



In Practice

Transforming Economic Inclusion: Government Innovations through Outcomes-Based Financing

By Mara Aroldi, Celeste Brubaker, Sebastian Osorio,
and Juliana Outes Velarde



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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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About the *In Practice* Series

The Partnership for Economic Inclusion publishes the *In Practice* series featuring accessible, practitioner-focused publications that highlight learning, good practice, and emerging innovations for scaling up economic inclusion programs.

Guide to navigation

The *In Practice* series is interactive and provides built-in technical features to assist readers as they progress, including a navigation bar, progress bar, and the ability to jump to endnotes and back to the text throughout.

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Chapter navigation



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Progress bar

The progress bar tracks your progress through each chapter and throughout the document.

Jump notes¹

1. Notes throughout the text are linked to allow easy navigation between endnotes and the main text.

Abbreviations

DIB	Development Impact Bond
DPS	Department for Social Prosperity (Colombia)
IRR	Internal Rate of Return
J-PAL	Abdul Latif Jameel Poverty Action Lab
M&E	Monitoring and Evaluation
NSDC	National Skill Development Corporation
OBF	Outcomes-Based Financing
PEI	Partnership for Economic Inclusion
RBF	Results-Based Financing
RCT	Randomized Controlled Trial
SEI	State of Economic Inclusion
VE	Village Enterprise

Introduction

Well-designed economic inclusion programs—bundles of coordinated interventions that help individuals, households, and communities sustainably increase their incomes and assets (Arévalo-Sánchez et al. 2024)—are crucial for reducing poverty and fostering inclusive growth in low- and middle-income countries. These programs often integrate social safety nets, financial services, skills training, and livelihood support to empower poor and marginalized groups to participate more effectively in the economy.

Adoption of economic inclusion programs is expanding rapidly. The State of Economic Inclusion Report (SEI) 2024, released by the World Bank's Partnership for Economic Inclusion (PEI), documents a global increase of more than 50 percent in the reach of such programs since 2021. By 2024, these programs were supporting over 15 million households, benefiting more than 70 million people directly and indirectly (Arévalo-Sánchez et al. 2024).

Governments are increasingly leading these scale-up efforts. About 43 percent of 405 surveyed programs are government led, accounting for about 74 percent of all participants (Arévalo-Sánchez et al. 2024). These initiatives often involve collaboration by multiple government agencies, in partnership with nongovernmental and international organizations. They also frequently layer their economic inclusion measures atop existing social protection programs, typically integrating four or more components on top of cash transfers or in-kind support (Arévalo-Sánchez et al. 2024).

The complexity and scale of the challenges faced in these contexts require ongoing innovation and strong accountability mechanisms to ensure that these programs are effective, sustainable, and equitable. Social, economic, and environmental conditions in developing countries change rapidly. Climate change, urbanization, and the digital revolution are reshaping the landscapes in which these programs operate. Economic inclusion initiatives must therefore be highly adaptable and tailored to the contexts of regions and communities. Innovation in program design, implementation, and monitoring can help interventions stay relevant and effective.

Accountability mechanisms are crucial to ensure that economic inclusion programs are implemented effectively and resources used efficiently. They include transparent procurement and payment processes, regular audits, and monitoring and evaluation frameworks. Without strong accountability, there is a risk of misallocation of resources, corruption, ineffectiveness, and inefficiency.

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Outcomes-based financing (OBF) is an approach to results-based funding in which payments are at least partially linked to the achievement of outcomes. It can potentially transform government-led economic inclusion programs by aligning stakeholder interests with the interests of the communities the programs are meant to serve and creating space and incentive for innovation. OBF can lead to more impactful and sustainable outcomes for beneficiaries by fostering a culture of accountability for results and continuous improvement.

Recent years have seen growing recognition that the way in which services are commissioned can affect innovation and accountability in aid programs. Traditional funding models often focus on financing inputs or activities, leading to inefficiencies and a lack of transparency about how successful resources are in achieving project outcomes. Disappointment in these models caused some stakeholders to turn to OBF. By shifting the focus from what goes into a program to what comes out of it, OBF can offer a more strategic and results-driven approach to program implementation.

By aligning financial incentives with the achievement of specific, measurable results, OBF can encourage governments, service providers, and other stakeholders to prioritize outcomes that have a tangible impact on economic inclusion, such as higher employment rates and household incomes and better access to essential services. By focusing on these measurable outcomes, OBF can foster innovation in program design and delivery, as stakeholders are motivated and empowered to develop and implement more effective strategies to achieve desired results. OBF emphasizes accountability by holding parties responsible for delivery on their commitments. Greater accountability increases the likelihood that funders and

service providers will use evidence to guide funding and implementation decisions, directing more resources toward the most impactful interventions.

This paper offers a practical framework for understanding OBF and its application to economic inclusion programs. It addresses three central questions:

- What is OBF, and how does it work in practice?
- How can OBF support the goals of economic inclusion programs?
- What are the limitations, risks, and enabling conditions that determine whether OBF is an appropriate tool for government-led economic inclusion efforts?

To answer these questions, the paper draws on global experience. The first section defines OBF and its principles. The second section overviews the OBF landscape and describes Impact Bonds (outcomes-based financial instruments that incorporate third-party funding to cover the upfront capital required for a provider to set up and deliver a service). The third section presents case studies of OBF projects in Colombia (the Empleando Futuro Social Impact Bond), India (the Skill Impact Bond), and East Africa (Village Enterprise's Development Impact Bond). The fourth section critically examines the limitations and contextual challenges that must be considered when determining whether OBF is the right approach for government-led economic inclusion programs. It also offers practical guidance on addressing these risks and challenges, based on implementation experience. The fifth section concludes with observations on scaling outcomes-based finance initiatives and the additional research required. The annex provides practical guidance on implementing OBF.

Understanding Outcomes-Based Financing

OBF is an evolving practice in international development that shifts the focus from funding inputs, activities, and outputs to financing specific, measurable outcomes (Government Outcomes Lab n.d.d.). It is based on the principle that funding should be linked to the achievement of clearly defined targets rather than the mere execution of tasks or allocation of resources. By tying payments to performance, OBF creates a direct link between funding and results, encouraging stakeholders to prioritize effectiveness and efficiency in their interventions.

DEFINING OUTCOMES-BASED FINANCING AND ITS KEY PRINCIPLES

OBF falls under the broader umbrella of results-based financing (RBF), which encompasses various funding models that link payments to the achievement of specific metrics. There are various forms of RBF and OBF, each with unique characteristics and applications. Differentiators include who is incentivized (government agencies, private sector partners [such as investors or guarantors], service providers, or beneficiaries) and the types of results that are tied to payment. RBF focuses on both immediate outputs (such as service delivery milestones) and final results. In contrast, OBF zeroes in on the achievement of mid- to long-term strategic outcomes with significant societal impacts, such as increased employment rates or higher incomes of people in the bottom wealth quantile. OBF is a subset of RBF that prioritizes high-impact outcomes that align financial incentives with the achievement of broader,

sustainable changes. By emphasizing results over processes, it promotes accountability and incentivizes the development of innovative solutions that address the complex challenges of economic inclusion.

OBF contracts typically take three forms (figure 2.1):

- **Performance-based contracts** are a form of RBF in which payments from funders to service providers are based at least partially on performance. Funders shift some performance risk to service providers, thereby incentivizing them to perform.
- **Impact bonds** are a type of RBF that incorporates private funding (investment) to cover the upfront capital a provider needs to set up and deliver a service (Government Outcomes Lab n.d.c.). As

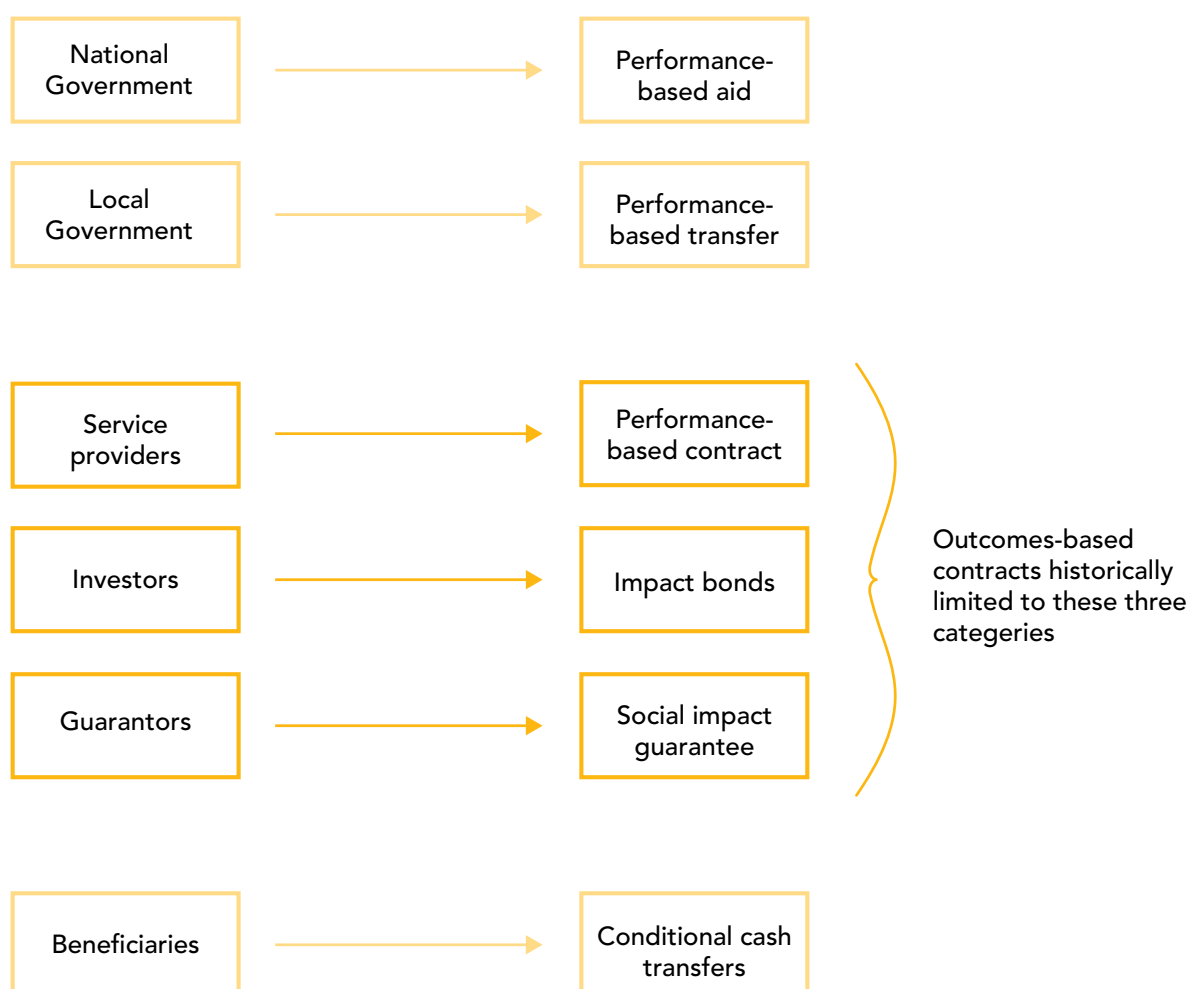
investors take on some performance risk, they are considered the incentivized agent. Impact bonds are often referred to as a *social impact bond* or *development impact bond*.

- **Social impact guarantees** are a type of RBF that functions like a money-back guarantee. If the social impact sought is not achieved, the provider is required to return a portion of the funding to the

donor or reallocate the funding to other programs to achieve the impact (Tri-Sector Associates n.d.). As the guarantor assumes performance risk, it is considered the incentivized agent.

Not all projects within these categories are outcomes-based. Whether a project is outcomes-based depends on the nature of the results being incentivized and whether funding is tied, at least in part, to the achievement of outcomes.

Figure 2.1 Typology of results-based and outcomes-based financing



Source: Adapted from Global Partnership for Results-Based Approaches (GPRBA) 2018 and 2021.

