

## PRECONDITIONS FOR SUCCESS

The applicability of a result-based payment system in a vocational skills development project depends on the following pre-conditions:

1. Training providers agree to the advantages of the proposed result-based system and thus are willing to take a risk under the new modality.
2. Institutional roles are clearly allocated and collaboration arrangements accepted among training providers, project and donor agency.
3. Sufficiently large number of (private sector) training providers with adequate capacities and capabilities are competing with each another for service delivery.
4. Training providers have strong labour-market linkages and sufficiently developed self-monitoring and management decision making systems.
5. Expected results in terms of outputs and outcomes and indicators of achievement are realistic, clearly defined, measurable and understood by all.

## RESULT-BASED PAYMENT WORKS!

HELVETAS Swiss Intercooperation applied result-based payment systems in the former F-Skills and the current Skills & Employment for the Informal Sector project. Similar mandate systems were successfully established in the Rural Advisory Services in Kyrgyzstan, the Municipal Councils in Northwest Cameroon and the Community Education Programme in Mozambique.



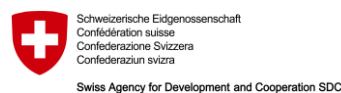
Photo: Deependra Bajracharya

## FURTHER READING

- Arbenz et al., 2005. You pay for what you get. Experience and Learning in International Cooperation, Helvetas Best Practice Publication No. 4
- Joss et al., 2002. Clients First! Experience and Learning in International Cooperation, Helvetas Best Practice Publication No. 2
- Messerli, S., 2011. Result Measurement in Technical Education and Vocational Training Programmes. Technical and Vocational Education and Training Development Journal, Research and Information Division. CTEVT, Sanothimi, Bhaktapur.

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## LEARNING FROM EXPERIENCE

- Job placement becomes the ultimate goal of skills training and the driver for its quality.
- Annual competitive procurement of labour-market relevant training and employment services ensures that only best performing T&Es are contracted.
- RMA during procurement is crucial to define the number of youth who can be trained and employed in a certain locality in specific trades.
- Target numbers allocated to a T&E must be in relation to its implementation capacity.
- T&Es select trainees based on their genuine interest to work after the training.
- T&Es must pre-finance the training and employment services what largely excludes public and NGO-based training providers.
- Monitoring system must be reliable, transparent and trusted by the T&Es as payments are directly related to the level of result achievement.
- Resources invested into monitoring should be optimized through self-monitoring by T&Es with spot-checks by the project during the implementation and randomized sample verification of the outcome.
- Online database is instrumental for real time entry of monitoring observations, easy tracking of individual trainees/ graduates and creation of automated tables for processing financial claims and reporting.
- Project moves into the role of the client and T&Es are competing with each another but commonly used participatory approaches remain important to ensure that results, indicators and monitoring systems are jointly agreed and owned by all project partners.
- Combination of a result-based system with financial incentives ensures that the T&Es give priority access to women and other discriminated youth to the training and employment services.

## HELVETAS SWISS INTERCOOPERATION FLAGSHIP PROJECT



## IT'S THE EMPLOYMENT THAT PAYS OFF

### Result-based Payment Systems in Vocational Skills Development

In our daily life as a customer we are usually not keen to argue with the shop owner about the costs of the wood and nails that were used for the production of the furniture. Quality, design, quantity and price are decisive in order to come to an agreement with the provider of any product or service. Then, why are projects still negotiating input prices, allowances and overheads? Why are projects discussing implementation costs instead of what is the product or service worth? Why are projects not buying from their partner organisations the products and services they really want? The price for such inefficient contracting is eventually paid by the targeted primary stakeholders of the project as they risk to be delivered with inadequate or poor quality services.

Switching project implementation from the commonly applied activity-based replenishment system to result-based payment modalities may be challenging at first but yields immediate gains with regards to the efficiency as well as the outputs and outcomes of an intervention. In Vocational Skills Development so far few experiences with result-based payment systems are at hand. As the example of the Employment Fund Nepal shows, result-based payment systems offer an effective solution to achieve one of the major outcomes of Vocational Skills Development: the gainful employment of the graduates.

