

**Aligning  
Incentives for  
Youth  
Employment:  
CFYE's Payment by  
Results &  
Co-Financing  
Model**

**06**

# FOREWORD

This brief is part of the **learning brief series**. The series of learning briefs distills six years of implementation experience from the **Challenge Fund for Youth Employment (CFYE)** into practical insights for designing and delivering youth employment programmes. Drawing on evidence across sectors and geographies, the briefs examine **what has worked, what has proved challenging, and which approaches have delivered sustainable outcomes for young people and businesses**.

Each brief focuses on a theme such as **delivery model, inclusion, business growth, or innovation**; covering topics ranging from job quality and gender inclusion to partner selection, localisation, and results-based financing. Together, the series moves beyond theory to offer **actionable guidance for practitioners, funders, and policymakers shaping future employment initiatives**.

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# WHY THIS BRIEF?

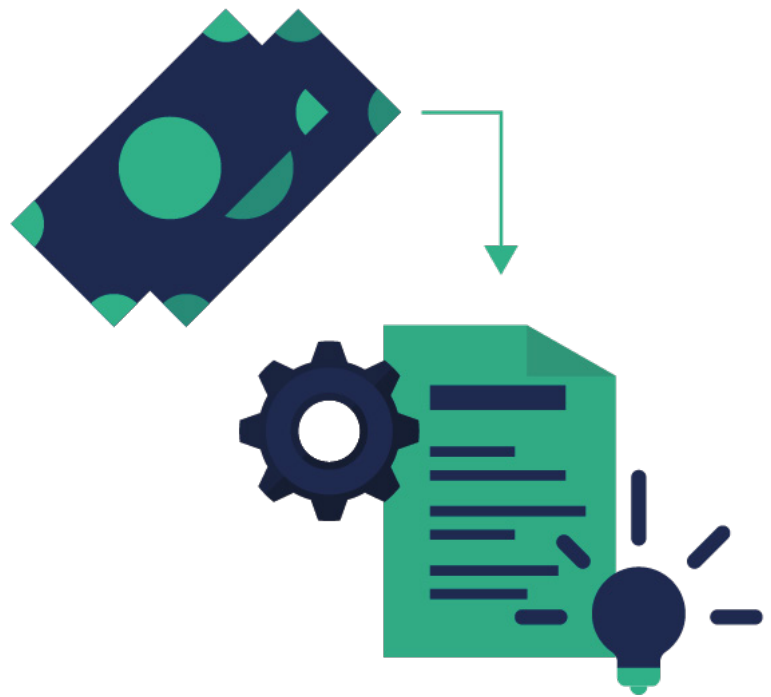
Many development programmes are pivoting to work with **private sector partners** to spur economic development and sustainable growth. However, a common struggle is **engaging in ways that lead to sustainable outcomes beyond programme interventions**.

Traditional grant funding places **limited financial risk on businesses** and **may incentivise the delivery of activities** rather than measurable and sustainable results, reducing accountability for long-term impact.

The Challenge Fund for Youth Employment (CFYE) addresses this challenge by **combining the traditional grant funding mechanism with co-financing and a Payment-by-Results (PbR) model**, requiring businesses to invest alongside donor funding and linking payments to verified outcomes.

Co-creating a partner-specific theory of change is also a key part of this process. Together, this model **works to align a business' commercial incentive with employment creation**, encouraging partners to **embed interventions within their core business model**.

Drawing on CFYE's experience working with the private sector to implement this model, this learning brief **highlights key insights and offers practical guidance for working with the private sector to advance impact goals with market-driven interventions within the context of donor-funded programmes**.



# KEY INSIGHTS

## Co-creation with Businesses Improves Implementation Outcomes

Ensuring that programme objectives align with a business's growth trajectory is a key challenge when working with the private sector, particularly if they do not directly support the company's commercial strategy.

