

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

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# CASE SUMMARY

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## Key project information

**Name:** Skills and Knowledge for Youth (SKY) – Vocational Training for Young People

**Content:** Short vocational training courses (3 months) in occupations of high demand (based on preliminary market needs assessment), combined with soft skills and entrepreneurship training

**Region:** Ethiopia, city of Bahir Dar (first phase, SKY I), plus Debretabor and Dangila Town in the regional state of Amhara (second phase, SKY II, currently running)

**Years:** SKY I 2015-2017 (city of Bahir Dar), SKY II 2018-2021 (regional state of Amhara)

**Budget:** SKY I CHF 646,779 (roughly USD 680,000), SKY II CHF 1,136,450 (roughly USD 1,200,000)

**Funding modality:** The project applies results-based financing, and more precisely performance-based contracts, where training providers are paid for predefined results achieved

(skills improvement and employment of graduates) following independent evaluation.

**Funder and implementer:** In the case of SKY, Helvetas acts both as funder and implementer of the project. It is implemented by the Helvetas project office in Ethiopia and owned and financed by Helvetas Switzerland/headquarters. The aim is to proof the concept developed in Nepal in other contexts. This is why Helvetas Switzerland not only acts as funder but also provides technical expertise as “backstopper”.

**Primary stakeholders:** public and private vocational training providers (service partners), government and employer representatives (strategic partners), external evaluators (government committee for results verification, local consultancies for tracer studies on project impact).

**Stated beneficiaries:** unemployed or underemployed, disadvantaged young women and men aged 15-30 (15-35 for women); target number 2000 for phase 1 and 3000 for phase 2 (50% women).

## Results-based financing for vocational education and training

The Skills and Knowledge for Youth (SKY) project is an example of results-based financing (RBF) in education, where performance-based contracts and financial incentives are used to focus service providers' attention on quality vocational training, leading to long-term gainful employment of the beneficiaries. Accordingly, the vocational training institutions supported through the project only receive partial payments for the beneficiaries completing the training and full payment once the trainees have found steady and gainful employment (meaning earning at least the minimum wage) or have successfully established their own business.

Within the broader scope of the project on innovative financing for education, this case is an example of an innovative financing

mechanism designed to “make the existing finance go further” (as defined by NORRAG in Avelar, Terway & Dreux Frotte, 2020) and improve efficiency and effectiveness of the resources. Applying RBF, the project intends to improve the quality of training programmes (including follow up support) and the employment outcomes of graduates, and to increase access to training programmes and employment for vulnerable youth.

## Case history

Helvetas has been implementing the SKY project in Ethiopia since 2015. The organisation has considerable experience in RBF, and more specifically with performance-based contracts (PBC) in vocational education and training (VET). Convinced of the benefits of the approach (see later), Helvetas, on a global level, aims at applying RBF in its (new) VET projects where effective and feasible – meaning in

contexts that meet two critical preconditions. Firstly, there should be a sufficient number of training providers, in order to ensure that there is some level of competition between them. Secondly, there should be some demand in the labour market for the learners undergoing the supported training programmes. SKY's approach was largely inspired by the success of the Employment Fund (EF) which had been designed and implemented by Helvetas in Nepal between 2008 and 2016. The Employment Fund was financed by the Swiss Agency for Development and Cooperation (SDC), UK Aid and the World Bank, with an overall budget of about 35 million Swiss francs, while the SKY project is financed through Helvetas' own funds.

## Location and project period

SKY's first phase ran from 2015-2017 and was located in Bahir Dar, the capital of the Amhara National Regional State in the North-West of Ethiopia (see map in Figure 1). The city of Bahir Dar was assessed as suitable for implementing RBF in VET due to the various training providers present and the existing demand for labour in the market.

For the second phase, covering a 4-year period from 2018-2021, the project expanded its activities to two more cities in the Amhara Region (Debretabor and Dangila Town) as preparation for an envisaged country-wide expansion at a later stage.

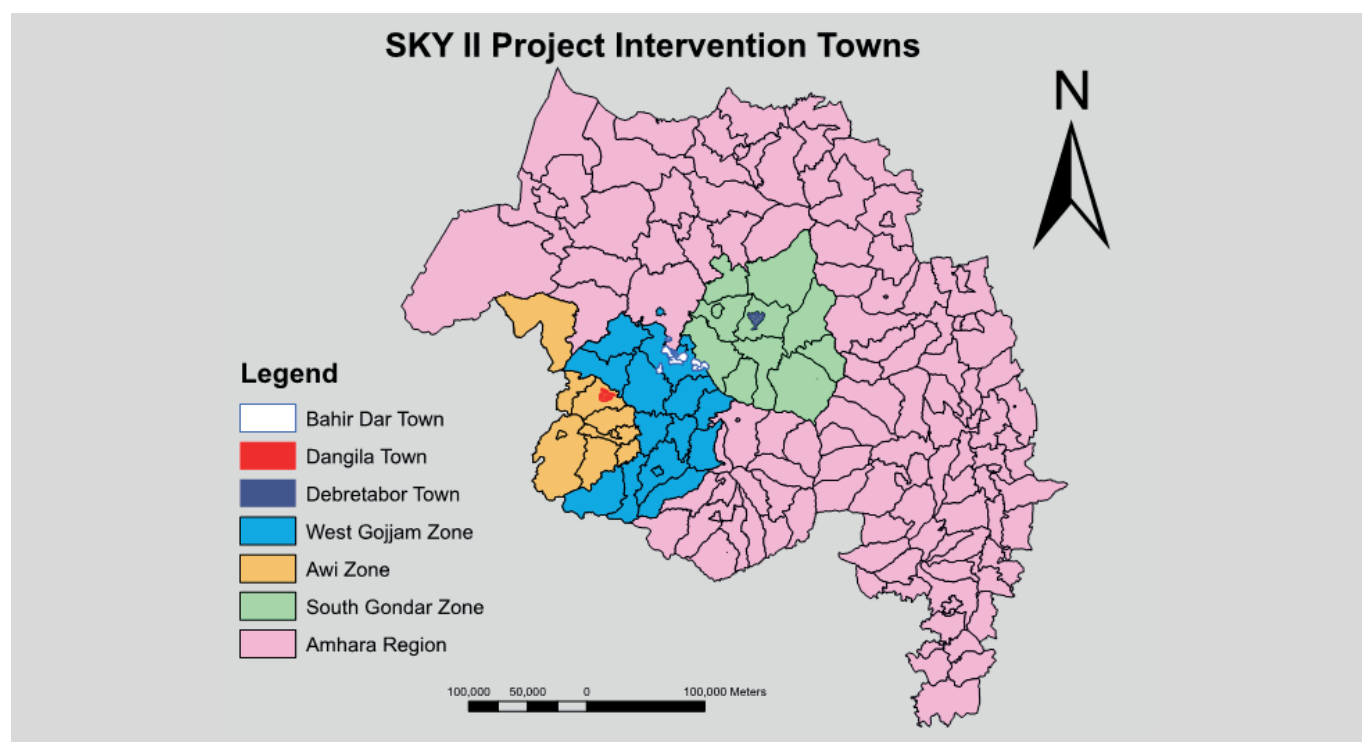


Figure 1: Map of the SKY II intervention area; Source : Helvetas Ethiopia

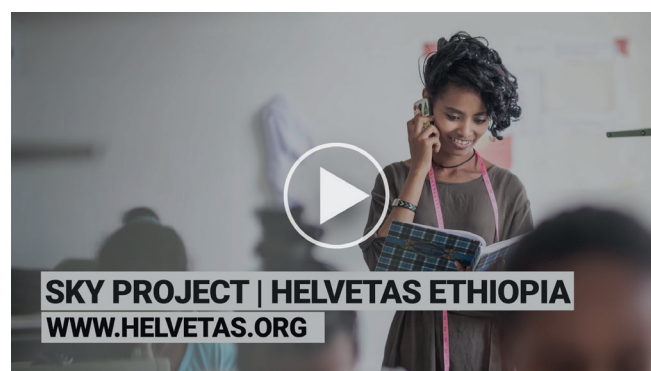
## Stated goals<sup>1</sup>

The main aim of the SKY project is “to increase employability and labour market insertion of disadvantaged youth, to create more jobs (self-employment), and to empower youth in order to escape the ‘low/no skill – no job – no income’ poverty trap” (Helvetas Ethiopia, 2018, p. 5).

