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Paying for Performance: Unlocking the Potential of Results-Based Financing in TVET

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EDITORIAL

Welcome to the April 2025 edition of the Skills4Dev Knowledge Digest! This issue explores how Results-Based Financing (RBF) is reshaping Technical and Vocational Education and Training (TVET) by linking funding to measurable outcomes like employment and skills certification. Dive into this edition to discover how RBF can make training systems more responsive to labor market needs.

RBF is increasingly recognized as a valuable set of tools for improving the effectiveness of TVET, particularly in low- and middle-income countries. Traditional funding models in TVET often fail to provide adequate incentives for providers and governments to enhance the quality, relevance, and equity of training programs. In contrast, [RBF links financing directly to predefined, verifiable outcomes, thereby aligning incentives among stakeholders](#), promoting accountability, higher collaboration with employers, and enabling more flexible and adaptive service delivery.

RBF encompasses a range of products, including performance-based contracts, performance-based loans, impact bonds, and outcomes funds. **Performance-based contracts** and **loans** link disbursements to the achievement of specific outputs or outcomes, such as skills certification or attainment of employment after program completion, thus holding providers accountable for results. **Impact bonds** are innovative financing instruments in which investors provide upfront capital to service providers and are repaid by an outcome funder—often a government or donor—only if independently verified results are achieved, thereby shifting financial risk to the investor. **Outcomes funds** pool resources from multiple funders to pay for verified training and employment outcomes, promoting innovation and equity by directing funding toward programs that demonstrate impact. RBF can be applied both to training providers and within public administration; for example, through joint performance contracts between ministries to achieve shared employment and skills targets. While most experience in TVET has centered on performance-based contracts, mechanisms like

impact bonds and outcomes funds are gaining traction. For RBF to be effective, providers must have sufficient autonomy to design, adapt, and refine programs in response to participant needs and changing labor market demands.

The implementation of RBF in TVET requires some [administrative, data, and oversight capacity](#).

- **First, to tackle the challenges of incentivizing providers based on outcomes that are not entirely within their control, such as the job placement of trainees.** Job insertion, earnings, and retention depend on multiple external factors beyond providers' control, such as labor market conditions and individual motivation and characteristics. To mitigate this, RBF schemes typically use mixed metrics that balance short-term employment indicators with broader measures of skill development and employability.
- **Second, to avoid unintended consequences for disadvantaged populations.** There is a risk that providers, driven by outcome-based payments, may prioritize easier-to-serve individuals over marginalized groups. To address this, contracts can include differentiated pricing for outcomes based on learner demographics or establish eligibility criteria that promote equity. This structure ensures that TVET remains inclusive and targets populations most in need, including women in nontraditional fields and economically disadvantaged learners.
- **Third, to verify results in a cost-effective and credible manner.** Measuring long-term employment outcomes and attributing them to specific training programs is particularly difficult. To overcome this, verification processes can evolve over time—from rigorous early-stage evaluations to simpler mechanisms once a baseline of credibility and impact has been established. Therefore, the availability of data, such as graduate tracer systems, is essential for monitoring results. Additionally, the technical capacity and availability of independent verification agencies are crucial for implementing a successful RBF model. In some countries, these services may be scarce or expensive. To mitigate these risks, RBF should allocate sufficient resources to ensure independent verification and provide technical assistance to strengthen local auditing capacities.

We would like to hear from you! Please send us your ideas, suggestions, questions, or collaboration opportunities at skillsgsg@worldbankgroup.org. Learn more about what the GSG can do for you at the end of this digest.

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- 4. Additional Resources.** Other resources on Results-Based Financing in TVET.
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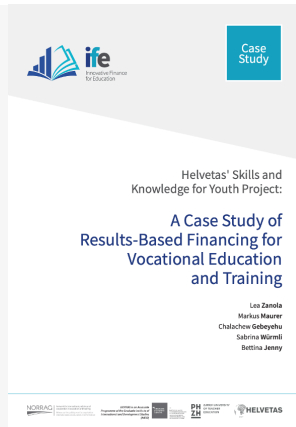
FEATURED WORKS ON RESULTS-BASED FINANCING



Financing Mechanisms for Promoting Social Inclusion in Skills and Lifelong Learning Systems. Global Overview of Current Practices and Policy Options

ILO | Report | 2023 | Global

This report presents a **global review of good practices, including performance-based contracts, and policy options** to improve existing financing instruments supporting individuals, enterprises and training providers and their effectiveness in promoting social inclusion in skills development and lifelong learning.



