a more generic approach fit to different programs see the Due Diligence Tool within MCC's Results-Based Financing Guide (forthcoming).
[25] Note, a preliminary assessment of this value-add may have been undertaken during the RBF screening assessment, which can be further refined through the due-diligence.
[26] MCC's Results-Based Financing Guide (forthcoming).

2. Second, key barriers to results should be identified, seeking to determine if the local context and intervention design might pose challenges (such as those identified by MCC and summarized in Section 2.2) and impede the achievement of the desired employment outcomes[27]. For example, a given WfD intervention can face barriers to results because service providers do not have the right incentives to focus on the ultimate impact (e.g. retention), because results are not well measured (or at all), or because providers do not have adequate flexibility to tailor their services to different population's needs.

3. Last, the value-add should be assessed by considering whether any of the identified barriers can be addressed by one or more of RBF's four drivers of impact, as described in Section 2.3. While RBF has a strong record in supporting WfD programs, this analysis remains critical to understand the specific needs of a program and underpins the future RBF strategy and design decisions. For example, if service providers do not have the right incentives to focus on the ultimate impact (e.g. retention), RBF can help by shifting their focus and alignment to these results. Alternatively, if providers do not have adequate flexibility to tailor their services to different population's needs, RBF can help by focusing on results (rather than activities) and not-prescribing a specific pathway to achieve those. It can also help by shifting the focus to those results and rewarding them differentially to create the adequate incentive to achieve those results. An illustration of this assessment is provided in Box 1.

Box 1. RBF value-add example: Employment Fund Nepal

The Nepalese labor market faced an estimated 450,000 additional entrants every year, of who the majority were unskilled. Entering gainful employment remained a challenge for many of these youth due to limited education backgrounds and technical skills.

Program logic: The Helvetas Program sought out to improve gainful employment for poor and disadvantage youth (objective). The program conducted Rapid Market Assessments (RMAs) and area surveys to understand what the labor market needs were and where (activities). In response to those needs, the program aimed at providing targeted skills trainings (activities) and employment services (activities) to poor and disadvantaged youth through private service providers. Trainings would lead to an increase in skills (outputs), aligned with market needs, as well as placement in a job which needed those skills (intermediate outcome). By directly responding to a need in the labor market and providing adequate soft and hard skills, the training and placement should then lead to longer-term job security (outcome at 6-months retention) and increased income (impact).

Key barriers identified: First, prior to the EF, Helvetas had been working with a sole centrally based service provider that oversaw the activities of several smaller providers across the country. This structure resulted in a lack of clarity on the performance of individual service providers and uncertainty about the program impact. Second, the cost of placing certain groups of poor and disadvantage youth were so high (e.g. poor women from the Dalit ethnic group) such that it did not provide the right incentive to place those individuals.

Assessment against RBF drivers to impact: First, by working directly with service providers and tying funding to pre-defined outcomes (Focus on Results), Helvetas sought to gain a clearer understanding of differential provider performance and program impact. Second, 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 (Focus on Results and Alignment of Incentives). Using RBF here was therefore 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. This supported adequate incentives for service providers to support the pre-identified hard-to-place populations (Alignment of incentives). Finally, the RBF approach would allow service providers the flexibility of implementing the intervention in a way that maximized impact, without prescribing a specific path (Flexibility). For example, some service providers were able to provide classes in the evenings or childcare service to support working mothers.

4.1.2   Assessing conditions for RBF

RBF's value-add and feasibility for a WfD program also depends on a set of contextual conditions. Where these conditions are in place, they can play an important role in enabling RBF's effective use. An assessment is needed to evaluate whether these conditions are in place, and if not, define if they can be created within a reasonable cost and time. Concretely, the necessary conditions can be categorized as follows:

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[27] Ricou M & Moore R (2020). Principles into Practice: Training Service Delivery for Jobs & Productivity. Millennium Challenge Corporation

- **Technical fit.** Technical conditions include, first, assessing the service provider landscape to establish whether there are enough 'mature' service providers capable of delivering the selected intervention and achieving the expected results within an RBF context. Understanding service provider maturity entails assessing their capacity and experience in delivering related services, achieving cost-effective results, and improving these services over time through effective performance management. Second, the technical fit assessment should look at the extent to which there is relevant and high-quality data available to measure and pay for results. Relevant high-quality data is fundamental to adequately estimate targets, price results, and assess payment risks for MCC and providers. If there is no relevant data, the assessment should also identify if it can be generated, how, and when.

- **Administrative capacities.** Administrative conditions relate to the capacity of the stakeholders to implement RBF and the broader system's readiness. First, this includes whether service providers have the capacity to engage in an RBF mechanism, which requires managing payment risks and accessing pre-financing, as well as robust performance measurement systems to set targets and track performance. Second, this includes verifying that relevant stakeholders (e.g., MCAs, government, private organizations) have the capacities, either internally or through outsourcing, needed to implement RBF-related activities. These capacities include effective verification of results, setting disbursements and procurement regulations and processes compatible with RBF, and contract management that enables the identification of the most competitive providers and actively manage their contracts. The MCA would likely take on several of these functions so the due diligence should assess whether the MCA could plausibly develop the necessary capacities.

- **Political support.** If a WfD development program is intended for government integration and scale-up, domestic political support is important to facilitate the use of RBF given the adjustments it entails. As such, the due diligence should assess if key government stakeholders are likely to support the RBF, considering their alignment in terms of objectives, strategies, and desired results, and ensuring that this support is likely to be stable and sustainable. This analysis can leverage coordination with PEA (Political Economic Analysis) conducted as part of a Compact or Threshold.

Table 4 summarizes the most important considerations for MCC when assessing the conditions for using RBF with workforce development programs. The absence of one or more of these conditions is rarely a binding constrain since missing conditions can often be created or addressed through careful design and related mitigation strategies be implemented.

Table 4. Guiding questions to assess conditions for using RBF with workforce development programs

Condition category	Guiding questions
Technical fit	• Are there enough **service providers** able to provide the expected intervention? • Do service providers have the **delivery capacity to achieve the desired results**? • Is there **available quality data** on the intervention's effectiveness (e.g. cost of training and employment service delivery), beneficiary characteristics (e.g. harder-to-place population) and labor market needs?
Administrative capacities	• Are there any early indications of **MCA's expected capacity** to manage and implement the RBF program? (e.g. disbursements, contract management, etc.). • Do service providers have the capacity to **absorb additional financing,** cover the costs of delivery until results payments are made, and **manage payment risks?** • Do service providers have robust **measurement systems to set targets and track performance?**
Political support	• Is there **sufficient buy-in** from the relevant decision makers, including the government? • Is buy-in likely to be sufficiently **stable and sustainable**? • Are **stakeholders aligned** in terms of their strategies, interests, and understanding of the problem?

Depending on the context, the assessment will likely need to prioritize according to the context and program objectives, which conditions are more important and fundamental for the program's success, which ones can be created during implementation, and which conditions are not necessarily as relevant. Where many of the required conditions are missing and cannot be created at a reasonable cost and time, RBF may not a good fit. The diagram in Figure 5 summarizes the decision-making process when evaluating whether conditions can be created and whether to proceed with RBF in a specific context.

Figure 5. Deciding on the conditions for RBF's effective use

		Are necessary conditions in place?	
		No	Yes / somewhat
Can conditions be created within reasonable cost / time?	Yes	Create conditions first	Proceed with RBF now, create any missing conditions as you go
	No	Do not use RBF now	Proceed with RBF now

4.1.3 RBF strategy

The due diligence should conclude with a clear RBF strategy proposal to inform MCC's IM and underpin future design work. The RBF strategy should cover key high-level RBF options, tailoring these proposals to activate RBF's value-add and account for the existing conditions. This stage should build on the value-add and conditions analysis conducted in the previous stages of the due diligence to formulate key elements of the RBF strategy. Key topics which should be addressed in the RBF strategy are:

1. **Objectives of the RBF strategy** – what challenges will the RBF strategy focus on to enhance results?
2. **What RBF instrument is best suited to the context** – who will be incentivized and how?
3. **What complimentary strategies are needed** – what activities are required to ensure impact and sustainability?
4. **What key design features will be most appropriate** – for example, how much funding does the program require, what results might be suitable as payment metrics, and how would these be verified?

For WfD programs, the primary objective of the **RBF strategy** is typically to support greater effectiveness by addressing the specific challenges which would otherwise limit results as outlined in Section 2. Depending on the context, other objectives may also be identified, such as testing and demonstrating WfD innovations which can subsequently be scaled-up by government. Identifying these objectives is important to guide design work, ensuring that the design is carefully focused on targeting the specific challenges identified for WfD program effectiveness and issues like future government adoption by planning for a pathway to sustainable operations at scale.

While RBF can be delivered through a diverse array of **instruments**, for WfD programs engaging service providers to deliver results, PBCs are the most common instrument and entail directly incentivizing service providers with RBF payments[28]. In some cases, WfD interventions also use Impact Bonds, where payments are made to a 'social investor' who provides upfront working capital to service providers before results are measured.

In practice, PBCs and Impact Bonds can be quite similar: some Impact Bonds include results payments for service providers and some PBCs involve service providers being supported by social investors not directly involved in the RBF

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[28] This can be done through either MCC's procurement or grant funding.

structure. However, the role of the investor in the Impact Bond means these two instruments do have some contrasting archetypal benefits, as detailed below.

In the absence of investors, PBCs are generally simpler than Impact Bonds in terms of stakeholders and design, often making this former of RBF relatively more suitable for operation at greater scale and government take-up. As such, PBC's offer key benefits in terms of the following:

1. **Complexity and cost.** Since funders pay service providers directly, PBCs avoid the complications of involving investors as additional actors, allowing for simpler contracts between the funder and service provider and therefore lower transaction costs and shorter and less complex design periods.
2. **Scale.** Because they are simpler, do not require investors, and are often less costly to design and implement, PBCs are better suited for larger-scale and long-term RBF projects.
3. **Government integration and take-up.** Given their suitability for scale and their relative similarity to typical government contracting practices, PBCs after often easier for governments to adopt and expand. Successful international experiences of national scale-ups such as the Australian, UK, and Nepal experiences demonstrate the potential for government use of PBCs at scale.

While the involvement of investors can make Impact Bonds more complex and less scalable, it also offers benefits that can address key feasibility constraints (service provider maturity) and allow for more ambitious and innovative programming:

1. **Service provider maturity.** The involvement of investors providing up-front capital for service providers means Impact Bonds can accommodate service providers with lower capacity to self-finance or manage the results risks of RBF. This feature can make RBF projects feasible in the context of generally low service provider capacity if investors are willing to take-on substantial results risks.
2. **Emphasis on outcomes of payment metrics.** By involving investors willing to take on risk and provide upfront working capital, Impact Bonds can also enable a stronger focus on more ambitious outcomes than PBCs, which often entail greater use of outputs to minimize service provider risk and generate cashflows. This means Impact Bonds are well suited to situations where the outcome payer is interested in paying for medium-to-long term results, a feature which has seen some WfD Impact Bonds tie 100 percent of funding to results, an approach not seen in PBCs.[29]
3. **Innovation.** The role of investors in bearing risk and the stronger focus on outcomes means Impact Bonds are better suited at supporting innovation and testing different interventions and adaptations aimed at achieving ambitious outcomes. This contrast with PBCs where service providers can often bear less risk and face cash flow challenges.

As detailed above, where certain conditions for RBF are not met, it may be necessary to create these conditions through **complementary strategies** developed and implemented along with the overall RBF design and implementation. As further detailed in Section 6, these strategies might include dedicated support to build the capacity of MCAs and service providers or strengthening government data collection systems. These strategies should be identified at the due diligence phase.
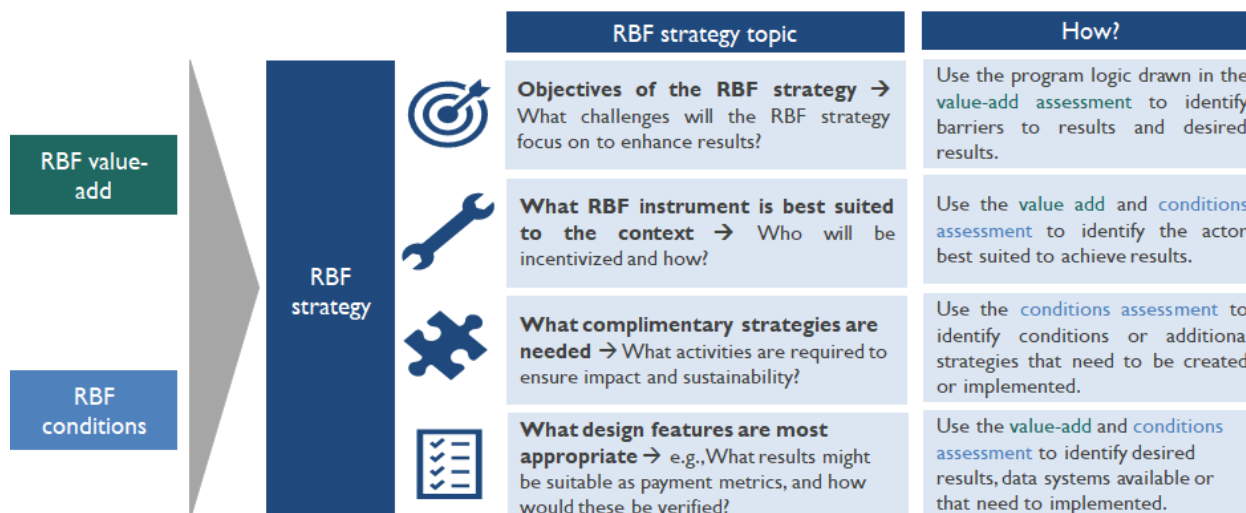
Finally, the due diligence should also include high-level consideration of key **design features**, focusing on issues relevant to the IM or that require pre-planning ahead of the RBF design. For instance, to the extent it is required for the IM, one design issue to be addressed is overall program funding, which should be sufficient to cover program delivery and related complementary strategies including capacity building. The due diligence should also provide high-level advice on key design features, such as, what results might be suitable as payment metrics and how these results would be priced and verified.

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[29] For example, the Rotterdam SIB tied 100 percent of funding to outcomes in terms of reduced reliance on welfare benefits. For details, see: Instiglio & Lopez J (2018) *A Guide For Effective Results-Based Financing Strategies*. Washington, D.C.: World Bank Group.

The key topics of the RBF strategy to be defined at this stage are summarized in Figure 6, which highlights how the first two stages of analysis (RBF value-add and assessing conditions for RBF) should inform this strategy. Most of these topics should be refined in the design stage as detailed in the next section.

Figure 6. The RBF strategy should be informed by the RBF value-add and conditions assessments

RBF strategy topic	How?
Objectives of the RBF strategy → What challenges will the RBF strategy focus on to enhance results?	Use the program logic drawn in the value-add assessment to identify barriers to results and desired results.
What RBF instrument is best suited to the context → Who will be incentivized and how?	Use the value add and conditions assessment to identify the actor best suited to achieve results.
What complimentary strategies are needed → What activities are required to ensure impact and sustainability?	Use the conditions assessment to identify conditions or additional strategies that need to be created or implemented.
What design features are most appropriate → e.g., What results might be suitable as payment metrics, and how would these be verified?	Use the value-add and conditions assessment to identify desired results, data systems available or that need to implemented.

4.2.   Theory in practice: The Morocco RBF Jobs Fund program example

This subsection uses the experience of the Morocco RBF Jobs Fund to illustrate the processes and considerations presented in Section 4.

Program's RBF value-add

As a part of MCC's Morocco Employability and Land Compact, the Employability Project included a high-level RBF strategy to replicate or expand proven programs that provide integrated job placement services. The Morocco RBF Jobs Fund program project is intended to be a pilot program aimed at improving the employment outcomes of non-degree-holders and women below the age of 35.

A detailed assessment of the RBF value-add was not undertaken for this project during Compact development. However, subsequent analysis was undertaken post-IM using Due Diligence funds to inform the design. The assessment found key challenges in terms of low alignment of services with labour market needs and greater focus on activities, such as training, rather than outputs or outcomes, such as labour market placement and retention. These findings pointed to opportunities for RBF to improve cost-effectiveness by drawing the attention of providers to desired results in terms of labour market placement and retention.

Assessing the conditions to RBF

The rest of the due diligence was done through interviews with Morocco's government stakeholders like the Ministry of Labour and Professional Integration (MTIP), the government's employment agency, and providers that had worked with this employment agency and other organizations. From that, the conditions assessment showed that the context of the program was conducive to RBF, and that the missing conditions could be created during implementation. The assessment is summarized in Table 5 below.

Table 5. Morocco RBF Jobs Fund program conditions for RBF

Condition category	Key findings	Conditions assessment
Technical fit	*Availability of relevant data:* • The Government had some information on past performance, from the previous employment program. • However there was a lack of information on the costs of results (training and placement), with respect to the target population (non-degree holders and women). *Available service providers and their capacities:* Interviews conducted with relevant stakeholders in 2016 suggested that there existed enough service providers in Morocco to engage in an RBF, though their capacities were not formally assessed until the formal tendering process.	*Are conditions in place or can be created within reasonable time/ cost?* → **yes** • Technically the conditions are met for RBF to be implemented and improved in Morocco. • Existing interventions and metrics need to be revised and further data collection is required.
Administrative capacities	*Service providers assessment:* • The program identified constraints in providers' capacity including their IT systems, RBF knowledge and expertise to achieve the desired results. • The program identified constraints in procurement and disbursement regulations.	*Are conditions in place or can be created within reasonable time/ cost?* → **yes** • Capacity building is needed for government agencies and service providers to be RBF-ready. • Implementing RBF is feasible but there is a need to revise the current regulatory environment with regard to procurement processes and verification systems.
Political support	*Stakeholder buy-in and alignment* • Government actors overall see the value of RBF programs. • Existing RBF programs need to be significantly reviewed to become more attractive to service providers.	*Are conditions in place or can be created within reasonable time/ cost?* → **yes** Political support conditions are in place to implement RBF in Morocco.

RBF strategy

Finally, the assessment proposed an RBF strategy that responded to the constraints found in the RBF conditions assessment.

1. **Objective:** The program's objective was refined in collaboration with MCC, MCA, MTIP, ANAPEC, and Instiglio as a mediator, and agreed as: 'the improvement of the cost-effectiveness of intermediation programs with a focus on scale and sustainability, targeting vulnerable youth and women'. This re-assessment of the objective was key when defining the rest of the RBF design.
2. **Instrument:** An Impact Bond was initially presented as the proposed instrument. However, based on the due-diligence work described here, a PBC was proposed as a more suitable instrument for two reasons. First, PBCs do not need social investors, an important consideration given their limited availability in Morocco as well as the low maturity of the impact investing market. Additionally, service providers were thought to be generally too small and their risk profile too high to participate in a Impact Bond. Second, the Government of Morocco was already running a PBC-type RBF programme (the TAEHIL programme) which offered a good opportunity to build on existing processes and capacities and maximize the likelihood of programme sustainability.
3. **Complementary strategies:** Next steps were proposed to create the conditions for RBF, including allocating part of the program's budget to building government capacity by offering technical assistance to ANAPEC and building related data and IT system capabilities.
4. **Design features:** The strategy proposed key design features, emphasising training and job placement as potentially suitable metrics based on administrative data, proposals that were refined during the design stage.

5. Designing RBF for impactful WfD programs

The effectiveness of RBF depends on its design. RBF will only support more effective WfD programs and improved employment outcomes through rigorous and contextually appropriate design choices on key topics, such as:

1. Which results should be selected as payment metrics?
2. How should these results be priced?
3. How should these results be measured and verified?
4. How should service providers be selected to deliver on these results?
5. What issues should the contract cover?

Section 5 provides guidance on the design choices for these five design topics. The design choices considered in this section will help advance effective RBF for WfD programs by targeting the following three objectives:

First, effective RBF design must **align the incentives of service providers with the desired impact**. This consideration is central to all design choices with the key question being, how can each design choice advance impact by incentivizing service providers to focus on advancing the desired labor market outcomes? Where incentives are not aligned with impact, service providers may face perverse incentives to 'game the system' by maximizing their payments rather than employment outcomes. This can manifest in 'cream-skimming', where service providers focus on jobseekers who are most likely to achieve the defined results even without support, representing a deadweight loss to the program, while ignoring ('parking') those most in need of employment services.

Second, design choices should be made with a focus on **delivering value-for-money on MCC's investments**. This means that RBF pricing considerations should be aligned with MCC's Cost-Benefit and ERR Analysis and Cost Principles, ensuring the reasonableness of proposed prices can be demonstrated to MCC's standards. More broadly, it means making design decisions with careful consideration of cost implications: for instance, the choice of payment metrics should be done considering the cost of measuring and verifying these metrics.