SKY's goal for phase 2 is for 3000 young people (50% women) to earn a gainful income through wage or self-employment (in phase 1 the goal was 2000 youth). This should be reached through quality training, job placement and entrepreneurship support for self-employment, delivered by vocational training providers. All graduates must earn the minimum wage or more, and at least 80% of the graduates should be wage or self-employed to trigger full payment (for the payment metrics and pricing chosen by SKY, see section C). A differential pricing system, applying higher incentives for certain groups, shall support social inclusion of disadvantaged people, and in particular women. See also Table 1 for more information.

While SKY I focused on the successful introduction of RBF as an innovation in the Ethiopian VET context and as a tool to improve

labour market outcomes for disadvantaged youth, the focus of SKY II is on the expansion of the geographical operational area as well as of the project's engagement with public and private training providers and business service development actors. Phase 2 also aims at promoting the establishment of an employment fund to sustain employment opportunities for disadvantaged youths in the region.



1. The information provided in this paragraph is based on the project document of SKY II (Helvetas Ethiopia, 2018).

# 1

## CONTEXT ANALYSIS

High youth unemployment and lack of “marketable” skills are the key challenges to be addressed by SKY. As a result of high rural-urban migration and high population growth, the rate of unemployment is high in Ethiopia, especially in urban areas. Adolescent girls and young women are the ones identified to be most vulnerable; estimated unemployment rates for young women are significantly higher than for young men (30% compared to 22% according to USAID, 2018, p. 5-7). Helvetas Ethiopia (2018, p. 9) therefore assesses unemployment to be “essentially a youth, female and urban phenomenon”.

In addition, SKY was introduced in a context where vocational education and training is “often not accessible for vulnerable youths” (Chanie, 2017, p. 37) because of either educational pre-requisites (minimum education levels) or high training and opportunity costs. Most existing public training programmes are also not sufficiently responsive to youths’ needs. Therefore, SKY was initiated to promote and facilitate access to skills training for such youths by providing free-of-charge short-term courses with flexible training schedules, which are not tied to a minimum education level and take place within a certain geographical proximity.

It was further considered that private training providers would not sufficiently care about the employability of their graduates (Chanie, 2017, p. 36). Accordingly, the use of results-based financing in VET, where a portion of the payment is linked to graduates gaining employment, was seen as a useful tool to incentivise training providers not just to strengthen the employability of their graduates but also to facilitate their employment.

In the SKY II project document (Helvetas Ethiopia, 2018, p. 8) it is acknowledged that in the last years “a sound TVET<sup>1</sup> system was built” by the government from the macro (national agency) to the meso (regional bureaus) and micro level (public training providers, framework also applying to private training providers). However, the authors also state that “at micro level still issues of quality, labour market orientation and sustainable financing remain unsolved” (Helvetas Ethiopia, 2018, p. 8). While traditional, input-driven programmes did not adequately respond to the ground level realities and the challenges that youth faced, RBF allows for demand- or outcomes-driven approaches.

Taking this into consideration, the project’s impact hypothesis (theory of change) has been formulated as follows (Helvetas Ethiopia, 2018, p. 12):

- Lack of skills and unemployment are the main challenges for young men and women in the region. Thus, it is imperative to alleviate the ‘no skill – no job – no income’ poverty trap by imparting skills to disadvantaged out-of-school youth that will ensure employment with a decent income through an outcome-based financing modality.
- Ultimately, the livelihoods of these disadvantaged youth will be improved, and poverty will be reduced.
- While creating field-based evidence of an innovative, cost effective, up-scalable and sustainable approach to training and employing youth, the issues addressed and the solutions proposed and piloted shall be considered for integration into the regional VET strategy.

1. Technical and Vocational Education and Training.

# 2

## STAKEHOLDER ANALYSIS

This section describes who the target group is in SKY, and which actors were engaged in the design and implementation of the project. It also shows the collaborative and participative structure of SKY and how the multiple interests of these various stakeholders were aligned in the design of the RBF structure, to ensure that Ethiopian youth gained skills and employment in industries that were in demand.

### Target group

SKY targets unemployed or underemployed youth aged 15-30 (or 35 years for women), with 4-12 years of schooling only, who have the capacity and dedication to undergo the training and engage in wage- or self-employment after graduation. The youth selected based on these criteria are all economically disadvantaged; some of them, however, face particularly difficult obstacles to sustainably accessing gainful employment, with women generally facing greater obstacles than men, which is why priority is given to women in case of high demand.

Therefore, the project distinguishes between:

- Young women and men with special needs (single mothers, youth from remote areas, people with disabilities or living with HIV, internally displaced people), and
- All other economically disadvantaged women and men meeting the above criteria.

In Box 1 two typical beneficiaries of the SKY project are portrayed.

#### Esubalew Wale



Esubalew lived alone since he was a young boy and had no one to support him. Before joining SKY, he was unemployed and could not even afford paying for transportation to the training location. Following the training in food and hospitality, and a short employment period at a local restaurant, he founded his own recreation centre together with three friends, two of whom were former SKY trainees. The association is profitable now and has two employees. Essential for their success was that the city provided the space for the recreation centre.

#### Kalkidan Mulat



Kalkidan dropped out of school because she needed to financially support her family. For a very short time she worked in a hotel, then started a SKY training in sewing as she was passionate about garments and the profession of a tailor. After the training she immediately got employed. She highly appreciates what she got from SKY, including the support in finding employment. The trainer encouraged her a lot and helped her to get the job.

*"I recommend SKY to other youth. With the training they help their families and help themselves too."*

Box 1: Two beneficiary portraits



## Actors involved in the design phase

As mentioned above, the starting point for implementing an RBF-based project in Ethiopia was the experience with the Employment Fund in Nepal. Back in 2013, when the design of the SKY project started, Helvetas' country director in Ethiopia was able to draw on his experiences from his former position as country director in Nepal. Helvetas (both Ethiopia and Switzerland) therefore have the lead in the design phase.

The main partners from the side of the Ethiopian government were, at that time, the Amhara National Regional State Bureaus of Technical Vocational and Enterprise Development (TVED) and of Finance and Economic Cooperation. Both Bureaus were closely consulted, and, despite some reservations, they expressed considerable interest in the application of RBF in VET from the very beginning.

*“At the beginning, we were sceptical about the feasibility of applying RBF in the public VET system because, traditionally, payment is not directly linked to results – for example, the salaries of the staff are not linked to their performance. However, we really appreciated the RBF approach and learned a lot during implementation.”*

Ato Milikiyas Tabor, Director Education and Training  
Directorate of the Amhara TVED Bureau

Helvetas reports that overall, the local government representatives consider RBF to be an innovative approach and they often reference SKY as a prime example of effective VET delivery in the country.

## Actors involved in implementation<sup>1</sup>

A broad range of actors are involved throughout the whole implementation process. The authors of the tracer study evaluating SKY I (Chanie, 2017, p. 36) acknowledge that Helvetas promotes true partnership and participation. Involved at the strategic level are Helvetas (both Switzerland and Ethiopia) and the SKY Stakeholder Platform, consisting of government and employer representatives. At the implementation level – besides the SKY project staff and the external evaluators, who are crucial in any RBF project – the most prominent roles are held by the VET providers and the local TVED and Women, Children and Youth Affairs (WCYA) Bureaus (see below).

### The roles and responsibilities of actors are as follows:

**VET providers** (both public and profit-oriented private ones; see more on their complementary roles in Box 2): They act as service partners and are not only responsible for training delivery but also for linking youth to the labour market and supporting them closely in their school-to-work transition. Accreditation by the government is a pre-condition for VET providers to join.

**SKY Stakeholder Platform:** Consisting of government and employer representatives (see more details below), the SKY

Stakeholder Platform has an advisory role. If problems arise, e.g. in recruiting the right trainees, the project team approaches the Platform and the concerned members (in this case TVED and WCYA) to collectively discuss and decide upon or suggest solutions. They are then responsible for implementing their part individually and evaluating the progress in the next meeting. Another example: the project team has difficulties finding enough private training providers in small towns (for details see the section on Implementation Challenges). The solution suggested is to help incubate such model training providers, who would then become SKY's service partners in these remote areas. The Platform's government bodies then support these providers with accreditation and the provision of temporary training spaces (in public VET schools), professional support for trainers, support in occupational assessment, etc.

