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Sample Contract Provisions for Performance-Based Payment

The following provisions from a subcontract with a health services organization show how performance-based payment can be used as an incentive to achieve defined results. (The document is a subcontract because it implements provisions of an existing contract between MSH and the donor agency, the US Agency for International Development.)

THE CONTRACT

This subcontract is made and entered into by and between Management Sciences for Health (“MSH” or the “Contractor”), a nonprofit corporation organized and existing under the laws of Massachusetts with a principal place of business at 165 Allandale Road, Boston, Massachusetts, 02130, USA, and Organization X (the “Subcontractor”).

ARTICLE I: PURPOSE

The purpose of this subcontract is to introduce performance-based contracting through issuance of a fixed-price, award-fee type of contract. This pilot project is being implemented as a transition from the general, input-based, grant type of agreement to an output-based, fixed-price type of subcontract. After issuing an input-based grant in year one of Project Y, the project awarded two progressively results-oriented, cost-reimbursement types of subcontracts to the Subcontractor. The final phase of the output-based strategy is to arrive at a fixed-price, performance-based type of subcontract that motivates the Subcontractor to increase its impact in the communes of A, B, C, and D in the areas of reproductive health, nutrition, childhood immunization, and child health. The Contractor shall pay the Subcontractor an incentive (award fee) in accordance with the award-fee plan, the objective of which is to increase impact through the Subcontractor’s technical performance, increase its quality of services (user satisfaction), and improve capacity-building in an effort to increase sustainability.

ARTICLE II: PERIOD OF PERFORMANCE

The period of performance of this subcontract is June 1, 1999 through March 31, 2000.

ARTICLE III: SUBCONTRACT TYPE AND AMOUNT OF SUBCONTRACT

This is a fixed-price type of subcontract with award fees. The fixed price is XX US dollars and is payable for satisfactory contract performance, defined as providing the minimum package of services as further described in Article V: Deliverables. The award fee is YY US dollars and will be paid in addition to the fixed price, provided that the Subcontractor’s performance accords with the award-fee plan in Article VI.

ARTICLE IV: PAYMENT SCHEDULE

Each of the first three payments under this subcontract shall represent 20 percent of the fixed price. They are scheduled for June 1, August 1, and October 1, 1999. Each of the next two payments shall represent 15 percent of the fixed price. They are scheduled for December 1, 1999 and February 1, 2000. The final payment shall represent 10 percent of the fixed price and is scheduled for April 1, 2000. The payment schedule applies only to the fixed price of XX US dollars.
An award-fee board shall be established to determine the award amount that the Subcontractor may earn in whole or in part at the end of the period of performance. The award-fee board shall be composed of at least three members of the Contractor’s staff. The Contractor shall evaluate the Subcontractor’s technical performance against the performance indicators specified in the award-fee plan in Article VI. The amount of the award fee to be paid to the Subcontractor shall be a determination unilaterally made by the award-fee board and is not subject to the disputes clause. Payment of the award fee shall be made after the expiration date of this subcontract and as soon as results of local impact surveys are received.

**ARTICLE V: DELIVERABLES**

Under the project, the Subcontractor shall provide to a population of approximately 160,560 residents in the communes of A, B, C, and D the minimal package of services as described in the strategy document for 1998–2000. The Subcontractor agrees to provide the staff necessary to prepare and conduct biannual, joint assessments of service delivery with the Contractor. The Subcontractor’s staff shall participate in discussions with the Contractor regarding the results of the assessments, programmatic changes, plans for sustainability of revenue generation, and related management issues during the pilot phase of this performance-based contract.

During this pilot phase, the Subcontractor agrees to participate in the performance-based cluster group to review strategies and document the experience.

If the volume of services at any time during this period falls below 80 percent of the expected trend (based on historical data), the Subcontractor agrees to meet with the Contractor to discuss the situation and define corrective measures. If the downward trend continues, the Contractor reserves the right to reverse this subcontract to the previous cost-reimbursement type of contract. In any case, the total amount of this subcontract for the period February 1999–March 2000 will be no more than the total approved in January 1999.

The Subcontractor agrees to participate in the technical assistance activities organized under the project for this pilot phase.

