



# Global Health Security and Diplomacy

U.S. DEPARTMENT *of* STATE

## **PERFORMANCE-BASED APPROACHES: ACCELERATING IMPACT THROUGH AMERICA FIRST FINANCING MODELS**

May 2026

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## INTRODUCTION

U.S. Government agencies can dramatically accelerate program performance and maximize taxpayer value by shifting from traditional input-based awards to performance-based financing models. These financing models tie payments directly to achieving measurable, verified results rather than simply reimbursing expenses, addressing fundamental weaknesses in conventional award design by incentivizing innovation, efficiency, and faster progress.

Performance-based approaches represent a paradigm shift that can dramatically accelerate progress toward U.S. government objectives while reducing administrative burden and improving value for taxpayers. The approach is not without risks, but those risks can be managed through careful design. By designing strategically, investing in rigorous verification, and learning systematically from experience, U.S. government agencies can harness the power of incentives to achieve faster impact, greater efficiency, and better outcomes for the communities they serve.

### **The Challenge: Why Traditional Awards Fall Short**

Traditional award mechanisms suffer from three critical weaknesses:

- ***Low Incentives:*** When awards reimburse documented expenses regardless of results, recipients have little financial motivation to improve efficiency or accelerate progress.
- ***Weak Accountability:*** Conventional awards create muddled accountability relationships. Funders' extensive procurement rules and documentation requirements impose heavy administrative burdens while failing to ensure actual results.
- ***Information Asymmetry:*** Award implementers have more information than funders about local costs and challenges. Because payment models rely on limited information, recipients have little reason to cut costs, which can lead to overpayment and wasted resources.

## **The Solution: Performance-Based Award Design**

Performance-based financing models address these challenges by changing the basis of payment from inputs to results. This fundamental shift creates powerful incentives for implementers to innovate, improve efficiency, and accelerate progress.

### **TIER 1: PERFORMANCE-BASED PAYMENTS (REQUIRED STARTING POINT)**

Award design should begin with the assumption that payments will be based on performance metrics tied directly to verified improvements in outcome and process indicators to measure program success.

When to Use: Performance-based awards are appropriate when outcome or process metric indicators can be measured through independent verification and the timeframe allows for meaningful change.

Key Advantages: This approach creates the strongest incentives for implementers to achieve results while giving them maximum flexibility to do what they think is best and will impact outcomes the most. It aligns both parties around shared objectives, shifts primary risk away from funders, and reduces administrative burden (and costs) for both parties.

Payment Structure: Fixed amount payments for each unit of verified performance improvement should cover the full or substantial cost of achieving results. The design may consider an all-or-nothing approach in which payments are made only upon achievement of the full target or a sliding scale approach where payments are based on the proportional achievement of targets. Performance achievement blocks can also be broken into smaller timeframes to facilitate cash flow into the system (example: 10,000 patients with TB notified. Payments can be made when Country A reaches 2,500, 5,000, 7,500, 9,000, and 10,000). Advances with true-ups can also be considered on a case-by-case basis.

Selecting Contractible Performance Indicators: Performance indicators must be directly influenced by the implementer and achievable within the award timeframe, objectively measurable and independently verifiable, direct proxies for meaningful outcomes and difficult to manipulate without achieving intended outcomes. Examples include the number of people on ART in a country or the percentage of confirmed malaria cases that received first-line antimalarial treatment. Indicator selection should consider the feasibility of verification and the realistic and aspirational nature of targets to ensure proper incentivization.

Verification Requirements: Independent verification is required and will be conducted via the audits described in MOU implementation plans and multi-year plans (Section 4). Key considerations include statistically sound sampling approaches for site visits, clear consequences for detected misreporting, and credible commitment to apply agreed-upon penalties.

## **TIER 2: MILESTONE-BASED AWARDS (ACCEPTABLE ALTERNATIVE)**

When performance-based awards are not immediately feasible, milestone-based awards provide an opportunity to incentivize performance through payments tied to completion of specific activities and achievement of output targets.

When to Use: Milestone-based awards are appropriate when outcome/impact measurement is too costly, time-consuming, or not feasible within the award period.

Key Advantages Over Cost-Reimbursement: This approach provides strong incentives for faster implementation, efficiency and increased service delivery. It also encourages lower oversight costs, focusing on outputs rather than expense documentation.

Example Milestone Indicators: Completion of required policy change, infrastructure or system improvements with verified functionality, or completion of

required plans, tenders, hiring or reports. Examples are available in the [Milestone Library](#).

**Payment Structure:** Payments are made at a fixed amount per verified milestone or output unit to incentivize progress towards program goals. Cascade indicators capturing entire service cascades (e.g., completed supply plan AND order AND delivery) ensure quality throughout.

**Verification Requirements:** Many milestones will be verified through site visits, systems testing, and documentation review by U.S. government staff while some milestones may require rigorous but lower-cost verification through supply chain audits and co-investment audits.

### **TIER 3: COST-REIMBURSABLE AWARDS (LEAST PREFERRED - USE ONLY WHEN NECESSARY)**

**Why Cost-Reimbursement is Least Preferred:** In the case of government-to-government agreements (G2G), cost-reimbursable agreements cause implementation delays, as they require full financial review of the primary implementer, risk assessment of every entity through which resources flow, extensive review of financial management systems, and approval of detailed budgets and procurement plans. They divert resources to robust fiscal and compliance oversight contracts and auditing and generally require heavy administrative burden. Most critically, they provide minimal motivation for efficiency, innovation, or accelerated progress because recipients are simply reimbursed for documented expenses.

**When Cost-Reimbursement May Be Necessary:** Cost-reimbursable approaches should be used only when no contractible performance or milestone indicators can be identified, essential services cannot be interrupted under any circumstances, or verification systems are not sufficiently robust.

## **HYBRID APPROACHES**

In some cases, award design will require a hybrid approach of the three approaches described above. For example, when some cost-reimbursement is necessary, award design should consider a modular approach minimizing the cost-reimbursable portion to only critically essential commodities or services, maximizing performance-based payments for all other program elements, and adding milestone-based incentives on top of cost-reimbursable funding where feasible (example: 50% cost-reimbursable for essential commodities requiring continuous supply, 40% milestone-based for service delivery outputs, and 10% performance-based for ultimate outcome achievements). This hybrid approach protects essential services while creating strong incentives for improved performance.