CFYE learned that **outcomes are more likely to be sustained when programme objectives are embedded within the partner's business model**, and where job creation or workforce development supports the company's operational needs and growth ambitions.

CFYE worked to ensure this alignment at the inception stage alongside the businesses to co-create and refine activities that would ultimately lead to the intended results. **Engaging businesses at the project design stage helps ensure that targets are realistic**, aligned with operational priorities, and linked to the long-term sustainability of the company.

This process also **strengthens buy-in and reinforces the value of measuring impact outcomes** as part of overall business performance. However, how these outcomes are framed and incentivised within the project context matters.

For example, a **strong emphasis on employment targets may incentivise partners to prioritise the quantity of jobs created over their quality or sustainability**, or to adjust hiring practices in ways that meet short-term targets without necessarily maximising long-term impact.

There are also cases of partners **adapting their business strategies to achieve PbR milestones to qualify for payment which may risk reducing additionality** as activities are driven more by target achievement than underlying business need.

These reflections also point to the broader limitation of short-term interventions. While programmes such as CFYE are often unable to address the structural and systemic constraints faced by businesses operating in complex markets, they can, however, play an important role in shaping incentives and behaviours.

Establishing a better balance and flexibility within programme design and outcome frameworks can **help ensure incentives support both commercial viability and sustainable impact**.



# KEY INSIGHTS

## Strong Monitoring and Verification Frameworks are Essential

CFYE's project theory of change model both at the programme and partner level, jointly **defines the outputs, outcomes, and milestones that will guide implementation**. These milestones form the basis for the Payment-by-Results and is supported by clear verification processes and frameworks. The clear structure **aims to eliminate the risk of uncertainty or disputes between both funders and private sector partners** over what constitutes an acceptable result for payment.

In the early stages, several partners struggled to put in place the systems needed to track and evidence results, requiring substantial hands-on support from local Monitoring, Evaluations and Learning (MEL) advisors. **Some partners also perceive these requirements as burdensome**, while others **recognised their value in strengthening internal impact measurement and reporting systems**.

Because CFYE works with a diverse range of businesses (e.g. startups, small, and medium sized enterprises), Implementing Partners that were still testing their business models or had not yet achieved product-market fit faced difficulties in meeting agreed milestones.

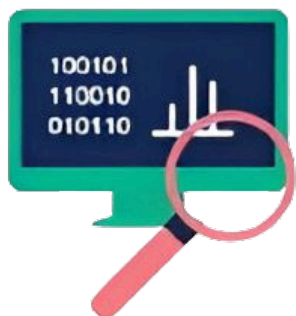
This sometimes required revising milestones, adapting intervention strategies, or in some cases, terminating partnerships where delivery was no longer feasible. These experiences **underline the importance of ensuring that verification frameworks are robust but realistic and adaptable to evolving business realities**.

Allowing some flexibility within the framework enables businesses to adjust strategies or redesign programmes in response to changing conditions, while maintaining the relevance and viability of their business model.

## Payment-by-Results Works Best When Combined with Co-Financing

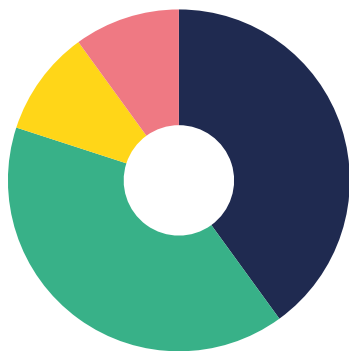
At its core, **the PbR model works as a reimbursement mechanism for partners as payments are made after the cost has already been incurred against agreed activities or milestones**. This is where the co-financing component becomes critical. CFYE requires partners to co-invest at a minimum ratio of 50:50 to CFYE funding.

Co-financing **ensures partners have a financial stake in the intervention from the outset and PbR ties payments to agreed milestones**, providing accountability for delivering measurable results. Together, these mechanisms create a reinforcing incentive structure where businesses invest their own resources to implement interventions that make commercial sense.