Several principles underpin OBF:¹

- **Measurability:** Outcomes are specific, quantifiable, and objectively verifiable, so that progress can be tracked and evaluated. By requiring clear measurement and tracking of progress toward agreed-upon outcomes, OBF can help identify whether a program has achieved its objectives.
- **Accountability:** Service providers are held accountable for delivering agreed-upon results, fostering a culture of responsibility and transparency. Performance-based incentives promote accountability by holding parties responsible for delivering on their commitments. Service providers are required to demonstrate achievement of desired outcomes, and funders are responsible for facilitating payment as targets are met.
- **Incentivization:** Financial incentives are aligned with the achievement of desired outcomes, motivating stakeholders to focus on achieving impactful results. Ultimately, the role of performance-based incentives in OBF is to align the interests of all stakeholders with the desired results of social programs.
- **Flexibility:** Implementing agencies are given the freedom to innovate and adapt their approaches to meet targets, encouraging creative problem-solving and efficiency. By shifting from inputs and activities to outcomes, OBF provides implementing agencies with the flexibility to experiment with new approaches and adapt their strategies to changing circumstances. This flexibility can foster a culture of learning and continuous improvement, allowing organizations to refine their interventions and achieve better outcomes over time.

In the United Kingdom—a pioneer and market leader in OBF—contracting based on results delivered more than a 10-fold social return on investment (Stanworth and Hickman 2022). Although similar results would not necessarily

be achieved across settings, these results highlight the transformative potential of this approach in achieving meaningful economic inclusion.

DEFINING STAKEHOLDERS' ROLES

At its simplest, OBF involves an organization (or group of organizations) that seek to produce social outcomes and another organization (or group of organizations) that pays to achieve those outcomes (herein referred to as the OBF organization). Intermediary organizations, technical service providers, or third-party risk-takers often support the contracting and implementation program phases. Stakeholders or agents can include the following:

- Local or international outcome payers (entities that pay for a desired, measurable, verified result)
- Service providers
- Donors
- Commercial banks
- Impact investors
- Impact guarantors (entities that commit to covering part or all of the outcome payments or capital recovery if a project does not meet its pre-agreed upon performance targets)
- Intermediaries
- Performance managers and evaluators.

These agents fall into four main categories:

- **Payers/funders:** People or institutions that pay for the desired, measurable, verified outcomes.
- **Service providers:** People or institutions that deliver a program on the ground.
- **Investors and guarantors:** Investors (people or institutions) that provide risk capital for the delivery of a program or guarantors (people or institutions) that provide a money-back guarantee if outcomes are not achieved.

- **Program designers and evaluators:** People or institutions that support the design of a program, the contract, and the governance arrangements and people monitoring and supporting performance management, verifying outcomes, and sustaining learning during a program and after it ends.

All agents are expected to contribute to the OBF program; incentivized agents bear the financial costs of the program if the program fails to deliver the outcomes. In a performance-based contract, service providers bear this risk. Paying service providers only if results are achieved incentivizes them to deliver outcomes. It also implicitly incentivizes them to monitor and manage their performance, course-correcting and improving the program during implementation if needed. In theory, service providers who are paid entirely based on results have the freedom to completely change what and how they deliver on the ground, to ensure that what they do leads to the desired outcomes. A limitation of a performance-based contract is that not all service providers have the ability to access finance for the upfront capital to run the program until the outcomes have been verified or to absorb the loss if outcomes are not achieved.

In impact bonds, an impact investor providing upfront risk capital bears the financial risk associated with underperformance and is thus the main agent incentivized to mitigate against performance risk. In a social impact guarantee, the guarantor committing the payback bears the financial risk associated with underperformance and is the main incentivized agent. In practice, impact investors often share some of this financial risk with service providers and/or establish mechanisms to monitor performance and intervene to help the service provider improve it. Investors may even put in place

termination clauses for service providers who underperform and reserve the right to replace them.

THE ROLE OF GOVERNMENTS IN OUTCOMES-BASED FINANCING

Governments have served as outcome payers; service providers; and intermediary organizations, technical assistance providers, and investors:

- **Governments as outcome payers:** The most common role for governments in OBF is that of outcome payer (also known as outcome funder or commissioner). Governments contract providers to deliver a public service and agree to pay the provider only if specific outcomes are achieved. The INDIGO Impact Bond Dataset (Government Outcomes Lab n.d.b.) provides a comprehensive overview of impact bond projects around the world. According to the Impact Bond Dataset, a local or central government was an outcome payer in 78 percent of all impact bond projects. Some donor countries have experimented with providing foreign aid in the form of OBF, in order to increase accountability and focus on outcomes while giving providers on the ground more flexibility around service delivery.²
- **Governments as service providers:** According to the Impact Bond Dataset, a local government or a public sector entity was a service provider in just 3 percent of Social Impact Bonds. In these cases, an outcome funder (which could be another government or a different unit in the same government) pays for outcomes generated by a government entity. This type of initiative seeks to support governments to improve the performance of certain services.³

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- **Governments as intermediary organizations, technical assistance providers, and investors:** Governments have searched for ways to promote the creation or growth of social investment markets and incentivize the increase in the number of organizations that provide services under an outcomes-based model. They have provided technical assistance and intermediary services to organizations that express an interest in

being part of this nascent market. According to the Impact Bond Dataset, a government agency provided technical assistance or intermediated between stakeholders in about 8 percent of Social Impact Bonds. In some cases, government agencies have played more than one role. ⁴ In at least one instance, a government participated in an impact bond as an investor. ⁵

Overview of the RBF Landscape

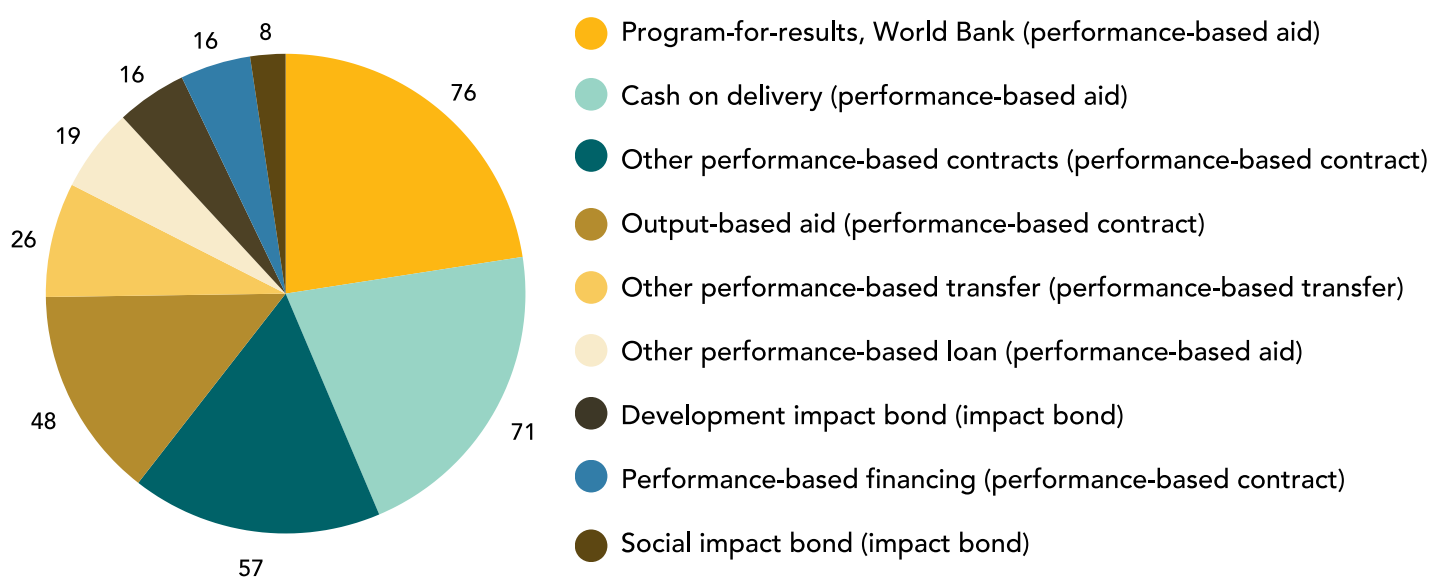
The Instiglio RBF Database (Instiglio 2018a) is an RBF database established by Instiglio with World Bank support. Last updated in January 2018, it provides the most comprehensive industry overview of the state of the world's RBF initiatives (of which OBF are a subset). The lack of more recent data and the paucity of evidence on OBF performance in lower-middle-income countries and across sectors are significant limitations.

GLOBAL INITIATIVES

According to the database, RBF projects implemented between 1993 and 2018 included 76 World Bank Programs-for-Results, 71 cash-on-delivery programs, 57 other types of performance-based contracts, 48 output-

based aid projects, and 24 impact bonds (16 Development Impact Bonds and 8 Social Impact Bonds) (figure 3.1). Other types of performance-based loans, transfers, and financing projects accounted for a small share of RBF contracts.

Figure 3.1 Number of results-based financing projects, by type, 2018



Source: Instiglio RBF Database, last updated January 2018; accessed September 2024.

IMPACT BONDS

Impact bonds have been closely tracked since they were first launched in 2010.⁶ Impact bonds are a type of OBF that includes a contractual relationship in which payment is attached to outcome achievements and upfront capital is provided by a third party, often called an investor. Impact bonds help address a common market failure in public service delivery: the fact that funders typically bear all, or a significant share, of the performance risk. Performance-based contracts shift some of that risk to service providers, but they are often unable or unwilling to assume all of the risk. Impact bonds introduce third-party investors to take on this risk.

The [INDIGO Impact Bond Dataset](#), maintained by the University of Oxford's Government Outcomes Lab, (Government Outcomes Lab n.d.b.) provides a comprehensive overview of impact bond projects around the world.⁷ As of April 2025, it included 315 impact bond projects, including 199 in Europe, 38 in North America, 35 in Asia, 18 in Oceania, 16 in Africa, and 9 in South America. Together, these bonds raised more than \$800 million as upfront capital and engaged with more than 3 million beneficiaries.

The list of countries at the forefront of impact bond projects varies depending on the criteria used. The number of projects in low- and middle-income countries is small (36), but these projects tend to be larger (in terms of both upfront investment and number of beneficiaries) than projects in high-income countries.⁸

India has the largest number of people using services delivered under impact bond models. Projects include Educate Girls, Quality Education India, the Utkrisht Impact Bond, the Skill Impact Bond, and LiftEd. Quality Education India targeted 200,000 and Educate

Girls 18,000 students. The Utkrisht Impact Bond supported 13,000 new mothers. LiftEd aims to benefit 1 million students by training teachers and school facilitators in India. The Skill Impact Bond offered an employability program for 50,000 job seekers (see Case Studies: Lessons from Colombia, India, and East Africa).