**Private sector partners / employer representatives:** As members of the SKY Stakeholder Platform, they contribute substantially to smooth project implementation, e.g. by convincing training providers to participate in the programme or identifying trends in labour market demand and skills gaps in the market. They include:

- Chamber of Commerce
- Various sectorial associations (e.g. association of hotels, association of car mechanics)
- Women Entrepreneur's Association
- Amhara Credit and Saving Institution

**Government partners:** In addition to being a member of the SKY Stakeholder Platform, the Amhara National Regional State Bureaus and their respective lower structures<sup>2</sup> are also involved in specific implementation tasks:

- Technical Vocational and Enterprise Development (TVED) and Women, Children and Youth Affairs (WCYA) Bureaus: These two local authorities are mainly responsible for registering and recruiting trainees at the Kebele level (lowest administrative level), assigning applicants to nearby training providers (together with Helvetas, based on agreed-upon selection criteria); since 2020 they have also been responsible for income and employment verification for final payment to training providers.
- Bureau of Finance and Economic Cooperation: This Bureau is responsible for aligning the project to government priorities and policies, for monitoring project implementation and for facilitating mid-term evaluations.

**Programme manager and coordinator / Helvetas Ethiopia SKY project unit:** Helvetas Ethiopia manages the programme and administers funds from foundations and private donors to implement the SKY programme. It connects and capacitates actors, selects training providers, prepares selection criteria for the youth in collaboration with concerned stakeholders, and supports the government in identifying and selecting the



participants. It also provides orientation sessions for applicants, facilitates labour market surveys, tracer studies and income and employment verification, and monitors results for issuing payment to training providers. Helvetas is also further developing the RBF SKY model and upscaling opportunities in Ethiopia.

**External evaluators:** In RBF, external verification of results is key. Local consultancies used to be the ones verifying the results

for payment. This responsibility has recently been shifted to a committee of government partners (TVED and WCYA, see above) for ownership reasons. The local consultancies are still commissioned to assess long-term outcomes and impact of the project through tracer studies (see also section E for the evaluation methodology).

**Who are the typical early adopters among training providers?** Helvetas' global experience suggests that training providers that join RBF projects early on usually exhibit the following characteristics:

- 1. New actors:** New training providers are looking for partners and funding. On the contrary, well-established training providers are less likely to change their way of working and are less open to new ideas.
- 2. The most innovative and flexible ones:** Some training providers are constantly looking to improve their programmes, to build up their capacities and to draw in foreign expertise.
- 3. The ones with either financial or particular social motivation:** On the one hand, training providers that are driven by profit usually strive for quality and results to receive full payment. On the other hand, social entrepreneurs, training centres with a good reputation within the community and training centres owned by religious groups clearly have social goals and are therefore interested in RBF as an instrument to promote employment, in particular among disadvantaged groups.
- 4. The well-connected ones:** The training providers that first partnered with SKY were known in the city for the delivery of relatively better-quality training, and for having a good network of potential employers. They also worked quite closely with the city TVED Bureau. Since SKY was working with the City and the Regional TVED Bureau, these providers trusted the project.

Such actors are critical for getting the project started and promoting it in a context where it is still not widely known.

#### **The need to work with multiple training providers**

Experience has shown that a range of training providers is needed, not only for ensuring close-by and diverse training delivery. Training quality and employment outcomes tend to be better if small contracts with multiple training providers are signed rather than if one big agreement is established, due to higher competition between providers.

#### **The complementary roles of public and private providers**

Both Helvetas Switzerland and Helvetas Ethiopia have observed how important it is to have a combination of public and private training providers to effectively implement RBF in VET.

While **public training providers** are important strategic partners to anchor and institutionalise RBF in a certain context (and in the case of Ethiopia they also have better-equipped facilities than private ones), it is more difficult for them to adopt new mechanisms and approaches. They are less flexible due to their defined governmental mandate and also less motivated to achieve good results because the teachers' salaries are fixed and not directly linked to results. A potential deduction of payment usually affects the institution and not the individual trainer.

**Private, profit-oriented training providers** are ideal for RBF, because payment is directly linked to performance, thus a deduction of payment often directly affects the trainer's salary. Accordingly, private providers might be more motivated and open to new approaches. What they often lack is quality equipment and infrastructure, so they need more capacity development and support (which, in the case of SKY, is sometimes even given by the public providers).

#### **Box 2: Spotlight on the training providers**

### **RBF's contribution to actors' interest alignment**

The main actors in a VET project are the funder, the service providers, and the beneficiaries. The RBF mechanism, however, changes the incentives of these groups and contributes to the alignment of interests in the following way:

The **funder** is interested in knowing that their money is being well-invested and is efficiently and effectively contributing to the defined results, which are youth employment and social inclusion in this case. Potentially, incentivising results over inputs may cost funders less because they mainly pay for what has been agreed and achieved and can transfer part of the risk to the providers. In the case of SKY, there is an additional interest in proving the

effectiveness of the concept in new contexts, in this case in the sector of training and employment in Ethiopia.

**Service providers** are interested in placing trainees in gainful employment to get full results payment and incentives. Therefore, they are motivated to invest in labour market research (in collaboration with employers), to offer targeted, flexible, quality and practice-oriented training and support to trainees to find a job or self-employment, as well as to train disadvantaged groups where the incentives are high enough.

The **beneficiaries** are interested in having access to free and flexible quality training opportunities in a field of their interest, and in receiving support in gaining employment and sustainable income-generating possibilities.

1. For a more detailed list of tasks see ANNEX 1.
2. Below the Federal and the Regional level, there are the Zonal, Woreda (sub-cities/district for big cities), and Kebele administrative levels in Ethiopia.

# 3

## THE RBF MECHANISM IN DETAIL

This section provides a definition and analysis of the RBF mechanism and the specific RBF instrument of performance-based contracts that are used in SKY. It then looks at the specific payments and financial incentives that SKY provides to the participating training providers as well as the non-financial support that proved to be essential for successful implementation.

### Definition and structure

**Results-Based Financing (RBF)** is “a financing arrangement in which some payments are contingent upon the achievement of predefined, verifiable results” (Instiglio, 2018, p. 10). As opposed to a traditional financing mechanism that pays for the inputs (e.g. training delivery), RBF pays for achieved outputs and outcomes of the intervention (e.g. employment).

In the case of SKY, the specific RBF instrument applied is the **Performance-Based Contract (PBC)**. As illustrated in Figure 2 “the outcome payer conditions part of its payment to one or more service providers on the achievement of predefined results. After an independent evaluator has verified the results achieved, the outcome payers disburse a payment to the providers based on performance” (Instiglio, 2018, p. 43).

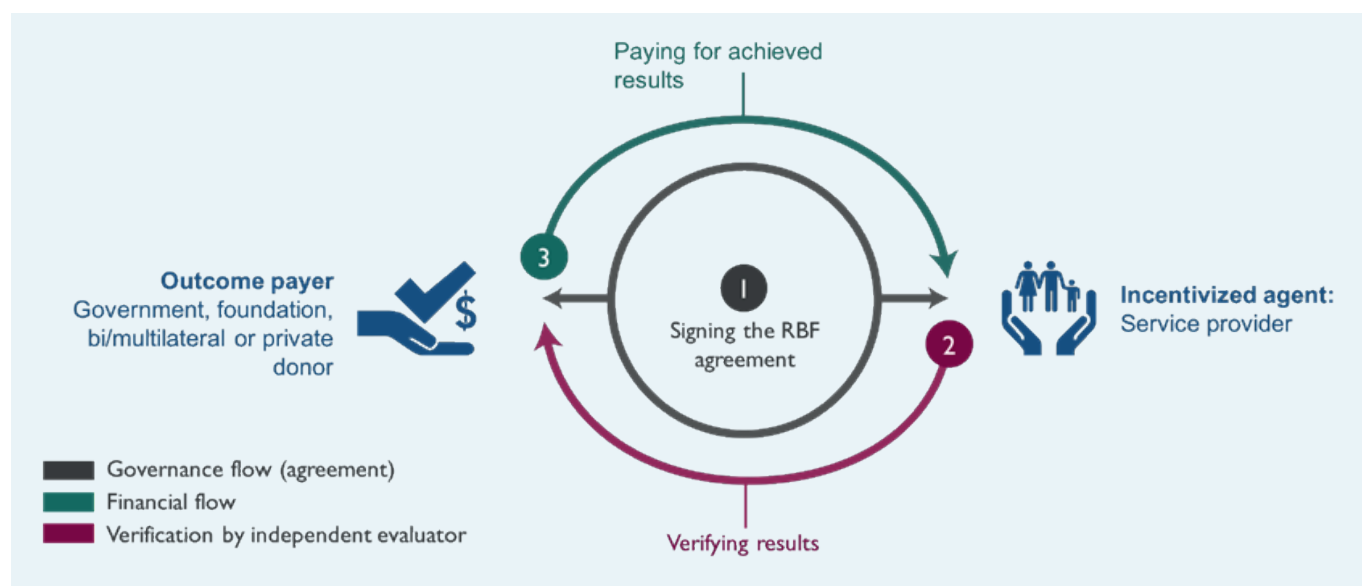


Figure 2: The RBF mechanism in general; Source : Instiglio, 2018, p. 43

The **three elements** of the performance-based contracts applied by SKY are:

**1. Signing an agreement** between the outcome payer (the project in the case of SKY Ethiopia, or e.g. a fund as in the case of EF Nepal) and the individual training provider, defining the conditions for funding on the achievements of predefined results. SKY's agreements (see for example ANNEX 3 and

ANNEX 4) basically focus on provision of quality training based on the already agreed upon curricula (e.g. as in ANNEX 5) and job placement services for wage employment and provision of technical advisory services and post training follow up at least up to four months after graduation. It has been proven more effective if a larger number of small contracts are established. Competition between multiple service providers apparently improves training quality and employment rates. Proximity

to trainees and potential employers might also contribute to better employment outcomes.