Third, design choices should be **tailored to the specific objectives of a defined program and context**. For instance, the Morocco Compact WfD program had a particular focus on achieving scale and sustainability, necessitating careful consideration of how each design choice could (1) align with government programs to facilitate eventual government adoption and (2) support the development of a mature service provider landscape. In contrast, other projects, such as the Employing for the Future program in Colombia, have focused on learning and innovation, meaning design choices aimed to provide as much flexibility as possible for service providers to test and adapt, while facilitating learning with a dedicated learning agenda. These different areas of focus are reflected in the design choices below.

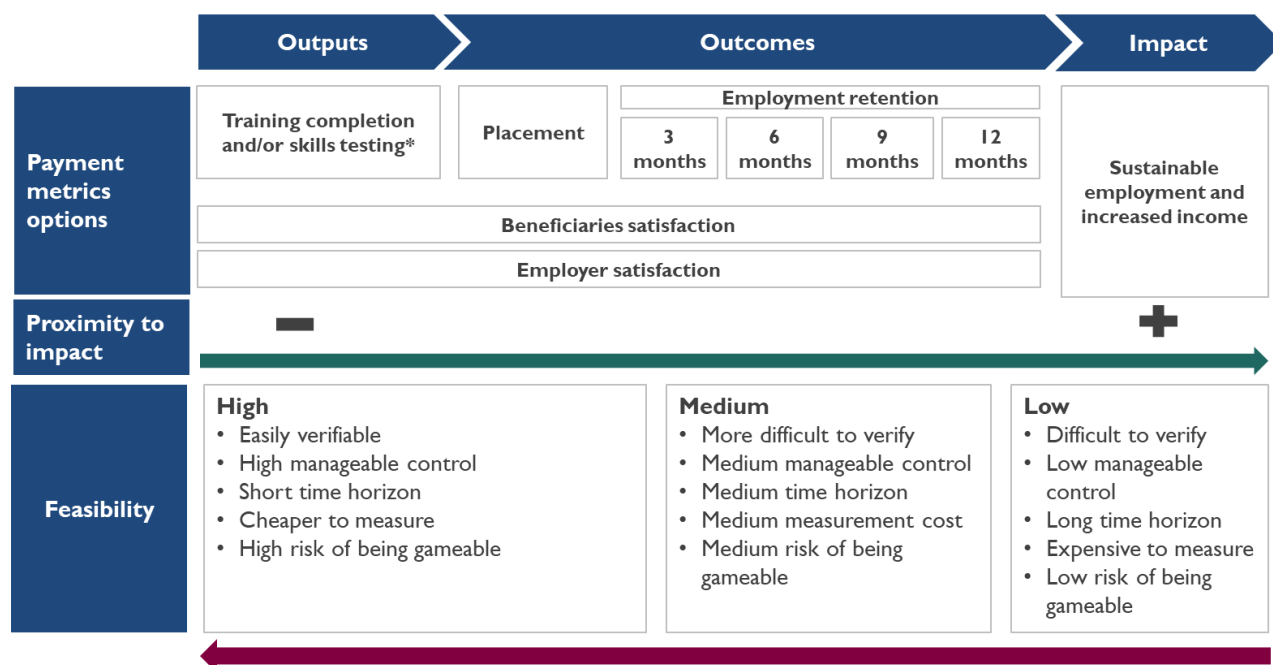## 5.1 Payment metrics selection

Payment metrics are the results that are paid for and consequently targeted by service providers. This section presents the different payment metrics that can be used in WfD programs (Section 5.1.1), a framework to choose the most relevant indicators in the context of a specific WfD program (Section 5.1.2) and an example of how this analysis can be done using the Cali Progresses with Employment project in Colombia (Section 5.1.3).

5.1.1   Objectives and challenges of choosing payment metrics

Selecting the right basket of payment metrics is essential to ensure the right incentives for service providers. Metric selection should be driven by the specific objectives of the program in terms of the types of skills and employment outcomes it seeks to generate. For example, increasing the sustainable employment of vulnerable youth may require incentivizing job placement and long-term retention, whereas programs focused on addressing specific gaps might focus on training completion and employment within a specific sector.

As depicted in Figure 7, it is generally desirable to pick metrics closely linked to the intended impact, such as long-term employment retention or increased income. Doing so helps strengthen RBF's value-add by aligning incentives, reducing perverse incentives, and increasing flexibility. However, such high-level metrics are not always feasible and often need to be combined with other lower-level metrics (such as training completions) to reduce measurement costs and help ensure that WfD service provider can achieve them within reasonable timelines (managing their risk and cash flow).

Figure 7. Trade-offs in selecting payment metrics for WfD programs

	Outputs	Outcomes					Impact
Payment metrics options	Training completion and/or skills testing*	Placement	**Employment retention**				Sustainable employment and increased income
			3 months	6 months	9 months	12 months	
		Beneficiaries satisfaction					
		Employer satisfaction					
Proximity to impact	**—**						**+**
Feasibility	**High** • Easily verifiable • High manageable control • Short time horizon • Cheaper to measure • High risk of being gameable	**Medium** • More difficult to verify • Medium manageable control • Medium time horizon • Medium measurement cost • Medium risk of being gameable			**Low** • Difficult to verify • Low manageable control • Long time horizon • Expensive to measure • Low risk of being gameable		

*Skills testing refers to an assessment performed by certified organizations independent to the program. An example of this is the Ethiopia SKY Program because part of its payments was tied to obtaining a National Qualification Certificate.

5.1.2 Balancing impact-orientation and feasibility

To select appropriate payment metrics, the relative suitability of each potential metric should be assessed against a set of criteria. This assessment enables comparisons of potential metrics and identify those more suitable to respond to the program's objectives, parameters, and context. This section proposes a set of criteria commonly used for WfD context, that accounts for impact and feasibility considerations (further explained below).

a. Proximity to impact

Choosing metrics closely linked to impact is important to align the incentives and attention of service providers with the desired impact, limiting perverse incentives, increasing flexibility, and improving accountability to beneficiaries. As described in Section 5.1, MCC's WfD programs seek to create skills needed to increase employment and drive economic growth. While interventions vary depending on the context, metrics should be chosen in line with this over-arching objective, incentivizing successful employment outcomes in terms of job placement and job retention.

Ideally, selected metrics would allow for direct attribution of beneficiary outcomes to the WfD intervention. That is, payments would be made for targeted employment outcomes that would not have been achieved without the program's intervention. However, such counterfactual estimates are rarely feasible and instead other measures are taken to focus service providers on generating genuine employment outcomes, as described below.

For instance, it is important to define what counts as a suitable job placement to ensure that it represents a satisfactory outcome for the beneficiary and avoids service provider payments for poor quality outcomes. Suitable employment outcomes can be defined in terms of the number of hours of employment, the sector of employment (e.g. formal vs. informal), the type of contract (short-term vs. indefinite), and salary. As presented in appendix 2, projects reviewed in this report encompass varying definitions of employment along these dimensions. For example, the SKY Ethiopia and EF Nepal projects include informal and self-employment within their placement and retention metrics while the Morocco Jobs Fund program and Colombia examples only includes formal employment and excludes self-employment.

Further, to support quality employment outcomes, longer term retention outcomes such as nine- or twelve-months retention can also capture aspects of job quality by signaling sustainability of placement. Metrics related to skill development such as training completion, skills development including hard and soft skills, can also be used to ensure

the beneficiary has options beyond their first job placement. Finally, payment metrics can be qualified or complemented with metrics such as beneficiary satisfaction with their placement and employer satisfaction with the provider.

b. Feasibility

While metric closely related to impact are desirable to motivate performance, it is often not feasible to rely entirely on these metrics because of four feasibility factors: i) measurability, including the cost of verification, ii) the extent to which the metric is within the manageable control of service providers, iii) program time horizons and iv) the needs of service providers in terms of capacities and cashflows. These constraints mean that, for example, WfD programs are traditionally good at capturing measures of employment, and less successful at capturing more qualitative outcomes because these are harder to measure and/or easier to manipulate. These factors need to be weighed for each metric according to contextual factors such as the nature of data collection systems or labor market conditions.

1. Measurement cost

It is usually easier and less costly to measure metrics that are earlier in the program logic (activities, outputs) than results further along the results chain (outcomes, impact). This is because activities and outputs are easier to observe and can often leverage programmatic data rather than relying on separate data collection methods. For example, measuring income could require a household survey which is costly to implement while training completion is more straightforward to verify with records on participants' attendance and completion of training activities. Likewise, while it might be desirable to measure skills development or improved employability, this is difficult to measure in the absence of a standardized and accurate way to measure skills, meaning most programs pay for training completions as a proxy for skills development. Measurement costs can also be minimized by leveraging information already being collected by service providers and government such as health, welfare and tax data.

2. Manageable control of service providers

The manageable control refers to the influence that service providers have on improving the specific result. Service providers have more manageable control over results earlier or lower in the results chain (often outputs) than higher level results later in the results chain (most outcomes) which are more sensitive to changes in external factors. For example, service providers have more control over participant's job placement than over six-month job retention. It is often necessary to include at least some measures of outputs and outcomes within manageable control to help minimize risk and ensure service providers have incentives to advance results within their control.

3. Time horizon

MCC's Compact or Threshold time horizons is also an important constraint for selecting payment metrics in WfD programs. It is important to provide enough time for service providers to achieve the desired result, verify these results, incorporate lessons, and iterate on their model based on these lessons. These needs mean it may not be practical to make payment based on long-term employment (e.g. >six-month retention), which would limit opportunities for learning and adaption across multiple cohorts.

4. Service providers capacity and experience

Payment metrics should also be calibrated for service provider capacity and cashflow needs. More ambitious metrics such as long-term employment outcomes are generally only suitable when working with high-capacity service providers, with established track-records of delivering similar results, and the capacity to manage the financial risk and cashflow challenges these metrics entail. In contrast, imposing such long-term employment outcomes on low-capacity providers can create excessive risk in achieving the desired results and therefore face serious financing risks. As such, it is often useful to use a mix of long-term and short-term metrics, creating strong incentives while also accounting for capacity issues, reducing program risks, and ensuring service providers have a more reliable cashflow to meet delivery costs.

Choosing the right basket of metrics

The RBF incentive environment depends not just on individual metrics selected but how they interact – it is therefore necessary to consider the basket of payment metrics. A good basket of metrics should:

1. **Aim for simplicity.** Limiting the number of metrics is important to focus on the most important results and reduce the cost of verification
2. **Avoid duplication along the results chain**, such as paying for closely related outputs and outcomes, which can limit flexibility and present issues of compliance with the Cost Principles.

3. **Incentivize different steps of the program** to improve cashflow of service providers and ensure the quality of service all along the delivery chain.
4. **Consider if the weakness of one metric can be mitigated** by the other metrics included in the basket, including any perverse incentives.

5.1.3   In practice: Cali Progress with Employment

When selecting payment for the Cali Progresses with Employment program, the design teams weighted the different metrics in light of the following information:

i. **Program objectives & impact:** The Cali Progresses with Employment program built on the Employing for the Future SIB that was launched in 2017 and was carried out in three cities (Bogotá, Cali and Pereira) by the Inter-American Development Bank (IDB) Lab, the Secretariat of Economic Affairs of Switzerland, and Prosperidad Social, while the second SIB only covered the city of Cali. The first SIB aimed to advance the cost-effectiveness of WfD programs for difficult to place populations while also serving as a learning tool for evidence-based policy making. These two SIBs are part of a broader program "SIB.CO" which aims to develop the SIB model in Colombia. The design drew on the lessons from its predecessor to strengthen the Municipal Employment System by developing a more rigorous monitoring and evaluation (M&E) system for employment initiatives. The SIB aimed to improve income and job placement and retention for vulnerable people.

ii. **Measurement cost**: The project intended to leverage government systems for data collection to reduce verification costs and increase sustainability of the program. This means that payment metric selection had to reflect the capacity of the government to collect the underlying information.

iii. **Time-horizon**: The program intended to last 20 months which impacted the time-horizon for the choice of metric and verification.

iv. **Service providers capacity and experience in measuring WfD results:** Many of the service providers contracted for this SIB had participated in the previous SIB and were re-contracted. Therefore, these providers were used to delivering the results provided under SIB I. These service providers were able to draw on their experience and lessons learnt to support a more efficient approach to achieve the desired results.

The scoring provided uses a scale from low to high, depending on the extent to which the metric meets the relevant criteria presented above.

Figure 8 shows the assessment of possible payment metrics based on the criteria outlined above. The scoring provided uses a scale from low to high, depending on the extent to which the metric meets the relevant criteria presented above.

Figure 8. Colombia Cali Progresses with Employment payment metric assessment

Outcome	Proximity to impact	Measurability	Measurable within available time	Manageable control	Extent of alignment with service provider needs
Training completion	Low	Low	High	High	Low
Job placement	Medium	High	High	Medium	High
Retention 3M	Medium	High	High	Medium	High
Retention 6M	High	High	Medium	Medium	Medium
Retention 9M/ 12 M	High	High	Low	Medium	Low
Salary	High	High	Low	Low	Low
Beneficiary satisfaction	High	Medium	High	Medium	Low

Legend: Low (○)   Medium (◉)   High (●)

Based on the assessment depicted in *Figure 8*, three key metrics were selected. The outcomes of this process are described below. The results selected were largely consistent with those used in the Employing for the Future program, except that the Cali Progresses with Employment program also included six-month job retention.

1. **Selected metrics:**
   1. **Job placement** was included to provide some intermediate results to ensure the overall project risk was manageable. This build on the experience of the previous SIB.
   2. **Retention at three months** allowed for a focus on the desired results of sustainable employment while also providing service providers relatively strong manageable control given their experience with this metric from the previous SIB.
   3. **Retention at six months** was included to strengthen the focus on sustainable employment. Service providers had experience from the previous SIB where retention at six months had been measured as a learning metric.

   The basket of metrics was assessed as satisfactory, as the three proposed metrics allowed for a diversified portfolio of metrics in terms of risk, employment sustainability and impact.

2. **Metrics not selected:**
   1. **Retention at nine and twelve months** were excluded because it was not deemed directly within the service providers' manageable control, based on internal assessment made by the team, workshops with stakeholders and literature review. Furthermore, given the timeframe of the SIB, it would be challenging to observe significant results for nine or twelve month-retention. However, nine-month retention was included as a learning metric.
   2. **Salary** was excluded after an assessment that showed in the city of Cali, salaries earned by beneficiaries of such programs are typically homogeneous. As such, encouraging better wages would not be an effective incentive given the low probability of achieving this result.
   3. **Beneficiary satisfaction** was excluded because it was assessed to be highly gameable as service providers could pressure beneficiaries to answer in their favor. However, it was included as a learning metric and is used to renew service providers contracts (or not) in the future.
   4. **Placement sector & type of contract** were excluded since they could lead to perverse incentives in service providers, placing providers in suboptimal jobs to meet these targets.

Note that the program purposively selected indicators that capture different aspects of the intervention (placement, retention) to ensure that service providers do not focus solely on one activity at the expense of another. In addition, the program only introduced one new metric compared to the previous SIB (retention at six months) to limit risks for service providers.

Further examples of program metrics and pricing are outlined Table 6 and included in the next section; these examples show that, consistent with the logic in this section, almost all programs reviewed use a mix of outputs and outcomes, including some relatively close to impact (such as six-month job retention) and others closer to activities (such as training completion).

5.2 Pricing

RBF prices define the amount that is paid for each individual results. Setting rigorous pricing is critical to ensure RBF's effectiveness and ensure value-for-money. This section first clarifies the objectives and challenges of effective pricing (Section 4.5.2.1) and provides an overview of the considerations and methodologies to determine prices in WfD programs (Section 4.5.2.2). It then presents the rationale and several strategies for pricing results differently across populations (Section 4.5.2.3). Finally, this section provides a practical example of RBF pricing from the Morocco RBF Jobs Fund program (Section 4.5.2.4).

5.2.1. Objectives and challenges of pricing results

There are three objectives of pricing results to deliver successful WfD interventions:

1. **Incentivize service providers to achieve desired results for the desired population:** Prices determine the strength of the incentives to achieve specific results. Prices should align with the desired impact so that service providers have the incentives to perform; where prices are not aligned with the desired impact, service providers

may face perverse incentives to 'game the system' by maximizing their payments rather than maximizing the program's impact or the beneficiaries' welfare. Ineffective prices can, for example, result in 'cream-skimming', where service providers focus on those who are most likely to achieve the expected results, even without the program's support.

2. **Guarantee value for money for MCC:** Consistent with MCC's Cost Principle requirements, prices should be reasonable. As described below, a combination of pricing methods can be used to ensure this requirement is met while also ensuring a robust ERR.

3. **Promote program's sustainability:** Depending on the program's objectives, it is often important to ensure that the pricing approach is simple enough to be replicated and adopted by other users. This is particularly important when aiming to facilitate cost-effective program takeover and/or scale-up by governments.

Successfully achieving these objectives can be difficult given several challenges. These include:

1. **Efficient compliance with MCC policies and procedures.** Some technically rigorous RBF pricing methods may not align with MCC requirements or may require excessively time-consuming processes to demonstrate this alignment. For example, competitive tendering processes (see below) are unlikely to be sufficient as a standalone method to set prices in the context of grants and would likely need to be complemented by other approaches including cost analysis or benchmarking.

2. **Data for pricing.** Data gaps, which are particularly common in developing countries, can make effective pricing challenging. To set prices rigorously, data is needed on topics such as the cost of service delivery and evidence on past program performance.

3. **Cost and time limitations.** Pricing is also constrained by cost and time because rigorous pricing often requires combining several methodologies (see below). This entails a cost which needs to be balanced against the benefits of improving rigor through this added complexity.

4. **Service provider's maturity.** The maturity of the service provider ecosystem impacts pricing data availability and reliability as well as the risk providers can assume for each result. To help manage risk, in a low maturity environment, more funding should be tied to relatively low-risk and short-term outputs (e.g. training completion) and less funding for relatively high risk and long-term measures (e.g. six-month job retention). The remainder of this section provides guidance on how the objectives outlined above can be achieved and the challenges overcome.

5.2.2.   Pricing results

This section provides guidance on the pricing methods for WfD programs and recommends approaches for MCC to price results effectively. Prices must be closely aligned with the cost faced by WfD service providers and provide incentives to achieve the desired results. Additionally, pricing methodologies should be technically rigorous, aligned with MCC's policies and procedures, and fit within the available funding to pay for results.

5.2.2.1. Pricing methods for WfD programs[30]

There is a wide range of methods that can be used to price results in RBF. In the context of WfD programs, RBF prices are usually set using competitive tendering processes. Such tendering processes allow for market-driven price discovery through the competitive selection of service providers based on factors including the prices proposed by service providers (the process for this tendering is described in section 4.4). Of the eight case studies reviewed and detailed in Appendix 2, seven used competitive tendering to inform pricing.

For MCC, competitive tendering can be used as a standalone method to set RBF prices with MCC's procurement processes. This approach is consistent with MCC's standard procurement processes and MCC's PPGs and Cost Principles as a means to ensure reasonableness and value-for-money. However, encouraging price competition can encourage the 'winners curse' where service providers present unrealistic cost estimates. The winners curse has been widely documented in diverse settings where unrealistic bids subsequently limited provider's capacity to deliver interventions, stifled innovation and encouraged 'creaming' and 'parking' resulting in lower quality of service delivery.[31]

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[30] *Note: details of this section will be subject to refinement based on further advise from Procurement, PFS and OGC regarding suitable pricing strategies.*
[31] Finn D & Johnson R (2014). Experience of OECD Countries in Contracting Employment Services: Lessons for the Kingdom of Saudi Arabia. World Bank. pp 8

As detailed in section 4.4., it is therefore important for the selection process not to be over reliant on prices by also including consideration of factors such as organizational capacity. These challenges notwithstanding, the simplicity and value-for-money of using competitive tendering to determine prices with procurement means that this approach should be favored where possible.

In contrast, where MCC instead opts to us grant funding rather than a procurement process, to ensure compliance with MCC's Cost Principles and the Program Grant Guidelines(PGGs), the RBF prices should generally be informed through competitive tendering price discovery and two additional processes. These additional processes are:

1. **Cost-based pricing:** This entails assessing the costs service providers face to achieve results to inform the desired results
2. **Benchmarking:** This entails assessing service providers costs and (where available the RBF prices paid) for similar programs in other contexts in the same country or other international examples.

To align with the Cost Principles, these methods can also be used to determine a reasonable RBF premium informed by assessments of relevant opportunity costs and risk adjustment to align provider incentives with the desired results.[32]

For examples these approaches have been used in the Nepal EF which defined RBF prices using competitive tendering and validated them with a benchmarking exercise. Competitive tendering entailed asking providers for cost estimates during the selection process. These estimates informed the RBF prices and were then validated through Helvetas' own market research on similar programs. Similarly, during the Ethiopia SKY program's competitive tendering, providers reported cost estimates for different results as well as target populations. This data was used to set RBF prices and the program's differential pricing scheme, which was then validated with a market research conducted by the program's staff prior to the launch of the program. A more detailed examples for the case of Morocco is presented below.