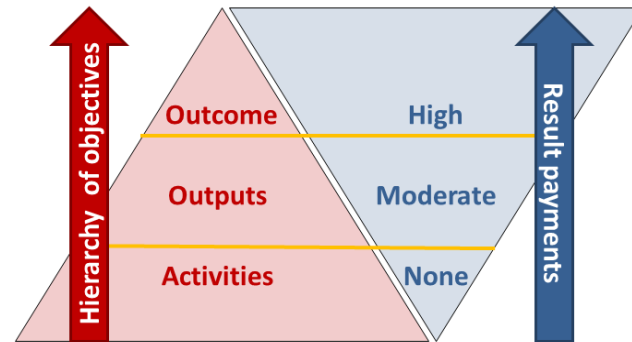


## PAY FOR RESULTS, NOT ACTIVITIES

Traditionally, projects apply a replenishment system which means that activities are paid in advance based on a budget. Replenishment systems face the major shortcoming that the project partners tend to aim for maximising inputs and expenditure in order to receive a bigger budget.

In a result-based payment system the project agrees with its partners on a mandate with clearly defined prices, outputs and outcomes which forms the basis for the future payments for their products and services. Typically no advance payments are made but costs are reimbursed based on the quantity and quality of the products and services delivered. Hence, with the result-based payments the partners are compensated for performance regardless of the actual inputs. As a result, they carefully assess their own capacity and offer client-oriented services as they otherwise risk forfeiting some of their revenue.

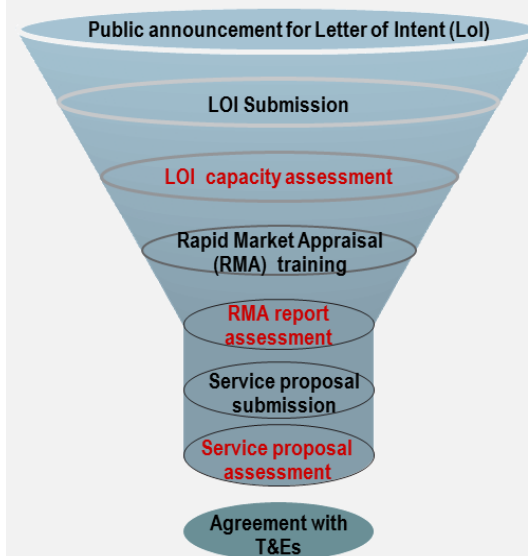
Result-based payments emerged from the worldwide trend towards New Public Management which aims at improving efficiency and quality of public services by moving from input to output orientation. Result-based payments are nowadays being seen as one of the major instruments to improve aid effectiveness and increase accountability towards the taxpayers.



## FOR EXAMPLE: THE EMPLOYMENT FUND PROJECT

The Employment Fund (EF) was established jointly by the Government of Nepal and the Swiss Agency for Development and Cooperation (SDC) in 2008 and is managed by the Employment Fund Secretariat (EFS) as a project of HELVETAS Swiss Intercooperation. EF is currently funded by UKAid from the Department for International Development (DFID), SDC and the World Bank. The purpose of EF is to support the gainful employment of unemployed youths by imparting skills through private sector Training and Employment Service Providers (T&Es). The primary stakeholders of EF are unemployed, out-of-school youths from disadvantaged groups, aged between 16 to 40 years.

EFS applies an annual competitive procurement process in order to identify the best performing T&Es for providing services which consist not only of skills training but - most importantly - the subsequent placement of the graduates in gainful employment. A key step in the process is the Rapid Market Appraisal (RMA), which is being conducted by the T&E among potential employers and clients in the locality where the T&E proposes to implement the training.



EFS neither sets geographical nor occupational targets as these are solely defined by the findings of the RMA of each T&E. With regards to the numbers of trainees, the T&Es are given a target range which is derived from an assessment of their implementation capacity. The final target numbers and the direct training costs for each occupation as well as the implementation arrangements are agreed between EFS and each T&E during contract negotiation.