**2. Verification of results**, in the case of SKY done by official occupational assessments at the end of the training (to verify training quality and as base for the middle payment) and after four months of graduation based on external evaluation (assessing gainful employment and calculating final payment).

**3. Payment for results** upon successful training and employment of graduates (see below for a detailed analysis of SKY's payment modalities).

## Result payment to training providers

In the case of SKY, the training providers are paid for delivering the training and for their trainees' successful passing of the official occupational assessment of skills test (output) and for gainful employment of the graduates (outcome).

*“There is a strong, evidence-based link between outputs and the desired outcome and impact. Therefore, it is effective to also pay for the output, as it is easy to measure, observable within a short timeframe, under the control of the training providers, and skilled youth form a highly desired result.”*

Helvetas Ethiopia

In SKY (phase 1 and 2 as well as in the Nepal Employment Fund (see also Table 2 below for an overview)), there are three **instalments triggered by the following payment metrics**. The numbers here are related to SKY II.

**1. Training received (output payment 1):** 25% in the middle of the 3-month training phase (i.e. after 6 weeks) for the training provider to cover certain costs, such as salaries or materials.

Helvetas Ethiopia introduced this mid-term instalment during the pilot phase because training providers did not have the capacity to fully finance training without compromising on the quality of training.

**2. Skills improvement (output payment 2):** 45% after completion of training and occupational assessment by an external body, full payment only in case of a success rate of at least 80%. If 80% of trainees successfully pass the skills test, training providers receive 100% of the agreed sum for this result. In this way, the funder carries part of the risk and acknowledges that there are always dropouts. If less than 80% are successful, the training provider only gets the equivalent percentage.

**3. Job retention (outcome payment):** Remaining 30% and social inclusion incentives on top after verification of employment and income four months after graduation (minimum wage as precondition, full 3<sup>rd</sup> instalment only if 80% of former trainees are gainfully employed, no incentives at all if less than 40% of them get employment)

As illustrated in Table 1 below, SKY uses a **differential pricing system**, thus the **total payment for training and gainful employment** differs per trade, and the incentives are based on the target groups. The categories of trainees in SKY (first column) are similar to the ones used in the Nepal case. The payment for training and gainful employment (third column) in the case of SKY has been fixed by Helvetas Ethiopia based on market prices for training equipment and other inputs; in Nepal, it was a negotiation process among the actors concerned. SKY's social inclusion incentives (last column) are fixed amounts; in the EF Nepal case, the incentives are higher and calculated as % of the training price (i.e. 80% incentive on top of training price for category A).

Instiglio (2018, p. 30) highlights the twofold use of differential

SKY category of trainees		Definition	Payment for training & gainful employment	Social inclusion incentive in case of gainful employment
A	Women with special needs	Single mothers, youth from remote areas, people with disabilities, living with HIV, internally displaced people	120-240 USD (depending on the trade)	43 USD
B	Men with special needs			33 USD
C	Other economically disadvantaged women	Unemployed and underemployed youth in general		27 USD
D	Other economically disadvantaged men			17 USD

Table 1. Remuneration of training providers per trainee category, valid for 2019; Source: Helvetas, 2020, p. 14, slightly adapted.

pricing: “First, service providers can be incentivized to serve all populations, by setting differential prices equal to differential costs of generating results for different populations. Second, service providers can be incentivized to preferentially serve a marginalized group, by setting differential prices above the differential costs.” Cost estimates for delivering interventions for different trades and target groups were the result of a triangulation between private provider data, public provider data and market research collected by Helvetas staff before the beginning of the programme.

### Non-financial support for the participating training providers

While the innovative aspect in RBF in VET is that training providers are paid not only for training delivery but also for job placement services, this new obligation bears risks. Some of these risks are reduced by applying the differential pricing mentioned above; others are offset by offering non-financial support to the training providers that participate in the programme.

In all Helvetas RBF projects, trainers mainly receive “soft” inputs such as capacity building (in exceptional cases, co-investment on equipment could be an option). Training of trainers, management training, capacity building for job placement or monitoring of the graduates, capacity building for entrepreneurship support services (training, incubator, access to finance, mentoring scheme), and curriculum development are some capacity building measures offered for free. Soft inputs can also include sharing or strengthening partnerships with government bodies and employers. Budget-wise, capacity building measures in 2019 only represented a small share compared to results payments (approximately 13%), but this was due to financial restrictions and does not reflect actual needs. Therefore, costs related to capacity building need to be considered when budgeting RBF interventions.

# 4

## BENEFITS AND CHALLENGES OF APPLYING RBF

This section analyses the reasons for applying RBF in a VET project such as SKY, namely: improved cost-effectiveness, focus on intended outputs and outcomes, fostering social inclusion, and various positive effects that RBF has on training providers' operations and on project implementation and funding options. It then discusses the challenges of designing the payment metrics and pricing as well as ensuring sustainability, and finally examines SKY's implementation challenges related to the training providers.

### Rationale and Benefits of RBF

The growing use of RBF for active labour market programmes (the mentioned VET project can be categorised as such a programme) is driven by the belief that RBF **can improve cost-effectiveness** of international development programmes more generally. Instiglio (2018, p. 12) identifies three drivers of impact (presented in exact wording):

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

RBF's **focus on the intended outputs and outcomes** of the training (such as improved employability, long-term employment and social inclusion) – as opposed to the traditional activities-based funding for training delivery – is Helvetas' main reason for applying this financing mechanism. For both Helvetas Switzerland and Ethiopia, the perceived benefit of applying RBF in Ethiopia was its focus on bringing youth into employment, thus tackling

the problem of high youth unemployment in Ethiopia. RBF gives training providers an additional incentive to make trainings labour market relevant and it motivates them to support trainees beyond the practical training to link them to potential employers or support them in attaining self-employment.

*“The ultimate objective of applying this approach is to accomplish the tasks from end to end. It begins with training and ends with employment.”*

Helvetas Ethiopia

Indeed, RBF encouraged training providers to strongly focus on outcomes (effectiveness), thus contributing directly to the achievement of the desired results. This is confirmed by the fact that 69% of trainees in SKY I (Chanie, 2017) and even 83% of SKY II graduates (Ghion, 2020) were employed within a relatively short period of time (on average between 1-3 months). An internal Helvetas meta-analysis of tracer studies from various Helvetas VET projects has shown that the average transition period from training to work in non-RBF training programmes is usually longer, ranging from 1 to 7 months.

*“RBF increases the follow-up support of trainees in most contexts. Training providers don't only train them, but also play a role in matching and staying in contact with the trainees after they were placed in order to ensure that they remain in employment.”*

Helvetas Switzerland

RBF has also turned out to be a good instrument to **foster inclusion** as it incentivises training providers, through targeted subsidies, to focus on the disadvantaged and to offer services that otherwise may not be financially attractive. Instiglio (2018, p. 31) underlines this point by comparing differential pricing and eligibility criteria for project participants: “The benefits of differential pricing relative to eligibility criteria is that the former allows for more



nuanced targeting. While eligibility criteria are a binary process (you are either in or out of the programme), differential pricing can enable differentiated support levels based on an individual's needs. This increases programme cost-effectiveness and may also have advantages in terms of perceived fairness.” Data show that in both phases 1 and 2, 75% of graduates were women (Chanie, 2017 and Ghion, 2020).