Setting prices across different results

The process to set prices outlined above should drive the pricing for each specific metric to effectively align incentives with results and provide value-for-money. For instance, in a competitive tendering process, service providers would be required to propose prices per result (e.g. per training outcome or job placement). Likewise, cost-analysis and benchmarking should assess program costs as they relate to specific results, rather than program's overall costs.

These approaches should mean that metrics which are relatively inexpensive to achieve and more distant from the desired results (such as training completion) should be priced below metrics which are more expensive to achieve and closely related to the desired results (such as job-retention). For example, the Nepal EF and the Colombia Cali Progresses with Employment program both attached most funding to job-retention rather than training. In an extreme example with the WfD Social Impact Bond in the Netherlands, all funding was tied to reductions in welfare spending linked to successful employment placement and retention.

However, assigning more weights to more costly and longer-term results is not always possible or desirable because such results are often less within the service providers manageable control, posing greater risk and cash flow challenges for service providers. For instance, tying too much funding to job retention by pricing this result too high relative to other results could create substantial cash flow risks to service providers, especially for service providers with relatively low technical and financial capacity. This is why in the Morocco RBF Jobs Fund program, for example, training completion was given relatively more weight than job-retention.

In environments where there is insufficient data on the cost of delivery for some results, a bonus above costs can be used to ensure that service providers are incentivized to perform without facing excess risk and allowing collection of data on those metrics for learning purposes. In the Colombia Employing for the Future, for example, six-month retention was incentivized as a bonus and the information gathered was used as an input for pricing this metric in the subsequent Cali Progresses with Employment program.

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[32] For further details on conducting cost-analysis and cost-benchmarking for RBF programs, as well as the methods to define premiums see the MCC RBF Guide (forthcoming).

Table 6 provides further examples on the pricing of different metrics across selected WfD RBF programs, showing how these programs weigh the trade-offs mentioned above. Requirements that need to be fulfilled before payment disbursement are indicated with the letter "R".

Table 6. Metrics and pricing weights across selected WfD RBF programs

		Activities	Outputs	Outcomes						
		Training delivery	Training/ School completion	Skills testing	Job placement	Job retention: 1 month	Job retention: 3 months	Job retention: 6 months	Job retention: 9 months	Reduced reliance on welfare benefits
Impact Bonds	Colombia Employing for the Future	R	-	-	50%	-	50%	10%	-	-
	Colombia Cali Progresses with Employment	-	-	-	25%	-	35%	40%	-	-
	Netherlands SIB Rotterdam	-	-	-	-	-	-	-	-	100%
	Argentina SIB	-	6,7%	-	22,5%	-	44.9% (4 months)	-	25,9% (12 months	-
	Palestine Finance for Jobs II**	3% (enrolment) 4% and 5% (start)	10%-12%	-	19% and 18%%	-	27% and 26%	37% and 36%	-	-
	Colombia Emergency Innovation SIB	-	-	-	60%	-	40%	-	-	-
Performance-Based Contract	Australia Jobactive***	-	15%	-	-	15%	31%	-	-	-
	UK Work Programme ****	39%	-	-	24%	-	37% (paid either for 3 or 6 months)	39%	-	-
	Ethiopia SKY program	30% (mid-training)	-	50%	-	-	20% (4 months)	-	-	-
	Morocco TAEHIL program*****	80%	-	-	20%	-	-	-	-	-
	Morocco RBF Jobs Fund RBF ******	-	0%-20% (Pre-Financing) 30%-50% (Training Completion)	-	25%-30%	-	-	15%-20%	-	-
	Nepal Employment Fund	R	-	40%	-	-	25%	35%	-	-
	Tanzania YES program	45% (upfront payment)	25%	-	-	-	30%	-	-	-

Notes: * The nine percent payment for six-month retention in the Colombia Social Impact Bond is a bonus. ** The Finance For Jobs II will pay differently for female and male participant's outcomes, the table displays both pricing weights (first for female and then for male participants).*** 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 payment function considers an individual's job stream, period of prior unemployment, location, and type of placement. **** The Work Programme pays for sustained outcomes (i.e. the beneficiary either retained a job for 3 or 6 months). *****Information on the weights across metrics for the Formation Qualifiante ou de Reconversion (FQR) program is not available.******The Morocco RBF Jobs Fund program assessed each service provider risk profile, based to their capacities to achieve the desired outcomes. Each provider was assessed as having a low or high-risk profile and was assigned an appropriate payment structure (i.e. distribution of payments between metrics) depending on this risk profile. The table therefore displays a range of payment weighs which depends on the level of risks. Additionally, the program paid a level of pre-financing as a portion of the "training completion" payment metric.

5.2.3. Differential pricing

Differential pricing entails pricing the same result differently across beneficiary groups. It is often used with RBF WfD programs where programs can often offer high prices for results achieved in relation to harder-to-place marginalized populations, such as remote populations or women.

Differential pricing might be needed for two reasons. First, the costs of achieving results can differ across populations. If prices do not reflect these differences, service providers can face perverse incentives of parking and cream-skimming. For instance, it is often be more expensive to deliver training and job-search support for hard to reach populations in remote areas. As such, these groups might be ignored ('parked') in favor of easier to target populations ('cream-skimming') unless pricing reflects the additional costs of these services. Second, the social benefits of achieving results can differ across groups, thus justifying higher prices for certain populations. For example, women's employment and employability is often constrained by social or cultural factors but their participation in the labor market often yields large socio-economic benefits.[33] Higher prices for female employment outcomes can help align incentives with these social benefits.

As an example, the Nepal EF used differential pricing to reflect the government's gender and social inclusion priorities by providing high prices for results achieved with disadvantaged individuals, including women[34]. 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. Table 7 provides details on differential pricing across populations in the Nepal case.

Table 7. Differential Pricing in Nepal EF[35]

Category	Target Population	Incentive payment
A	Economically marginalised [36] women from groups facing discrimination (the Dalit community, groups with special needs)[37]	80% over training costs
B	Economically marginalised women from all castes/ ethnicities (all apart from category A)	70% over training costs
C	Economically marginalised men from groups facing discrimination (the Dalit community, groups with special needs)[38]	50% over training costs
D	Economically marginalised men from all castes/ ethnicities (all apart from category C)	40% over training costs

Although differential pricing is a powerful tool, it can be challenging to design in data-scarce environments. Without enough data (e.g., cost of service delivery across populations), it is harder to determine prices that account for the right costs and provide incentives to service providers. For example, the Colombia Employing for the Future program had intended to pay 10 percent more for members of the 'Peace Building' program[39]. However, there was not enough data demonstrating that outcomes for this population were costlier to achieve. Without this evidence, the Colombian government feared claims of discriminatory treatment resulting in differential pricing being discarded. One way to mitigate this issue is through the competitive tendering process by asking providers for their costs of delivery for different populations and using this information to calibrate the price estimates.

5.2.4. Morocco RBF Jobs Fund program example

This subsection uses the experience of the Morocco RBF Jobs Fund to illustrate the processes and considerations for pricing presented in Section 4.2.

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[33] International Labour Organization (ILO) (2018). Key indicators of the Labour Market. ILO STAT.
[34] Beneficiaries were considered "disadvantaged" if, for example, they had disabilities, came from the Dalit caste, or were violence-affected.
[35] Helvetas (2014). Results- Based Financing in technical and vocational training: a step-by-step implementation guide.
[36] Poor is defined as per the categories in the Poverty Alleviation Fund (PAF) of Government of Nepal. "Poor" is a person or a group living below the national or regional poverty line prescribed by Nepal Government; and remaining in the lowest categories of of human development indicators such as education and health etc.
[37] For example, e.g. ex-combatants, internally displaced people (IDPs), widows, women with disabilities, HIV/AIDS affected women, formerly bonded workers etc.
[38] Similar as group A. For example, e.g. ex-combatants, internally displaced people (IDPs), widows, women with disabilities, HIV/AIDS affected women, formerly bonded workers, etc.
[39] The Peace Building program works with former gang members, victims of the armed conflict, former guerilla members, and youth in the criminal justice system.

The payment metrics for the Morocco Compact were training completion, job placement, and six-month retention. To price these results, the design team followed two principles:

1. **Incentivize results as close as possible to the ultimate desired impact** by putting more weight on outputs and outcomes rather than activities.
2. **Transfer a reasonable level of risk to service providers** based on:
   a. Their *overall* limited experience with the desired results (e.g., six-months retention was never used by most service providers in this context) and with RBF.
   b. Their *relative* experience, capacity to deliver, track record, etc.

Pricing results

The design team used two pricing methods: Competitive tendering, cost analysis and benchmarking. Competitive tendering include assessment of service provider price per result. These prices were estimated based on service providers' proposed budgets and estimated number of beneficiaries to be served, enabling comparison across service providers. This process also allowed for a detailed cost-analysis to inform the RBF prices, with careful structiny of the cost included in the service provider budgets. Finally, benchmarking was undertaken through reference to costs and RBF prices of comparable programs operating in Morocco and internationally.

The use of these methods not only allowed to triangulate price estimates but also to comply with MCC's Cost Principles.

1. **Reasonableness**: In line with MCC's standard procurement practice, a competitive tendering process was used to introduce competition in bidding, including for price-setting, and incentivize providers to set reasonable prices. Complying with MCC's principle of reasonableness also entailed scrutinizing budget lines, comparing budgets across service providers, and a rigorous negotiation phase to finalize the price per outcome.
2. **Allocability**: This was demonstrated based on the assumption that, using a rigorous RBF pricing process, RBF gives implementers a strong financial incentive to only incur costs allocable to the payment metrics. Not doing so would increase the risk of not achieving the desired results and not getting paid.

In defining payment weights across different metrics, the design team followed two considerations. First, a focus was placed on preventing providers from recuperating all their training costs to incentivize them to achieve the longer-term metrics of placement and retention. Second, during the selection phase, service providers were categorized as low or high risk to account for their maturity level and transfer relatively more risk to providers with higher capacity and experience. Each metric was assigned a payment weight with a different range for low, medium, and high-risk providers. Therefore, payment weights worked differently depending on the provider's maturity. Table 8 shows how weights and prices for each metric differed according to the risk profile. The main difference was in the amount of pre-financing (up to 0 percent for low-risk service providers) and the balance between funding allocated to training (up to 50 percent) and retention (down to 10 percent for high-risk service providers). Overall, the gap between the moment when they incurred the costs and the moment when they recuperated their costs was higher for higher-capacity providers.

Table 8. Payment weights and prices based on service provider risk profiles[40]

Service Provider risk profile	Pre-financing (%) provided	Pre-financing (total amount in USD)	Payment metrics					
			Training		Placement		Retention at six months	
			Payment weight	Price	Payment weight	Price	Payment weight	Price
Low-risk	20%	$100,000-312,000	30%	$250-510	30%	$300-680	20%	$260-560
Medium to high-risk	20%	$45,000-93,000	40-50%	$190-660	20-25%	$190-370	10-15%	$130-330

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[40] Adapted from Instiglio's "Structure de paiement" for the Morocco RBF Jobs Fund program (2016)

These strategies contributed to a rigorous pricing approach but were also time consuming for the MCC staff and the contractor and in some cases might have exceeded what was needed for a sound RBF approach. For example, the scrutinization of budgets and comparative budget analysis required an 80-page report prepared by the contractor. Further guidance on the Cost Principles is currently being developed to avoid these time-intensive requirements and ensure increased efficiencies throughout the process.

5.3. Measurement and verification

To trigger RBF payments, results must be measured and verified. The measurement approach defines who collects the data on the results that are paid for, when, and how while the verification approach refers to how results are verified to determine the payments for achieved results. This section first presents the objectives and challenges of conducting an effective verification process (Section 5.3.1) and different considerations in setting-up a verification system for a WfD program (Section 5.3.2). Finally, it gives an example of how those decisions were taken in setting-up the verification system using the Nepal EF example (Section 5.3.3).

5.3.1. Objectives and challenges of verification

There are three main objectives for results measurement and verification in WfD programs.

1. First, **measurement and verification of results should be as accurate as possible**. This is important so that stakeholders, particularly service providers, trust results are accurately assessed and rewarded, creating the incentive to deliver on them.
2. Second, the approach should be cost-effective to ensure the programs' **financial sustainability**. This is particularly important when aiming to facilitate cost-effective program scale-up by governments.
3. Third, measurement and verification should **build evidence for WfD interventions**. The data generated for these processes can inform program learning, linked to performance management approaches described in section 6, which supports results-oriented data-driven course corrections over time.

Choosing and implementing a measurement and verification approach which meets these objectives entails some challenges. The more rigorous the verification method, the more expensive and complex it tends to be. Therefore, it is important to weigh costs against the need for rigor. Challenges include:

1. **Cost of verification:** Results measurement and verification can present significant cost and administrative burdens for MCC and service providers. First, these costs add to the administrative cost of the program, potentially diverting funds from outcome payments. These costs depend on choices linked to program design such as the verification approach, the choice of verifier, the maturity of service providers and the extent to which the verification system can leverage existing data collection systems. Second, measurement and verification can impose significant costs to service providers, particularly the least mature ones. The transition to reporting results rather than inputs, can impose additional short-run costs as service providers adapt to this new system. They may need capacity building to generate the necessary data and, in some cases, could face additional ongoing reporting burdens if the RBF approach is not carefully designed for sustainability.
2. **Rigor and potential to generate data:** The rigor of the data collected through the measurement and verification system is essential to reduce payment risks and ensure that service providers are rewarded adequately. The level of rigor depends on the verification method and the entity responsible for collecting the data. In general, causal methods and independent verifiers are more rigorous than observational methods and internal verification, although they are also more costly, and are often not feasible or needed. Additionally, rigorous verification systems can provide useful insights and learnings for service providers and for the program more widely.

Accounting for the trade-off between the cost of verification and the benefits of a rigorous system, the next section provides some considerations to decide on the most adequate verification approach.

5.3.2. Setting-up the measurement and verification approach

Setting-up a measurement and verification approach entail three sequential choices. First, MCC should define whether causal estimates are needed or if observational approaches can be used (Section 5.3.2.1). Second, if the program can use an observational approach, MCC should determine how results should be measured and verified and the verification

system can leverage existing data (Section 5.3.2.2). Third, MCC should define what, how, and when additional data should be collected.

5.3.2.1. Verification methods

There are two overarching verification methods: observational and causal methods. Observations methods entail measuring and paying for numbers of certain results achieved. In contrast, causal methods attempt to estimate the results which exceed a counterfactual. For example, observational approaches would pay for the number of job-placements while causal methods would pay for difference in job-placements between the intervention group and a counterfactual group.

Choosing between these methods depends on the objectives, the design and budget of the program. Observational methods are easier to use and scale-up and are more suitable when paying for outputs or when testing program effectiveness is not a key focus.[41] Causal methods, on the other hand, provide more rigor linking payment to impact but are often needed for exploratory or complex interventions where effectiveness needs to be demonstrated. Reflecting these dynamics, the vast majority of WfD programs use observational methods. Rare exceptions to this include some SIBs with more experimental focuses, such as a SIB in Finland which aims to place 2,500 migrants in jobs and where government outcomes payments are tied to the results of a randomized controlled trial (RCT) measuring differences in tax collection across the treatment and control groups.[42]

5.3.2.2. Measuring and verifying results

Measuring and verifying payment metrics can follow three approaches, it can either (i) be collected by the service provider itself or the program and then independently verified, (ii) be extracted from government systems data, or (iii) be collected by an independent verifier. Approach (i) and (iii) rely on primary data collection from service providers/programs and verifiers while approach (ii) leverages secondary data sources. To the extent possible, the verification approach should seek to use secondary data. This is less costly, easier to implement and adds less burden to MCC and service providers. It is also important for the future scale-up and program sustainability.

- **Approach 1: Service provider data with independent verification.** Payment metric data is based on the data directly collected by the service provider through their M&E system. Given the service provider benefits from inflating results, an independent verifier is contracted to verify the reliability of reported data, for example, by conducting a follow-up survey for a representative sample[43]. The RBF contract should specify how discrepancies between reported data by the service provider and the verification would be addressed. In some cases, program data is collected by the program to monitor the service providers and the intervention. This was the case for example in the Helvetas Nepal EF and Ethiopia SKY projects.

- **Approach 2: Government systems data.** In most WfD contexts, government at the central or sub-national level routinely collects and reports data such as employment status, social security data, government records (e.g., identification information), or national exam results. This data could be utilized for RBF if it is of sufficient quality and cannot be manipulated by the service provider. This is the case for example in the Morocco RBF Jobs Fund program and in the Colombia's first two SIBs where eligibility data for beneficiaries is directly extracted from the government's social security database.

  The advantage of this approach is that it is cheap and, by definition, integrated into the existing system. That makes it a more scalable and sustainable approach. Whether this is a viable option greatly depends on the rigor and credibility of institution providing the data. This approach is unsuitable for measuring results that are not directly relevant to the government, for example, training attendance or completion would not be typically tracked by government systems.

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[41] Instiglio & Lopez, J (2018) *A Guide For Effective Results-Based Financing Strategies (English).* Washington, D.C.: World Bank Group.

[42] University of Oxford, GOLAB (2019). Using social impact bonds to integrate refugees in Finland- will it work?. Pp 1

[43] Where verification involves a beneficiary survey verification within a few weeks of achieving the results (as reported by the service provider), independent data collection might be required to limit discrepancies between reported and verified results due to beneficiary recall bias. Where verification involves direct observation such as the appropriate installation of bed nets, a longer period between service provider activities (i.e. distribution of bed nets) and verification might strengthen the causal link to mortality as it provides a more accurate estimate on the effectiveness of the provider's activity (i.e. if beds nets are installed properly even months after distribution).

- **Approach 3: Independent verifier.** An independent verifier's data is utilized for payment metrics when existing systems cannot be leveraged. Typically, this requires tendering for and contracting and third party. In fortuitous circumstances, independently collected data such as a large employment survey can be leveraged.

  This approach has two key advantages. First, the verifier is not subject to RBF gaming incentives, increasing the reliability and objectivity of the data. Second, this approach allows for the utilization of rigorous causal approaches such as RCTs, if these are preferred. However, as it involves primary data collection, this is the most expensive approach. This is especially the case where frequent measurement is required to capture the service provider's full impact and provide appropriate incentives for timely implementation of the intervention.[44]

In many WfD programs, data is collected by service providers and through administrative data (approach (i) and (ii)) and verified by an independent evaluator, effectively leveraging existing data and reinforcing incentives for service providers to collect reliable and timely data through their performance management system. Different approaches however are often used within the same project for different metrics. For example, government data is often used to measure beneficiaries' eligibility while M&E data can be used for training attendance and completion. Drawing on existing data and systems, particularly government ones, is important for the sustainability and scale-up of the program by reducing verification costs and building government ownership.

In choosing between the above options, MCC needs to answer four questions: what data should be collected and how is it collected, who should collect the data, and when the data should be collected.

What data to collect and how? There are several options of what data to use and how to collect it for verification purposes. Table 9 below presents examples of primary and secondary data that can be collected along with pros and cons of each type of data.

Table 9. Examples of data sources used in WfD programs verification

Data collection methods	Example of data sources in WfD
Surveys	o Employer or beneficiary satisfaction or attitude survey o Individual or household survey to calculate income
Direct observations	o Training attendance (e.g. Morocco RBF Jobs Fund program) o Job attendance (e.g. Helvetas EF and SKY projects) o Contract verification
Interviews	o Interviews/focus groups discussions with beneficiaries and employers to measure satisfaction with the program or with the placement as well as to confirm placement information

It is important to note that conducting primary data collection can be **costly.** Strategies to reduce this cost include:

- **Sampling**: Programs often choose to verify a sub-set of results through random sampling. For example, the Nepal EF project uses a stratified random sampling approach across target group (poor vs. non-poor), gender and trade. This strategy is particularly effective when results data is generated by an existing system.
- **Phone interviews/surveys**: Interviewing beneficiaries by phone is usually less costly than visiting them in person as it reduces travel time and cost. However, phone interviews are more prone to non-response and the quality of the data can be lower. Phone-based verification systems should be accompanied with a robust quality assurance system such as back-check interviews.

Who should collect the data? This will depend on the verification approach chosen. Independent verification is often preferred though costly.

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[44] For example, hematological profiles of pregnant women can improve within three months by providing iron-folic acid supplementation. Measuring anemia prevalence every two years, might therefore not capture the provider's impact in the first 1.5 years of implementation and provide an incentive to focus all its effort close to when measurement happens.

When is additional verification data collected? While program data is collected continuously throughout implementation, verification cycles are often tied to the program payment cycles. Frequency of data collection is therefore determined by payment needs and will affect the cost of verification.

5.3.3.   In practice: The Employment Fund in Nepal (Helvetas)[45]

This subsection uses the experience of the Nepal EF to illustrate the considerations for verification presented in Section 5.3.

The Nepal 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. We highlight below key features of the verification system and rationale for choosing them.