# KEY INSIGHTS

In practice, CFYE operationalised this through a **structured payment model**, with **approximately 40% of funding is linked directly to outcomes, 40% to outputs that support the outcomes, 10% at closeout, and an initial 10% disbursed upon completion of the inception phase**, following the development of MEL frameworks and agreed milestones. This upfront inception payment was meant to ease early stage cash flow constraints and support partners in establishing the foundations for delivery.



■ Direct Outcomes (40)      ■ Outputs Supporting Outcomes (40)  
■ Closeout (10)              ■ Inception (10)

For the model to function effectively, it is therefore **important to work with businesses that have sufficient financial readiness and stable cash flows to absorb this timing gap**. CFYE has observed during project implementation that the outcomes of an intervention or investment often take time to translate into job creation or measurable impact.

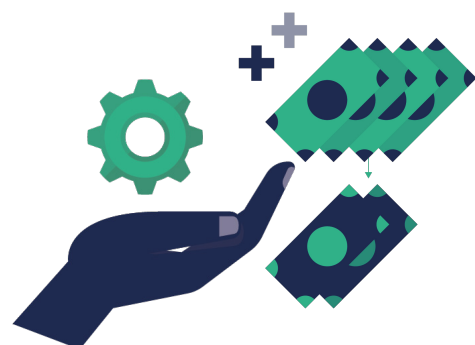
For example, manufacturing companies developing a new supply chain may need to source inputs, negotiate contracts, and establish operational alignment before recruitment can begin - a process that can take several months.

Without the capacity to pre-finance these activities while awaiting PbR payments, **partners may struggle to sustain implementation**, ultimately undermining the effectiveness of the model.

Despite some its challenges, **the PbR approach has also proved effective as some intermediary partners have replicated the methodology**. An accelerator and incubator supported by CFYE in Sudan applied a similar PbR structure in its own portfolio, **linking disbursements to the achievement of defined business or employment outcomes**. These included milestones such as the development of a minimum viable product (MVP), revenue growth, and job creation/improvement. By requiring portfolio partners to also invest their own resources in delivering these outcomes, the model helps balance both risk and incentives.

## Technical Assistance Strengthens the PbR Model

When working with small and growing businesses (SGBs), **financial incentives alone are not sufficient to enable businesses to deliver and sustain employment outcomes**. These SGBs may still be strengthening their internal systems and operational capacity.



# KEY INSIGHTS

While results-based financing can incentivise performance, **many partners require additional support to address operational gaps**, improve workforce management practices, and scale their activities sustainably.

This is where CFYE **complements its financing model with demand-driven technical assistance (TA)**, allowing businesses to access targeted support in areas such as business strategy, workforce development, operational systems, and recruitment processes. This support **helps partners strengthen the foundations needed to deliver employment outcomes**, while positioning them for longer-term growth.

A key example of this is gender-focused technical assistance, which was widely provided across the portfolio. Given that gender targets were embedded within partner milestones, **many businesses required support to design inclusive recruitment practices, create safer and more supportive work environments, and improve retention of female employees.**

Beyond supporting compliance with programme requirements, **this assistance strengthened partners' internal capacity to sustain gender-inclusive practices over the longer term.**

In several cases, the targeted TA also yielded tangible operational changes, including the adaptation of training curricula to better appeal to women and the creation of new employment pathways specifically designed to increase women's participation.

In addition, **CFYE applies rigorous pre-contracting processes** including due diligence assessments and programme audits to ensure that businesses meet the required standards before receiving funding. While this received mixed responses by partners, **these controls safeguard programme resources**, they also help businesses strengthen governance and operational practices, making them more market-ready and attractive to future investors.