*“The project enables the poor who have nothing to eat to have their own job. And we are the ones who can create that job linkage.”*

Mulu Asefa, private trainer for food and hotel



There are various **positive effects on the mode of operation of training providers**. A case study on SKY I (Instiglio, 2018) highlights that RBF allowed the service providers to be innovative in reaching the target population and in making sure they truly benefited from the training. Indeed, RBF stimulates training providers to orient their offers towards labour market needs. If the needs of the market are not met, training providers risk losing the agreed-upon payment. Accordingly, SKY's training providers for instance invest more in analysing and monitoring the market. SKY gave training providers the flexibility to adapt their intervention models to changing market and beneficiary needs. For example, some providers started to offer evening and weekend classes for those with daytime obligations, or childcare services to allow mothers to participate in the programme. And, the SKY project introduced a culture of collaboration and a sense of “shared responsibility” for graduates' job placement. In particular, exchange between training providers and future employers increased to ensure delivery of demand-driven training and thus successful job placing of graduates.

From a **project implementation and funding** perspective, Helvetas Ethiopia also observed that thanks to RBF, projects can more easily be scaled up and replicated and reach more beneficiaries in more locations. This is due to the fact that responsibility for quality assurance, follow-up support and job intermediation (time-consuming tasks usually performed by the project team) is transferred to the training providers. In addition, Helvetas Ethiopia observes that RBF can help attract new funding options such as impact investment by the private sector, social funds, etc. Their experience has shown that getting funding is easier if investment is linked to measurable results.

*“When people know that the money invested is effectively improving the lives of the target beneficiaries, then the tendency for further investment is high and it is also relatively easy to convince potential new funders.”*

Helvetas Ethiopia

## Challenges in Designing and Implementing RBF

Common design challenges include how to incentivise stakeholders to act in accordance with the project's goals, including reaching the most vulnerable populations, and verifying the results in a cost-effective way. Selecting the payment metrics and the appropriate pricing were therefore among the key design challenges for SKY – besides ensuring sustainability. Implementation challenges faced by SKY mainly related to the selection of and collaboration with vocational training providers.

### Designing payment metrics and pricing

Based on the analysis of twelve cases of projects applying RBF in different countries, Instiglio (2018, p. 18) identified three challenges that can usually be observed in designing RBF mechanisms:

1. **Incentivising the right results** (i.e., to ensure the achievement of the intended benefits of a programme) — selecting payment metrics aligned with desired impact and appropriate pricing; lack of appropriate verification data as limiting factor.
2. **Focusing on vulnerable populations** (i.e., to ensure value for the programme's participants who face the greatest barriers and who are furthest from the labour market) — mitigating the risk of “cream skimming” (meaning providers focus on “easiest-to-place” participants) by establishing clear eligibility criteria for vulnerable groups, applying “differential pricing” and using rigorous impact evaluations.
3. **Verifying results effectively** — choosing a verification approach which avoids excessive cost while also contributing to the programme's evidence base.

Another major design challenge in Helvetas' projects was the selection of payment metrics and appropriate pricing to achieve the desired impact. The payment metrics and pricing chosen by Helvetas for SKY and the Employment Fund in Nepal can be found in [Table 2](#). The exact numbers are difficult to compare, as for instance in SKY, there is a social inclusion incentive for the employment of vulnerable people not shown here (paid in addition), while this incentive is already included in the payment metrics of the Employment Fund. Together with the incentives, the last instalment of SKY II would probably represent 40% of the total payment or more.

Despite the difficulties in comparing the exact numbers, the table provides a good overview of how measures of employability (e.g. training completion, skills development) and measures of employment (e.g. job placement and/or job retention, combined with certain requirements related to job quality such as improved earnings) are balanced.

The following points illustrate the considerations behind the choices made. They make clear that there is never one ideal solution, and all projects require adjustments.

In the Nepal case, the RBF approach does not include a payment

for training delivery. However, during implementation of SKY I, Helvetas Ethiopia had to introduce a **mid-training payment** of 30% because the training providers could not cover essential costs and therefore could not deliver quality training.

Payment metrics for RBF		SKY II (current phase)	SKY I (pilot phase)	Employment Fund Nepal
Employability measures	Training received	25% (mid-training)	30% (mid-training)	Pre-condition for payment
	Skills improvement	45%	50%	40%
Employment measures	Gainful employment	Pre-condition for payment (at least minimum wage)		
	Job retention: 3-4 months	30% (4 months)	20% (4 months)	25% (3 months)
	Job retention: 6 months	-	-	35%

**Table 2.** Comparison of payment metrics and associated normalised payment weights in SKY and the Nepal Employment Fund;  
Source: Instiglio, 2018, p. 20, adapted and complemented with numbers for SKY II

*“The balance between ensuring market-orientation through RBF, but not risking bankruptcy of a training provider in case they do not meet the targets can be difficult”*

Helvetas Switzerland

Another adaptation SKY II made (based on the experience from the first phase) was to **increase the outcome payments (from 20% to 30% for job retention) and the incentives** because training providers insufficiently focused on employment outcomes. In the case of the Employment Fund, the outcome pricing is even much higher. Important in this case, according to Instiglio (2018, p. 23), is that skills improvement is also incentivised. Otherwise it would “create a perverse incentive to focus on short-term gains over long-term impact” where “service providers might try to place programme participants in easy-to-place jobs without great economic benefit or potential.” Accordingly, “payment metrics should collectively represent the key outputs and outcomes that lead to long-term impact” (Instiglio, 2018, p. 23).

Convincing training providers to join the programme despite the relatively high risks related to RBF (see also implementation challenges) was one of the main challenges faced by SKY. To choose **metrics that are within the manageable control of providers** (meaning weighting employability measures accordingly) is therefore key, in particular in contexts where job opportunities are scarce (Instiglio, 2018, p. 21, 27).

**Job placement, a common indicator, is not used as a payment metric** as such in both SKY and the Employment Fund, because it is not in itself meaningful and can easily be manipulated.

Furthermore, training providers are not remunerated based on the income level their trainees attain. However, they need to ensure that all are earning at least the minimum wage. Thus, gainful employment is a pre-condition of being paid for job retention.

In Nepal, 6-month job retention was measured. However, result verification costs were extremely high, thus in SKY “efforts were made to reduce verification costs by conditioning payment on **shorter-term and easier-to-measure 4-month milestone**, rather than the 6-month milestone used in Nepal” (Instiglio, 2018, p. 32). In addition, SKY verifies job retention only once (after 4 months) instead of twice as in the Nepal case (3 and 6 months).

### Designing for sustainability

Sustainability, including financial sustainability, is a key concern of development interventions. Helvetas Switzerland distinguishes between the financial sustainability of (1) the training centres and (2) the financing mechanism itself.

Concerning the **financial sustainability of the training centres**, Helvetas has to make sure that they are not dependent on the project. RBF should represent less than 50% of their income. In addition, Helvetas needs to ensure that the amount paid “is what local non-vulnerable youth would be able to pay so that youth can still afford this amount after the project ends”.

To ensure **financial sustainability of the financing mechanism**, a VET or employment fund (such as in Nepal) is considered crucial. However, progress has been limited so far in Ethiopia as funding proved to be more difficult than expected. For example, the government’s capacity to contribute in cash is limited (in-kind

contributions by the regional TVED Bureau, by contrast, are high, in the form of deploying trainers, or providing training space or free office space for the self-employed, etc.). Furthermore, it is important that other donors and NGOs also adopt this approach to have a bigger impact. Therefore, a regional youth skill training and employment forum shall be established together with the TVED Bureau within the framework of SKY II.

#### **Implementation challenges: focus on training providers**

Most of the challenges that Helvetas faced in implementing RBF in SKY were linked to the training providers. They are grouped here under respective sub-topics.

##### **Convincing training providers to join**

Since RBF in Ethiopia was a new concept, SKY faced initial resistance from training providers. They were afraid of the financial risk they would carry, e.g. in cases where trainees lacked the motivation to actually work or if they got married or migrated and therefore could not be placed in sustainable employment. Accordingly, it was a challenge to get enough training providers on board. Thus, Helvetas had to invest in sensitisation and information workshops and capacity building programmes for the training providers prior to the start of the programme. The costs of these kinds of activities should not be forgotten when budgeting for a RBF project in a new context.

Helvetas Ethiopia observed a clear difference of opinion between private and public training providers: the last payment related to job placement was important for private providers, but less so for public ones, which already had salaries and infrastructure paid for by the government (see also [Box 2](#) above). Accordingly, in the first phase, the RBF approach did not work very well with some public training providers. The problem of the disconnection between salary and performance was solved in certain cases by paying the incentives to the person who was responsible for the matching process (usually matching is an additional task for the trainers). However, the commitment of the management is highly important for establishing successful matching within the colleges' culture. In contrast to the public training providers, the private ones, in particular the small ones, were generally motivated, but often lacked the capacity to engage with the programme in its initial stage. Capacity building was therefore key for them.