- o **Skills development**: To verify payments based on the National Skills Testing Board, EF staff physically monitored 80 percent of beneficiaries sitting for the Nationals Skills Test.
- o **Job placement**: Results data was collected by the EF team in collaboration with the service providers. For verification of the 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. A lesson learnt from this program for the Helvetas' SKY program was to only have one retention metric at four months follow-up to reduce the cost of verification.
- o **Data quality assurance**: The above measures were complemented by other validation processes, including:
  - ✓ Training quality assessment based on (1) monitoring of pre-training activities (course announcement, collection of adequate application for the selection of trainees, planning of training logistics, selection of trainees, and venue selection), to assess how satisfactory trainings were planned and implemented, for which 60-75 percent of the training events to-be-delivered were monitored upfront at least once and (2) in-training monitoring, where all training events were monitored up to three times (considering that the training events lasted up to three months) to assess the quality of the training (physical facilities, curricula, tools and equipment, training delivery, qualification of trainers etc.).
  - ✓ 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.
- • **Performance management**: A database containing monitoring information about beneficiaries, training achievements and employment details was developed and made accessible to all training providers and staff.
- • **Integration with government systems**: The EF leveraged government systems for the verification of the skills development metrics by integrating the training with the National Skills Test.

5.4. Service provider selection

Service providers are the organizations that deliver WfD RBF programs and are responsible for achieving predefined employment-related results[46]. Given the importance of service providers for successful service delivery, this section first clarifies the objectives, and associated challenges, of effective service provider selection (Section 5.4.1). It then provides guidance on how to set-up and run a selection process (Section 5.4.2). Finally, this section presents an example of how the selection process was implemented in the Morocco RBF Jobs Fund program (Section 5.4.3).

5.4.1.   Objectives and challenges of selecting service providers for WFD programs

There are two main objectives in selecting the right service providers to deliver a successful WfD intervention:

1. Ensuring that the **desired results can be achieved cost-effectively** at the required scale and quality, including for specific target populations.
2. Contributing to the **sustainability and enhancement of results** over time by building the service provider market and capacities to deliver results as well as generating learnings to ensure that the best service providers are included and the best interventions scaled-up over time.

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[45] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC. pp 78-82
[46] These implementors are typically nonprofit organizations, or private service providers

Designing an effective selection process for service providers can face **challenges** related to information asymmetry and the problems this generates. Given inevitable information gaps, it can be difficult to accurately evaluate the cost-effectiveness and quality of service providers' proposals. This means that, as described in section 4.2, a key challenge for service provider selection is avoiding over-emphasis of price considerations which may lead to the winners' curse. Additionally, choosing the right service providers is affected by two further considerations:

1. **The scale of the WfD program**: Pilot programs often require just a few service providers (or just one), while scale-up usually focus on building capacity of numerous service providers to achieve a sustainable impact at scale over time. The scale will determine the number of service providers and the type of organizations to be selected.
2. **Maturity of service providers**: This relates to the capacity of service providers to achieve the desired results and the support needed to achieve those. Programs need to be tailored to account for different levels of capacity but are not always able to do so due to funding, capacity, or timeframe constraints. Assessing service providers market maturity is important to tailor the selection process adequately and adapt program design.

5.4.2. Selecting service providers

This section outlines possible ways to mitigate challenges in the selection process. First, this section presents a guide to the service providers selection process (Section 5.4.2.1). Second, it proposes a set of selection criteria, focused on both eligibility and evaluation requirements (Section 5.4.2.2).

5.4.2.1. Approach to selecting service providers

This section outlines the approach to selecting service providers. First, it introduces the concept of competitive tendering and why it is often recommended in WfD programs. Second, this section presents different measures to strengthen the tendering process. Third, it gives an overview of the different steps within the tendering process.

i)   Competitive tendering

To address the challenges outline above, service providers selection typically entails **competitive bidding** to efficiently identify high-capacity service providers best positioned to deliver program results in a cost-effective way. Competitive tendering can contribute to rigorous pricing as discussed in Section 0 and it is also one of MCC's standard procurement methods and therefore aligns with MCC's policies and procedures[47]. Through this process, information about service providers' capacities and capabilities is collected in a systematic and comparable way across organizations. This is particularly important in contexts where little prior information is known such as where service provider maturity and data availability are low. While more unusual, direct contracting is possible in markets where few service providers exist. To ensure a timely and efficient selection and contracting process, as well as to mitigate the risk of overlooking important constraints to implementation, open request for proposals (RFP) are commonly used.

ii)   Measures to strengthen the tendering process

Depending on the level of maturity of the providers market, MCC may need to use additional strategies to ensure the rigor of the tendering process. Mainly, it will be important to use the RBF due diligence process conducted before (see Section 4) to select those providers best suited to achieve the targeted results for the targeted populations, under the existing conditions. The competitive tendering process should be set-up to reflect the finding of the due diligence and include screening questions or specifications about the intervention that would ensure the most well-suited providers respond to the tender and are being considered. Other potential strategies are outlined below which either (1) seek to build MCA's knowledge of the market so that the RFP can be better targeted to these needs (benchmarking and Rapid Market Appraisals), (2) inform providers on the program's requirements and best practices to improve their applications (Market engagement and sharing information from previous programs) or (3) improve the efficiency of the overall process (two-phase selection processes):

1. **Conduct a benchmarking exercise:** Initial assessments can be undertaken to build an understanding of the market to inform the tendering process (TORs drafting, evaluation matrix), including defining the evaluation criteria described below. For instance, to inform the Colombia Employing for the Future design, a benchmarking study was undertaken, gathering data from private providers, and reviewing related government programs. Similarly, the

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[47] MCC (2003). MCC Program Procurement Guidelines. MCC. pp 7

Morocco RBF Jobs Fund program ran an assessment with potential service providers to better understand the service providers ecosystem and their capacities.

2. **Rapid Market Appraisal:** For the Nepal EF, service providers were required to undertake Rapid Market Assessments (RMA) in collaboration with the private sector to identify the skills demanded by potential employers in a specific geographical area. This information was used to adapt service providers intervention proposals, and for the Fund to assess provider's RMA alongside their proposed budget, capacity, and experience.

3. **Market engagement events:** Public events can be used to disseminate information and answer questions about the program and tendering process. This strategy ensures engagement with diverse service providers, helping ensure that the most relevant organizations apply and that their proposal is as relevant as possible. For the Morocco RBF Jobs Fund, the program organized two dissemination events with widespread invitations (to organizations not currently active in WfD programs such as social actors) to discuss the program and its objectives.

4. **Share information from previous employment programs:** Sharing key information on past programs can ensure that service providers are better informed regarding the nature of the program at hand. The Colombia "Emergency Innovation" SIB shared information (such as costs of trainings) from past employment programs to help set expectations on results prices within a reasonable range.

5. **Two-phase selection process:** Competitive tendering can be burdensome for service providers required to develop detailed proposals and for the MCA team assessing applications, especially if the tendering process includes heterogenous and unsuitable applicants. In response to these challenges, the tendering process can be made more efficient by using a two-phase selection process. In the first phase, service providers respond to an expression of interest (EOI), and only the pre-selected providers are then asked to respond to the RFP. The EOI would only include enough information to be able to pre-select service providers that are likely a good fit for the program. The MCA can then also provide feedback to service providers based on the EOI, reducing the burden on unsuitable service providers if they are not pre-selected. Service providers likely to be suitable can then proceed to the second phase and the thorough assessment it entails. To make this process as efficient as possible, it is important to limit the information requested in the first stage to the minimum required to assess eligibility for the second stage.

iii)   Stages of tendering

The tendering process can be divided into four main stages. These are presented in detail below and as a summary in Figure 9.

1. **Open the tendering process:** The program develops the terms of reference (TOR) of the tendering process and disseminate to the market. In a two-phase selection process, the program then issues a request for expressions of interest (EOI), a useful practice to get data from service providers, such as past performance and the financial proposals. That data can provide input to build benchmarks on the cost-effectiveness of employment services to use on the final assessment of proposals and to improve the RBF design.[48]The program can then publish a request for proposals (RFP) with well-defined parameters important to the program, such as geographical focus, target populations, type of WfD services and the results the program would pay for.

2. **Proposal development and technical assessment**: Service providers submit responses to the RFP responding to the defined selection criteria (see Section 5.4.2.2 below). Once proposals have been received, the program team should undertake a technical assessment of the proposals and make recommendations on the best candidates based on the selection criteria outlined below. Additionally, after receiving the technical proposals, the program team usually conducts a due diligence to evaluate the legal, organizational, and financial risks of service providers and assess the reliability of their proposal.

3. **RBF design**: Following the selection of the service providers, elements of the RBF design may need to be finalized in collaboration with these service providers. For example, the Morocco RBF Jobs Fund program asked service providers to outline in their proposal their technical assistance needs so that the program could include activities related to those needs in the project budget and workplan. The timeline of this step heavily depends on how much the RBF design is developed at the time of launching the RFP.

4. **Contracting & performance management**: Once service providers have been selected and RBF design is approved, contracts are developed. RBF experience shows the importance of contract design in preserving the drivers of RBF and in ensuring quality of service delivery. For example, including breakout clauses and the ability to re-negotiate targets ensure that the RBF remains flexible, adaptable, and results focused. Section 5 provides recommendations on the contracting process of service providers.

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[48] Along with other benchmarking assessments, like available data on similar past experiences.

Figure 9. Timeline of stages of the tendering process
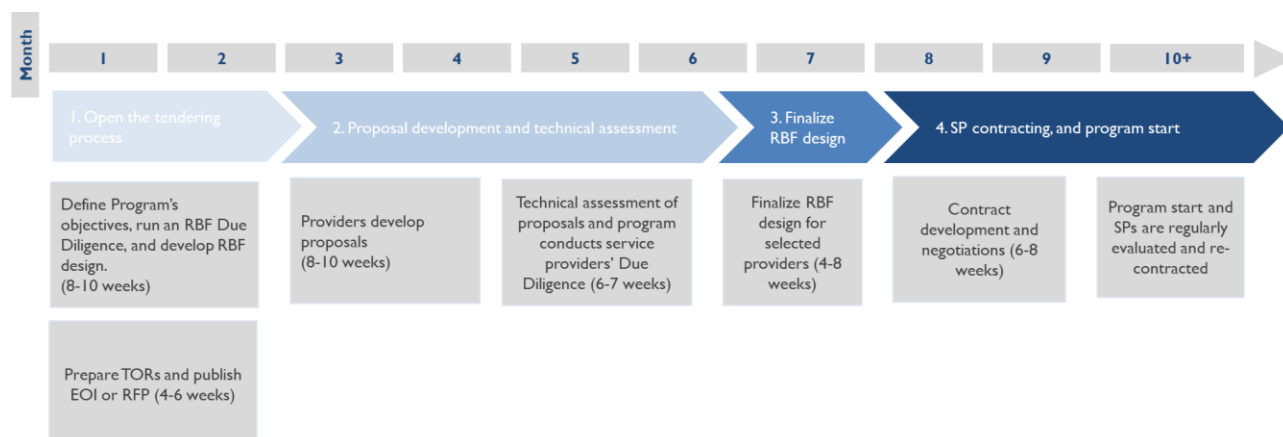
*These timelines are an approximation based on other RBF programs.

5.4.2.2. Selection criteria and weights

Determining the selection criteria is central to the programs and should be driven by two considerations. First, selection criteria should correspond to the program's key objectives. For example, in a WfD program focused on integrating women in the workforce, experience working with women would be an important selection criterion. Second, the amount and type of information required should respond to the program's capacity (timelines, administrative costs, staff) to analyze the information provided through this selection process (see Section 5 on MCA capacities).

Based on a review of selection criteria used in other RBF projects the following set of preliminary evaluation criteria can be used:[49]

1. **Cost-effectiveness:** Proposed prices per result should be at or below a benchmark price determined by the program based on the methodologies outlined in Section 0. In some cases, comparing between providers can also provide some valuable insight.
2. **Evidence of achievement of results at proposed price:** Assessed the service provider's track record of achieving the proposed WfD results (in quantity and quality) in general and for vulnerable populations, within the proposed context, and, ideally, for the proposed price per outcome. This includes both implementation of employment / employability interventions, populations and geographies that are similar or equivalent to those prioritized by the program. It assesses the internal (availability, rigor, relevance) and external (replicability) validity of the evidence submitted by the service providers.
3. **Intervention model, implementation plan, and risk mitigation:** Assesses the service providers' intervention model, operational and financial implementation plan, as well as a risk mitigation strategy. The assessment should focus on the extent to which the intervention model and implementation plan are well-articulated and costed and if the proposal indicates that the service provider has critically assessed how to adapt the intervention model to the needs of the target population and the labor market. It should also focus on proposals that demonstrate how to incorporate best practices and prior learning, and if the service provider identified the appropriate risks that may arise during implementation and how to mitigate them.
4. **Delivery capacity and experience:** The service provider's delivery capacity is assessed based on the service provider's organizational capabilities and experience along several dimensions. It includes:
    *   **Organizational and staff expertise and experience**: Expertise and experience of the organization and key staff in delivering the proposed, or similar, interventions, working with the target population, and in the proposed geography.
    *   **Performance management capabilities**: Data collection and analytics capabilities and a track record of evidence-based decision making.

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[49] As part of the two-phase process outlined above, it might be suitable to use binary eligibility criteria to create the short list of service providers to be thoroughly assessed. Such eligibility criteria should cover key requirements such as does the service providers' offer meet price thresholds and making an application which is compliant with guidelines (e.g. length, all questions addressed).

- **Governance:** Clarity on roles and distribution of responsibilities within the service provider.
- **Financing:** a credible plan to finance service provision prior to the payment of results.
- **Partnership capabilities:** Clarity on roles and distribution of responsibilities with partners, experience partnering with the government and other stakeholders, and experience resolving challenges.

5. **Government systems integration and sustainability:** Where relevant, this criterion assesses the relevance and quality of the service providers proposed strategies to ensure workforce development systems and policy integration. It also assesses whether service providers have a credible plan for sustained impact, for example, through sustained direct financing or skills and knowledge transfers to the government or an organization with sustained financing.

5.4.2.3. Weighting and scoring

Finally, the program team need to define how to evaluate service providers against the eligibility and selection criteria. For this, it is necessary to assign weights to each evaluation criteria as well as a scoring system.

Assign weights for each criterion: Evaluation weights should be set to respond to the program's objectives and context and carefully calibrated to provide realistic and reliable responses. For instance, while value-for-money is critical consideration, weighting it too heavily can cause applicants to offer unrealistic prices, leading to the winner's curse. To avoid the winners curse, more weight can be given to the other non-price factors listed above.[50]

More broadly, in contexts with low service provider maturity, more weight should be assigned to the technical proposal, while in contexts with long-established service providers, it may be possible to allocate more weight to value-for-money if experience and capabilities have already been demonstrated. In the light of past WfD programs selection processes, Table 10 provides some considerations on weight allocations.

Table 10. Weighting considerations

	Evaluation criteria	Consideration for choosing criterion weight within selection process
Price criteria	Value for money proposition (price-per result)	**Medium weight:** - The value for money is also addressed in the eligibility criteria - Important not to over-weight to avoid the Winner's curse - More important in contexts where service providers are mature - Less important when few service providers are needed (e.g. pilot programs)
Non-price criteria	Evidence of cost-effectiveness	**Medium weight**: - Used to mitigate the Winner's curse - More important in low data/low service provider maturity environments
	Intervention model, implementation plan, and risk mitigation	**Low to Medium weight:** - Important when innovative approaches are needed in service delivery model - More important in low data/low service provider maturity environments
	Delivery capacity and experience	**High weight**: - Used to mitigate the Winner's curse - More important in low data/low service provider maturity environments
	Government system integration and/or sustainability	**Medium weight:** - More important in programs where this is an explicit objective

Define the scoring system: To assess the performance of the service provider for each criterion, it is important to objectively define the parameters that influence the assessment. For this, it is important to: i) have a clear definition of each criterion (see Section 5.4.2.2 on proposed definitions), ii) have clear guidance on how to assess each component, by knowing for example what a maximum score would mean for each criteria, and iii) define how to score service

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[50] Apart from service provider selection criteria weighting, the winners curse can also be minimized by approaches including (1) two-phase selection process described above, such as in Nepal where the RMA was used to generate market information to support informed negotiations which do not rely excessively on price or (2) multi-round funding periods where contracts are awarded based the quality of past performance as, for example, is facilitated by the Star Rating system in Australia, (2)

providers that differ from the "best scenario". The cost-effectiveness ratio can either be directly provided by service providers or calculated by program (e.g. Morocco RBF Jobs Fund program).

5.4.3. Example Morocco RBF Jobs Fund program

This sub-section uses the example of the Morocco RBF Jobs Fund Program to illustrate the topics and processes presented in Section 5.4.2.

i) Competitive tendering:

The selection of service providers was done through a competitive tendering process. This was decided due to an initial analysis of the service providers landscape and was aligned with the project's goal of enhancing new actors within that landscape.

ii) Measures to strengthen the tendering process:

The project performed an initial assessment of the service providers' landscape. This assessment consisted of a **benchmarking exercise** with potential service providers to collect information on, for example, expectations on the program, risk appetite, and capacity to implement the intervention. Interviewees were NGO's and social organizations with experience working with vulnerable populations, and service providers with experience with previous employment programs in Morocco and track record in implementing employment services. This exercise showed that the level of maturity of service providers seemed to be heterogeneous and the insights from these interviews were incorporated into the design and the tendering process.

iii) Stages of tendering:

The **selection process** was a two-phase competitive tendering process. First, the screening phase focused on assessing the technical aspects of the proposals. Technical expertise was assessed through providers' previous experience working with employment results or working with vulnerable populations. This criterion was assigned the highest weight in the assessment (50 percent in the first phase and 35 percent in the second). During this phase, the program pre-selected proposals that met the eligibility and relevance requirements, and that demonstrated the necessary capabilities to design and implement the intervention. Then, pre-selected service providers received feedback from the selection Panel[51] and were asked to re-submit a proposal. Additionally, the program's staff visited the headquarters of the pre-selected providers to conduct a due diligence and verify the information provided.

The second phase assessed the financial aspect of the proposals. A methodology was used defined in the program's terms of reference to calculate a "cost-efficiency" ratio to evaluate the value of money of proposals. It also re-assessed the final version of the proposal.

iv) Selection criteria, weights and scoring system

The selection criteria and weighting considerations were based on another benchmarking exercise, leveraging good practices from past international experiences like the EF in Nepal, SKY program in Ethiopia and Job Active in Australia. The assessment focused on providers' capabilities, experience, and cost-efficiency. Table 11 shows the assessed criteria.

The Morocco RBF Jobs Fund program had a strong focus on the integration of women and non-degree holders into the formal labor market, which implied tailored approaches would be required from service providers. As such, service providers had to provide detailed evidence of how their intervention would address the needs of those populations as well as a separate cost-effectiveness ratio for women and non-degree holders. The weighting of the selection process reflected these considerations in the second phase by assigning the highest weight to experience of service providers in achieving results (35 percent) and the intervention model (20 percent). To mitigate the risk of the winner's curse, the pricing criteria was allocated a 20 percent and divided into three sub-ratios. Last, a scoring matrix developed by the program team defined what a robust answer would look like for each criterion.

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[51] The Panel was comprised by different government representatives from the Ministry of Labor and ANAPEC.

Table 11. Selection criteria and weights in Morocco for the second phase of the selection process

Criteria	Sub-criteria	Weight
1. Capacities and experiences of the group to achieve the results sought by the RBF program (80%)	A. Proposed intervention model.	20%
	B. Relevance and effectiveness of the proposed strategy for social inclusion and gender mainstreaming.	10%
	C. Organizational and managerial capacity.	15%
	D. Group experience and demonstration of obtaining results.	35%
2. Cost-effectiveness (20%)	A. Total cost-effectiveness	10%
	B. Cost-effectiveness ratio for women	5%
	C. Cost-effectiveness ratio for non-degree holders	5%

5.5. Designing RBF administrative arrangements: governance and contract design

Once the RBF technical design has been finalized, the administrative arrangements for the RBF need to be defined. This includes: 1) defining a clear governance structure to oversee implementation (including the roles and responsibilities of different stakeholders) and to ensure that RBF-related decisions are taken in a transparent and effective manner, and 2) designing the service provider contracts reflecting the design details on topics throughout Section 5. While these issues are not unique to RBF, they take on different topics of focus for an RBF context and should aim to achieve two main objectives:

1. **Preserve the RBF value-add and nature**: Governance structure and contracts should detail the design, the terms of the agreements, and the roles and responsibilities to ensure accountability and alignment of all stakeholders. Well defined contracts are central to preserving the desired focus on results and service provider flexibility.

2. **Manage RBF risks**: Governance structure and contracts should protect parties against risks and specify protocols to address those risks when they materialize. This is particularly important for RBF in WfD which ties funding to uncertain results often.

This section presents the considerations for setting-up the governance structure (section 4.5.5.1) and designing contracts (section 4.5.5.2). A template service provider contract is provided in Appendix 3.