*The learning gained through the execution process has been invaluable, strengthening our business, sharpening our systems, and positioning us more confidently as a business.*



- Extract from CFYE IP survey

# ACTIONABLE GUIDANCE

- **Select Partners that have Sufficient Financial Capability to Manage PbR Structures:** Implementers should assess whether businesses can realistically manage the cash flow implications of PbR, including the ability to pre-finance activities and absorb delays in payments while verification activities are ongoing. As a rule of thumb, partners should have stable revenue streams and access to working capital. **Businesses that have not yet achieved product market fit or rely heavily on projected revenue are at a higher risk and may struggle to meet milestones.**
- **Develop Clear and Transparent Results Verification Frameworks from the Outset:** Programmes should clearly define eligible outcomes, verification processes, and timelines for payments. Aligning systems with existing partner processes where possible can reduce reporting burden. In the same vein, **prioritising a small number of high confidence indicators can work well to balance rigour with practicality and minimise disputes** whilst offering support to operationalise measurement of outcomes.
- **Test Alignment between Business Incentives and Programme Objectives Early:** Test whether delivering programme outcomes supports the partner's core business. Aim to answer the key question of **"If funding were removed, would the activity continue?"** Interventions outside core operations are less likely to be sustained. Consider balancing indicators and allowing flexibility where needed.
- **Pair Financing with Targeted Technical Assistance:** Financial incentives alone may not be sufficient to support businesses in delivering outcomes. **TA works best when partners can identify their own gaps**, but implementers may still need to guide this process, particularly for businesses with less developed internal systems. **Well-targeted TA can also strengthen long-term business capacity and investment readiness** beyond the programme and longer-term additionality.



# INNOVATION SPOTLIGHT

## Background

In Kenya's logistics and recycling sector, access to sustainable financing can be a major constraint for companies seeking to scale employment while addressing environmental challenges. **Bottle Logistics**, a circular economy company focused on glass bottle collection and reuse, **identified an opportunity to expand its operations while creating jobs for youth and waste collectors**. Scaling this model required additional capital beyond CFYE programme funding to expand collection networks, improve logistics systems, and support job creation within the recycling value chain.

## Intervention

In addition to investing its own resources, **Bottle Logistics strategically leveraged co-funding through accelerator financing as well as patient capital** to strengthen its interventions and scale its operations without excessive financial risk. This blended finance approach **enabled the company to expand bottle collection activities, strengthen its supply chain network, and increase the number of workers** involved in collection, sorting, and logistics operations while remaining accountable to CFYE's PbR milestones tied to employment outcomes.

## Results

The company **successfully mobilised complementary funding alongside the programme**, demonstrating **how private sector partners can leverage various types of investments** to meet employment milestones under the PbR model while also ensuring their own growth.

## Why it Matters

This example **highlights how co-financing and PbR can encourage businesses to take a proactive role in mobilising additional resources to scale their interventions**. Rather than relying solely on programme and grant funding, partners are incentivised to strengthen commercially viable models and leverage external capital to expand their impact, **reinforcing the principle that outcomes are most sustainable when embedded within a business' growth strategy**.



# LOOKING AHEAD

As development and impact programmes increasingly engage the private sector, **the focus of future programming will need to move beyond measuring inclusion outcomes alone towards reshaping the incentives that drive business behaviour.**

CFYE's experience suggests that co-investment and Payment-by-Results can help align commercial incentives with impact objectives, **encouraging businesses to embed job creation and workforce development within their core growth strategies.**

However, a key challenge for the sector remains understanding **whether these incentive-driven changes are sustained beyond the life of the programme.** In many cases, there is limited post programme measurements to evidence **whether the private sector continues to prioritise impact once subsidies are removed,** particularly when competing commercial priorities may offer quicker or lower risk returns.

Looking ahead, **development actors may need to place greater emphasis on tracking post-project outcomes and understanding the durability of behavioural change within private sector partners.** This includes designing models that not only incentivise results during implementation but also strengthen the business case for sustaining impact over time. Addressing this can **help shape more evidence-driven approach to private sector engagement for long-term impact.**