Competition from other organisations working with the traditional approach (upfront payment) initially increased the challenge of finding enough training providers. But Helvetas' experience shows that once they understand the importance and benefits of RBF, and as incentives are usually quite attractive, they are willing to join. In addition, instead of fostering a negative competitive culture between providers and organisations, Helvetas Ethiopia encourages collaboration and partnership between them. More concretely, it aims to establish a regional youth skill training and employment forum for experience-sharing on how to establish sustainable approaches in the area of youth training and employment (see also financial sustainability above).

##### **Lack of private training providers in rural areas and small towns:**

RBF heavily relies on the existence of private training providers. Helvetas Ethiopia reports that one of the main challenges when expanding the project to other small towns in the Amhara Region (SKY II) is to find enough private training providers. In small villages – and in particular in a context of high rural-urban migration – the number of interested trainees is too limited to be able to have multiple training providers in rural areas. Accordingly, profit-oriented providers would rather establish their businesses in the bigger cities. In rural areas, there are cooperatives organised by micro-enterprise associations that could fill the gap, but they need much capacity building.

##### **Training providers' financial constraints (see also choice of payment metrics discussed in Design Challenges above)**

Vocational training is capital intensive, as it needs high initial investment. Therefore, it was difficult for some new training providers to get started. In such a situation, and if the training provider is indispensable, Helvetas Ethiopia suggests being flexible and helping the provider out by issuing the first payment earlier than the actual due date. In particular, this was practised in small and emerging towns, where there were not enough training providers. Opposed to that, Helvetas Switzerland states that the conditions for payment shall be the same for all training providers in a given context. Thus, the payment scheme should not be adapted for single training providers but only if all training providers need financial support at the beginning. Such intense debates during planning and implementation are important for the development of feasible and effective RBF modalities in a programme.

##### **Challenges in job placement**

Training centres, both public and private, report that single mothers are very difficult to place in sustainable employment. According to Asmamaw Abebe, dean of the public Debre Tabor Polytechnic College, they often cannot retain their jobs because of a lack of support, such as day care services, initial capital funds, or working places, etc. Finding jobs for single mothers is also a major challenge in the hotel industry.

*“What I consider to be a challenge is creating job linkages for graduates... In particular, we can't find jobs for single mothers in the hotel industry.”*

Mulu Asefa, private trainer for food and hotel

Abebe reports that the college has no specially assigned person for the job placement of graduates. Thus, trainers are expected to do this. The city TVED office supports the college especially in the provision of workplaces for self-employed graduates, which is essential for success.

# 5

## RBF EVALUATION AND LESSONS LEARNED FROM SKY

Monitoring and evaluation are at the centre of any RBF project, thus selecting an approach that is both effective and feasible is key. This section briefly introduces SKY's methodology and presents the project's results (evaluated through tracer studies), the perceived long-term effects that SKY had for some of the stakeholders, and the most essential lessons learned from designing and implementing SKY in Ethiopia.

### Evaluation Methodology

Unsurprisingly, result monitoring plays an important role in RBF projects as “paying for results requires that results can be measured and verified” (Instiglio, 2018, p.32). However, Helvetas (2020, p. 26) states that “a sound balance shall be kept between result monitoring, looking at outputs and outcomes (passing the skills test, gainful employment), and process monitoring (trainee selection and quality of training), based on the achievements”.

SKY applies an elaborate, multi-stage monitoring and evaluation system as illustrated in Figure 3 (a closer look at proposed roles in monitoring can be found in ANNEX 2).

**1. Process monitoring** helps SKY assess the quality of training provision and related issues. This is usually done by the project team and the strategic government partners.

**2. Result monitoring** is key in RBF projects and measures both outputs and outcomes of a project with respect to SKY trainees' success in national skills tests and employment outcomes:

a. Output monitoring in the form of occupational assessments (skills tests) is conducted at the end of the training by the regional assessment and certification agency, an official body independent of the training centre. The project team is not involved in these external skills tests.

b. Outcome monitoring is done to assess graduates' successes and challenges, the support received from training providers and government partners, the income and employment status of the graduates, job satisfaction levels, etc. Outcome monitoring – in particular payment-relevant income and employment verification – is done by an external evaluator. Previously, a private consultant was hired for this task. Facing decreasing ownership and follow-up support from the government, a committee

comprised of TVED and WCYA was formed in 2020 to sustain project outcomes from the government's side.

**3. Impact evaluation through tracer studies** is done every few years by an external team to evaluate the long-term outcomes and impact (through a sampling approach). Tracer studies are considered powerful evaluation instruments to gain information about the relevance and effectiveness of VET programmes. While impact evaluations typically involve establishing counterfactuals through randomised control trials, SKY has not been able to work with control groups thus far.

Cost-effectiveness must be borne in mind when designing the verification approach (which was already partly discussed among the design challenges). According to Instiglio (2018, p. 33), costs can be reduced by selecting payment metrics drawing on available administrative data, such as employment status or income data, or, if these are not available, then by using short-term outputs or outcomes which are relatively easy to measure. In the case of Nepal, an online monitoring system has been established to reduce time for data entry for project staff, partners and, in particular, training providers (see also Helvetas, 2020, p. 28). Increasing efficiency is important because “the verification process needs to avoid excessive burdens for service providers if the programme is to be effective and sustainable over the long-term” (Instiglio, 2018, p.33).

### Measured Results and Perceived Effects

#### Results from tracer studies

The tracer study evaluating SKY's first phase (Chanie, 2017) indicates, inter alia, the following results:

- From the 2,000 targeted beneficiaries, 1,753 were trained (75% women). The difference in numbers of beneficiaries targeted and reached is due to increased training costs per person;

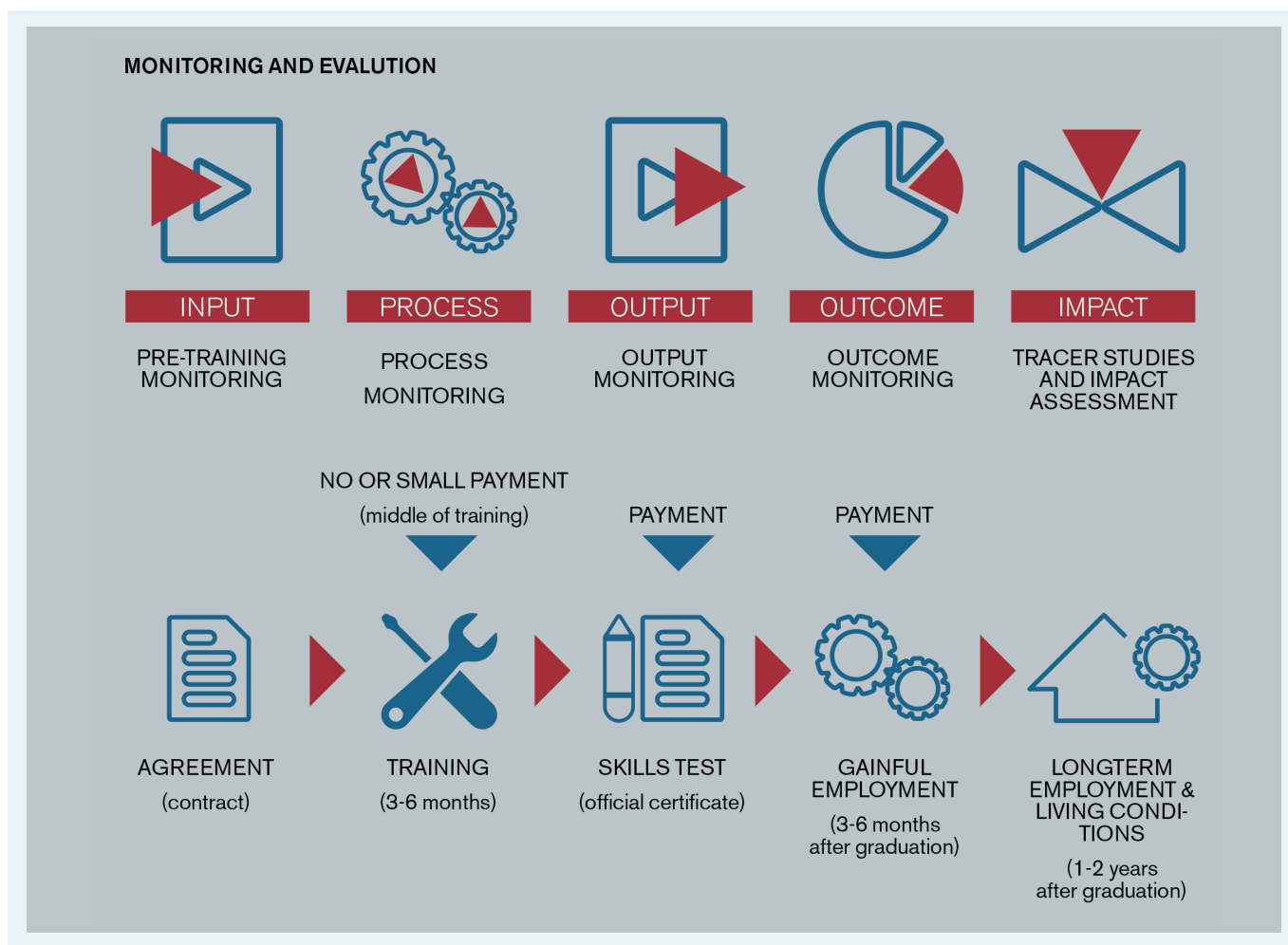


Figure 3: Monitoring and evaluation in SKY Ethiopia; Source: Helvetas, 2020, p. 26