5.5.1. Governance structure

The governance structure is critical to oversee the RBF implementation and should be agreed upon between the MCC/MCA, the government, and other key stakeholders prior to implementation. This includes clearly defining the roles and responsibilities of each stakeholder as well as the processes and protocols that should be followed for decision-making and dispute resolutions. In particular, the governance structure should clarify:

1. *How payments will be administered*- the governance structure should define who will disburse funds, how, and when. In most projects, this will be the responsibility of the MCA.
2. *How disputes will be resolved*- the governance structure should define the processes and responsibilities to make decisions in case an RBF-related dispute arises such as service providers contesting verified results.
3. *If and how design revisions will be allowed*- the governance structure should define the allowable scope for revisions to the design.

In WfD programs at MCC, the RBF governance structure would typically include the MCC, the MCA, service providers, a verifier, and the government. In some contexts, additional stakeholders might be needed, such as investors in the case of SIBs or advisors when a steering committee is established as part of the program governance. The roles and responsibilities of those stakeholders during the RBF implementation are usually as follows:

1. **MCC and MCA** are responsible for overseeing the overall implementation, with MCC acting as a support to MCA. MCA is responsible for disbursing funds to service providers upon achievement of results. MCA should also be actively involved in managing the performance of selected service providers, ensuring they achieve the desired results or are making appropriate course corrections (see details in Section 6 on performance management). Both MCC and MCA should be involved in all dispute resolutions and RBF revisions.
2. **Service providers** are responsible for delivering the WfD intervention and for reporting results to facilitate the verification process.
3. **The verifier** should lead the verification exercise, reporting to the MCA on findings.
4. **The government** will often generate results to support verification (in many WfD RBF programs) and be part of the dispute resolution and RBF revision processes if any.

These roles and responsibilities and how they relate to various RBF implementation processes should be included in the contract between service providers and the MCA (see Section 5.5.2 below for more details on this).

5.5.2. RBF contracts

Designing contracts efficiently is important to operationalize the RBF design and ensure that the duties and rights of all parties are clearly defined and understood. In WfD programs, RBF contracts should cover three main topics: program-related information, the RBF design elements, and protocols to manage contract renewal, project risks, and disputes[52]. These are detailed below.

Program-related information: RBF contracts should clarify the program objectives and parameters of the intervention. This should include at least:
1. The program description, including background, intervention, and target population.
2. The financial size of the contract with service providers.
3. The contract duration. There are trade-offs when choosing a shorter or longer duration contract. Table 12 presents the advantages and disadvantages of each of these choices.

Table 12. Advantages and disadvantages of contract duration options

Contract duration	Advantages	Disadvantages
Short duration	• Allow for faster learning, adaptation, and measurement. • Tend to attract larger and more experienced providers. Therefore, it may also be well suited for scaling programs with long track-record.	• Tend to be less flexible in changing contractual terms. • Can be less feasible because of the time-horizon constraints of outcome payers. • Can include less ambitious results because there is less time to observe medium and long-term outcomes.
Long duration	• Allow to review contract terms, and more frequently adapt them if needed. • Allow to exclude and replace providers with poor performance. • Allow to include smaller and potentially less experienced providers in the program, and therefore strengthen the service provider landscape.	• Have higher transaction costs because it is costly to continuously renovate and review contracts, particularly in programs with a large pool of service providers. This may require increased contract management and administrative costs. • If there is low flexibility in the contract, it might be harder to get the design right compared to shorter term contracts were there is often less uncertainties.

RBF design elements: Contracts should outline what results service providers are expected to achieve, how they will be rewarded, and how they will be verified. This is important to bind the service provider to the RBF design. Concretely, this includes specifying:
- What results will be paid for, including targets and timing achieving those (see Section 5.1).

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[52] Instiglio (2017). A practitioner's guide to Results-Based Financing. Mississauga: World Vision.

- The prices that will be paid for individual results as well as the associated payment schedule (see Section 0). This also includes MCC's responsibilities in terms of how and when disbursements will be made.
- The measurement and verification approach to evaluate service provider's performance, including any reporting requirements for service providers (see Section 5.3).

Renewal, non-renewal, and termination: The contract should clearly specify the timelines, responsibilities, conditions, and process for service providers contract renewal or termination. In particular, it should specify the conditions service providers need to meet to see their contract renewed. In the cases of termination, the contract should clarify the reasons that might justify termination as well as how it will be operationalized including whether service providers will be compensated for progress to date. These processes should fit within an overall framework focused on retaining strong performing providers while encouraging the exist of low performers to improve the quality of the service provider pool over time. For example, the Australian Star Rating system facilitates the retention of high performing providers and the exclusion of low performers by projecting expected job outcomes and comparing this with actual outcomes to provide a performance scores for each service provider – services providers with low scores are not to be awarded future contracts.

Risk management and dispute resolutions: Contract should clearly identify key risks that may impact the achievement of results and stipulate what process will be followed to address these risks. These risks and how they will be updated and monitored should be outlined in the contract. Typically, RBF contracts should include risks such as[53]:
1. **Evaluation and measurement risks** which affect the verification of results. This includes problems with baseline data, issues with subsequent data collection or measurement, delays, and evaluator errors.
2. **Non-compliance risks,** including failure to act within laws and regulations or delays in meeting obligations specified in the contract.
3. **External factor risks,** such as:
   - Changes in government policy or actions of other agents, which could significantly affect results
   - Force majeure events that significantly affect the achievement of results or performance of any party due to factors beyond their control, such as natural disasters or the COVID-19 pandemic.
4. **Currency and inflation risks.** As with any contract involving international transactions and being executed over a period of years, parties should define exchange rate and inflation corrections based on appropriate financial advice or, in the case of exchange rate risks, avoid them using financial products. For Example, the Argentina SIB had to delay the implementation dates of the program due to the 2017 economic crisis, which created a lot of currency variations, requiring renegotiations with investors that had to be re-arranged and fixed in the contracts.

Given the existence of these and other risks, the contract should establish a clear process for handling these situations. This is related to the governance structure, and includes considerations such as who monitors what risk, who informs others, who is responsible for mitigation, and what is the decision-making process. In certain cases, establishing a steering committee can serve as a mechanism to effectively respond when these situations arise. For example, the COVID-19 pandemic has prevented many implementers and providers from delivering their interventions. The "Emergency Innovation" SIB, for instance, had to be adapted and key design-elements were re-designed (such as the prices for results and incorporating greater focus on placement rather than retention) to respond to the COVID-19. In cases like this, when programs are considering full re-designs, a steering committee can help determine very rapidly whether and how a re-design can take place, including its scope.

Not all risks can be anticipated and specified in the contract, and additional disputes may arise as a result during implementation. These may require additional decisions-making or dispute resolution mechanisms. RBF contracts should clearly outline how disputes will be resolved as part of the governance structure (who oversees them, who is involved in solving them, any time limits for dispute resolutions, etc.)

MCC standard contracting procedures: Contracts should also include typical clauses from MCC/MCA's standard contracting procedures. This includes compliance with MCC's policies regarding fraud and fraudulent activities, procurement and use of MCC funds, human trafficking, social inclusion, and financial accountability. It also includes compliance with MCC's reporting (including financial reporting) and auditing requirements. Additional specifications also

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[53] Instiglio (2017). A practitioner's guide to Results-Based Financing. Mississauga: World Vision.

include clauses around conflict of interest, data confidentiality, restrictions to the use of MCC's funds, communication, and insurance.

6. Implementation and performance management considerations

For RBF to deliver value, it is important to ensure that the right capacities exist to manage and deliver the RBF for MCAs, service providers, and the government. Foremost among these capacities is **performance management**, the capacity of each actor to support improved performance over time. Performance management is needed for service providers to track their results and enable course-corrections in their intervention. MCA's must also undertake performance management, ensuring the desired results are being achieved, appropriate course corrections implemented, and contracts are being actively managed in cases of underperformance. Likewise, governments can support performance management through effective use of their data and supervisory role.

This section outlines what performance management is, why it is important and how it can be used in WfD programs (Section 5.6.1). It then outlines the capacities required for effective performance management as well as other key capacities needed to support the RBF mechanism for service providers (Section 5.6.2), MCA (Section 5.6.3) and government (Section 5.6.4). We conclude by summarizing the importance of broader learning agendas, which build on the lessons of performance management and facilitate broader program improvements (Section 5.5)

6.1.   What is performance management?

Performance management is the dynamic iteration of program design and delivery, driven by real-time data and insights, to improve performance and deliver the results required for RBF payments. Strong performance management capabilities maximize impact and minimize payment risks.

Performance management is particularly critical to effective WfD programs able to flexibly adapt in response to changing labor market needs and make data-driven course-corrections. This may entail enabling service providers to adjust the types of training they deliver based on real time data revealing which types of training are most in demand and are proving successful in supporting employment opportunities for beneficiaries. Performance management can also support improvements to training delivery, such as in the Colombia SIB I where high program dropout rates were identified and addressed through retention strategies such as providing participants with subsidies (e.g., snacks, transportation subsidies), involving members of the participants' families, and organizing regular, structured events[54].

As described here, performance management can be thought of as a real-time action-oriented learning process which supports and complements MCC's standard monitoring and evaluation work undertaken over longer periods. These approaches can be of mutual value by aligning the RBF approach and related performance management system with MCC's broader monitoring and evaluation framework, ensuring that relevant insights are generated and captured to inform MCC's overall summative evaluation.

6.2.   Service providers capacities for performance management

As the entities responsible for achieving results, service providers must have the capacities to make effective use of performance management to deliver, measure and track their results. To this end, service providers must be able to operate well-functioning performance management systems based on: i) relevant and timely data on intervention implementation and results; ii) an information system that collects and processes this data to generate real-time and insights for decision makers; and iii) a team with the skills, culture, and incentives to transform performance insights into improved practices, as explained below.

i)   **Relevant and timely data:** Performance management requires data, including on indicators that measure activities, outputs, and outcomes relevant to achieve results.
ii)   **An information system with real-time information:** This requires investments in technologies (hardware and software) to collect, draw insights from, and report on information.

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[54] Instiglio (2018). Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs. Ottawa: IDRC.

iii) The right team with a performance culture: Data is not enough to implement performance management and achieve results. It is critical to have a team able to (1) lead and coordinate the implementation of the performance management system and (2) transform data into actionable insights.

Setting-up a performance management system require three steps: i) designing the system in collaboration with program stakeholders, ii) providing capacity building on the use of the system and, iii) testing and piloting to fine-tune the system while assisting in the generation of insights and course-corrections in the first performance management cycles.

Building service provider performance management capacity is critical to successful implementation. This capacity can be built in three ways: i) hire relevant staff; ii) train existing staff; or iii) hire an external organization to undertake relevant functions. The time and cost of setting up and implementing the performance management system will depend on:

- **The scope and scale of the system**, which depends, among other factors, on the complexity of the program, the number of indicators to measure, and the number of individuals in the team.
- **The existing M&E infrastructure** of service providers and whether it needs to be harmonized across service providers: designing something from scratch is often more expensive than building on an existing system.
- **The extent of the capacity building** required to allow service providers to manage the performance management system, including trainings and accompaniment during implementation. This will depend on the initial assessment of service providers' maturity in the due diligence.
- **The IT infrastructure**: depending on the pre-existing infrastructures and the IT solutions used, significant investments in hardware and software might be required, potentially requiring MCC support beyond the RBF itself.

6.3. MCA's role in performance management

As part of their responsibilities overseeing day-to-day project implementation, MCA's have a critical role managing the performance of service providers. The support needed and provided to service providers will depend, in part, on their pre-existing capacities and infrastructure. This section describes how MCA can support service providers' performance management and the capacities needed to be able to do so effectively.

6.3.1. MCA's performance management functions

MCA's have a critical role in actively managing service provider contracts, an essential part of the RBF implementation to ensure timely delivery of the results to the agreed quality. Effective contract management requires balancing appropriate oversight without imposing unnecessary bureaucratic requirements[55]. In this context, MCA's contract management responsibilities include four main functions: 1) tracking and support service providers performance, 2) ensuring employer and jobseekers satisfaction, 3) dispute resolution and re-negotiations, and 4) undertaking active contract management.

1. **Tracking and supporting service providers performance:** To make payment for results and support improvements over time, MCAs must be able to track the timely achievement of agreed on results to expected quality. To this end, MCAs responsibilities should include:
   o Reviewing quarterly reports from service providers, to identify challenges and track progress. This includes meeting with service providers on a regular basis to discuss this performance.
   o Identifying additional needs from service providers and provide capacity building and/or additional support to meet those emerging needs and address any challenges identified.
   o Providing access to a platform (see below) to track progress in real-time and provide data on the above.

   Where the desired results are not being achieved, contract management entails deciding on how to provide additional support, providing a technical and managerial focal point for service providers seeking to improve their delivery. MCA should support service providers in implementing course-corrections in case of poor performance (point 1 above) or changing conditions (e.g. government regulation). In particular, MCA should support them in identifying solutions as well as providing, where possible, capacity building or technical assistance through

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[55] OECD (2014). Connecting People with jobs: Activation policies in the United Kingdom. OECD Publishing.

institutional resources at MCC or by contracting external consultants. See Section 6.1 above for more details on performance management and course corrections.

2. **Ensuring employer and jobseekers satisfaction**: RBF contracts should include robust systems to respond to complaints of unfair treatment and poor service delivery to keep service providers accountable. This can include conducting beneficiary and employer satisfaction surveys; service guarantees or any other feedback mechanisms (e.g. hotlines) to collect complaints from beneficiaries and employers. In the Morocco RBF Jobs Fund, there are plans to collect data on beneficiary satisfaction and use this to inform decisions to renew service provider's contracts.

3. **Dispute resolution and re-negotiations**: Dispute may arise during the RBF. For example, a service provider might contest verified results and associated payments. Additionally, risks may materialize during the RBF, which might impede the ability of a service provider to meet the terms of its contract. For example, an economic recession might impact the ability of service providers to place jobseekers as pre-agreed. Performance management entails the ability to respond effectively to those situations and take the appropriate course of action in light of the governance structure and the terms outlined in the contract.

4. **Active contract management:** MCA's role is to actively apply the terms and conditions of service provider's contracts. This includes deciding when and how to renew contracts with high-performing service providers, and in cases of underperformance, not renewing, or terminating contracts. Combined with the points above, the focus should be on building the capacity of the overall service provider pool, while supporting the retention of better performing providers, with the less effective providers losing contracts.

6.3.2. MCA capacities for RBF and performance management

To effectively oversee implementation, MCAs should be resourced adequately in terms of staff/skills and data systems.

In terms of staffing, in addition to the capacity to contract an effective verification process and to make results-based payments, MCA's should have the capacity to undertake the performance management functions described above. The more numerous the service providers and the lower their capacities, the more resource and time intensive it will be for the MCA office. Generally, it is good practice to have a team dedicated to the RBF within the MCA office that can act as technical and managerial focal points for MCC, service providers, the government, and other stakeholders. While it is important for the success of the RBF to benefit from MCA leadership support, two important roles are needed within an MCA office:

i. **A project manager** dedicated to the RBF- this person would manage the day to day implementation of the RBF including contract management with service providers (see below) and the verifier as well as the relationship with the government to ensure continued buy-in and facilitate take-up and scale-up. This can include, for example, running workshops or events and organizing data sharing agreements when required.

ii. **An M&E manager/analyst** dedicated to the RBF- this person would be responsible for service provider performance management and the verification process to ensure that MCA pays for the right results. It would also be important for the M&E manager to establish linkages with the M&E framework of the overall Compact. If possible, this person would be responsible for building service providers and government performance management capacity, with the support of the MCC DC M&E team.

These staff, and along with other key MCA staff, should be trained in the use of RBF to limit the dependency on external consultants.

The service provider IT-based information systems described above should also be used by MCA to support and monitor to facilitate quality assurance and transparent performance reporting. For this, MCA needs to support a technology and management infrastructure that works across all contracts and ensures accurate exchange of data, including performance and financial information. In the Morocco Jobs Fund, MCA has access to the performance management platform used by service providers and can extract data relating to performance, verification and access the contract information of service providers. MCA is also able to extract results that will be paid for and record payment history.

6.4. Government role in performance management

Finally, governments can also play a critical role in improving performance over time, especially where government program adoption is being pursued as pathway for sustainable impact from MCC's investment. To facilitate this adoption, it is important to invest in building government buy-in and alignment, including aligning with their data systems, and to build their capacity to administer the system, eventually taking over the performance management capacities of the MCA. In addition, given the relative novelty of RBF, government agencies should also build relevant capacities to support the verification, dispute resolution and revision mechanisms. Providing capacity building on RBF to relevant government entities is one way to facilitate government take-up and ensure their success in doing so. These capacity activities can include the provision of workshops, trainings, and practical resources to engage the government more closely with the program and provide the skills and knowledge that will be needed for efficient and effective government take-up. If not addressed, this could cause delays and undermine government's interest in program take-up.

As part of the Morocco Job Funds, for example, the MCC provides technical assistance to the Ministry of Labor and the ANAPEC to strengthen their system to obtain quality employment results with RBF beyond the MCC Compact. The objective of the technical assistance is to equip the Government with the required skills and systems to take over the RBF, and run new RBF mechanisms, after the end of the Compact. For this, the technical assistance includes capacity building activities along two dimensions. First, a **capacity building plan** to increase skills needed to deliver RBF as well as a resourcing plan to understand what would be required to independently run an RBF program. Second, **strengthening the performance management expertise** within the organization for both services delivered directly by ANAPEC and the Ministry of Labor and those outsourced to external providers. Ultimately, the technical assistance will ensure that those government agencies have the required capabilities and expertise to run RBF programs in the future.

6.5. Learning agendas

Program evolutions and refinements of RBF WfD programs should be informed by learning agendas gathering insights on what works, how, and why. Learning agendas should draw on insights and information from performance management practices to support broader adjustments to the current or future RBF program.

A learning agenda should identify key research questions and generate in-depth insights on the design and implementation of the program, as well as recommendations on how these can be improved for the current RBF program, subsequent RBF programs or broader service delivery to achieve greater impact. Examples of research areas included in WfD learning agendas include questions on the program results and the attribution to RBF, best practices of RBF programs at different stages in intervention models, the effectiveness of the RBF mechanisms in driving results, particularly to reach vulnerable populations, as well as the process of designing and implementing the RBF and its cost-effectiveness and sustainability. Table 13 presents example questions from learning agendas used in the Morocco and Colombia projects.

Table 13. Example of learning agenda research questions

Research area	Example of questions
Overall program achievements and attribution to the RBF	o What results were achieved by the RBF program as compared to expectations? o To what extent can those results be attributed to the RBF program? o To what extent did the RBF trigger the expected changes in service providers' behaviors?

RBF mechanisms	o What RBF factors contributed to achieving the desired results? Which factors should be changed? Which factors should be maintained?
	  ▪ Did the RBF provide the flexibility imagined for service providers to adapt their intervention?
	  ▪ Did the RBF limit the scope for perverse incentives in achieving desired results?
	  ▪ Did the RBF support service providers in improving their performance management?
	o Did the RBF drive result in a cost-effectively as compared to more traditional delivery models?

Interventions and target population	o Was the RBF able to reach the most vulnerable population in an effective way? o Were service providers able to adapt their interventions successfully and at a reasonable cost to reach the most vulnerable populations?

RBF design, implementation, and sustainability	○ Was the RBF program implemented in an efficient way? What lessons can be learnt from the implementation process? ▪ Were the prices and payment structure set in line with service providers' capacity and experience? ▪ Was the performance management system and verification systems effective? Can they be sustained and scaled-up in the post-Compact period? ▪ Are the RBF cost manageable and reasonable so that they can be sustained and scaled-up in the post-Compact period?

More generally, some key outstanding key critical to the future effectiveness of WfD programs using RBF include the following:

- **Methods to support service providers capacity building**. As presented in Section 3, the success of RBF for WfD programs relies on the maturity of the service providers. Service providers maturity affects the choice of the RBF instrument, the metric selection, pricing, and the level of capacity building required throughout the RBF implementation. As such, exploring how service providers can best be supported to ensure that they can deliver quality services at scale would be a valuable focus of future learning agendas.
- **Adaptiveness of contracts.** Future research should focus on how develop RBF contracts which enable adaptiveness and responses to changing circumstances. While this is not a new topic, this is an important one that has become even more relevant through the COVID-19 crisis where disruptions in economies have resulted in large disruptions on the labor market. Adaptiveness of contracts is particularly important for RBF in WfD because of the vulnerability of the labor market to external factors, and particularly macro-economic conditions. In order to keep RBF contracts relevant and realistic but ambitious, it is important to test how prices and targets can be adjusted and how interventions can be adapted quickly and at a low cost for service providers and outcome payers alike.

Learning agendas can also be an important tool for government take-up. By focusing the learning agenda on questions of interest to the government (e.g. demonstrating cost-effectiveness), they can help build government awareness of RBF's benefits and their interest in adoption. This buy-in can be supported by an accompanying dissemination plan, including workshops and events with government, to ensure the evidence generated reaches relevant decision-makers.