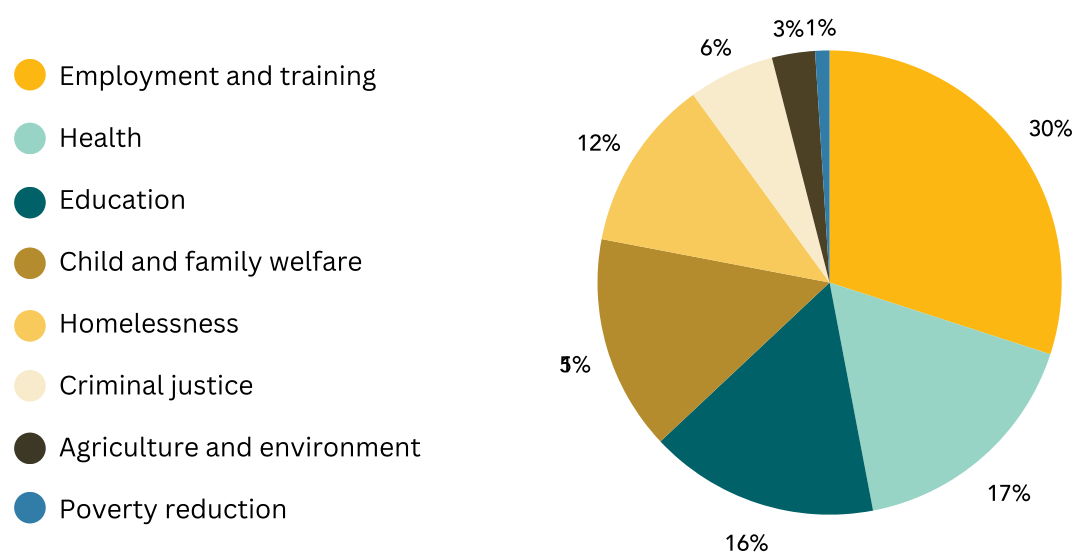
East Africa has fewer impact bonds, but they cover a large number of beneficiaries. The three impact bond projects implemented in Kenya have affected 800,000 people. (Government Outcomes Lab n.d.b.) In 2017, Village Enterprise—an Africa-based organization focused on poverty graduation—delivered a poverty graduation program for 14,000 service users in Kenya and Uganda (see Case Studies: Lessons from Colombia, India, and East Africa).⁹

Impact bonds have been used to tackle various challenges (figure 3.2). Employment and training is the dominant policy sector, with 93 projects.^{10,11} Another three projects aim to reduce poverty. Many of the projects under the employment and training category have the same objectives as economic inclusion programs:

- The Youth Social Mobility Social Impact Bond in Nuevo Leon, Mexico, is a social program that combines training for job seekers, school reintegration services, and family support for at-risk youth. The project aims to increase access to more economic opportunities, in order to promote social mobility (Catholic Relief Services 2024).
- A Development Impact Bond structured as part of the Finance for Jobs program in the West Bank and Gaza sought to train young job seekers in employer-demanded skills. It enrolled 1,380 beneficiaries, 1,087 of whom completed training (550 of them women), and facilitated the creation of 658 jobs (270 for women) (World Bank n.d.b.).

- The Refugee Impact Bond provides training opportunities and vocational, entrepreneurship, and resilience-building services for refugees in Jordan and Lebanon.¹² Delivered by the Near East Foundation, it has supported 4,380 refugees and host population trainees and provided 3,400 business start-up grants in Jordan. Women and youth, who are disproportionately affected by migration crises, take priority in the selection of participants. The program aims to improve business survival and the ability of households to meet their basic needs.
- The Empleando Futuro Social Impact Bond in Colombia tackles social inclusion challenges across various sectors, including specialized employment upskilling programs and healthcare (see Case Studies: Lessons from Colombia, India, and East Africa).
- The Village Enterprise Development Impact Bond in Kenya and Uganda is the first impact bond to directly support a poverty graduation program.

Figure 3.2 Distribution of impact bond projects by policy sector, 2025



Source: Government Outcomes Lab n.d.b., accessed April 23, 2025

A key factor limiting the implementation and scale-up of impact bond projects is the lack of data on their cost-effectiveness. As these projects are relatively new in developing countries, understanding of when they are most appropriate, how they should be designed, and under what conditions they produce better results is still limited. Some

guides on best practices are publicly available, but they are often conceptual and not always based on real-world examples (Elsby et al. 2022).

Case Studies: Lessons from Colombia, India, and East Africa

The case studies described in this section illustrate the use of impact bonds and performance-based contracts in economic inclusion programs.

The case studies from Colombia and India were chosen because of those countries' pioneering roles in OBF and the wealth of lessons generated from their early adoption of OBF for employment. The Village Enterprise Development Impact Bond in East Africa was included because it is the first impact bond to directly target poverty alleviation; it provides a unique perspective on applying OBF to economic inclusion programs. In both Colombia and East Africa, stakeholders initially piloted impact bonds as a learning tool before adopting impact bonds and more streamlined performance-based programs. The case studies highlight lessons on, challenges in, and opportunities for leveraging OBF to drive innovations in economic inclusion at scale.

COLOMBIA

The government of Colombia has been a pioneer and leader in advancing and institutionalizing OBF in Latin America and the Caribbean. It has demonstrated the effectiveness of OBF in enhancing the efficiency of public spending on economic inclusion programs.

Colombia invested heavily in employment and poverty alleviation programs, but challenges such as decentralized service provider incentives and a lack of data-driven decision-

making hindered effectiveness. In 2016, 28 percent of the population was poor, and the level of inequality (a Gini Index of 51.7) was one of the highest in the world (DANE 2017). The government recognized the need for innovation in public procurement systems and took action. It designed and implemented a Social Impact Bond to pilot OBF for inclusive employment in three cities. Based on the positive results of the pilot, both the national and local governments in Colombia have since widely adopted the approach. The government scaled up its use of OBF, which is recognized in Colombia as an effective strategy for tackling social inclusion challenges across various sectors, including specialized employment upskilling programs and healthcare.

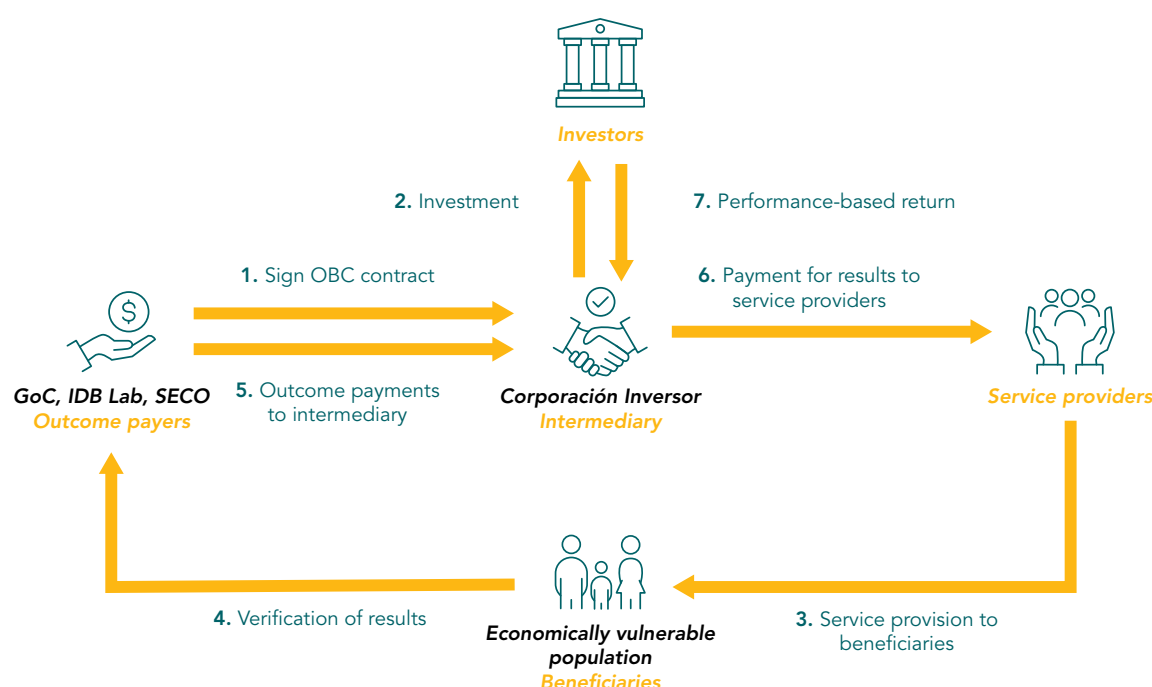
In 2017, the Department for Social Prosperity (DPS)—the national entity responsible for implementing policies to overcome poverty and achieve social equality—sought to innovate with OBF mechanisms to develop an employment model that would reduce the unemployment duration among unemployed people in poverty and victims of conflict. The programs the DPS was running to improve employment conditions for these groups of people involved multiple public and private service providers, which operated in an uncoordinated manner, using different job

training practices without accountability for employment outcomes.

The DPS saw an opportunity to transform its employment procurement practices by implementing OBF. It was reluctant to assume the risk of providing the working capital needed to achieve the results, however. For this reason, it decided to implement a Social Impact Bond—Empleando Futuro—

through a strategic alliance with various public and private stakeholders (SIBs.CO 2023a). Through an intermediary, investors provided working capital to service providers (figure 4.1). The outcome payer (a government entity) reimbursed this capital, along with an additional return, contingent upon meeting the pre-agreed results of placing program participants in a job and having them hold it for at least three months.

Figure 4.1 Structure of Colombia’s Empleando Futuro Social Impact Bond



Source: Instiglio’s own elaboration.

Note: GoC= government of Colombia; IDB Lab = Inter-American Development Bank Lab; SECO = State Secretariat for Economic Affairs of Switzerland; OBC = outcomes-based contract.

The DPS served as an outcome payer alongside the Inter-American Development Bank Lab (IDB Lab) and the State Secretariat for Economic Affairs of Switzerland (SECO), leveraging both public and private funding to drive innovation. The main investors were Colombian philanthropic foundations (Fundación Corona, Fundación Santo Domingo, and Fundación Bolívar Davivienda), which contributed working capital to finance service delivery upfront. Corporación

Inversor, a nonprofit impact asset manager established by the Colombian Stock Exchange, acted as the intermediary between investors, service providers, and outcome payers, managing financial flows and performance risk. Multiple service providers were open to testing a new contracting model. Instiglio provided expertise in OBF design, and Fundación Corona advised on employment programs for vulnerable populations.

The program had two financial resource flows. The first was from outcome payers to investors/intermediaries. All of these resources were linked to the achievement of job placement and retention outcomes. The second was from investors/intermediaries to service providers. Part of these payments was tied to the completion of activities, such as capacity-building sessions to strengthen technical skills, and part to job placement and retention results.

The Empleando Futuro Social Impact Bond was implemented between 2017 and 2018. It delivered impressive results. Of its 2,032 participants, 899 secured employment, with 677 maintaining their jobs for at least three months and 309 for at least six months. An impact evaluation, a process evaluation, and a cost-effectiveness analysis found that the program increased participants' probability of accessing and holding a formal sector job (EAFIT University 2020) and was more cost-effective and profitable from a social point of view than traditional employment programs (SIBs.CO 2023b). The benefits outweighed the costs of the program just nine months after the start of the intervention. The program achieved better employment outcomes at a lower cost per result and revealed the cost-effectiveness of the government's workforce development spending for the first time. These results are particularly impressive given that this was the first time a new OBF model was tested in Colombia.

Cali Progresá con Empleo, a second Social Impact Bond, implemented in Cali between 2019 and 2020, delivered even stronger outcomes, placing 1,030 out of 2,600 participants in jobs, 774 of whom retained the jobs after three months. With an investment comparable to the first Social Impact Bond, it demonstrated that greater cost-effectiveness could be achieved using the same intervention model.

These experiences convinced the government of Colombia of the value of OBF, leading it to scale its use and develop frameworks to institutionalize an outcomes-focused approach across public institutions. OBF was included in the 2018–22 and 2022–26 National Development Plans, and a framework focused on these mechanisms was published in the public policy document [CONPES 4067](#). These policy documents facilitated the creation of a public Outcomes Fund, through which the DPS launched two additional Social Impact Bonds, both between 2021 and 2023, as well as two performance-based contracts to accelerate employment outcomes and address challenges related to the Covid-19 pandemic. More than 4,500 of the 11,000 participants secured formal jobs, with over 3,000 of them retaining them for at least three months.

The local governments of [Bogotá](#), [Cali](#), and [Bucaramanga](#) have incorporated the logic of OBF into their 2024–27 development plans. The Mayor's Office of Bogotá launched an OBF program to improve its employment programs; the program has facilitated over 28,000 job placements.

Use of OBF has also expanded to other sectors. Two programs in Barranquilla seek to improve maternal health outcomes among migrant women and improve employment results and skills in the technology sector for vulnerable populations (Instiglio 2022).

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INDIA

Millions of workers in India lost their jobs during the Covid-19 pandemic, with youth and women hit hardest (Oxford Policy Management 2024), in a labor market that already had a significant gender gap. India has one of the lowest rates of female participation in South Asia as well as a wide gender-based skills gap (IFC n.d.). Out of every 100 women enrolled in training courses, only about 10 stay in post-skilling jobs for three months or more. Several initiatives and efforts to develop skills and create employment have failed, because of barriers such as low training capacity and the shortage of skilled workers (Oxford Policy Management 2024).