- 79% of the graduates were employed (either in wage employment or self-employed) and a big majority gainfully employed (earning at least the minimum wage), with a short transition to employment period for most professions;
- 92% showed satisfaction with their current job;
- 94% of graduates reported an improvement in their living conditions;
- The results-based financing system has been introduced and effectively applied; and
- An advisory board in the form of the SKY Stakeholders' Platform has been put in place and is functioning.
- Out of the 3,000 targeted beneficiaries, 1,123 were trained in the first half of the project. The share of women was as high as in phase 1 (75% instead of the targeted 50%);
- 84% of the graduates entered employment, whereof 52% within 1-3 months;
- 96% reported to be more or less satisfied with their jobs (however, 31% reported that their salaries were not attractive);
- A majority of employers mentioned that graduates were equipped with the necessary skills.

#### Long-term effects mentioned by interview partners

Interviewed training providers reported that the participation in SKY and the use of performance-based contracts **positively influenced their way of working**, in particular related to their role in placing youth into jobs and their improved networks with government agencies and employers.

*"We have not been giving much attention to post training follow up, having a standardised curriculum and training module for short term training etc. Now, this has changed."*

Asmamaw Abebe, dean of the public Debre Tabor Polytechnic College

Helvetas' interpretation of the large share of female participants – 25% above the target – is that the women-specific incentives provided by SKY have been successful. Another possible reason mentioned was the project's active role in enlarging the range of possible occupations for women beyond the traditional ones, e.g. by training female plasterers.

The mid-term results achieved in SKY's second phase are, among others (Ghion, 2020):



*“Now, RBF is a culture in our training centre. We look for an employment opportunity for all who need that. Skill training is costly, thus, if you give training and nothing comes out of it, then it is a waste of time. So, we always think of what a particular trainee lacks for entering the labour market.”*

Chalachew Mulat, private training provider in fashion design

*“Now we have created a good working relationship with potential partners. We have learned to be strong to face challenges in the area. We learned that we can change the lives of many youths by giving market-oriented training and linking them with potential employers and by giving technical advice for self-employed graduates. To go beyond training is what we have got from SKY.”*

Mulu Asefa, private trainer for food and hotel

The representative of the chamber of commerce and president of the Amhara Regional Sector Associations, Sulyman Ebrahim Gobeze, underlined the usefulness of **institutionalised partnerships** with training providers that resulted from SKY. He, for instance, signed a tripartite agreement with SKY and the Bahir Dar Polytechnic College, where the project office would be responsible for outreach, the VET college would provide needs-based training according to agreed standards, and his sector association would provide employment opportunities in the member enterprises. More such agreements shall be signed in the future.

Other employer representatives mentioned their **satisfaction with graduates’ skills** (a finding that was confirmed by both tracer studies).

*“If the programme grows and keeps sending graduates with adequate training, we won’t have problems in finding competent human resources in the future.”*

Sisay Haylu, hotel manager

## Selected Lessons Learned



Throughout its many years of designing, implementing, and even funding RBF projects such as in the case of SKY, Helvetas has learned many lessons. The points below were explicitly mentioned by Helvetas Ethiopia and Helvetas Switzerland in relation to this case study. They refer to the pre-conditions and design requirements of RBF schemes, including how best to serve

the target group, and points to be considered when selecting and collaborating with training providers. Additional aspects and topics are covered in Helvetas’ RBF Manual (Helvetas, 2020).

### Pre-conditions for successful RBF schemes include:

- **A thorough context analysis:** thorough analysis of both the labour market and the VET system, as well as evaluation of training providers available in the region, are vital preconditions for being able to design a successful RBF scheme – in particular the performance metrics and payment scheme.
- **A degree of competition among training providers and an existing demand for labour in the market:** a range of public and private training providers and a healthy competition among them is essential. If a labour market is completely saturated, the implementation of RBF may also be difficult. Accordingly, experience has shown that RBF can be implemented more easily in urban areas with stronger economic activities and better training providers available than in rural areas with limited employment opportunities. Here, a focus on entrepreneurship might be more appropriate.

### Design of funding schemes requires:

- **Clear agreements:** In the agreement between the project and the training providers, it is important to clearly agree on the results to be achieved, the level and conditions for payments, and the results verification method.
- **Small contracts:** Training quality and employment rates have proved to be better if many providers train only a group of 15-20 youth each, rather than if agreements for 100 youth per training provider are signed. However, many small contracts substantially increase the administrative and monitoring costs too.
- **Financial incentives to effectively foster social inclusion:** Combining RBF with financial incentives for social inclusion ensures that the training providers give priority access to women and discriminated groups, as well as the very poor and youth with special needs.
- **In some cases, for small providers, a first instalment during training delivery:** Small or newly established vocational training providers often lack enough financial means to pay salaries, purchase training materials, etc. A mid-training payment as in SKY would allow them to cover essential costs and thus to deliver quality training. It is Helvetas’ preferred alternative to co-financing equipment.

### Training provision should serve the target group by:

- **Being flexible:** Arranging evening and weekend classes is critical for the poor to still be able to work alongside the training. RBF successfully contributes to the training provider’s flexibility.
- **Building self-confidence for women through counselling and guidance:** The graduates from vulnerable groups,



especially women, often lack confidence that they will find employment after training. Therefore, transparent sharing of information, counselling and guidance are particularly important for these trainees before and throughout the training process and when it comes to job placement. While this aspect is important in training projects in general, RBF motivates training providers to be especially concerned with strengthening the employability of the trainee.

- **Offering close-by training facilities for women's participation and employment:** Decreasing the travel distance to training providers is key to increasing the participation of women. In this case, the presence of private training providers is vital to fill geographical gaps, and also to establish job linkages with nearby employers. As women's employment is incentivised in SKY, this aspect is also important from the training provider's perspective.

#### When selecting training providers, it is important that:

- **They are highly competent:** The training provider's capacity to deliver quality training, establish strong partnerships with potential employers, draw on good experience in entrepreneurship and life skills, and motivate graduates for either self or wage employment, determines the success of the programme as well as of the training provider itself. Capacity building support by project staff can help, but, in the end, the key is whether the training provider can absorb it and improve performance accordingly.
- **Improvement of the training system is balanced against support for the top schools:** It is important to have some champions among the training providers to achieve good results, encourage others, and get feedback to improve the approach year after year. But the goal is not to choose only the best ones but also to capacitate the ones with less quality. If you choose only the best, you do not really improve the system but reinforce the dominant position of the top schools.
- **There is a mix of both private and public training providers:** While public providers are important strategic partners to anchor and institutionalise the approach, private ones might be more motivated and open for new approaches, and thus perform better in job intermediation and follow-up support. In addition, in most cases in Ethiopia, public training providers have better inputs for training (equipment and machinery, trainers, infrastructure). Thus, the positive relationship and cooperation between public and private training providers improves outcomes.

#### Collaboration with training providers requires:

- **Demonstration of RBF experiences and lessons learned:** Convincing training providers to join requires strong efforts to explain the model, to show how it has worked in other contexts and to also calculate costs and benefits of specific cases. It is essential that the training providers are aware of their duties and the opportunities and risks related to RBF.

- **Capacity building for training providers:** In both cases (Nepal and Ethiopia) capacity development of training providers has proven to be essential in motivating them to join and enabling them to perform successfully. These costs need to be considered when budgeting an RBF project.
- **Implementation requires supportive and flexible collaboration with training providers:** A flexible collaboration mode with training providers is both possible and needed. Investing in partnerships is key; this means being flexible and working with the training centres (not against them). Building their capacities, understanding their challenges, getting their feedback, supporting them, finding the right balance between putting pressure (strict on payment only with results) and playing a supportive role.