**ARTICLE VI: AWARD-FEE PLAN**

At the end of the contract period (March 31, 2000), the achievement of indicators described in the following list will be assessed. A yes or no decision will be made for each indicator in the list. The total award fee will be calculated based on the relative weight of indicators for which the Subcontractor has met the agreed targets.

**SELECTED INDICATORS AND TARGETS FOR PERFORMANCE-BASED FINANCING**

The following list includes the selected indicators, expected results, and their relative weights that form the basis for assessing the performance of the Subcontractor under this subcontract. Although estimated levels of those indicators exist, it is considered convenient to validate the actual baseline measurement of each of the indicators during the first month of execution of this contract. The project is directly responsible for financing that validation activity.

1. **Percentage of women using oral rehydration solution (ORS) for children with diarrhea.**

   Expected result = 15% increase in use of ORS.

   Full achievement of the target will earn 10% of the total additional award in this contract.
Current baseline value for this indicator is estimated at 65% in the area being covered.

2. **Full vaccination coverage for children 12–23 months.**

   Expected result = 10% increase.
   Full achievement of the target will earn 20% of the total additional award in this contract.
   Current baseline value for this indicator is estimated at 63% in the area being covered.

3. **Coverage of pregnant women with 3 or more prenatal visits; includes home visits in cases of women missing visits (if indicated service is provided during visit).**

   Expected result = 20% increase.
   Full achievement of the target will earn 10% of the total additional award in this contract.
   Current baseline value for this indicator is estimated at 45% in the area being covered.

4. **Number of institutional service delivery points (ISDPs) that provide 4 or more modern methods of contraception, and number of outreach points that provide 3 or more modern methods, at a significant level (5% or more of method mix).**

   Expected result = all ISDPs providing 4 or more methods and 50% of outreach points with at least 3 modern methods.
   Full achievement of the target will earn 20% of the total additional award in this contract.
   Current baseline values for this indicator are estimated in two of five ISDPs that are already providing expected family planning services; 10 of 65 outreach points for delivering services are already providing the expected program performance in the area covered.

5. **Level of discontinuation rate for injectable and oral contraceptives.**

   Expected result = 25% reduction.
   Full achievement of the target will earn 20% of the total additional award in this contract.
   Current baseline value for this indicator is estimated at 35% in the area being covered.

6. **Average duration of waiting time before providing appropriate attention to a child (in hours and minutes from arrival to beginning of attention).**

   Expected result = 50% reduction.
   Full achievement of this target will represent 10% of the total additional award in this contract.
   Current baseline value for this indicator is estimated at 40 minutes (as an average) in the area covered.

7. **An effective system for supervision.**

   Expected results = (a) existence and use of a protocol for supervision; (b) development of a supervision calendar at the institutional and community levels, with the results reported quarterly; (c) records documenting supervision visits to 100% of staff.
   Full achievement of this target will earn 10% of the total additional award in this contract.
   Current baseline value for this indicator is a supervision system that is not clearly defined, consistently implemented, or used to manage or improve performance.

At the beginning of the pilot program, Agency Z will measure baseline values in collaboration with the Subcontractor to validate the baseline estimates. If the study indicates significant
differences between these measurements and the initial baseline estimate, the Contractor and the Subcontractor agree to immediately revise these targets. Once the Contractor and the Subcontractor agree on the actual baseline measurement, any change in those indicators must be made by issuance of an amendment under this subcontract.

ARTICLE VII: TECHNICAL DIRECTION

Performance of the work herein shall be subject to the technical directions of the Chief of Party or his delegate. As used herein, “Technical Directions” are directions to the Subcontractor that amplify project descriptions, inputs, activities, and objectives; suggest project directions; or otherwise inform and complete the general scope of work. “Technical Directions” must be within the terms if this subcontract and shall not change or modify them in any way.

ARTICLE VIII: TECHNICAL REPORTS

Monthly statistical reports are to be submitted to the project offices within 15 days after the end of the month and shall follow the standardized format set forth by the Contractor.

Three quarterly management reports and one final report shall be submitted within 15 days of the end of the quarter. The reports shall focus on management decisions made to address cost efficiency, strategies in program sustainability, and an indication of the amount of program income generated and the activities supported by the program income. The quarterly management reports should also illustrate how the overall project budget has been utilized by the Subcontractor to incorporate efficiency in management performance.