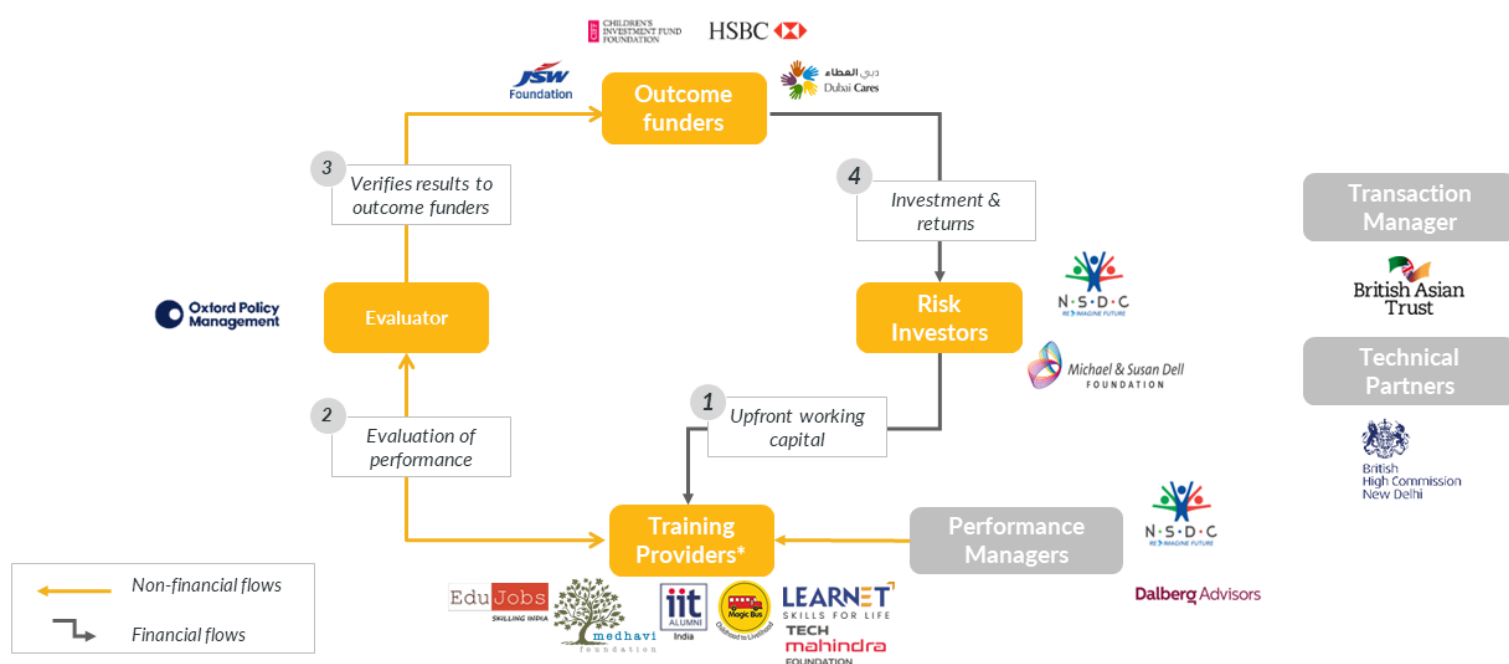
In response to this challenge, a coalition of partners came together to launch a Development Impact Bond that would focus not just on the quality of the training activities but also on the outcomes of job creation and job retention. As risk investors, the Michael & Susan Dell Foundation and the National Skill Development Corporation (NSDC) provided upfront working capital. The Children's Investment Fund Foundation, the JSW Foundation, HSBC India, and Dubai Cares were outcome funders. The impact bond

raised upfront risk investment of \$4 million; total outcomes funding was \$14.4 million (Government Outcomes Lab n.d.b.). Three to six training partners—a mix of nonprofits and for-profits—delivered a range of training courses. The British Asian Trust acted as the transaction manager and convener; the UK's Foreign, Commonwealth and Development Office was a technical partner. Oxford Policy Management, an independent third-party assessor, evaluated the agreed-upon outcomes. NSDC and Dalberg Advisors participated as performance managers, regularly assisting training providers with monitoring and capacity building to help them improve and adapt.

Launched in 2021, the Skill Impact Bond aimed to reach 50,000 people in India between the ages of 18 and 40 over four years (figure 4.2). It focused on first time jobseekers with relatively low levels of formal education earning less than ₹15,000/month (~\$202 estimated exchange rate in 2021) per person or ₹25,000/month (~\$336 estimated exchange rate in 2021) per household. The main goal was for at least 30,150 of the 50,000 participants to retain their jobs for at least three months, with at least 62 percent of them women.

Figure 4.2 Structure of India's Skill Impact Bond

Launched in November 2021, the Skill Impact Bond brings together a wide range of partners with deep expertise in outcome-based finance, skilling, and gender.



Source: British Asian Trust's elaboration. Provided by Nitya Daryani, British Asian Trust, email message to author, May 31, 2025

Payments were tied to the achievement of the following outcomes:

- Participants complete training and become certified as skilled in their trade by third-party assessors in sectors such as manufacturing, retail, apparel, and health care.
- Participants find a job in the sector of their training within two months of being certified (to establish attribution of training in securing the job).
- Participants retain the job for at least three months after joining.

Payments were based on individual participant's outcomes, in accordance with a sliding scale that made progressively higher payments for higher placement and retention among cohorts. Investors paid the outcome

funders for each participant who was certified, placed, and retained.

The project was implemented over eight cohorts. Each cohort included 4,000–7,000 trainees and ran for six months, during which candidates were recruited, counselled, enrolled, trained, and certified by a third party. Once outcomes were verified by a third-party evaluator, the investors paid for the outcomes achieved within a cohort.

The targets for each outcome metric in any given cohort were determined jointly by the investors, outcome funders, and transaction manager at the start of the cohort. Investors did not get paid for participants who did not achieve the outcomes. A series of caps was put in place to ensure that the program focused on incentivizing retention in jobs and discouraged

providers from simply enrolling a larger pool of candidates, certification of which is also an outcome milestone, to recoup costs without trying to ensure that they were placed and retained.

As of October 2024, the Skill Impact Bond had fully verified data for four cohorts. Results for the 17,177 women and 6,589 men enrolled in these cohorts included the following:

- About 89 percent of women and 92 percent of men were certified by a third-party agency in their sector of training.
- About 73 percent of women and 81 percent of men were placed in a job within no more than 60 days of their certification.
- About 58 percent of women and 63 percent of men were retained in employment for at least 90 of 120 days from the date they started the job.

Along with the three main outcome metrics, the project also tracked six-month retention rates. Data for the three that have been verified to date cohorts show that 43 percent of women and 61 percent of men were retained in employment for at least 6 out of 12 months from the date they began their jobs.

The government of India did not play the role of outcomes funder. The NSDC, a quasi-government entity, was an investor and contributed to the initial working capital. As the apex body that sets quality standards and norms for national skilling programs, it has deep expertise in the sector. Its role as investor and performance manager allowed it to be closer to the implementation of the project, create relevant frameworks and tools for performance management, and champion an outcomes-based framework within the government.

The evaluation methodology was revised after the first cohort, which acted as a learning cohort, to account for the ground realities

of the skilling sector. The fit-for-purpose methodology used statistically significant sample surveys with trainees to verify the outcomes and triangulated them with documentary proof, such as hiring letters and salary slips.

India is now implementing its seventh cohort and introducing a tech-based pilot to reduce the costs of monitoring, verifying, and evaluating the project by creating digital verification mechanisms that interface directly with employers and trainees. This pilot builds on the existing government tech stack, aiming to enhance and integrate with current systems as a pathway to future mainstream adoption. The platform aims to offer end-to-end functionality, including candidate-to-placement mapping, employer verification workflows, and tracking of post-placement outcomes like retention.

EAST AFRICA

As traditional development aid approaches have struggled to achieve sustainable and scalable poverty reduction in East Africa, several countries have turned to OBF. This case study explores the implementation of OBF for graduation programs in Kenya, Rwanda, and Uganda.

Graduation programming is designed to provide ultra-poor people with a comprehensive set of tools and support to help them “graduate” out of extreme poverty (BRAC 2021). The approach typically involves a sequenced combination of interventions, including consumption support, livelihood training, asset transfers, financial literacy, financial services, and ongoing mentoring that empower participants to achieve sustained self-sufficiency and resilience.

Graduation programs may be hindered by weak implementation and contextual factors. By focusing on outcomes such as increased

household income, improved food security, and successful business establishment, OBF increases the chance that graduation programs achieve their intended impact.

Village Enterprise (VE) has been a pioneer in implementing OBF in East Africa. Its graduation initiative is designed to empower ultra-poor households through a comprehensive package of support that includes training in entrepreneurship and financial literacy, financial services, business seed capital, and continuous mentorship. VE's experience reveals the potential of OBF for graduation and economic inclusion programs. It offers valuable lessons for future programs, particularly in rural and marginalized communities, where poverty remains entrenched.

In 2017, in partnership with international donors, impact investors, and other experts, VE launched the VE Development Impact Bond (VE DIB), the first impact bond to directly target poverty alleviation. A large-scale, independent, three-year randomized controlled trial (RCT) completed in 2017 played an important role in selecting VE as the service provider for the DIB. The RCT compared the impact of the VE graduation model with the impact of delivering cash alone and compared each to a control group. The graduation model outperformed cash-only interventions in both income and consumption, with a benefit-cost ratio comparable to the best-performing graduation pilots run by other organizations (Sedlmayr, Shah, and Sulaiman 2020).

The program was implemented across seven cohorts over a three-year period, with each cohort launching four months after the previous one. Three donors committed \$5.28 million, \$4.28 million of which was reserved to pay for outcomes. VE was obligated to reach at least 12,660 Kenyan and Ugandan households directly between November 2017 and November 2020, with final evaluation conducted in 2021. The DIB aimed to reward

increases in income. It used a social value approach to pricing outcomes, ensuring that the price paid for an outcome did not exceed the social benefits generated: \$1 of outcome payment was made for every \$1 of incremental impact on household income.

Two types of outcome payments were made. The first was reimbursement of the income injection that occurred after VE transferred seed capital to households. It was capped at \$1.2 million (28 percent of total outcome funding) and \$150 per household. Funding not used as seed funding was transferable for use as outcome payments.

The second type of payment was for sustained additional benefits to households, as verified through a third-party RCT for which data collection was scheduled 6–18 months after the end of programming, depending on the cohort. The Covid-19 pandemic delayed data collection, which were collected 6 months to 2.5 years after the end of programming. A per-household payment cap of \$265 was established to motivate extending programming to more households and to protect outcome payers from overpayment because of measurement error. A payment floor of \$0 meant that even if the evaluation showed negative impact the service provider would not owe funds to the outcome funders. This provision ensured that the service provider would not incur debt because of unintended negative consequences of programming.