Upon completion of the contracting, the T&E has received a clear mandate and the role of EFS is mainly limited to monitoring. Guidelines developed by EFS as well as coaching by the EFS field staff support the T&Es in applying the agreed standards with regards to training announcements, trainee selection, training implementation as well as placement and counselling support. The skills trainings are either provided as mobile training in smaller market towns or in training centres and typically consist of 1-3 months practical instruction which usually includes on-the-job training. Training is provided in about 80 occupations and follows the standardised occupational profiles and curricula of the Council for Technical Education and Vocational Training (CTEVT) under the Ministry of

Education. A key proxy indicator for the quality of the skills training is the pass rate of the graduates during the skills test conducted by the National Skills Testing Board (NSTB). Apart from the technical skills, all trainees are provided with a training package on labour rights, HIV/ AIDS and reproductive health. Women trainees are offered a life skills training package, those interested in self-employment may opt to attend a business skills training and trainees intending to migrate abroad are provided with a pre-departure orientation.

Beyond procurement and monitoring, EFS supports the capacity building of the T&Es (mainly through methodological training and skills testing of trainers, monitoring and management capacity building), conducts labour market studies, explores and pilots new occupations jointly with the T&Es and supports CTEVT/ NSTB in developing and revising occupational profiles and curricula.

## EMPLOYMENT IS THE RESULT

The Employment Fund (EF) is a vocational skills development project which consistently applies result-based payments under a post-financing modality. During the procurement process, the Employment Fund Secretariat (EFS) negotiates with each Training & Employment Service Provider (T&E) the direct training costs for each occupation. On this basis the total outcome price is calculated which can be maximum 200% of the direct training costs. The difference between the direct training costs and the outcome price is called incentive and covers costs incurring to the T&E for the monitoring and job placement of the graduates as well as management costs and an outcome-based profit.

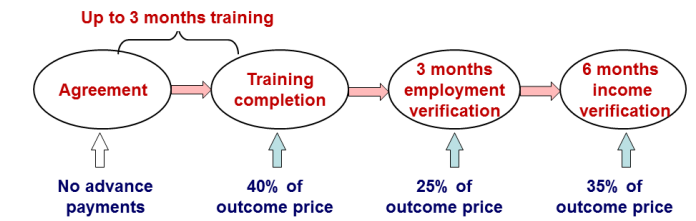
In order to prioritise access of highly disadvantaged youth, a differential pricing of the incentive is applied. T&Es which are able to cater for target groups which are of higher priority for the project but at the same time more difficult to place in gainful employment (such as women or youth from discriminated castes/ ethnicities) will get a higher incentive than those which reach out to less disadvantaged youth. The T&E decides itself on which target group to focus based on its own capacity assessment.



Photo: Deependra Bajracharya

## ACHIEVEMENTS OF THE EMPLOYMENT FUND

- Up to now trained over 55,000 youth.
- Over 80% of the trainees are disadvantaged youth and about 50% are women.
- Over 90% of the trainees pass the official skills test
- Around 80% of the graduates are gainfully employed immediately after training.
- Over 65% of the graduates are still in employment three years after training.
- Over 80 T&Es compete for a contract, out of which 30-35 best performing ones are selected annually.
- Annually over CHF 160,000 of project funds are recovered due to the result-based payment system.
- Ministry of Education of Nepal with the support of EFS introduced outcome-based payments at national level.



The outcome price, which is fixed in the contract, is provided in three instalments in relation to the result achievement and without any advance payments. Based on their monitoring system, the T&E have to claim each of the three instalments with EFS. The latter is adjusting the claimed amounts based on its own monitoring system by deducting payments for trainees who are ineligible, did not complete the training and/ or are not employed above the pre-defined income threshold for at least six months.

Although the focus is on the outcome of the skills training in terms of employment, EFS visits randomly the training events during the trainee selection, training implementation and skills tests. Three months after the training EFS conducts selected cross-verifications of the employment status among graduates. At six months EFS verifies jointly with the T&E the incomes of a randomised stratified sample of graduates claimed by the T&E to be gainfully employed. Any inaccurate claims of the T&Es proportionally reduce their potential revenue, as the percentage of gainfully employed youth within the sample is extrapolated to the whole population claimed to be employed by the T&E and used as a basis for the final outcome payment.

**Practical skills training (left) is linked through result-based payments with gainful employment which is verified with the graduates at their workplace (below).**



Photo: Siroco Messerli