The Colombia SIB I, for example, implemented a learning agenda to generate evidence on the effectiveness and efficiency of the SIB. In particular, the learning agenda analyzed the efficiency of the RBF implementation, cost of results per beneficiary and across different populations, insight on service provider behavior changes generated by the SIB, and the effectiveness of the RBF mechanism to achieve greater results. This learning agenda only provided essential evidence for WfD programs in Colombia, for instance revealing the cost of results per beneficiary which the government had not previous assessed. Moreover, this information was a key input for the Colombia SIB II, and later the "Emergency Innovation" SIB being developed in collaboration with the government.

6.6.   Thoughts for future research

Section 6.6 above highlighted questions that can be asked in learning agendas to ensure that lessons learned are generated for future programs. In addition to those, learning agendas could also be used to provide insights on some broader research questions for RBF in WfD. These are presented in this section.

Quantifying RBF's value-add

There is still limited robust estimates of the cost-effectiveness of RBF in WfD programs. While Section 4.1.1 presented the potential for RBF to add value in a particular context, *quantifying* this value-add might be relevant to decision-makers such as MCC, for example to incorporate within the ERR's estimates. While it might be difficult to estimate the full costs and benefits of the RBF mechanisms and particularly against the status quo or a traditional funding mechanism approach, it might be useful to understand the additional investments required to implement RBF (e.g. verification, stakeholder management) and the additional benefits of RBF (e.g. proof of concept for RBF, performance management) to estimate the incremental cost-effectiveness of the RBF mechanism. This would provide stronger evidence for the use of RBF, particularly as compared to more traditional forms of funding.

Differential pricing

Further research is required to understand how to best balance the need for rigor and impact while limiting the complexity of design. In particular, an important area of research for RBF in WfD programs is pricing effectively and differentially for specific target groups to ensure vulnerable individuals can be reached. There is little evidence so far on how to best estimate prices for those target groups and how easy it is to implement those pricing structures for service providers and project implementers. Testing approaches and gathering further insights on design and implementation will be essential to continue maximizing impact while ensuring value for money of RBF programs.

Implementation

Service providers maturity. As presented in Section 5.4, the success of RBF in WfD relies on the quality of the service providers. As such, there is need to understand how to further strengthen the engagement with service providers. Following the insights presented above, this paper identifies one particular area of further research. More work is needed to improve the selection of service providers, and particularly in assessing their maturity and their capacities. Service providers' capacity is a starting point for many design choices (RBF instrument, payment function and schedule and level of capacity building). Better understanding maturity and capacity would facilitate design and ensure adequate support is provided to ensure that service providers are able to deliver quality services at scale.

Adaptiveness of contracts. Second, it is important to keep reflecting and learning on the adaptiveness of RBF contracts, particularly in light of changing circumstances. While this is not a new topic for RBF, this is an important one that has become even more relevant through the COVID-19 crisis where disruptions in economies have significantly impacted the labor market. Adaptiveness of contracts is particularly important for RBF in WfD because of the sensitivity of the labor market to external factors, and particularly macro-economic conditions. In order to keep RBF contracts relevant and realistic but ambitious, it is important to think about how prices and targets can be adjusted in a timely manner and at a low cost for service providers and outcome payers alike, and how interventions can be adapted quickly.

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8. Appendixes

Appendix 1 – Results-Based Financing Instruments

(1) 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 10 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 10. Performance-Based Contract structure
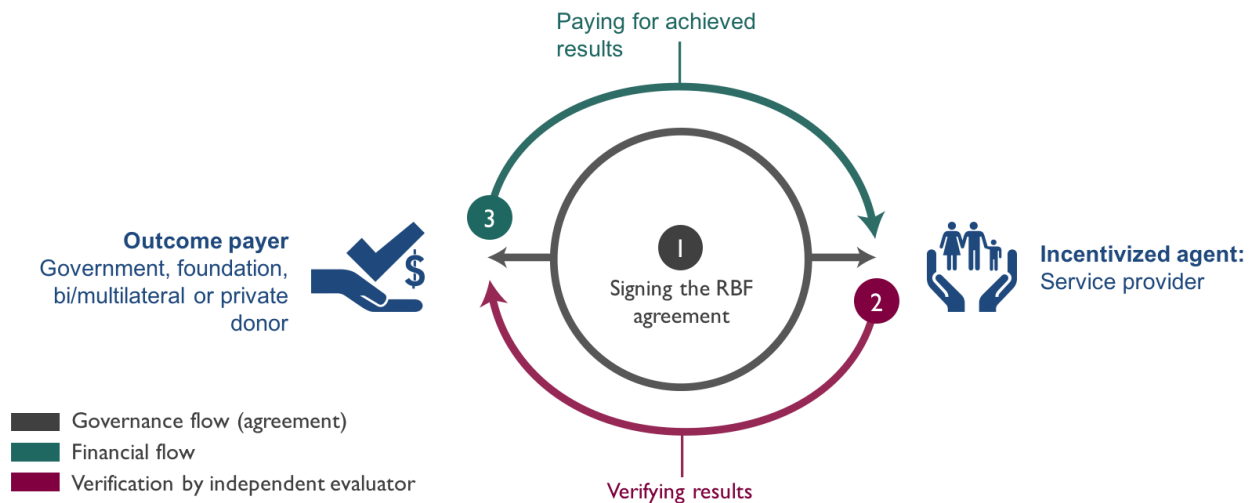
(2) Impact Bonds

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 11 depicts the structure of an Impact Bond.

Figure 11. Impact Bond structure
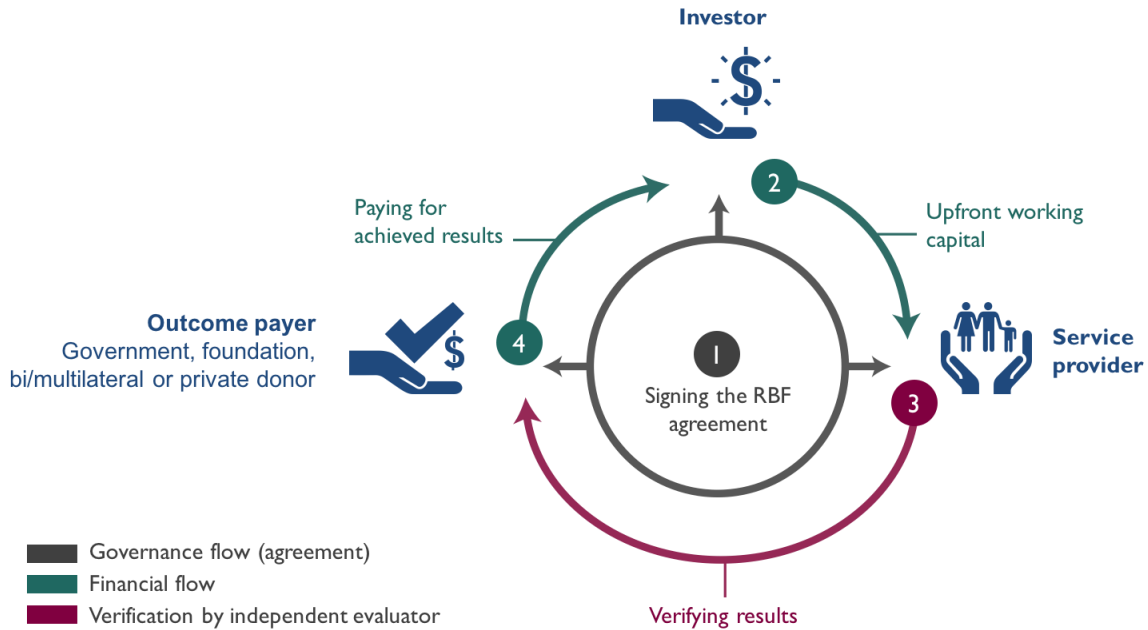
Appendix 2- International RFB WfD programs

The cases studies presented are as follow:
- A2.1: Ethiopia SKY program
- A2.2: Colombia Employing for the Future program
- A2.3: Colombia, Cali Progresses with Employment program
- A2.4: Morocco RBF Jobs Fund program
- A2.5: YES Tanzania
- A2.6: Nepal Employment Fund
- A2.7: Argentina Social Impact Bond
- A2.8: Palestine Finance for Jobs II program

A2.1: Ethiopia SKY program

Outcomes Payer(s): Helvetas/ Ethiopia Swiss Intercooperation
RBF Instrument: PBC
Program dates: Phase 1:2015 to 2017; phase 2:2018 to 2021
Target No. Of Beneficiaries: Phase 1: 2,000 vulnerable young people (50 percent women); phase 2: 3,000
Size of the Program: The first phase of the program had a funding level of CHF 646,779 (approximately USD$712,162). The second phase had a funding level of USD $1,200,000
Service Providers: Public and private providers
Target Population: Youths aged 15-30 from socioeconomic groups characterized by Helvetas as "low skill levels/no skills – no job – no income"[56]. SKY has a special focus on young people with disabilities, single parent or female-headed households, and internally displaced people

1. Project Background

In 2015, approximately 75 percent of the workforce was in low-skill employment sectors (e.g. construction) and over 40 percent were self-employed in the informal sector[57]. Helvetas also estimated that less than 50 percent of the urban workforce was working in formal employment, with a significant portion active only in family businesses. Furthermore, unemployment was diagnosed to be primarily a "youth, female and urban phenomenon"[58].

In this context, the SKY program was launched to improve the employability of youths and generate employment opportunities by supporting them in setting up their own businesses. For this, SKY provides soft skills and market-driven short trainings in the regional state of Amhara. When SKY first started, employment training programs had only shown limited results in Ethiopia. Public training programs were often inaccessible and not sufficiently responsive for the needs and interests of youths (e.g. focused on trades without real local job demand)[59]. In addition, private training providers tended to put little focus on the quality of their interventions. In this context, RBF was seen as a useful tool to focus service providers' attention on long-term employment outcomes and adjust their intervention accordingly.

Based on the success of SKY, Helvetas launched SKY-II, which started in 2018 and will continue until 2021. The SKY-II operations expanded the SKY program to two new regions and the target number of beneficiaries increased to 3,000.

2. Design Overview

a. Payment metrics and pricing

The SKY program used the following payment metrics and pricing structure for the phase 1:
- **Middle of training delivery:** The number of beneficiaries who were enrolled and started the training. This metric weighted 30 percent of the total outcome price, which was approximately USD $78.

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[56] United States Agency for International Development (USAID) (2018). USAID/Ethiopia Cross-sectoral Youth Assessment Situational Analysis. Pp 34
[57] United States Agency for International Development (USAID) (2018). USAID/Ethiopia Cross-sectoral Youth Assessment Situational Analysis. Pp 34
[58] Helvetas. (2018). Know-How and Skills for Young Tradespeople.
[59] United States Agency for International Development (USAID). (2018). USAID/Ethiopia Cross-sectoral Youth Assessment Situational Analysis.

- **Training completion:** The number of beneficiaries who completed the training. This part of the payment was also tied to a skills assessment conducted in accredited assessment centers. To obtain a National Qualification Certificate, a candidate needed to demonstrate competence in all units of competence for a specific qualification level. This metric weighted 50 percent of the total outcome price, which was approximately USD $130.
- **Four-months retention (on a job or on self-employment).** The number of beneficiaries who either retained a job or were self-employment for a four-months period. The beneficiaries must be generating income above a minimal threshold defined by Helvetas. This metric weighted 20 percent of total outcome price plus incentives, which was approximately USD $52.

Including training-related outputs was important because service providers did not receive any upfront payments to implement the intervention. Therefore, financing activities further down in the deliver chain was important to reduce risk and improve service providers' cashflow. However, to prevent service providers from focusing too much on activities, the second payment metric required that at least 80 percent of the training cohort successfully pass the qualification assessment, ensuring the quality of training delivery. Finally, the program decided to pay for four-months retention instead of six (as it was done in Helvetas predecessor program in Nepal) to reduce the verification burden.

Differential pricing was used to compensate providers for costs in training jobseekers, in terms of trades and differential beneficiary needs. Cost estimates for delivering interventions for different trades and target groups were the result of a triangulation between private providers' data, public providers' 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.
- **Incentive payments for placement and retention results**, which increase for target groups identified as having specific disadvantages (women, internally displaced populations, single parents, etc.).

Training costs and outcome payments per participant ranged between USD $193-204 and US$ 250-270 respectively. For the latter, the higher end of the range corresponds to outcome payments for the most vulnerable category of beneficiaries (disadvantaged women). Training costs are reimbursed conditional on providers placing at least 40 percent of beneficiaries. In phase 2, the payment weight for four-months retention increased from 20 percent to 30 percent and will continue to increase in future years. The target for four-months employment also increased from 70 to 80 percent.

b. Verification

Verification method and approach: Verification used an observational method. Verification was conducted by a SKY committee, comprised by Helvetas staff with the support of government entities. Initially, the SKY program considered contracting a private consultant but eventually decided that this decision would limit the ownership of the government over the program, so opted for direct verification.

Verification was conducted as follows:
- **Compliance with program requirements:** Field monitors performed random unannounced visits to providers at different stages of the intervention to verify that activities complied with the content and procedures outlined by the program. SKY also required providers to share training assessment reports.
- **Beneficiary eligibility:** Compliance with eligibility criteria was ensured from the onset as trainees were selected by the city and approved by SKY.
- **Training delivery**: This was verified by direct observation from SKY, alongside verification of compliance with program requirements, through unannounced random visits to training venues.
- **Training completion:** SKY verified trainees' National Qualification Certificates. As skills assessments are delivered by accredited assessment centers, there was no need for monitors to be present during assessment.
- **Four-months retention:** SKY verified four-months retention with unannounced visits to employers. They also verified the income earned by beneficiaries. At least 30 percent of results were verified through in-person visits, while the rest were monitored through telephone calls with trainees and employers.

In phase 2, the verification process is no longer conducted by the SKY team but by an external organization. This was decided for two reasons. First, it facilitated the geographic expansion and scale-up the program since an external verifier has the capacity to monitor four-months retention and income generation in multiple areas at a time, which would be difficult for SKY staff to do. Second, it improved the reliability and credibility of results to donors since the SKY staff provides close support and capacity building to service providers, potentially reducing independence of verified results.

c. Service providers selection process

Helvetas' service provider selection entailed a Rapid Market Assessment to identify occupations with the highest labor force demand. Helvetas then conducted a two-phase tendering process to select providers based on their experience, as well as their technical and administrative capacities to implement the intervention.

i) Strategy: conducting a Rapid Market Assessment

Based on the findings of a labor market assessment, the SKY program selected six occupations (garment, basic metalwork, food preparation, urban agriculture, construction, and hairdressing). Helvetas, in collaboration with the Regional Technical, Vocational and Enterprise Development (TVED) Bureau, then selected service providers for the identified occupations. Most of the selected service providers were government institutions and had previously worked with the TVED Bureau. However, some private and public organizations such as NGOs were also contracted.

ii) Tendering process

The SKY program sent the RFP to all service providers listed during the RMA. At the beginning, few service providers were willing to be contracted under an RBF mechanism, so the selection process was mainly based on interest. As such, and while eventually more service providers applied to the program, it was important to build the capacity of service providers to deliver quality trainings and placement services, particularly in certain trades. Therefore, the SKY program provided technical assistance to small and middle enterprises (e.g. on business skills development) with an active participation from the TVED Bureau to develop a strong pipeline of service providers for future purposes.

iii) Eligibility criteria

To be considered for selection, service provided had to:
- Meet minimal legal, administrative, and operative capacities requirements to implement the intervention.
- Have a certification recognized by the government of Ethiopia to provide TVED services.
- Deliver both technical and soft-skills training.

iv) Selection criteria

Selection was based on factors including:
- **Geography.** This was relevant to contract a pool of service providers that cover as many regions as possible, especially in smaller areas with potentially more vulnerable population.
- **Experience working with vulnerable populations and capacities to do so.** SKY assessed the quality of the training venues and if the organization provided an option to take care of children while mothers were attending the training. Providers complying with these characteristics were prioritized in the selection process.

d. Results

Out of the 2,000 targeted youths in the first phase, 1,753 participated in SKY training interventions. Of those, 79 percent were employed, and 69 percent retained for four months. On average, participants took less than a month to find employment and 92 percent of trainees reported being satisfied with their jobs.

e. Lessons learned
RBF Value-add: Benefits
- Intervention design. RBF helped drive providers to focus their interventions on labor market needs.
- Flexibility. SKY gave providers the flexibility to adapt their intervention to beneficiary needs. For example, some providers offered evening and weekend classes to accommodate trainees who had daytime obligations. Other providers combined intervention with childcare services to allow mothers to participate in the program.
- Achieving outcomes for disadvantaged groups. 75 percent of graduates from the first phase were women.

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

SKY program Challenges:
- **Verification.** Helvetas noted that rigorous and accurate monitoring of the graduates' job retention and self-employment outcomes was resource intensive.
- **Scale.** Only few providers had the capacity and will to engage with the program in its initial stages. There is still an insufficient number of providers in some sectors (e.g. metal work, furniture making and auto mechanics).
- **Attrition.** 15-20 percent of trainees were dropping out in the initial stages of the program. The SKY Secretariat interpreted this high initial drop-out rates as a sign of mismatched expectations. By providing trainees with personalized coaching and career orientation, SKY managed to reduce drop-out rates to 5-7 percent.

A2.2: Colombia Employing for the Future program

Outcomes 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)
RBF Instrument: SIB
Program dates: 2017 to 2018
No. Of Beneficiaries placed on a Job: 514 unemployed vulnerable individuals.
Size of the Program: Total program funding was COP 2.2 billion (approximately USD $0.76 million)
Service Providers: Four- one private sector organization and three NGOs
Target Population: The program focused on poor and vulnerable people aged 18-40 from the cities of Bogota, Cali and Pereira

1. Project Background

The unemployment rate in Colombia for youth aged 15-24 years is one of Latin America's highest[60]. The Colombia Workforce Development Social Impact Bond (SIB) aimed to improve the cost-effectiveness of WfD 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 long-term formal employment, the SIB ultimately aimed to promote the development of a broader market for social investment programs to scale government interventions.

This SIB – the first launched in a developing country – is part of a broader five-year, USD $8.5-million program in Colombia. Learnings from this SIB were meant to inform the design and implementation of the next SIBs, helping identify models that can be scaled by the Colombian government. The SIB funds service providers to deliver complementary training interventions corresponding to the target population's needs, specifically: training for technical, social, and emotional skills, psychosocial support, orientation and intermediation services for job placement and retention.

2. Design Overview

a. Payment metrics selected and pricing

The Employing for the Future program used the following payment metrics and pricing structure:
- **Job placement:** The number of beneficiaries who after receiving a minimum of 100 hours of intervention, obtained a formal employment contract for which they received a salary corresponding to at least the legal minimum wage, and had the protection and benefits established under the labor and social security law of the Republic of Colombia. This metric weighted 50 percent of the total outcome price, which was approximately USD $ 750.
- **Three-months retention:** The number of beneficiaries who receive a minimum of 100 hours of intervention prior to their job placement and have a valid contract (with the same conditions described in the job placement metric) for a minimum of three months. Participants were not required to remain in the same job or with the

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[60] Organization for Economic Co-operation and Development (OECD). 2016. "OECD Reviews of Labour Market and Social Policies: Colombia 2016. OECD Reviews of Labour Market and Social Policies." Paris.

same employer. This metric weighted 50 percent of the total outcome price, which was approximately USD $750.

- **Six-months retention:** The number of beneficiaries who receive a minimum of 100 hours of intervention prior to their job placement and have a valid contract (with the same conditions described in job placement metric) for a minimum of six months. Participants were not required to remain in the same job or with the same employer. This metric was a 10 percent bonus, which was an additional payment of approximately USD $ 150.

While "job retention" is more aligned with the program's long-term employment goal as compared to" job placement", it is also further from the service providers' control. Therefore, both metrics were included to keep the focus on the ultimate goal of the program while limiting the risk transferred to investors. In addition, the six-months retention metric was included with lower weight and as a bonus as to limit the risks taken on by service providers while encouraging and learning from incentivizing longer-term retention.

Due to lack of data on costs, a **cost-plus approach** was used to price outcomes, using the following four inputs:
1. Estimated costs per activity in government Programs
2. Average of costs per additional activity of three potential service providers interested in participating
3. Costs of management and estimated investors' return
4. Average performance of the four shortlisted service providers

b. Verification

Verification method and approach: The verification used an observational method and was conducted by an independent verifier, Deloitte. Verification leveraged administrative data from the online social security contribution system database ('PILA') and another Government database (from *Prosperidad Social)* to cross-reference information provided in service providers' reports.

