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- Brief -

Transforming Economic Inclusion: Government Innovations through Outcomes-Based Financing

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

Well-designed economic inclusion programs are crucial for reducing poverty and fostering inclusive growth in low- and middle-income countries. These programs often integrate social safety nets, financial services, skills training, and livelihood support to empower poor and marginalized groups to participate more effectively in the economy.

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

Governments are increasingly leading these scale-up efforts. About 43 percent of surveyed programs are government-led, accounting for about 74 percent of all participants (Arévalo-Sánchez et al. 2024). These initiatives often involve collaboration by multiple government agencies, in partnership with nongovernmental and international organizations.

The complexity and scale of the challenges faced in these contexts require ongoing innovation and strong accountability mechanisms to ensure that economic inclusion programs are implemented effectively and resources used efficiently. Outcomes-based financing (OBF) is an approach to results-based funding in which payments are at least partially linked to the achievement of outcomes. It can potentially transform government-led economic inclusion programs by aligning stakeholder interests with the interests of the communities the programs are meant to serve and creating space and incentive for innovation. By shifting the focus from what goes into a program to what comes out of it, OBF can offer a more strategic and results-driven approach to program implementation.

- for -
Volume
12

Economic inclusion programs are bundles of coordinated, multidimensional interventions that support individuals, households, and communities to sustainably increase their incomes and assets.

KEY RECOMMENDATIONS

OBF can enhance accountability, efficiency, and impact in economic inclusion programs. However, OBF is not a universal solution: its effectiveness depends on the enabling environment, institutional capacity, and nature of services being funded. Policymakers and funders should assess enabling conditions and determine when OBF is the right tool, or when alternative mechanisms may be more appropriate.

Public agencies considering use of OBF should ensure readiness and mitigate risks across five key areas:

1. Political cycles and program champions. Political support is critical. Misalignment between political, technical, and administrative teams can derail programs.

Risk mitigation strategies:

- Incorporate political and administrative cycles into project and organizational planning.
- Invest in building relationships and, if possible, develop a network of political champions.

2. Regulatory environment. OBF must comply with national, subnational, and institutional regulations.

Risk mitigation strategies:

- Design OBF to align with budget cycles.
- Invest in long-term solutions to lower macro-level barriers, such as mechanisms that allow multiyear programs.
- Advocate for changes in micro-level elements after mapping the internal procedures involved in the procurement and implementation processes of an OBF mechanism.
- Explore multiple contracting options for outcomes-based procurement.

3. Program design. Consider payment metrics, targets, payment structure, verification methods and timelines, and governance structure.

Risk mitigation strategies:

- Ensure technical expertise by engaging external experts or building internal capacity.
- Include flexibility clauses in contracts that enable modifications in response to unforeseen events. This will allow for troubleshooting during implementation.

4. Service providers. Ideally, service providers should possess a fundamental understanding of OBF schemes and have demonstrated effectiveness in implementing an OBF project.

Risk mitigation strategies:

- Conduct a robust market analysis.
- Engage with service providers during the design process.
- Conduct capacity-building sessions for service providers.
- Support service providers throughout program implementation.

5. Operational elements. Governments must dedicate capable teams and robust systems to manage OBF projects.

Risk mitigation strategies:

- Invest in internal capacity building and dedicated staff.
- Strengthen data and information systems for monitoring and verification.

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