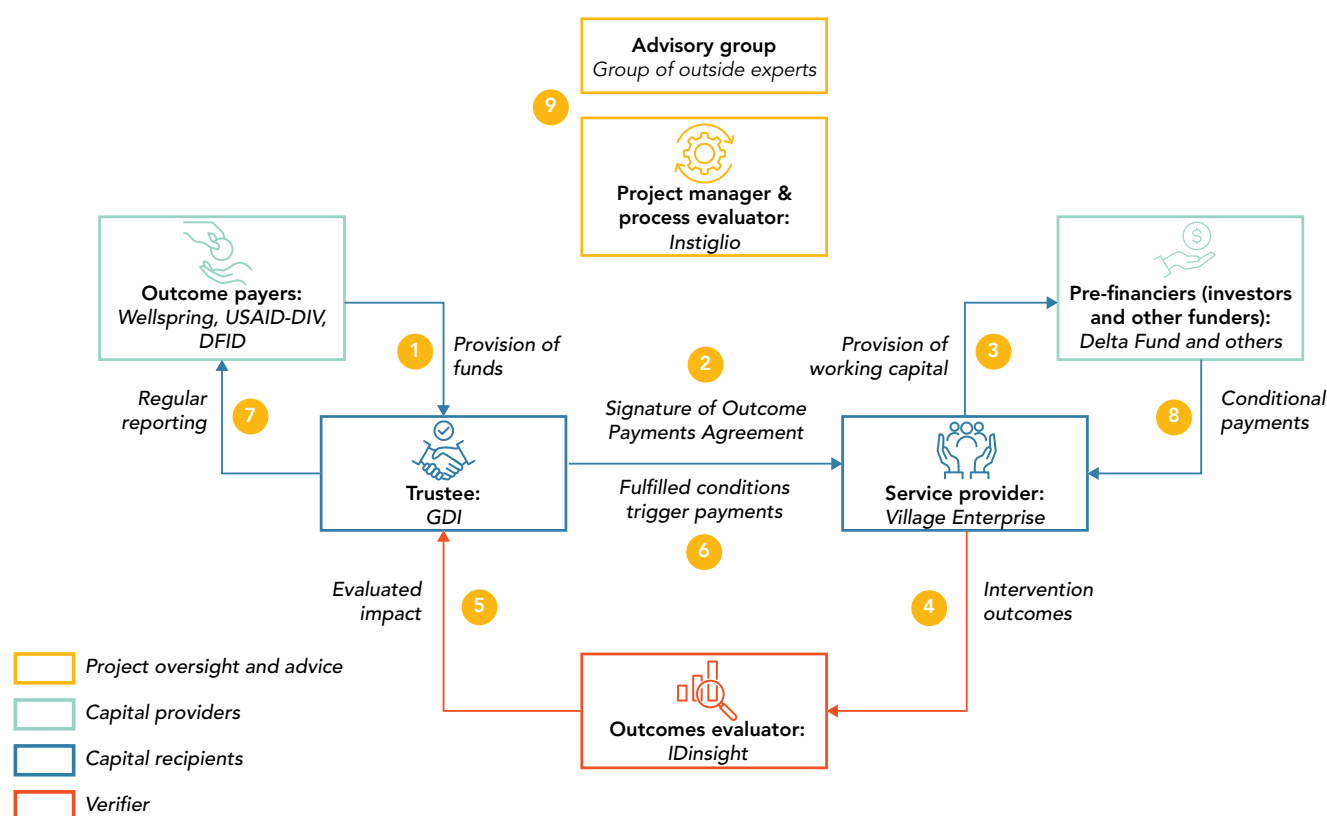
VE was responsible for raising the upfront working capital. It raised \$2.3 million from nine investors, with individual investments ranging from \$250,000 to \$1 million. The lead investors were the Delta Fund and the Bridges Impact Foundation; most remaining investment came from family foundations and individuals. According to the term sheets, an internal rate of return (IRR) of more than 7 percent would be evenly split between investors and VE. At the start of the DIB, projections indicated that investors could earn up to 10 percent

if performance was excellent and payment ceilings were reached. The expected IRR was 2–6 percent, depending on whether VE replicated its previous RCT results (lower end) or exceeded them by 15 percent (upper end).

The VE DIB included nine principal flows and components:

1. Outcome payers transferred project funds to the trustee.¹³
2. The trustee signed an outcomes contract with VE.
3. VE contracted directly with investors for the working capital needed to implement the program.
4. VE delivered its intervention.
5. A third-party evaluator assessed and verified the program results and reported back to the DIB design group for approval before submission to the trustee.
6. The trustee paid the service provider in alignment with the reported results and the terms of the outcome payment agreement.
7. The trustee reported to the outcome payers on the use of funds.
8. VE repaid the upfront working capital to its investors, in line with the terms of the agreements.
9. The project manager provided ongoing general project oversight, led the advisory group, and completed a process evaluation.

Figure 4.3 Structure of the Village Enterprise Development Impact Bond



Source: Instiglio 2018b.

Note: USAID-DIV = United States Agency for International Development-Development Innovation Ventures; DFID = Department for International Development (UK); GDI = Global Development Incubator

The project exceeded its targets, sustainably improving the livelihoods of 95,000 East Africans and shielding them from the worst economic impacts of the Covid-19 pandemic. The RCT demonstrated positive and sustained increases in household spending and net worth, projecting an increase in lifetime household income of over \$21 million—more than four times the cost of the project (Njogu-Ndongwe et al. 2022).

The outbreak of Covid-19 during the project disrupted and delayed the planned evaluations. The project planned to evaluate and release payment for sustained impact on income twice. A first endline survey planned for spring 2020 was meant to validate impact among households that participated in the first four cohorts of implementation; a second endline in 2021 was meant to evaluate the other three cohorts. Because of the global shutdowns in response to the pandemic, the first evaluation round had to be delayed; a single combined survey was conducted in 2021.

Several practices can help avoid the disruption to evaluation that occurred during the pandemic emerged from the experience:

- **Include more evaluation points throughout the project to reduce the impact of disruption to a single evaluation point.** Increasing the number of evaluation points can be expensive. Instead, audited administrative data, Big Data, and other innovative approaches to validating impact could be used to increase the number of evaluation points. For example, projects might consider whether administrative data collected by project implementers could be validated and used for program evaluation purposes. Increasing the project size could facilitate larger evaluation budgets.
- **Partner with local evaluation and/or data collection firms.** The lack of a team on the ground in Uganda delayed evaluation.

Evaluation eventually moved forward by subcontracting data collection to a local institution.

- **Include provisions for force majeure, or unforeseeable circumstances, in contracts.** The contracts included standard force majeure clauses and provisions for nonevaluation in the context of evaluator noncompliance; they did not envision a scenario in which implementation occurred, but evaluation could not be safely completed. Nonevaluation delayed the negotiation process, as stakeholders first had to agree on which parties bore the risk of delayed or missing payment in the context of nonevaluation caused by force majeure.

Other practices can also be helpful:

- **Evaluate success within each context when estimating payouts.** Outcome payments were maximized and payment ceilings hit, yielding an 8.3 percent IRR for investors—more than twice the IRR projected in initial models based on Ugandan data. This higher return was driven by strong results in Kenya, where impact was greater than in Uganda.¹⁴ If payments had been calculated separately for each country, investors would have received the maximum payout for programming in Kenya, and Uganda payments would have aligned with initial projections. These differences underscore the importance of evaluating success within each context, to ensure that funders pay appropriately for results, neither overpaying nor underpaying.
- **Link payment to intermediate rather than final results.** Where solid links between intermediate results and the ultimate impact funders want to achieve exists, payments should be tied to intermediate results. Graduation programs have been significantly researched (J-PAL 2023). Research shows a positive correlation between business health outcomes and

increased household income (Njogu-Ndongwe et al. 2022). Linking payment to business outcomes, which are easier to attribute to program activities, could reduce the need for impact evaluation methods such as RCTs, thereby reducing the costs of evaluation, and facilitate more rapid feedback loops, which could be used to improve programming. Doing so would also shorten the time it takes for investors to recoup their funds and/or increase the ability to recycle investment capital, reducing the total amount of investment needed and the cost of outcomes for funders. Similar strategies could be used with outcomes-based employment programs that incentivize job placement and retention outcomes, with the underlying assumption that job retention leads to higher incomes and improved livelihoods.

- **Explore alternative approaches to OBF in developing countries.** The idea of the private sector profiting on aid work has been better received in high-income countries, where impact bonds often create documented savings on social spending, than in developing countries. Under the Social Impact Partnerships to Pay for Results Act (SIPPRa), for example, the US government allocated \$100 million in federal funds to pay for programs only after they achieve predetermined outcomes (US Department of the Treasury 2024). In developing countries, the connection between aid and social spending savings is typically less clear, making it more difficult to justify payment premiums as being offset by government savings. Potential alternatives include partnering with investors willing to accept lower or no returns or linking some payments to meaningful process and activity milestones to help reduce reliance on third-party working capital.

- **Ensure that there is clarity on the value added by each stakeholder, to help reduce costs.** Project costs rose by \$772,662 because of payments to the outcomes evaluator (\$478,162), the project manager (\$118,585), the trustee (\$105,000), and the process evaluator (\$70,915) (Village Enterprise 2022). These payments increased costs by \$23 per household, causing the total cost to run the full DIB program (\$290 per household) to exceed Village Enterprise's implementation costs (\$267 per household). With an estimated lifetime impact of \$1,425 per household, the full DIB program had a benefit-cost ratio of 4.92, slightly lower than the 5.34 for direct implementation. Reducing intermediary involvement and ensuring clarity on the value added by each stakeholder could lower costs (ECORYS and FCDO 2022). A comparative analysis against traditional project implementation models is needed, as traditional project implementation models also often incur high overhead costs. Stakeholders might also consider the potential role of technology in reducing costs, as India did in its Skill Impact Bond.

A performance-based project, commissioned using a milestone-based award, launched in September 2024 in Rwanda was designed to pay VE for successfully collaborating with the government of Rwanda to scale graduation programming. The award was terminated with the dismantling of the U.S. Agency for International Development (USAID). Project funding had been enabling VE to expand its operations into three new districts and train government staff to independently implement and scale the program. The project eliminated the need for third-party investment by tying payment to a mix of process, activity, and outcome milestones. The commissioner (USAID) developed in-house OBF expertise, eliminating the need to bring in intermediaries to support commissioning and project

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management. Early payments did not fully cover the costs VE would incur to implement the project; VE was to have used institutional reserves to cover some implementation costs. VE was also required to raise \$15 million for full-scale implementation of the project, with a combined \$750,000 across five milestone payments at risk if it did not raise this additional funding.

This model may not work for nongovernmental organizations that lack the reserves to fund upfront program costs and potentially fully absorb them if results are not achieved and payments not received. In these contexts, philanthropic bridging grants may be needed. In setting up such contracts, selecting appropriate milestones is critical. Ideally, a milestone should be measurable and directly linked to achieving the intended outcomes

while allowing flexibility to adapt activities as needed. For a financial literacy program, for example, a milestone could be participant comprehension of the training material. This milestone is measurable and likely essential to driving behavior change. Incentivizing attendance may be less meaningful, because some participants may grasp content quickly and need less training while others may benefit from additional support. Focusing on milestones that reflect meaningful progress toward outcomes, rather than mere delivery or participation, strengthens both accountability and flexibility to achieve impact.

These cases demonstrate OBF's potential and variety of applications, but they also reveal challenges and contextual factors that affect success. The next section examines such limitations and ways to mitigate risks.

Limitations of Outcomes-Based Financing and Tips for Mitigating Risks

OBF can improve accountability, efficiency, and impact in economic inclusion programs. But OBF is not a one-size-fits-all solution: Its effectiveness depends on the enabling environment, institutional capacity, and nature of services being funded. Careful assessment of needs and limitations can help policy makers and funders determine when OBF is the right tool and when alternative mechanisms may be better suited.

The following limitations and contextual challenges must be considered when determining whether OBF is the right approach for government-led economic inclusion programs:

1. **The complexity and rigidity of government systems:** Rigid government frameworks can make it difficult to integrate OBF. The complexity of public contracts, procurement rules, and financial management systems can result in prolonged negotiations, high transaction costs, and difficulties adapting financial models to evolving needs. Where regulatory environments are highly restrictive or administrative capacity is low, OBF may be impractical.
2. **Political and institutional instability:** OBF mechanisms rely on long-term commitments and institutions. Short political cycles and shifting policy priorities therefore pose significant risks. Changes in leadership or governance structures can deprioritize agreed-upon initiatives, leaving OBF programs vulnerable to discontinuation. If government champions are lost during political transitions, momentum for an OBF project may flag. In politically unstable environments or environments in which public finance controls are weak, traditional grant funding may be better suited.
3. **Regulatory and legal barriers:** Countries with stringent public financial management rules may face difficulties structuring OBF contracts, particularly when it comes to paying for outcomes retrospectively. OBF may not work for governments with limited flexibility to commit to contingent liabilities or make payments conditional on results verified after service delivery.
4. **Challenges in designing effective payment metrics:** OBF requires well-designed payment metrics that accurately reflect results. Poorly defined metrics, overly complex verification requirements, and misaligned incentives can undermine effectiveness. If outcome indicators are too difficult to measure or fail to capture meaningful change, service providers may be discouraged from participating. Where data infrastructure is weak, verification

costs can be prohibitively high, negating the efficiency gains OBF seeks to achieve.