Verification was conducted as follows:
- **Compliance with program requirements:** Deloitte verified that providers' program and curricula complied with the intervention model as approved by the project manager. Compliance verification was done before beneficiaries' enrollment.
- **Beneficiaries' eligibility:** Beneficiary eligibility was verified by the verifier as follows:
  - Age was verified through direct observation from random sample of beneficiary ID cards
  - High school completion was verified through direct observation from a random sample of high school diplomas
  - *Prosperidad Social*, with oversight from the verifier, verified the vulnerability criteria using their own databases.
  - Employability status criteria (if the beneficiary does not have formal employment at the beginning of training) was verified by the verifier using the PILA database.
- **Job placement, three-months retention and six-months retention:** Results were reported by service providers and then validated by the verifier through administrative data from 'PILA'. The project manager, investors and outcome payers also agreed on alternative verification methods in case of delays or discrepancies between the 'PILA' data and the providers' reports. Additional verification included direct observation of copies of employment contracts, work certificates[61], and the beneficiaries' certificates of contribution to 'PILA'.
  - Payment for all metrics was conditioned on completing the required number of training hours. This was verified through direct observation of attendance certificates issued by service providers. The verifier also randomly visited trainings to verify attendance and cross-check this against attendance lists.

c. Service Providers selection process

The project manager was responsible for the selection, procurement, and ongoing relationship with service providers throughout the course of implementation, including outcomes payment.

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[61] The work certificate is a document for all active employees in Colombia. Through it, each person can demonstrate their work in a public or private entity, the time and the amount accrued. The certificate is issued by human resources of each entity.

i) Tendering process

The program used a **closed competitive tendering** and aimed to select different types of service providers, including NGOs, to create a diversified portfolio of providers to mitigate the financial risk of non-performance and increase learnings from the project while supporting the development of a service provider market for future SIBs. The selection process mainly assessed providers' capacity to achieve job placement and three-months retention outcomes by reviewing their experience and past performance. Four service providers were ultimately selected, including one private organization and three NGOs.

ii) Selection criteria

The project manager selected the final list of service providers using the selection criteria in Table 14.

Table 14. Selection criteria and weights in Colombia Employing for the Future program

Criteria	Sub-criteria
1. **Technical Proposal**	A. Operational plan
	B. Relevance of the proposed program to meet the desired results
	C. Evidence to support the suggested intervention model
2. **Service provider experience on implementing similar interventions**	A. Capacity of the organization to carry out the intervention
	B. Experience with the target population in the geographies of interest
	C. Ability to monitor results
	D. Whether the organization can demonstrate a culture of performance (evaluated in interview)
3. **Cost**	A. Budget
	B. Total cost of placement per individual

d. Results

The impact evaluation of the program published in December 2020 found that participants had an increased probability of accessing a formal job of 12 percent points (three months after completing the training period) and 15.7 percent points (six months after completing the training period), with receding but positive effects for longer periods of time. The evaluation also found the program had a particularly strong impact on women, with an increased probability for women of accessing a formal job of 8.4 percent points compared to the treatment group. Other results include an increased probability for participants of having a job that generates payments to social security of 4.5 percent points 15 months after completing the training period. These results show the program was successful and had strong positive results on job placement, three-and-six-month job retention, and other associated outcomes[62].

e. Lessons learned

RBF Value-add: Benefits

- Aligning incentives. Stakeholders reported that the three-months retention metric was particularly effective in changing behaviors. Service providers incorporated new components in their intervention or strengthened existing ones to ensure achievement of results. For example, many providers strengthened the psychosocial support provided, giving more importance to accompanying beneficiaries after they were placed in jobs.
- Attention to results and flexibility. This helped providers make evidence-based course corrections during implementation. For example, in response to high dropout rates, service providers increased retention by providing participants with more cost-effective subsidies (e.g., snacks, transportation subsidies), involving participants' families, or organizing more structured trainings.

RBF Value-add: Challenges

- Insufficient focus on long-term outcomes. The six-months retention bonus payment was not enough to compensate for the extra costs of implementing the required follow-up activities. Additionally, this incentive

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[62] Universidad EAFIT (2020). "Evaluación de Impacto de "EMPLEANDO FUTURO" Primer Bono de Impacto Social en América Latina".

was introduced later in the design and was not taken into consideration by providers in their initial work plan. Finally, the timeframe of the program was also challenging to achieving this metric.

- Verification. Verification of eligibility was delayed due to challenges in obtaining data from the PILA, potentially affecting enrollment into the program as beneficiaries did not always wait for eligibility verification results. Contracting the verifier early could have helped solve some verification challenges.

Additional learnings

- Stakeholder engagement and design process (impact bond specific). Engaging donors early (in this case, the IADB and SECO) helped overcome barriers of working with the Government. They supported the government's budgeting process, which required that funds be spent within the year, by providing technical assistance thereby reducing risks for the government.
- Reaching vulnerable populations was challenging. For upcoming RBF programs in WFD, differential pricing is a useful tool to support participants needing a specific focus or different strategies. In addition, particularly vulnerable populations could benefit from "social stabilization interventions"[63] at the start of the program.
- Performance management systems. Improved performance management systems and workshops for the providers would be useful. This should be complemented with a culture of learning, analytical and course-corrective action.

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[63] This is a set of measures designed to reduce existing differences across beneficiaries, which might limit them in achieving employment outcomes. Examples of these activities are socio-occupational orientation, psychosocial support, and training in specific competences and socio-emotional skills.

A2.3: Colombia Cali Progresses with Employment program

Outcomes Payer(s): *Alcaldía de Cali* and IDB Lab (with resources coming from SECO)
Investors: Fundación Corona, Fundación Bolívar Davivienda, Fundación Mario Santo Domingo, Fundación PLAN, Fundación WWB, Corporación Mundial de la Mujer
RBF Instrument: SIB
Program dates: Started in 2019 and is expected to end in 2020
Target No. Of Beneficiaries: 856 unemployed vulnerable people.
Size of the Program: Total program funding is COP $ 5,038,814,449 (approximately USD $1,355,300)
Service Providers: Four private service providers
Target Population: The program focused on poor vulnerable people aged 18-40 from the city of Cali

1. Project Background

While the unemployment rate has decreased in recent years, from 16 percent in 2002 to 10 percent in 2018[64], it continues to be one of Colombia's priorities to combat inequality and poverty. Unemployment is particularly high for populations living in poverty, victims of conflict and young people. The Cali Progresses with Employment SIB is part of the City's Mayor Office's objectives of increasing job offer and income generation for vulnerable people and builds on the lessons from the 2017 SIB "Employing for the Future". The two SIBs are part of a broader program "SIB.CO" which aims to develop the SIB model in Colombia.

2. Design Overview

4.6. Payment metrics selected and pricing

The Cali SIB uses the following payment metrics and pricing structure:
- **Job placement:** The number of eligible beneficiaries who after receiving a minimum of 100 hours of intervention obtained a formal employment contract, for which they receive a salary corresponding to at least the legal minimum wage and have the protection and benefits established under the labor and social security law of the Republic of Colombia. This metric weighs 25 percent of the total outcome price, which is approximately USD $359.
- **Three-months retention:** The number of beneficiaries who receive a minimum of 100 hours of intervention prior to their job placement and have a valid contract (with the same conditions described in the job placement metric) for a minimum of three months with the same employer[65]. This metric weighs 35 percent of the total outcome price, which is approximately USD $502.
- **Six-months retention:** The number of beneficiaries who receive a minimum of 100 hours of intervention prior to their job placement and have a valid contract (with the same conditions described in the job placement metric) for a minimum of six months with the same employer. This metric weighs 40 percent of the total outcome price, which is approximately USD $574.

These prices were based on a **cost-plus methodology** to calculate a maximum price per person for all metrics (i.e. an average price for a service provider to successfully place and retain a person in a job for six months) which was based on the costs of intervention of the 2017 SIB. This base price was modified to 1) reflect the providers' proposals for the Cali SIB and 2) incorporate considerations on efficiency, innovation, and additional activities required to achieve the six-months retention outcome (the first SIB only paid for three-months retention). The unit price per participant is COP $ 5,340,000 (about USD $1,436).

4.7. Verification of results

Verification method and approach: The verification uses an observational method and is conducted by an independent verifier, Deloitte. Deloitte is responsible for verifying i) the eligibility of the beneficiaries to the program,

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[64] National Administrative Department of Statistics (DANE) (2018). Large Integrated Household Survey Labor Market.
[65] In the event that the beneficiary loses his job before three months and is repositioned more than 15 days later, the number of months necessary for the corresponding retention will be restarted.

ii) compliance with the minimum of intervention hours, and iii) the achievement of the defined results to disburse payments. Verification leveraged administrative data from the online social security contribution system database ('PILA'), and other government databases, such the one from the Cali's Mayor's Office, to cross-reference information provided in service providers' reports.

Verification is conducted as follows:

- **Compliance with program requirements:** Deloitte collects and verifies (using direct observation) a sample of documents to ensure compliance of the training with program regulation. These include beneficiary contracts and training certificates as well as verifying the minimum of 100 hours of training requirements. This verification can include random calls or visits to beneficiaries as needed.
- **Beneficiary eligibility**: Beneficiary eligibility is verified by Deloitte as follows:
  o Age is verified through a direct observation of random sample of beneficiary ID cards.
  o Vulnerability criteria is verified using Cali's Mayor's Office database.
  o Employability status criteria (if the beneficiary does not have formal employment at the beginning of training) is verified by the verifier using public data from the PILA database.
- **Placement, three and six-months retention:** The verification process mainly leverages information collected through the "PILA" database. Deloitte extracts data to verify that participants are retained for three and six months respectively with the same employer[66].

4.8.   Service Providers selection process

Similar to the 2017 SIB, the project manager was responsible for the selection, contracting, and relationship with service providers throughout implementation.

i)   Tendering process:

The program used a **two-phase competitive closed tendering process**, inviting organizations with experience in providing skills development trainings to the target population. In the first stage, providers received information on the SIB and the intervention model as inputs to develop a preliminary proposal. The proposal needed to include details on their experience and their technical and administrative capacities to deliver the intervention. Based on this information, six service providers were pre-selected and received feedback on their proposal to be addressed at the next stage. In the second stage, the project manager conducted a due diligence of the pre-selected providers to verify that their organizational, legal, financial and governance capacities met the program requirements. Four service providers passed the due-diligence process and were invited to send a final proposal.

ii)   Selection criteria

The project manager selected the final list of service providers using the selection criteria in Table 15.

Table 15. Selection criteria and weights in Colombia Cali Progresses with Employment program

Criteria	Sub-criteria
4. Technical Proposal	D. Operational plan
	E. Probability that the proposed program can meet the results sought
	F. Existence of evidence to support the suggested intervention model
5. Service provider experience on implementing similar interventions	C. Capacity of the company to carry out the intervention
	D. Previous experience with the target population in the geographies of interest
	E. Ability to monitor results
	F. Performance Culture (Suggested to Evaluate in Interview)
6. Cost	A. Intervention budget
	B. Program's total cost of inputs required by activity

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[66] Unless the participant was re-placed in another job in less than 15 days

A2.4: Morocco RBF Jobs Fund program

Outcomes payer: MCA Morocco
RBF instrument: PBC
Program dates: Started in 2020 and expected to end in 2022
Target No. of Beneficiaries: 5,931
Size of the program: Total program funding is $9.5 million USD
Service providers: 11 private and NGO providers
Target population: Non-degree holders and women below the age of 35

1. Project Background

In 2008, 18.5 percent of young people in Morocco aged 15-24 were unemployed. In this context, the Moroccan government introduced different results-based workforce development programs, including the "accompagnement integral" ("comprehensive support program"), the "accompagnement à l'insertion" ("placement support program"), and the TAEHIL RBF program, which sought to address increasing unemployment rates amongst the country's high school and university graduates. The first two programs were suspended due to poor performance and, although the TAEHIL program delivered better results, there were challenges with the verification of results, including important bottlenecks generated by the ANAPEC and issues in attributing results to providers' efforts[67].

In this context, in 2017, MCC supported the implementation of the Morocco Employability and Land Compact. The Compact included funding for an Education and Training for Employability Project, which aimed to "increase the employability and employment rate of Moroccans by improving the quality and relevance of, and equitable access to, secondary education and WfD programs in response to private sector needs"[68]. In particular, the RBF Jobs Fund pilot project seeks to generate learnings on the most cost-effective interventions to deliver intermediation services in Morocco. The program builds on existing processes and capacities from the RBF TAEHIL program.

2. Design Overview

a. Payment metrics and pricing

The Morocco RBF Jobs Fund project selected the following metrics:

- **Training completion**: The number of beneficiaries who complete the training. This metric weighs 30-50 percent of the total outcome price for low risk service providers and 40-50 percent of the total outcome price for medium and high-risk service providers, which is approximately between USD $200 and USD $1,000.
- **Job placement:** The number of beneficiaries placed on a job. This metric weighs 30 percent of the total outcome price for low risk service providers and 20-25 percent of the total outcome price for medium and high-risk service providers, which is approximately between USD $190 and USD $680.
- **Retention at six months:** The number of beneficiaries who retained their job for six months. This metric weighs 20 percent of the total outcome price for low risk service providers and 10-15 percent of the total outcome price for medium and high-risk service providers, which is approximately between USD $130 and USD $2,800.

The program only introduced one new metric compared to the TAEHIL program (retention at six months) to limit the risk for service providers considering the diversity of experience and capacities.

The Morocco RBF Jobs Fund used three pricing methods to set the prices and pricing structure: competitive tendering, cost analysis and benchmarking, as detailed in section 4.2. The pricing structure accounted for service providers' maturity by assigning different payment weights to providers based on their risk profile, which depended on their capacity and

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[67] IDRC
[68] Millennium Challenge Corporation. Morocco Compact II Agreement. 2015

experience. Each metric was assigned a payment weight with a different range for low, medium, and high-risk providers. Therefore, payment weights and prices differ for each individual provider.

The main difference lied in the amount of pre-financing (up to 0 percent for low-risk service providers) and the balance between funding allocated to training (up to 50 percent) and retention (down to 10 percent for high-risk service providers). Overall, the gap between the moment when they incurred the costs and the moment when they recuperated their costs was higher for higher-capacity providers.

b. Verification of results

Verification method and approach: The verification method is observational using government administrative data and unannounced visits to providers and beneficiaries. Verification is conducted by a third party (a local auditing firm) and ANAPEC, depending on the metric. The verifier is responsible for verifying the eligibility of beneficiaries for the program and the achievement of the defined results to disburse payments.

Verification is conducted as follows:
- **Beneficiary eligibility:** This is verified by ANAPEC using government administrative data. Verification consists of the following criteria and verification method:
  a) Employment status (if the beneficiary has not been employed for the las six months) is verified using the Caisse Nationale de Sécurité Sociale (CNSS) declarations (Morocco's Social Security system).
  b) Whether a beneficiary participated in another ANAPEC employment program is verified using ANAPEC's internal database.
  c) Age is verified using beneficiaries' national ID.
  d) Whether the beneficiary has received trainings in the last 6 months is verified using beneficiaries' diploma or declaration of no-diploma (sworn statement).
- **Training completion:** This is verified with a sample of unannounced monthly visits to service providers. The verifier verifies that i) a valid certificate of training completion is provided by the service provider to the beneficiary, ii) the minimum hours of training have been completed (each provider reported the total number of hours for their training), iii) there were no issues reported during the visits, and iv) all beneficiaries meet the eligibility criteria.
- **Placement and six-months retention:** The verification process leverages data from the CNSS to verify the participant has formal employment status by being affiliated with the CNSS through their job. Six-months retention follows the same verification process in addition to continuous CNSS declarations for six months[69].
- **Metrics for service provider contract renewal:** The program also includes verification for beneficiary satisfaction with service providers performance, placement and retention rates. These are not linked to payments but impact service providers' contract renewal. These metrics are verified by the auditing firm through program results and surveys with beneficiaries.

c. Service Provider Selection

The selection of service providers entailed a **competitive tendering process and a benchmarking exercise**. The benchmarking exercise was used to conduct an initial analysis of the service providers landscape and collect information on, for example, their expectations of the program, risk appetite, and capacity to implement the intervention.

i) Tendering process:
The program used a two-phased competitive tendering process. The first phase focused on assessing the technical aspects of service providers' proposals. This was assessed through providers' previous experience working with employment results or vulnerable populations. This criterion was assigned the highest weight in the assessment (50 percent in the first phase and 35 percent in the second). During the first phase, the program pre-selected proposals that met the eligibility and relevance requirements, and that demonstrated the necessary capabilities to design and implement the intervention. Then, pre-selected service providers received feedback from a selection panel[70] and were asked to re-submit a proposal. Additionally, the program's staff visited the headquarters of the pre-selected providers

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[69] Note that participants can change jobs but cannot have an interruption of more than 15 days per month in their declarations.
[70] The Panel was comprised by different government representatives from the Ministry of Labor and ANAPEC.

to conduct a due diligence and verify the information provided. The second phase assessed the financial aspect of the proposals. A methodology, defined in the program's TORs, was used to calculate a "cost-efficiency" ratio to evaluate the value of money of proposals. It also re-assessed the final version of the proposal.

ii) Eligible organizations

Eligible organization for the RBF program needed to meet the following requirements:
- Be NGOs, national or international associations, national or international private providers operating in the field of intermediation.
- Be, at the time of signing the Agreement, authorized by the Ministry of Labor and Professional Integration to exercise in the field of intermediation.

iii) Selection criteria

The Morocco RBF Jobs Fund program had a strong focus on the integration of women and non-degree holders into the formal labor market, which implied tailored approaches from service providers. As such, they had to provide detailed evidence of how their intervention would address the needs of those populations and provide a separate cost-effectiveness ratio for women and non-degree holders. The selection process reflected these considerations by assigning the highest weight to experience of service providers in achieving results (35 percent) and the intervention model (20 percent). To mitigate the risk of the winner's curse, the pricing criteria was allocated a 20 percent weight and divided into three sub-ratios. Last, a scoring matrix developed by the program team defined what a robust answer would look like for each criterion. Table 16 shows the selection criteria with their respective weighs.

Table 16. Selection criteria and weights in Morocco for the second phase of the selection process

Criteria	Sub-criteria	Weight
1. Capacities and experiences of the group to achieve the results sought by the RBF program (80%)	A. Proposed intervention model.	20%
	B. Relevance and effectiveness of the proposed strategy for social inclusion and gender mainstreaming.	10%
	C. Organizational and managerial capacity.	15%
	D. Group experience and demonstration of obtaining results.	35%
2. Cost-effectiveness (20%)	A. Total cost-effectiveness	10%
	B. Cost-effectiveness ratio for women	5%
	C. Cost-effectiveness ratio for non-degree holders	5%

Outcomes Payer(s): Helvetas/ Ethiopia Swiss Intercooperation
RBF Instrument: PBC
Program dates: 2018 to 2021
Target No. Of Beneficiaries: 3,000 young vulnerable people
Size of the Program: Total program funding is TZS $1.5 billion (approximately USD$ 650,000)
Service Providers: 40 providers: 6 government institutions, 14 private vocational training organizations, and 20 local artisans
Target Population: Economically and socially disadvantaged young people aged 15-30 years in Tanzania

1. Project Background

In 2017 Helvetas Tanzania in collaboration with the Ministry of Education and the Ministry of Youth and Employment performed an evaluation on the factors contributing to youth unemployment in Tanzania. This study revealed a mismatch between the skills acquired through TVET programs graduates and local employers' needs. The Youth Employment through Skills (YES) program aims to address this issue in two regions of Tanzania (Dodoma and Singida).

The main objective is to empower marginalized young people in Tanzania and improve their living conditions through improved skills and gainful employment[71]. The program launched a series of practical short training courses for 11 trades that do not require prior school qualification. An RBF approach was chosen following the success of the SKY program in Ethiopia to strengthen service providers' commitment to improving employment outcomes and create market-orientated trainings that allow for job placements or self-employment.

2. Design Overview

a. Payment metrics selected and pricing

The YES program used the following payment metrics and pricing structure:
- **Upfront payment:** The number of beneficiaries who are enrolled in the training. This metric weighs 45 percent of the total outcome price, which is approximately USD $45.9- $77.5.
- **Training completion.** The number of beneficiaries who complete the training. This metric was selected to ensure that the service providers focus on limiting dropouts. This metric weighs 25 percent of the total outcome price, which is approximately USD $25.5- $43.3.
- **Three-months retention**. The number of beneficiaries who are employed or self-employed three months after training completion. Suitable employment is defined in terms of a minimum wage that the beneficiary must be earning by the time of the verification. An additional incentive is provided for more vulnerable population (young mothers, people with disabilities, etc.). This metric weighs 30 percent of the total outcome price, which is approximately USD $30.6- $51.9.

Prices were calculated using costs reported by service providers during the selection process. Hence, the prices differ from one service provider to another with public providers earning less than private providers. The price for the completion of all metrics per trainee is on average TZS $ 400,000 (approximately USD $173) for private providers, and TZS $ 235,000 (approximately USD $102) for public providers.

b. Verification

Verification method and approach: Verification uses an observational method and is conducted by the YES program staff members and community development officers from the government.