Helvetas' Skills and Knowledge for Youth Project: A Case Study of Results-Based Financing for Vocational Education and Training

Zanola et al. | Case Study | 2021 | Ethiopia

This report provides a compelling **example of RBF in TVET**, where performance-based contracts and financial incentives are used to focus service providers' attention on quality vocational training, leading to long-term gainful employment of the beneficiaries.

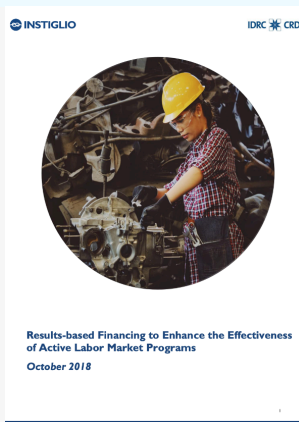


Beyond Impact Bonds: Varieties of Outcomes-Based Contracts Around the World

Outes Velarde, et al. | Report | 2024 | Global

This report explores a variety of outcomes-based contracts beyond social impact bonds, focusing in particular on **performance-based contracts, payment-by-results projects, public-private partnerships, targeted grants, sustainability-linked loans and output-based aid agreements.**

ESSENTIAL READING



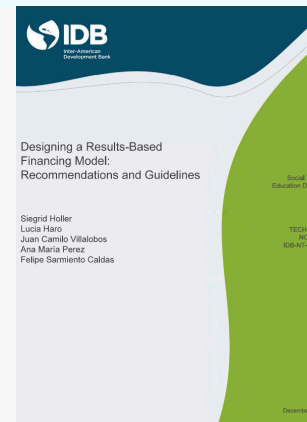
Results-based Financing to Enhance the Effectiveness of Active Labor Market Programs (ALMP)

Instiglio | Report | 2018 | Global



Building Better Formal TVET Systems: Principles and Practice in Low- and Middle-Income Countries

Levin et al. | Report | 2023 | Global



Designing a Results-Based Financing Model. Recommendations and Guidelines

Holler et al. | Technical Note | 2021 | Global

The report's insights are drawn from: (i) 12 in-depth case studies of ALMPs using RBF, (ii) a comprehensive mapping of all such programs in low- and middle-income countries, and (iii) a review of the literature assessing ALMPs. The report also draws on **Instiglio's practical experience designing and implementing RBF projects for ALMPs.**

This report offers **guidance to policymakers designing and implementing TVET reforms**, emphasizing core principles and practical considerations for Low- and Middle-Income Countries (L/MICs). Chapter 7 and 11 discuss funding TVET including RBF to incentivize performance.

This document provides guidelines and recommendations on the **key elements to design RBF models**, depending on the need or objective of the implementer. It includes guidance on **methodologies for calculating performance targets and the different payment structures.**

WHAT'S BREWING AT THE WBG?



[Using Impact Bonds in Education in Low- and Middle-Income Countries: An Evidence Review](#)

World Bank | Report | 2022 | L/MICs

This report provides an **independent assessment of the current state and evidence of impact bonds** launched to support education service delivery in L/MICs and explores how they compare to other forms of RBF approaches used in education. It is aimed at a broad audience and intended to provide a general introduction to education impact bonds in L/MICs.



[Review of the Evidence on Short-Term Education and Skills Training Programs for Out-of-School Youth with a Focus on the Use of Incentives](#)

Clarke et al. | Discussion Paper | 2021 | Global

Short-term education and skills training programs are a popular way to meet **the needs of unemployed, out-of-school youth** by providing them with an opportunity to quickly acquire qualifications and skills that can lead to productive employment. This paper reviews the global evidence to identify **which programs are most effective at delivering results, and put a special focus on evidence on RBF effectiveness.**



[Demand-Driven Skills Training and Results-Based Contracting: Lessons for Youth Employment Programs](#)

World Bank | Report | 2020 | Global

This report reviews the literature, identifies project examples and derives lessons for the **design and implementation of demand-driven training and results-based contracting.** A summary of the existing **literature on international experiences, including good practices,** is presented.

ADDITIONAL RESOURCES

[Instiglio Results-Based Financing database](#)

Instiglio | Database | Last updated in 2018 | Global

This database helps users understand **how RBF is used in developing countries and informs design decisions**. It includes an Excel document with raw data on RBF projects and their characteristics, and Power BI visualizations with interactive dashboards.