5. **Limited readiness of service providers:** OBF requires service providers that can operate within a results-driven framework. Organizations may lack the ability to pre-finance service delivery, manage performance-based contracts, or absorb financial loss if specified results are not achieved. Financial analysis of the service provider is important when defining a payment function and structure. If the provider market is underdeveloped or lacks competition, OBF may not be feasible without additional investments in capacity-building and financial support.
6. **High transaction and administrative costs:** The involvement of multiple intermediaries—outcome evaluators, performance managers, project managers, a trustee—can drive up project costs, possibly offsetting the efficiency gains OBF aims to achieve. Complex contract negotiations, legal structuring, and impact verification processes require significant upfront investment, which may not be justified for smaller-scale projects. Where transaction costs outweigh potential benefits, simpler financing mechanisms may be more appropriate.

Risks to output-based financing in public contracts fall into five categories:

- Political cycles, the political agenda, and lack of buy-in from program champions
- The regulatory environment
- Program design
- Service providers
- Operational elements

This section describes them and proposes strategies for mitigating them.

POLITICAL CYCLES, THE POLITICAL AGENDA, AND LACK OF BUY-IN FROM PROGRAM CHAMPIONS

Building coalitions is crucial to sustaining programs and increasing their impact. Effective coalitions work at different levels (political, technical, and administrative). Risks emerge when teams at different levels do not align. Without strong internal champions to navigate political cycles and effective technical and administrative teams that understand how to navigate the OBF design throughout the organizational processes, programs can falter.

Three main risks can arise from weak coalitions:

1. **Difficulty adapting to political and administrative cycles and changes in the political agenda:** All actors involved in the decision-making process need to understand the timeline, budgetary, and administrative constraints that can limit their actions. Election cycles, procurement process timelines, and changes in the political agenda (among other factors) can all affect the quality of program design or the achievement of program objectives.
2. **Lack of political champions:** Government-led OBF programs must function within the guidelines of public institutions. Public servants who procure and guide OBF programs may not have strong incentives to try new approaches; they may tend toward the status quo unless they are guided by leadership at the highest possible level of the OBF organization. Political champions at the administrative and technical levels are important for program success, but effective adaptation of an OBF mechanism must align with the procurement process of the agency. The presence of strong political champions can counteract the natural tendency to resist change.

3. **Failure to identify stakeholders and final decision makers:** During the program design and the procurement process, it is crucial to identify all stakeholders (internal and external) that influence the decision-making process during the program design and the procurement process. Procurement processes are often characterized by the intervention of multiple actors at different levels; external actors may authorize multiyear resources that support program implementation. The inclusion of new actors at advanced steps of the design process may result in disruptive changes of plans. Mapping all stakeholders allows the technical and administrative teams to identify the best time to include actors in the design process.

Two mitigation strategies can help reduce the likelihood and impact of these risks:

1. **Incorporate political and administrative cycles into the project and organizational planning.** Every OBF organization has two levels of planning processes: (a) the organizational level, which sets budgets and timelines for each program of the agency, and (b) the program level, which determines the technical design and the procurement strategy. Program leads should define clear strategies to design and implement the OBF mechanisms at the most favorable time for each level of planning (avoiding initiating projects toward the end of a government administration, for example).
2. **Invest in building relationships and, if possible, develop a network of political champions.** Building the coalition at both the political and administrative levels is critical, but the process of developing the case for OBF may be costly in terms of time and effort. Program leads should leverage results and lessons learned from prior programs and build networks of advocates from successful programs to build buy-in.

THE REGULATORY ENVIRONMENT

All interventions must align with both the external regulatory framework at the national and subnational levels and the internal processes and guidelines of the organization. When government budgets are funded by external institutions, those institutions' regulatory requirements must also be met.

The program team must ensure that the OBF design respects the regulations of the public sector—and, when relevant, funders of the public sector—and push for the internal adjustments each organization needs to develop to maximize the potential of OBF. This category of risks can be divided into two groups: macro-regulatory level (external to the organization) and micro-regulatory level (self-imposed by the organization and that can be modified) risks. The main risks at both levels include the following:

1. **The OBF design does not reflect procurement and budget regulations.** Procurement and budget regulations shape what can and cannot be done during the design, selection, and implementation phases. An OBF project must take these regulations into account. Consider, for example, a workforce development program that must be implemented within the fiscal year but plans to issue the last payment in the last month of implementation. This structure could create problems for both the service provider (which may not have sufficient time to achieve all the job placement targets) and the public agency, which commonly face penalties if it does not expend its entire budget by the end of the fiscal year. If the OBF design focuses only on ensuring that targets are met (participants are placed in jobs), the public agency's high-level regulations that are outside the outcome payer's manageable control will be overlooked. Payment metrics may need to be adapted so that the

verification method is developed within the fiscal year or the payment schedule adapted to allow for budget reallocations if results are not achieved. Identifying the regulatory limits of the agency is essential to defining the limits of the OBF design.

2. **The institutional process is rigid.** The internal regulatory frameworks that affect the procurement and implementation processes need to be identified. In many situations, the public agency can adapt its internal procedures to maximize the potential of the OBF mechanism. Additional complications may arise when using financing from multilateral or regional development banks, as their procurement frameworks may not always

be conducive to the use of OBF. See Box 1 for a discussion of how these challenges have been navigated within the World Bank's procurement processes. For example, poverty alleviation programs are usually procured as a fixed set of activities the service provider needs to deliver to achieve the contract objective. Public agencies tend to create cost structures that can be disaggregated by activity, leading to rigid structures when procuring programs. The organization can bring flexibility to the cost structure in a program so that service providers are free to innovate with the best strategy to accomplish the results and the risk of not taking advantage of the OBF principles because of organizational rigidity does not materialize.

Box 1 Navigating the World Bank's procurement processes for OBF

Governments using World Bank funds must follow the procurement regulations and principles, in accordance with the World Bank's Procurement Framework. The World Bank does not currently provide standardized tools for outcomes-based procurement. The ability to commission services using outcomes-based approaches often depends on the willingness and capacity of local procurement teams to find solutions. Local World Bank procurement teams must also ensure that the government has sufficient procurement capacity and that strong environmental and social safeguards are in place.

Commissioning economic inclusion services generally falls under "nonconsulting procurement," which historically prioritizes price competition for inputs. This emphasis can make local procurement teams hesitate to adapt the process to focus on outcomes. Demonstrating World Bank precedent in using outcomes-based approaches can be helpful. For example, the procurement process adapted for performance-based contracting in the Sehatmandi Project in Afghanistan set a precedent that can be applied in other countries and offers valuable lessons learned (World Bank 2022).

In some cases, it is possible to work around traditional procurement processes. In the [Finance for Jobs Project in the West Bank and Gaza](#), which funded a Development Impact Bond (DIB) for skills development and employment, the procurement officer determined that the service commissioning did not qualify as a traditional procurement activity because it was not based on the cost of inputs. This decision allowed the project to operate under grant guidelines rather than procurement rules. As an impact bond, the project also had to navigate investment project financing requirements.

Stakeholders looking to use outcomes contracts may face the additional challenge of securing working capital. In the [West Bank and Gaza DIB](#), the outcome funding came through a trust fund that did not restrict the use of other loans, allowing the project to leverage investment project financing and to have investors lend the capital.

Box 1, continued

Certain types of World Bank funding may not allow additional loans. In such cases, a performance-based contract or a social impact guarantee may be more appropriate than an impact bond. These projects may still need working capital. In Ethiopia, the design of a performance-based pilot under an employment project included an “mobilization allowance,” which was to inject early funds that the contractors/providers would repay as they started to achieve outcomes. (The project was ultimately not implemented.)

Public agencies could consider the following mitigation strategies to align the OBF design with regulations:

1. **Seek alternatives to overcome macro-level barriers.** Many countries require annual budget execution and incentivize the spending of all budgets within the fiscal year. To overcome this challenge in the short term, the organization can design OBF mechanisms that anticipate results within the fiscal year and set payment structures that allow the verification method to end within a timeframe that allows for budget reallocation if the results are not met completely. Projects can also be implemented sequentially, providing a small amount of funding in the first phase to set up the project followed by implementation funding.
2. **Invest in long-term solutions to lower macro-level barriers.** In the long term, the public sector could create mechanisms that allow multiyear programs. Countries that allow multiyear procurement have improved their results. Public organizations can request multiyear budgets.
3. **Advocate for changes in micro-level elements.** Organizations can revise their internal procurement and budgetary processes to adapt to OBF. Updating internal guidelines and manuals could allow technical teams to incentivize flexibility for the service providers. Mapping all of the internal procedures involved in the procurement and implementation processes of an OBF

mechanism would identify the critical points that need to be updated.

4. **Explore multiple contracting options for outcomes-based procurement.** Programs should consider a range of options for OBF. Procurement teams may have some discretion to employ flexible procurement interpretations. Upfront external financing is a key feature of impact bonds. Other options, such as performance-based contracts and social impact guarantees, can also address the need for working capital.

PROGRAM DESIGN

Some of the main elements that should be considered in every design are the payment metrics, targets, payment structure, verification methods and timelines, and governance structure. All of these design components should be based on the context and characteristics of each program, including the available systems and the capacities of both the governmental entity and service providers.

Main sources of risk include the following:

1. **Lack of data:** Data are the foundation for establishing a coherent intervention model, setting realistic targets, aligning prices with market conditions, and informing other components. Many OBF mechanisms are implemented in data-scarce environments. They therefore often rely on assumptions or imperfectly gathered data. In such cases, it is advisable to conduct pilot studies to collect more accurate data and gain experience with the interventions, in order

to refine the design before scaling up. This approach can be supported by creating performance management systems that allow for program adjustments during implementation.

2. Misalignment of design components:

- **Payment metrics:** Payment metrics are the main driving factor in an OBF, signaling to service providers what is most crucial for the project's success. They influence the adjustment of the intervention model and the allocation of resources. Selecting incorrect metrics creates the wrong incentives, potentially leading to undesirable results or harmful perverse incentives for the project and stakeholders. To avoid this problem, it is crucial to develop a theory of change that captures the intervention model and assumptions at each stage. Metrics should be selected by considering their alignment with the desired impact, the risks they pose for service providers, the time required to achieve them, and their measurability.
- **Targets:** Targets should be realistic, taking into account the capacities of stakeholders as well as market conditions. If targets are set too low, service providers may not need to do more than they were already doing. If targets are set too high, results may not be achieved, leading to nondisbursement of resources.
- **Payment structure:** The payment structure includes all elements related to the budget, prices, percentage tied to results, and disbursement conditions and timelines. One way in which a misalignment can occur is by setting prices above or below market rates. If prices are too high, public resources will be misused; if they are set low, service providers will not respond to the request for proposals. This risk exists in traditional models; it may be

higher in an OBF because of the dearth of data and evidence on costs related to achieving results rather than merely performing activities. If the percentage tied to results or the disbursement conditions do not align with the service provider's financial capacities, service providers could run out of cash and, in a worst-case scenario, have to stop implementing the program. In this case, the program would have to either change service providers or alter the initial conditions of the contracts. In either case, the risk of not achieving the expected results would rise, the administrative burden would increase, and the program would suffer a loss of reputation.