Verification is conducted as follows:

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[71] Helvetas (2020). Project YES: Inspiring Entrepreneurship

- **Training completion** The YES staff performs unannounced sample visits to training venues and verifies that the content of the training corresponds to the agreed curricula for that date. Additionally, the verification team verifies the number of beneficiaries' attending the session against the program's attendance list per session.
- **Job placement:** The verification is done by a community development officer. This is because these officers usually know the graduates personally. Verification depends on the type of placement:
  - o **Beneficiaries employed in a job:** The officers visit the graduates' workplace and interview them and their employer (in-person or via calls) and collect data on duration of employment and salary.
  - o **Self- employed beneficiaries:** The officers regularly visit the graduates' businesses and collect qualitative and quantitative data on their livelihood and standards of living (employment, earnings etc..).
  - o To disburse the payment for this metric (either employed in a job or self-employed), the graduate must be earning a minimum of TZS $150,000 a month (approximately USD $65). This information is self-reported.

Additionally, the YES program monitors whether graduates are employed in the occupation they were trained for or use the hard skills they acquired in line with skills gaps identified in the RMA.

c. Service providers selection process

Service providers selection was done through the following process.

i) Strategy: conducting a Rapid Market Assessment
The YES program conducted an RMA in Dodoma and Singida rural districts[72]. The RMA was done through interviews with potential employers and/or potential buyers for their skills (since the program also focuses on generating opportunities for self-employment). Additionally, the YES program made an initial assessment of the potential providers, visited them and gave them information on the program's objectives and the RBF approach.

ii) Tendering Process
Service providers were contracted through a **two-phase competitive tendering process**. After the initial contact with providers, the YES program issued an EOI, which requested information on the experience of each service provider on vocational training provision. With this information, YES pre-selected service providers and organized sessions to explain what RBF is and how it differs from more traditional contracting services. After that, 20 service providers from the pre-selected list went ahead with contracting.

During the first year of the program, while several training institutions were available in each region, the program drop-out rate was high because most of the originally selected organizations were in urban areas making it difficult for rural youth to join. In September 2019, the program identified 20 local artisans to provide additional technical trainings in rural areas. The artisans were selected based on their experience in providing labor-market relevant trainings (assessed through an RMA), willingness to provide such trainings and their venue size. The program also provided them with technical assistance on workplace safety and curricula to ensure the trainings met the minimum quality threshold.

d. Lessons learned

- The initial contracting was challenging. After releasing the EOI and meeting with providers to explain the RBF contracting terms, 20 percent of the pre-selected providers dropped out of the program. This was due to the novelty of RBF such that not all service providers were willing to take on the financial risk associated with underperformance. However, once contracted providers showed they were able to achieve results, some of the providers that had dropped out originally re-applied to the program.
- New implementation approach. The YES program will pilot mobile learning courses to leverage the digital potential to reach additional youths, especially women. Digital learning provides flexibility for youths to be trained when and where their schedule allows. Interactive content can also make learning more stimulating.
- COVID-19 context. In light of COVID-19, a new RMA is being undertaken to understand new market needs such that trainings can be adapted accordingly.

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[72] Helvetas. (2019). Project Summary January- December 2019.

A2.6: Nepal Employment Fund

Outcomes Payer(s): Swiss Agency for Development and Cooperation (SDC), Department for International Development (DFID) and the WB
RBF Instrument: PBC
Program dates: 2008 to 2015
Target No. Of Beneficiaries: 100,000 people (53 percent women and 80 percent disadvantaged people)
Size of the Program: Total program funding was CHF 28.72 million (approximately US$ 27.93 million).
Service Providers: 57 including public and private training providers
Target Population: Poor youth aged 16-40, less than 10 years of formal education (below a school certificate obtained in 10th grade)

1. Project Background

In 2008, almost 90 percent of youth entering the labor market in Nepal were unskilled, and 46 percent of youth were either unemployed or underemployed[73][74]. In this context, the Helvetas Swiss Intercooperation Nepal established the Employment Fund (EF), an ALMP financing quality training, market-oriented skills building and employment services for poor and disadvantaged youth to improve the employability. The SDC worked in close collaboration with Helvetas to design the RBF and, DFID and the WB joined as outcome payers shortly before implementation. The EF had a steering committee composed of representatives from the Government of Nepal and the three outcome payers.

2. Design Overview

a. Payment metrics selected and pricing

The EF program used the following payment metrics and pricing structure:
- **Training completion**: The number of beneficiaries who completed the training and took the skills test of the National Skills Testing Board (NSTB). This metric weighed 40 percent of the total outcome price, which was approximately USD $120-200.
- **Three-months retention:** The number of beneficiaries who completed the training and retained a job for three months. This metric weighed 25 percent of the total outcome price, which was approximately USD $75-125.
- **Six-months retention:** The number of beneficiaries who completed the training and retained a job for at least six months and for which they received a salary corresponding to a "gainful employment" threshold amount established in the labor law of Nepal. This metric weighed 35 percent of the total outcome price, which was approximately USD $105-175.

Outcome prices were the result of negotiations between service providers and Helvetas. Prices triangulated providers' cost estimates with Helvetas' own market research including a cost comparison with similar project/programs. Prices depended on the geographical area where the intervention was implemented as well as on the population group reached through an incentive payment. The incentive payment was calculated using a differential pricing approach so that providers with the capacity to work with vulnerable populations were able to receive higher payouts to compensate for the higher risk in achieving outcomes. This incentive depended on how hard to place Helvetas considered each group to be (see Table 7 of this report). This strategy encouraged higher-capacity providers to pool resources towards working with beneficiaries who may have been sidelined under traditional financing arrangements. The total outcome payment was calculated as the sum of estimated training costs (the same across all target groups) plus an incentive payment for each target group and varied between approximately US$ 300-500.

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 sub-consequent service procurement cycles.

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[73] Underemployed refers to cases when people are working fewer hours than they wish.
[74] Chakravarty et al. (2016). "The Role of Training Programs for Youth Employment in Nepal: Impact Evaluation Report on the Employment Fund."

b. Verification

Verification method and approach: The EF verification used an observational approach and was conducted by the EF staff. The EF leveraged government systems and used in-person verification (depending on the metric). A database containing monitoring information about beneficiaries, training achievements and employment details was developed and made accessible to all training providers and staff and used for verification of these metrics.

Verification was conducted as follows:
- **Compliance with program requirements:** Helvetas monitored training quality through (1) pre-training monitoring of trainees and venues, during which 60-75 percent of trainings were monitored and (2) in-training monitoring, where all trainings were monitored up to three times.
- **Beneficiary eligibility:** Helvetas monitored by direct observation of beneficiary documents whether beneficiaries selected for the EF met the eligibility criteria they set out in the contracting process.
- **Skills development and training completion**: EF staff physically monitored 80 percent of beneficiaries sitting the National Skills Test. For the first tranche of the payment, EF staff also physically verified training attendance (via training completion reports) and the number of beneficiaries sitting the National Skills Test (via NSTB report).
- **Three and six-months retention:** EF staff physically made unannounced visits to a sample of beneficiaries on the job to verify retention and income level. To verify job retention at three months, a 10-15 percent stratified random sample was used, while a 30-40 percent stratified random sample was used for job retention at six months.

Data quality assurance: The above measures were complemented by other validation processes, including:
a) Cross-verification, swapping monitors from different regions.
b) Data collection from close family members and employers.
c) Phone verification in cases where physical verification was not possible.

The EF used a substantial monitoring system with verification activities accounting for up to 80 percent of program administration resources. A lesson learnt from this program for the SKY program was to only have one retention metric at four months to reduce the cost of verification.

c. Service Providers selection process

i) Tendering process
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) to identify the skills sought by potential employers.

ii) Selection criteria
The EF then assesses providers' RMA alongside their proposed budget, capacity, and experience. Prices were negotiated and agreed between the EF and each service provider that was selected to participate in the program.

d. Results

Over its 8 years of operations, the EF trained and placed 90,000 beneficiaries. Out of these, 53 percent were women and 80 percent were considered disadvantaged. In 2016, the WB conducted a quasi-experimental impact assessment of the EF[75] and found that the program had had positive and statistically significant effects on outcomes such as employment rates, likelihood of finding relevant employment, hours worked, and earnings. For example, trainees experienced an increase in average monthly earnings of approximately 72 percent and an increase in non-farm employment of 46 percent. The impacts were significantly larger for women than for men. Additionally, Helvetas conducted three tracer

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[75] Chakravarty et al. (2016). The role of training programs for youth employment in Nepal: impact evaluation report on the Employment Fund. World Bank Group.

studies throughout the project (each within 2-3 years of beneficiaries' completing their training) which showed that; (i) retention rates reached more than 65 percent; (ii) average incomes doubled in the two years following training and, (iii) self-employment rates increased from 43 percent to 55 percent from 2009 to 2011.

e.   Lessons learned

RBF Value-add: Benefits

- **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 female program participants, some providers combined their training with childcare services, while others offered evening classes to accommodate family obligations. The incentives to target disadvantaged groups appear to have been successful as 80 percent of the beneficiaries placed were considered disadvantaged.
- **Entrepreneurial mindset of providers.** The EF 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

- **Difficulties in reaching some hard-to-place populations.** Despite positive outcomes for disadvantaged groups, the program was less successful with some particularly hard-to-place groups. For example, providers were not successful in retaining beneficiaries from the Dalit[76] ethnic group, who represented only 8 percent of the beneficiaries.
- **Resource-intensiveness of verification.** The verification was resource-intensive since all verification process was carried out solely by EF staff members, mostly through direct observation.

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[76] A marginalized minority in Nepal.

A2.7: Argentina Social Impact Bond

Outcomes Payer(s): Government of Buenos Aires City (BAC)
RBF Instrument: SIB
Program dates: Started in 2018 and expected to end in 2020
No. Of Beneficiaries: 1,000 young vulnerable people
Size of the Program: Total program funding is USD $2 million and used blended finance approach. First, it used a grant for USD $500,000 dollars to finance administrative costs. Second, it raised private equity funds from local private banks like Banco de la Ciudad de Buenos Aries, among others, for a value of USD $1.5 million
Service Providers: Four NGOs
Target Population: Youths aged17-24 from neighborhoods in the South Zone of the City of Buenos Aires (BA)

1. Project Background

In 2017, despite relatively low levels of unemployment in Buenos Aires City (BAC), young people aged 15 to 29 had an unemployment rate of 15.8 percent [77], well above the population average of 9.4 percent. This is particularly problematic for youths living in the South Zone of the BAC, with an unemployment rate of 24.9 percent[78]. Over the years, the BAC had implemented several programs to address unemployment though none of these programs had focused on addressing challenges for vulnerable youths in the South Zone in finding secure and formal jobs.

In 2017, the BAC wanted to pilot a SIB as an experimental approach to improve performance in public services and find ways to incorporate the private sector in social programs. It also aimed at facilitating the use of data and drive implementation decisions based on evidence. As RBF had a long track record of improving the effectiveness of WfD programs, the BAC decided to focus the SIB on solving the youth unemployment challenge.

2. Design Overview

a. Payment metrics selected and pricing

- **High school completion**: The number of beneficiaries who graduate high school with the help from service providers. This metric only applies to beneficiaries who have not graduated high school by the time they enroll into the program. As such, this metric does not weigh an independent amount in the final payment structure but is paid upfront as a portion of the job placement metric. Therefore, for the above group of beneficiaries, this metric weighs 9 percent of the total outcome price (and 0 percent for the rest of beneficiaries).
- **Job placement:** The number of beneficiaries who have a formal job contract. This metric does not consider self-employment. This metric weighs 29 percent of the total outcome price, which is approximately USD $727.
- **Four-months retention:** The number of beneficiaries who have a formal job contract[79] with the same employer for three consecutive months. The three months of job retention must be completed within 14 months of the completing the intervention. This metric weighs 45 percent of the total outcome price, which is approximately USD $1,118.
- **Twelve-months retention:** The number of beneficiaries who have a formal job contract according to ACBA standards for twelve months. For this metric, the beneficiary does not have to be employed continuously and by the same employer. The twelve-months job retention must be completed within 14 months of completing the intervention. This metric weighs 26 percent of the total outcome price, which is approximately USD $644.

The program decided to measure four-months retention (instead of three) because in Argentina the first month on a formal job is a trial period such that the beneficiaries are not fully contracted until they complete that first month. The basket of metrics aimed to manage risks while ensuring the desired (long-term) results are incentivized.

Prices and targets were the result of direct negotiations between investors and service providers. Pricing was challenging due to high local inflation and price variation during the design process and required re-negotiations later in the project.

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[77] Ministry of Finances of the ACBA (2017). Youth Observatory data. General Directorate of Statistics and Censuses.
[78] Ministry of Finances of the ACBA (2017). Youth Observatory data. General Directorate of Statistics and Censuses.
[79] For this program, a formal job implies being contracted by a legally registered company and that the contract is in a dependency relationship with the employer (this means that the beneficiary is not self-employed). If the beneficiary is under the age of 18, this contract can by an internship.

b. Verification

Verification method and approach: The verification uses an observational method and is conducted by a local audit firm (*San Martín, Suárez y Asociados*) with experience in public programs in Argentina. The verification process leverages a national administration database which provides data on job placement and retention as well as other relevant information such as salary.

Verification is conducted as follows:
- **Beneficiary eligibility:** This is verified using the national database for information such as age, geography, level of income and participation in other employment program in the past six months.
- **High-school completion:** The verifier checks that the high-school diploma and studies certificate belong to a beneficiary who was pending high-school graduation at the time he/she enrolled into the program.
- **Job placement, four and twelve-months retention:** The verifier confirms the employability status of each beneficiary using the national database.

c. Service Providers selection process

i) Tendering process:
The selection of service providers was done through a **closed tendering process**. The project manager carried out an initial assessment of potential service providers and found about 20 NGOs with experience working in employability programs with the target population. The project manager issued an RFP to these service providers. The project manager, in collaboration with a Government committee, assessed the technical proposals and selected four service providers to implement the program. The BAC directly manages the contracts with providers.

ii) Selection criteria:
To select the final list of providers, the project manager and the Government committee assessed the technical proposals against the following criteria:

- a) **Experience:** Track-record of the organization working with the target population on similar interventions and working with the Government.
- b) **Implementation model:** Type of intervention provided (e.g., training in hard or soft skills).
- c) **Capacity to carry out the intervention:** For example, number of beneficiaries the organization can train, resources available, operative, and administrative capacities.
- d) **Previous results:** success rate in implementing this type of programs.

d. Lessons learned

- Flexibility. RBF encouraged service providers to adapt their intervention during the Covid-19 pandemic to achieve the expected outcomes. For example, they were able to provide trainings virtually and shared lessons and best practices with other service providers.
- Generate data of RBF effectiveness. Metrics should allow to generate early evidence of the effectiveness of RBF for WfD and other social programs in Argentina. This is important to ensure that the next administration of the BAC will continue to engage with the RBF approach.
- The RBF set-up can be challenging. The project implementation got delayed several times due to different factors including extreme currency variations in 2017 or Government contracting procedures which did not allow to pay for outcomes. To help mitigate and address these risks, projects should ensure they have strong engagement and alignment on the objectives with stakeholders to troubleshoot in a timely and effective manner.
- SIB vs. PBC. A SIB was selected because the main goal was to find ways to engage with the private sector. However, it is complex to manage and scale-up at a national level, in which cases a PBC could be more suited.
- Leveraging government data is not always straightforward and easy. In this project, finding the right government databases and getting access to them was challenging. This is because some information might be public but not publicized. Getting government data required a lot of stakeholder management.

A2.8: Palestine Finance for Jobs II program

Outcomes Payer(s): World Bank Group - State and Peace-building Fund (SPF), World Bank Group - Trust Fund for Gaza and West Bank (TFGWB)
Investor(s): Palestine Investment Fund (PIF), European Bank for Reconstruction and Development (EBRD), FMO (the Netherlands Development Finance Company), Invest Palestine (through the Chilean-Palestinian Diaspora Investment Fund "Semilla de Olivo"
RBF Instrument: SIB
Program dates: 2020 to 2021
Target No. Of Beneficiaries: 1,265 young vulnerable people
Size of the Program: Total program funding is USD $5 million
Service Providers: Four private service providers in field of diverse types, including industry associations, universities
Target Population: Palestinian job seekers aged 18–29 years (of which at least 30 percent will be women)

1. Project Background

Over the last two decades, the number of Palestinians in the labor force increased by 800,000 against 500,000 new additional jobs created, resulting in a high increase in unemployment. This is particularly an issue for Palestinian youth in Gaza and for young women. More than 50 percent of youths aged 15–29 was unemployed in 2015 with women facing an unemployment rate of almost 40 percent[80]. A key contributing factor to this issue is that skills development remains insufficiently coordinated and inadequately linked to the private sector despite large donor funds invested in the skills development programs since 2001.

Within this context, the Finance for Jobs II project aims to overcome these challenges by mobilizing private investment in high potential sectors and generate job opportunities in the West Bank and Gaza. One of the components is to pilot innovative financial instruments through the first Development Impact Bond (DIB) which aims is to match employment opportunities with suitable employees by training job seekers in employer-demanded skills. The program also aims to enhance monitoring and performance management to iteratively improve interventions at early stages and create meaningful partnerships with the private sector to ensure sustainability. Currently, private sector organizations are providing technical training in specific sectors. Providers are focusing initially on employment opportunities in the healthcare (medicine and nursing), engineering, education, and construction sectors. Additional training will be rolled out according to market needs.

2. Design Overview

a. Payment metrics selected

- **Participant intake:** The number of beneficiaries who enter the program and sits for an initial interview with the service provider. This metric weighs three percent of the total outcome price.
- **Training start:** The number of beneficiaries who complete their first day of skills training in class or on the job. This metric weighs 4.6 and 4.1 percent of the final outcome price for male and female participants respectively.
- **Training completion:** The number of beneficiaries who complete at least 80 percent of all components of the skills trainings in class or on the job. This metric weighs 11.6 and 10.3 percent of the final outcome price for male and female participants respectively.
- **Job placement:** The number of beneficiaries who complete one day of a paid employment that meets the applicable minimum wage regulations. This metric weighs 18.4 and 18.9 percent of the final outcome price for male and female participants respectively.
- **Three-months retention:** The number of beneficiaries who has achieved the job placement metric and works for 90 days for more than 20 hours per week on average. This metric weighs 25.9 and 26.6 percent of the total outcome price for male and female beneficiaries respectively.

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[80] World Bank. (2017). Finance for Jobs II Project Appraisal Document.

- **Six-months retention:** The number of beneficiaries who have achieved the three-months retention metric and are still in paid employment after180 days and working for more than 20 hours per week on average. This metric weighs 36.5 and 37.4 percent for male and female beneficiaries respectively.

Note that the basket of metrics is identical regardless of the sector. This basked of metrics was defined in collaboration with the different stakeholders to balance risks within payment tranches while ensuring the project remains attractive to investors. This was especially since DIBs are new instruments in the Palestine context.

To define the prices, the RBF design team (at Social Finance) used a comparative cost-effectiveness approach, using information from similar employment programs in Palestine and in other contexts. They also triangulated this data with the costs of intervention given by service providers. Through initial assessment, women were found to be harder-to-place on the labor market due of limited opportunities and lower participation in many sectors. Higher payment rates were allocated to placing women to account for this.

b. Verification

Verification method and approach: The verification uses an observational method and is carried out by an independent verifier (Deloitte), using administrative data and unannounced in-person visits to a sample of beneficiaries.

Verification is conducted as follows:
- **Compliance with program requirements:** Deloitte verifies the first three payment metrics, reviewing private supporting documents (like IDs, training plans and attendance sheets), and revising that these meet the conditions described above, with information like attendance fees and follow up surveys.
- **Job placement, three and six-months retention:** Deloitte verifies claimed job placement and retention outcomes by service providers making unannounced visits to a selected sample, requesting documents like letters signed by employers and employees that evidence formal employment and retention, later comparing these with claimed employment outcomes. Also, income generation is verified against private documents like salary payment slips or beneficiaries' bank statement. The verifier does not rely too much on government data systems, because in this context this data is often not too reliable.

c. Service Providers selection process

5.8.1. Tendering process:
DAI (project implementer), in collaboration with the RBF design team, conducted a rapid market assessment to understand (1) the job market needs and (2) the number of service providers able to implement the project. Service providers were contacted directly by investors. Some of these providers are "leads", meaning that are able to sub-contract several other providers who directly implement the intervention.

5.8.2. Selection criteria:
The "lead" service providers were selected based on their experience working in WFD programs in Palestine and managing contracts with major donor stakeholders. And the sub-contracted service providers were selected based on their knowledge and experience working on the sectors prioritized by the program (i.e., nursing, medicine engineering, education, and construction) and their capacity to provide high-quality trainings and therefore, achieve the expected results.

d. Lessons learned

- Setting up DIB was time and resource intensive. For example, it was time-consuming to find the most suitable investors and go through their due diligence processes.
- Selecting a DIB instrument was strategic in this context. There was a need to get private investors on board since service providers did not have the financial capacity to cover their working expenses.
- Flexibility. When the Covid-19 pandemic started, service providers where able to rapidly shift their schedules and focus only on the health trainings and fast forward these trainings to help respond to the sudden demand.

- **Delays in verification.** However, the independent verifier was not able to adapt verification protocols as fast as service providers adapted their intervention such that it created delays in verification and payments. For example, it took some time to adapt verification to the trainings now conducted virtually.