# 6

## CONCLUSION

The Helvetas-funded and implemented Skills and Knowledge for Youth (SKY) project in Ethiopia is an example of “innovative financing for education” that uses results-based financing (RBF) in vocational skills development and employment. Performance-based contracts and financial incentives are used to focus service providers’ attention on long-term gainful employment of the beneficiaries, thus ensuring the efficient and effective use of educational resources.

Applying RBF, the project aims to improve the *quality* of training programmes and employment outcomes of graduates, and to increase *access* to training programmes and employment for vulnerable youth. Employment (wage or self-employment) rates of around 80% within 4 months, and a share of female participation of 75% (25% more than the targeted 50%) confirm the project’s success so far. Additionally, both training providers and employers report that SKY increased their networks and contributed in some cases to institutionalised partnerships between them. Training providers report a positive influence on their way of working, a fact that is indirectly confirmed by employers being satisfied with graduates’ skills and youth appreciating the services offered.

While traditional, input-driven programmes did not adequately respond to the ground level realities and the challenges that youth faced in Ethiopia, SKY’s use of RBF has encouraged demand- or outcomes-driven approaches. The training providers are paid for training delivery and trainees’ successful passing of the official occupational assessment or skills test (output) and for gainful employment of the graduates (outcome). RBF gives training providers an additional incentive to make trainings labour market relevant. In addition, it motivates them to support trainees beyond the practical training, to link them to potential employers or support them in attaining self-employment. And it can be a powerful way to shift the private sector’s attention to equity and inclusiveness. Key for successful social inclusion is the differential pricing system used by SKY, compensating the training providers for assisting hard-to-place individuals. Therefore, results payments differ per trade; social inclusion incentives are highest for the most vulnerable, e.g. single mothers, for whom the challenge of finding a placement tends to be highest. Differential pricing allows for nuanced targeting and support levels based on individual needs.

Another important benefit of RBF from a programme management perspective is that it usually attracts new funding options more easily, as investment is linked to measurable results. Also, interventions can more easily be scaled up and replicated, because responsibility for quality assurance, follow-up support and job intermediation is transferred to the training providers and no longer rests on the shoulders of the project managers.

Another important aspect of RBF is that parts of the risks of investment in training are shifted from the donor or government (who traditionally also pay for those who remain unemployed after the training) to the training provider. In return, the training provider can earn more than with the traditional approach, if it is successful in delivering the agreed-upon results. RBF therefore contributes in aligning the interests of the funder, training provider and beneficiary by incentivising employment.

While the innovative aspect of RBF in VET is that training providers are paid not only for training delivery but also for job placement services, this new obligation bears risks. Accordingly, it can be difficult to convince enough training providers to join, and others would face financial constraints on the delivery of quality training. Some of these risks are reduced by applying differential pricing; others are offset by offering non-financial support to the training providers that participate in the programme. Examples include networking with government and employer representatives, and capacity building measures to help them improve their offers and, accordingly, their results. The project shows that RBF ensures better utilisation of the capacity building measures as the recipients (the training providers) are motivated to join and potentially use the skills more than in traditional projects.

Experience has shown that a range of training providers is needed, not only for ensuring close-by and diverse training delivery (sometimes a challenge in rural areas) but also for improved

training quality and employment outcomes. It has proven to be important to have a combination of public and private training providers to effectively implement RBF in Ethiopia. While public training providers turned out to be important strategic partners to anchor and institutionalise RBF, private, profit-oriented training providers were also well suited to this finance model because payment was directly linked to the trainer's performance.

A major design challenge for Helvetas, and for RBF projects in general, is the selection of payment metrics aligned with the desired impact and an appropriate pricing system. Balancing measures of employability and employment in a good way is key in VET projects, and intense debates among the concerned stakeholders are necessary for the development of feasible and effective RBF modalities.

Another challenge, linked to the payment metrics, is the design of a cost-effective and meaningful verification method. Unsurprisingly, result measurement plays an important role in RBF projects where paying for results requires the ability to rigorously measure and verify them to minimise chances of cheating. In order to reduce high costs, it is recommended to draw wherever possible on available data, define clearly measurable indicators, and use also shorter-term results, which are easier to measure (e.g. outputs or shorter period of job retention). Also, to reduce the burden placed on the training providers, increasing efficiency is important, e.g. by introducing an online monitoring system as in the case of the Helvetas Employment Fund in Nepal. In general, a multi-stage monitoring and evaluation system, as developed by Helvetas, is essential to assessing the process (to ensure smooth implementation and quality of training), results (relevant for payment), and impact (relevant for further adaptations) of an RBF intervention. Having this in mind when calculating the project budget and searching for good external evaluators is key to success.

Another challenge and risk is to ensure sustainability of the financing mechanism, which, in the case of SKY, was achieved by establishing an employment fund and engaging other donors, the government and partners in a regional youth skill training and employment forum.

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# APPENDIX

ANNEX 1: Stakeholders' tasks in the implementation of SKY

ANNEX 2: Proposed monitoring roles in results-based financing for youth employment

ANNEX 3: Sample agreement with a private training provider (Abaynew Garment in Debreabor)

ANNEX 4: Sample agreement with a public training provider (Bahir Dar Polytechnic College)

ANNEX 5: Sample curriculum (leather goods)

ANNEX 6: Ethiopia National TVET Strategy

## ANNEX 1: Stakeholders' tasks in the implementation of SKY

### Training providers (TP), both public and private

- Offering quality training in relevant sectors and occupations.
- Job placement service for graduates, including searching vacant positions and linking graduates with potential employers, or supporting self-employment (technical advice, facilitation of loan, space to work, etc.)
- Creating linkages with employment promoting entities and supporting structures.
- Providing follow-up support at least until four months after graduation:
  - Follow-up on recording of financial transactions for self-employed graduates.
  - Initiating saving for future betterment (to be started with small amounts too).
  - Consulting graduates to go for self-employment individually or in groups or for improvement of their businesses.

### Government partners

#### 1. Technical Vocational and Enterprise Development (TVED) & Women, Children and Youth Affairs (WCYA) Bureaus

- Registering and recruiting trainees (applicants). This is done by the respective TVED Department (Office) in collaboration with the WCYA Department (Office) and its lower structures at sub-city (Kebelle) level based on the established criteria.
- Assigning the applicants (in collaboration with the project office) to the selected TPs. As much as possible trainees should be assigned to nearby TPs to minimise transport cost.

#### 2. Bureau of Finance and Economic Cooperation

- Evaluating project feasibility and alignment to the government priorities and policies
- Regulatory role
- Reviewing project implementation versus project agreement
- Facilitating midterm and terminal evaluations of project

### Project Office

- Facilitating labour market survey (assessment of short-term training demands of the market in a specific Woreda)
- Facilitating tracer studies
- Facilitating income and employment verification
- Selecting TPs
- Mapping of partners
- Facilitating project stakeholder meetings
- Facilitating learning workshops
- Capacity building of TPs and partners
- Determination of cost of training for different occupations (courses)
- Facilitating orientation sessions for applicants about the training programme
- Supporting the government in the process of assigning trainees to the respective TPs
- Capacitating/incubating model MSE's selected by the TVED and WCYA Bureaus as future TPs
- Organising workshops for strengthening the linkage between the government, TPs and potential employers
- Implementing strong multistage monitoring (pre-training, on-training and post-training)
- Monitoring of training quality, employment and income for issuing payment to TPs
- Documentation and dissemination of experiences



## ANNEX 2: Proposed monitoring roles in results-based financing for youth employment

MONITORING STEPS			RESPONSIBILITIES		
			TRAINING PROVIDERS	PROGRAM	EXTERNAL VERIFICATION
<b>1</b> Trainee selection	pre-training	Compliance or process monitoring	Selection according to criteria of fund/program	Fairness of selection process	Verification (sample)
<b>2</b> Assessment of training quality	during training		Visits by supervisor to ensure quality Corrective measures in case of low performance	At least one visit for quality assurance	
<b>3</b> Skills test passing	end of training	Result monitoring	List of successful graduates		Passing rates of official skills test
<b>4</b> Gainful employment verification	post-training		Interviews with employers and graduates, visit at workplace		Interviews with graduates and with employers (sample basis)

### ANNEX 3: Sample agreement with a private training provider (Abaynew Garment in DebreTabor)

Provided separately

### ANNEX 4: Sample agreement with a public training provider (Bahir Dar Polytechnic College)

Provided separately

### ANNEX 5: Sample curriculum (leather goods)

Provided separately

### ANNEX 6: Ethiopia National TVET Strategy

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