- **Verification methods:** Some of the greatest verification risks are related to the reliability, simplicity, and ability to attribute results to program efforts. To ensure reliability, results should be verified by unbiased and reliable sources, such as third-party or official databases and systems. When these sources are not available, programs sometimes rely on self-reported data, which can increase the likelihood of errors or fraud. Third-party validation audits can help reduce these risks. Complicated data collection could lead to administrative overload, increasing costs for the implementing entity or delaying disbursements to service providers. Ensuring clear attribution of results is critical. To avoid over- or underestimating the impact of the intervention, verification methods should account for external factors that may have contributed to the outcomes. Using robust evaluation designs, such as comparison groups or contribution analysis, can help strengthen the claims of attribution and provide stakeholders with confidence in the validity of results.

Two cross-cutting mitigation strategies should also be considered:

1. **Ensure technical expertise.** Programs can be designed by engaging external experts or developing internal capacity. For the former, organizations that combine OBF technical knowledge, sector expertise, and familiarity with the country's context should be selected. For the latter, an external expert can provide training and ongoing support to address specific challenges during either the design or implementation phases. Following implementation of the initial design, mechanisms should be established to transfer this knowledge to future teams within the organization to ensure sustainability. This internal capacity will enable the organization to make necessary adjustments and launch new project iterations with minimal reliance on external expertise.
2. **Include flexibility clauses in contracts, and troubleshoot during implementation.** Clauses should be included that enable modifications in response to unforeseen events, such as pandemics or situations where the initial assumptions used to design the OBF prove invalid. They should facilitate effective course corrections when circumstances threaten the project's success but not be so flexible that they incentivize lower performance from service providers.

SERVICE PROVIDERS

The government entity overseeing the OBF program should conduct a market analysis to assess the number, capacity, capabilities, costs, and track records of potential service providers, so that realistic expectations for the program's scope and reach can be set. Ideally, service providers should possess a fundamental understanding of OBF schemes and have demonstrated effectiveness in implementing an OBF project.

Risks associated with service providers come from several sources:

1. **Inadequate market analysis of service providers:** Failure to conduct a thorough market analysis can lead to the selection of providers that lack the necessary qualifications or experience, leading to substandard service delivery. Relying on outdated information or incomplete assessments can create unrealistic expectations regarding provider capabilities, resulting in service disruptions and increased costs. Inadequate analysis of providers can also lead to the contracting of providers at suboptimal rates or with excessive overhead costs, leading to cost overruns.
2. **Lack of capacity:** Even if service providers have experience with the target population and the intervention, they may lack clarity on how to track and report results and leverage the benefits offered by OBF, hindering the achievement of results.
3. **Lack of service provider buy-in:** A well-established market of operators ready to participate in a call for proposals for an OBF program may not exist, because of lack of knowledge about, experience with, or even ideological opposition to OBF. Operators accustomed to activity-based approaches may resist such models. It may be necessary to build buy-in at this stage by understanding their views on these types of models, addressing their concerns, and ensuring that they understand the benefits of these models to get their buy-in for implementation.

Mitigation strategies include the following:

1. **Conduct a robust market analysis.** A thorough market analysis can identify the most suitable service providers and ensure that the OBF program is grounded in its scope and scale to the market conditions and the capabilities of the service providers. The analysis should include the following steps:

- Gather detailed information about market operators, including their experience, expertise, and track records in relevant areas.
 - Evaluate potential providers based on their ability to achieve desired outcomes rather than focusing solely on how much they charge.
 - Assess the costs associated with contracting different providers and compare them with the potential benefits they can bring to the program.
 - Evaluate providers' capacity and capabilities to deliver the required services effectively and efficiently.
2. **Engage with service providers during the design process.** During the design of the OBF program, the government is strongly advised to engage with potential service providers to gather insights on their perspective on potential design components. Doing so provides valuable feedback throughout the design process. Soliciting feedback also helps familiarize service providers with OBF design and implementation and increases buy-in from them before soliciting proposals.
 3. **Conduct capacity-building sessions for service providers.** Before and during implementation, the government could conduct capacity-building workshops and trainings, to ensure that service providers understand the OBF implementation scheme, its components, and their responsibilities for successful implementation. Doing so helps ensure that service providers include robust data-driven reporting and management systems to ensure they stay on track for successful implementation.
 4. **Support service providers throughout program implementation.** The government agency overseeing the program should establish clear communication channels through which it can resolve day-to-day

questions, address problems or bottlenecks, and adjust the design if necessary. Providing support fosters a smoother, trust-based relationship between service providers and the government, facilitating problem-solving and setting a program up for success.

OPERATIONAL ELEMENTS

For an OBF project to operate effectively, the governmental entity responsible for implementation must exhibit a high level of preparation and engagement. An external organization is typically contracted to design the project. The government should dedicate a team with adequate capacity to engage in the design process and subsequently manage the implementation, develop the skills within the team to understand and actively engage with the mechanism, and invest in developing or adapting data systems to facilitate results verification and tracking, thereby reducing administrative burden.

Main risks include the following:

1. **Lack of capacity and capability by the government team:** Projects often require a team that includes a mix of technical, legal, and financial experts. Such a team is rarely available. A weak team can lead to delays in design, verification, and disbursement and limit the support provided to operators. Teams may lack the specialized OBF knowledge required to fully engage in the design or implementation of the mechanism. This deficiency can adversely affect decision making and increase the likelihood of errors at various stages of the process. It is not uncommon for changes to occur between the design phase and contracting because of insufficient understanding by the team.
2. **Lack of robust information systems:** One of the primary functions of data systems in an OBF is to enhance verification by improving reporting efficiency, centralizing

information, and incorporating internal controls to ensure data quality—by, for example, linking to other official databases such as the national census. In the absence of robust data systems capable of automating verification processes, the administrative burden on teams can become significant.

Mitigation strategies include the following:

1. **Integrate capacity building for the team as a pillar of the project.** Capacity building should encompass not only the technical team directly responsible for design and implementation but all stakeholders within the entity who will serve as advisors and decision makers, including legal and monitoring teams. Even with these efforts, learning curves may affect the schedule, because of inefficiencies and setbacks during the early stages. It is crucial to provide ongoing support throughout the project lifecycle, including the design, contracting, implementation,

and evaluation phases. This support will help address questions, facilitate necessary design adjustments, and gather insights that will improve future iterations of the mechanism.

2. **Invest in robust information systems.** OBF initiatives should leverage existing information systems or invest in developing new ones designed for these projects. Establishing or modifying these systems may be expensive, but doing so would reduce the need for additional personnel during implementation and significantly enhance the program's accountability and sustainability. As an alternative to building complex and costly systems when existing options are unavailable, programs could seek to automate some processes. For example, teams could use online files, upload evidence to a shared cloud, and develop relationships with other entities to access necessary data.

Conclusion

Outcomes-based financing (OBF) offers a structured approach to linking funding to measurable results. By shifting the focus from inputs to results, it can help drive more effective service delivery, encourage innovation among implementers, and ensure that public resources are directed toward proven interventions.

OBF is not a universal solution, however. Implementation requires strong governance, reliable data systems, and an enabling policy environment—conditions that are often not met. Challenges such as high transaction costs, the complexity of designing contracts, and the need for robust outcome verification mechanisms can hinder scalability, particularly in low-capacity settings. Unintended consequences—such as providers prioritizing easier-to-serve populations or easily achievable outcomes over meaningful results—must be managed. The suitability of OBF depends on outcome funder interest and capacity, enabling regulatory frameworks, stable economic and political contexts, data availability, and service provider capacity (Social Finance n.d.).

SCALING OUTCOMES-BASED FINANCING

For governments and international development agencies seeking to expand the use of OBF in economic inclusion programs, strategic policy making is essential. Where needed, legal and regulatory frameworks should be adapted to facilitate performance-based contracting. Capacity-building investments are needed to strengthen government ability to structure, manage, and evaluate OBF initiatives. Collaboration with development partners, investors, and civil society can help create a learning ecosystem for continuous improvement.

OBF is most effective when applied selectively—by targeting programs with clearly measurable outcomes. In some cases, alternate funding mechanisms, such as direct grants, may be more appropriate. Policy makers must also guard against the risk of inequity, ensuring that performance incentives do not inadvertently exclude vulnerable populations.

CONDUCTING FURTHER RESEARCH AND EXPLORATION

There is still much to learn about the long-term effectiveness of OBF and best practices for implementing it. More rigorous evaluations are needed to assess the cost-effectiveness of OBF compared with traditional funding models and to identify the conditions under which OBF delivers the greatest value. Further research should also explore ways to reduce transaction costs, improve impact measurement, and align OBF with broader systems change efforts.

As governments and development partners continue to explore OBF as a tool for expanding economic inclusion, an evidence-driven approach is critical. Fostering dialogue, learning from both successes and failures, and refining implementation models can make OBF a more effective and scalable mechanism for achieving inclusive and sustainable economic inclusion.

Annex. Principles of and Framework for Implementing Outcomes-Based Financing

Four core principles—measurability, accountability, incentivization, and flexibility—are key to designing and implementing OBF mechanisms. This annex provides practical guidance on how to incorporate these principles in the design and implementation of OBF instruments.

MEASURABILITY

At the heart of OBF is the need to define and measure outcomes in a meaningful and reliable way. The theory of change, or logic framework, plays a critical role in this process by articulating how resources (inputs) will be used to produce outputs that ultimately drive desired outcomes. A well-designed theory of change clarifies key assumptions, identifies enablers and barriers, and informs

performance management and monitoring strategies (figure A.1). Articulating the assumptions generates clarity about who is expected to do what; identifies possible enablers of and barriers to moving toward the outcomes; and indicates who should be incentivized, which metrics and indicators should be considered, and how a strong performance management and monitoring and evaluation system should be designed.

Figure A.1 Theory of change of outcomes-based financing



To ensure measurability, outcome specifications should consider the following:

- **Definition of eligible participants/beneficiaries:** Practitioners should identify participant characteristics, especially how far participants are from the desired outcomes and whether it makes sense to be specific about the “distance to travel” to achieve the outcomes. It is useful to consider an independent referral or identification mechanism to include participants in the program. The aim is to minimize inclusion of only easy-to-help participants.
- **Alignment of outcomes with policy objectives:** Timelines for tracking outcomes need to be set. Even when it is necessary to work with shorter-term proxy indicators, practitioners need to reflect on the logical links between activity, outputs, and outcomes.

- **Accurate price-setting of attributable outcomes:** It is critical to include a sufficiently long outcome tracking period and ensure that outcomes would not have occurred anyway. Outcome payers should engage with all parties throughout the process of pricing outcomes, to strike a balance between the value to the outcome payer, the cost of delivering the service to providers, and the distribution of financial risk (Fitzgerald et al. 2019).

Where it is not practical to align all aspects of the outcomes specification framework, it is useful for the outcome payer in particular to identify the strengths and weakness of each outcome to ensure that potential unintended effects or opportunistic behaviors are identified and measures established to avoid them.

The articulation of outcomes and indicators is often referred to as the outcomes framework. It consists of three elements:

- Outcomes are the desired change for an individual or group as a result of a service or intervention (e.g., improved learning).
- Outcome measures or indicators reveal whether an outcome has been achieved (e.g., test scores).

- Outcomes metrics or targets indicate the level of achievement that will trigger an outcome payment (e.g., an improvement of five points in a test score over a semester).

In practice, outcomes contracts often include a mix of outcomes and outputs, as linking all payments solely to outcomes may not be feasible or affordable, because of either the long period required to achieve outcomes or the challenge of reliably measuring output.

In many cases, proxy measures are used. High-quality proxies align closely with the desired outcome but are easier to measure. For example, where measuring household income is difficult, researchers often approximate income by measuring consumption and assets, two indicators of household-level income use. Lead, or progression, measures—outputs or outcomes that show progress toward long-term desired outcomes—are often used when outcomes take time to materialize. The key risk of using progression measures is the potential reduction in incentives to achieve the primary outcomes if they trigger significant payments.

Checklists can help practitioners address some of these challenges (boxes A.1, A.2, and A.3).

Box A.1 Checklist for identifying outcomes

- Can you narrow the focus to identify one primary outcome and several secondary outcomes?
- Do these outcomes reflect the priorities of service users? Has this connection been validated?
- Do the outcomes align with the policy objectives and overall goals of the project, including the social problem the contract aims to address as well as the financial benefits it will bring?
- If the outcomes are difficult to measure directly, can proxy outcomes be used?
- Do outcomes need to be set for which progression can be shown, or will a binary (yes/no) measure suffice?
- Are the outcomes achievable through social interventions?
- Are the outcomes acceptable to all stakeholders?