[International Network for Data on Impact and Government Outcomes \(INDIGO\) database](#)

University of Oxford Blavatnik School of Government | Database | Global

INDIGO is a global collaborative initiative, coordinated by the University of Oxford's Government Outcomes Lab (GO Lab), **aimed at improving the availability, accessibility, and use of standardized data on innovative financing mechanisms for social outcomes**. The INDIGO database collects and shares detailed project-level information on different forms of outcomes-based contracting, impact bonds, and other RBF approaches across a variety of sectors and geographies.

[A Guide for Effective Results-Based Financing Strategies](#)

The Global Partnership on Output-Based Aid | Report | 2018 | LMICs

The diagnostic tool presented in this report provides a set of structured questions and frameworks to **guide practitioners interested in using RBF to meet their development objectives**. The approach outlined in this report draws on lessons from the **global experience with RBF** and includes insights from the work of **Instiglio** and the **Global Partnership on Output Based Aid** on these issues.

[Getting Skills Right. Financial Incentives for Steering Education and Training](#)

OECD | Report | 2017 | Global

This report examines how **governments use financial incentives to promote a better alignment between labor market needs**, on the one hand, **and the supply of skills**, on the other. In doing so, it identifies: i) innovative models that countries may be interested in learning from; ii) best practice in the design and use of financial incentives; iii) framework conditions for their effective use; and iv) limitations and risks in the use of financial incentives.

[Widening Perspectives on Social Impact Bonds](#)

Tan et al. | Research Article | 2019 | UK

Social Impact Bonds (SIBs) are a novel financing mechanism for public services delivery. This issue argues that they necessitate closer examination to understand the implications for all stakeholders. This introductory paper critically **explores and challenges dominant practitioner narratives of SIBs as “win-win” solutions for governments and service providers**.

[Why is Impact Measurement Abandoned in Practice? Evidence Use in Evaluation and Contracting for Five European Social Impact Bonds](#)

Hevenstone et al. | Research Article | 2022 | Europe

This article examines **five cases of SIB financing ALMPs across four European countries**, testing the claim that SIB would move counterfactual causal impact evaluation to the heart of policy.

[“Skills for Competitiveness – Lessons from the Punjab Skills Development Fund.” Business Environment Reform Facility](#)

Hilton, Thomas | Report | 2018 | Punjab, Pakistan

This report seeks to extract key lessons from the **Punjab Skills Development Fund (PSDF) model for the design of market-oriented skills programming globally**. PSDF allowed to design sector- and region-specific training projects in Punjab based on detailed market research into skills demand, inviting Training Service Providers to apply for funding. Under a RBF model, contracted service

providers are paid only after independent third-party verification confirms they have successfully delivered the agreed training outcomes.

[Results-Based Financing Approach in Vocational Skills Development. Experiences from the YES-Project in Tanzania](#)

Helvetas | Issue Sheet | 2021 | Tanzania

This issue sheet shares experiences in implementing a RBF model in the YESproject in Tanzania. Specifically, this experience sheet is tailored to **international and local organizations** that are considering **implementing a RBF approach in TVET with public and private training providers**, among others.

[Performance-Based Contract: A Design to Enhance Workforce Development Outcomes in Ethiopia](#)

Instiglio | Case Study | 2024 | Ethiopia

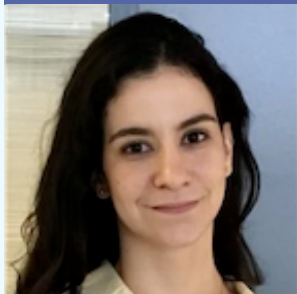
This case study focuses on Instiglio's collaboration with Ethiopia's Ministry of Labor & Skills to improve program performance for job seekers and entrepreneurs. Instiglio created **performance-based contracts, tying financial incentives to three key metrics: timely loan repayment, business survival, and employment linkages**.

[Tackling Systemic Youth Unemployment in Morocco](#)

Instiglio | Case Study | 2023 | Morocco

This case study focuses on Instiglio close collaboration with the Moroccan government from 2016 to 2023, with the goal of tackling youth unemployment. In particular, it presents the **design and implementation of two RBF pilots** and the **strengthening of delivery and performance management systems** within employment institutions at the national and provincial levels.

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