Choosing or developing outcome measures requires a plan for collecting data. It may be burdensome for service providers to gather data, and a good data management system is

often not affordable. Other parties may collect data but may be unable or unwilling to share them.

Box A.2 Checklist for measuring outcomes

- What data will be used to measure outcomes? Are data available from other sources (e.g., internal performance management data, school attendance registers) that can be used to measure outcomes?
- If data are not available, is significant investment needed to create new collection processes and systems?
- Who will be responsible for collecting the data? Does that entity have the capacity to do so?
- If a third party is collecting data, do the data need to be independently checked and validated?
- Will outcomes be measured for the individual or across the program?

Outcome metrics and rate cards (the list of outcome metrics with the associated payment schedule) should be developed taking into account existing metrics used in the same sector and/or country and that are well understood by all stakeholders. This shared understanding and ability to link data to existing datasets will facilitate learning across the local and broader OBF ecosystem.

The work done by the In Their Hands team in Kenya to set up an outcome framework illustrates these tensions. In Their Hands issued the world's first Development Impact Bond to fund sexual and reproductive health services for adolescent girls. Stakeholders

initially designed the outcome metrics to pay for a reduction in unintended pregnancies among adolescents. However, the duration of the Development Impact Bond was only 18 months, making it difficult to track such a long-term outcome. Stakeholders therefore decided to pay for the uptake of contraceptive methods, which they considered a good proxy for a long-term reduction in teenage pregnancies (Velardi, Outes, and Airolidi 2022).

When setting outcome targets in an OBF model, it is important to balance ambition with feasibility, ensuring that targets drive meaningful impact without creating perverse incentives (box A.3).

Box A.3 Checklist for setting outcome targets

- Is there evidence about the level of performance that can be reasonably achieved?
- Would stretch targets be appropriate?
- Have providers and social investors been involved in the decision-making process?
- Do the outcome measures avoid or mitigate perverse incentives?
- Have you considered any uncontrolled external factors that have the potential to impact the outcomes measurement?

ACCOUNTABILITY

OBF aims to enhance accountability by tying financial payments to verified results, fostering a culture of responsibility and transparency. Stakeholders often rely on monitoring and evaluation (M&E) systems to monitor progress and inform implementation. M&E systems must balance the need for rigorous outcome measurement with practical considerations of data collection, cost, and operational feasibility.

Collecting data can serve multiple purposes:

- It can help practitioners manage performance during implementation and course-correct if necessary.
- It can trigger payments once the desired outcomes have been generated and validated.
- It can generate learning during and after the program.

As data gathering is costly and time consuming, it is good practice to reflect on the use of the data before investing in its collection and, whenever possible, prioritize data that can be used for more than one purpose.

A strong starting point for designing an M&E mechanism is the theory of change, along with a clear, shared understanding of the expected outcomes. Teams should then work backward through the theory of change to consider the inputs required, bearing in mind not only the anticipated changes in activities and outputs but, more importantly, the behavioral changes underpinning the theory of change.

For effective performance monitoring and management, data must be timely and sufficiently sensitive to changes in practice on the ground. In OBF, significant changes in the services delivered can occur during the contract. Adaptability is one of the appealing features of OBF. If changes to a program are

made, the monitoring system may also need to change. Stakeholders involved in performance management should regularly assess whether the monitoring system is providing useful insights and consider how it could be improved.

For payment triggers, the key data collected are the outcome metrics discussed above. Although these metrics are clearly specified in the OBF contract, they may be subject to adjustment. Establishing a robust and transparent process for handling these changes is essential to maintain the integrity of the contract.

A good example of effective program monitoring and management is the Kirklees Better Outcomes Partnership, in the United Kingdom, which aims to improve outcomes for adults with housing-related support needs in education, training, employment, accommodation, health, and well-being. An initial rate card was developed before the launch of the Social Impact Bond in 2019 and used until September 2020. Early in its implementation, stakeholders decided to create a new rate card for outcome metrics. To ensure an inclusive redesign process, the project directors hosted “change panels” with provider managers and frontline staff, allowing them to fully understand the challenges providers faced with the original rate card (Rosenbach et al. 2023). This example showed the value of flexibility in the M&E process, which can acknowledge upfront the need to improve and amend the rate card over time, if necessary, through a transparent due process.

To generate lessons throughout a program and after it ends, it can be helpful to work with learning partners who are appointed to support the learning process across stakeholders, and independent evaluators. Evaluations can be formative, supporting improvements during implementation or a future replication and adaptation. Formative evaluations take a step back from daily activities to identify broader

patterns. To maximize their effectiveness, it is essential to involve both the parties delivering the program and any other actors that might benefit from the insights gained.

Evaluations can also be summative, focused on proving what worked and what did not after a project or program ends. Summative evaluations often assess a program's impact, demonstrating that observed changes are attributable to the program and would not have occurred otherwise. They require the identification of a counterfactual (a credible estimate of what would have happened to participants had the program not been offered). The gold standard for impact evaluation is the randomized controlled trial (RCT), or experimental impact evaluation, in which participants are randomly assigned to either the program or a standard practice group. When random allocation is not feasible or ethically acceptable, statistical techniques can be used to estimate a counterfactual. Evaluations that estimate a counterfactual are known as quasi-experimental impact evaluations.

Impact evaluations aim to determine whether a program worked, for whom, and at what cost; they do not explain why a program worked (or did not). Process evaluations address this question by focusing on “why, how, when, and for whom” the program had (or did not have) an impact. They rely heavily on the theory of change and its assumption to explore what actually happens on the ground and identify the behaviors that drive change.

INCENTIVIZATION

Designing the incentive structure is an iterative process and a balancing act. The aim is to put in place incentives to change behavior in the desired direction without distorting it. Poorly designed incentives may lead to unintended effects and opportunistic behaviors, such as including only participants that would easily achieve the outcomes and excluding those most

in need. A large body of evidence documents the unintended effects of welfare-to-work programs in several countries in which support was offered to people who were easier to place in a job. The literature identifies strategies to counteract unintended consequences through the careful design of incentives. In the case of welfare-to-work programs, for instance, higher OBF payments could be paid for participants who travelled farther.

Designing incentives requires specifying desired outcomes for the incentivized agent and putting in place risk-sharing arrangements in the event of underperformance.¹⁵ Considerations for incentive structures include the following:

- Risk-sharing arrangements should ensure that service providers; outcome payers; and, where applicable, investors, share responsibility for program success.
- Independent referral mechanisms or tiered payment structures should be used to encourage inclusive participation and prevent gaming or adverse selection.
- All involved parties should be involved in outcome pricing discussions, to ensure fairness and sustainability.

FLEXIBILITY

One of the strengths of OBF is its ability to support adaptation over time. Unlike traditional funding models, where activities and inputs are predefined, OBF grants providers the flexibility to innovate and adjust their approach based on real-time learning and data.

Flexibility features in OBF include the following:

- Adaptive management allows program implementers to refine their strategies based on performance data and contextual shifts.
- Outcomes-focused delivery enables

Introduction	Understanding Outcomes-Based Financing	Overview of the RBF Landscape	Case Studies: Lessons from Colombia, India, and East Africa	Limitations of Outcomes-Based Financing and Tips for Mitigating Risks	Conclusion	Annex. Principles of and Framework for Implementing Outcomes-Based Financing
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providers to determine the most effective interventions to achieve results, fostering innovation and efficiency.

- Continuous M&E creates opportunities for course correction, helping ensure that programs remain responsive to emerging challenges and participant needs.

- Local conditions, economic shifts, and unforeseen disruptions (within reason) can be integrated into program adjustments.
- Ongoing dialogue among funders, implementers, and beneficiaries creates a feedback loop that enhances the effectiveness of service delivery.

Notes

1. The annex provides a detailed explanation of these principles.
2. In 2017, the International Committee of the Red Cross Programme for Humanitarian Impact Investment sought to expand and improve the efficiency of physical rehabilitation services by providing high-quality, well-targeted services for people with physical disabilities in Mali, Nigeria, and the Democratic Republic of Congo. The outcome payers for the program were the UK government (through the Foreign, Commonwealth and Development Office [FCDO]); the governments of Switzerland, Belgium, and Italy; and the La Caixa Foundation (a not-for-profit banking foundation based in Spain).
3. A partnership in Holbæk Municipality in Denmark delivers services for people with mental health issues trying to find jobs. The outcome payer for this project is Holbaek Municipality while the services are provided by another unit within Holbaek Municipality. Investment comes from Den Sociale Investeringsfond (The Danish Social Investment Fund) (Government Outcomes Lab. n.d.a.). This type of arrangement has not been tried in developing countries.
4. Portugal's Cuidar de quem cuida (Taking Care of Those Who Care) was funded by a social impact bond in which the Central Administration for the Health System played two roles at the same time. It paid for outcomes and provided intermediary services to ensure the proper implementation of a support intervention by informal caregivers for people with dementia.
5. In the Skill Impact Bond in India (see case study), the National Skill Development Corporation (NSDC) provided upfront capital. The NSDC is a not-for-profit public limited company, in which the Indian government holds 49 percent of its shared capital and the private sector holds the remaining 51 percent. It often adopts public-private partnership models under the Ministry of Skill Development & Entrepreneurship.
6. This focus on impact bonds reflects strong stakeholder interest in studying the model; it does not necessarily represent industry or author perspectives on their relative importance compared with other outcomes-based approaches to paying for public service delivery.
7. The Government Outcomes Lab co-created this dataset with practitioners, who were invited to share data and learnings from their own projects. The community of practice keeps the dataset up to date, making it the world's most comprehensive source of information on impact bond projects (Carter et al. 2024).
8. The project with the largest upfront investment is the Wildlife Conservation Bond. Pulling \$150 million from impact investors, this project aims to enhance conservation activities to maximize net rhino growth rates in South Africa. The project with the largest number of beneficiaries is the LiftEd project in India, which seeks to improve the lives of 1 million students. LiftEd supports education providers who train state governments and school facilitators, building their capacity to improve foundational learning levels for children in grades 1–3.
9. In 2020, Tiko, a nongovernmental organization that provides access to sexual and reproductive health services, developed a digital platform to increase the uptake of sexual and repro-

Notes, continued

ductive health services by adolescent girls in Kenya. Three years later, it scaled up the original project into a larger intervention that included access to sexual and reproductive health services and mental health services. The first pilot offered the intervention to 362,000 girls; the scaled-up version is being offered to 425,000 girls.

10. This distribution is consistent with the distribution of RBF projects more generally. Between 2006 and 2017, at least 20 active labor market programs in low-income countries used RBF and/or OBF, at a total cost of \$7.6 billion (Instiglio 2018a; GPRBA 2021).

11. Other projects operate across a range of policy areas. They include 53 in health, 51 in education, 47 in child and family welfare, 38 in homelessness, 19 in criminal justice, 11 in agriculture and environment, and 3 in poverty reduction (Government Outcomes Lab n.d.b., accessed April 2025).

12. For more information on the Refugee Impact Bond, see <https://www.refugeeimpactbond.org/>.

13. The United States Agency for International Development–Development Innovation Ventures award was technically to Instiglio, the project manager. DIV transferred its funding to Instiglio, which then transferred it to the trustee.

14. There were several hypothesized reasons for the larger treatment effects observed in Kenya. The Kenyan study sample was wealthier at baseline compared to Uganda's. COVID-19 lockdowns were more severe in Uganda, and data collection there was interrupted, with households surveyed after the lockdown showing lower average consumption effects than those surveyed before. Additionally, Kenyan participants may have had better access to markets than their Ugandan counterparts (Njogu-Ndongwe et al. 2022).

15. Financial risk is not the only risk. The biggest risk is borne by program participants who do not achieve the desired outcomes. Outcome payers and service providers also bear a reputational risk for failing to effect change.

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