

USAID/Kosovo Award Fee Procurement Case Study
Transparent, Effective and Accountable Municipalities (TEAM) Activity
Incentives for better activity outcomes

Background

- **Mission or Bureau:** Kosovo Mission
- **Approach:** Cost Plus Award Fee Contract
- **Key Partners:** Integrated Activity Team and Development Alternatives Incorporated
- **Procurement Timeline:** April 2016 - December 2016
- **Award Period of Performance:** January 2017 - January 2022
- **Results:** Award Fee Contract planning, procurement, and award successfully completed. Implementation benefits to be determined.
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Summary

USAID/Kosovo is using a Cost Plus Award Fee (CPAF) type contract for the Office of Democracy and Governance's (ODG) Transparent, Effective and Accountable Municipalities Activity (Activity). The Activity focuses on reducing municipal level corruption by increasing transparency and effectiveness of municipal procurement systems in Kosovo's 38 municipalities.

Given that the Activity confronts municipal corruption and it is uncertain how municipal governments, municipal procurement staff, and the central government will respond to the contractor's approach and interventions, USAID/Kosovo theorizes that a CPAF will improve the Activity's development outcomes by leveraging the award fee to spur better contractor performance and foster stronger communication between USAID, the contractor, and Kosovo government stakeholders.

A risk with a CPAF is that since it requires additional administrative action after award, it can become burdensome on USAID staff and not serve the intended purpose of stimulating better outcomes. In planning for the Activity, the Integrated Activity Team attempted to mitigate this risk by streamlining the evaluation process and selecting tailored award fee evaluation factors. The Integrated Activity Team also encountered challenges in coming to an agreement that the CPAF process was worth the extra administrative effort or could in fact lead to better outcomes. USAID/Kosovo acknowledges that these challenges are valid concerns and plans to periodically include addenda to this document to report on award implementation and the award fee determinations.

Important considerations for Integrated Activity Teams that want to experiment with CPAF in the future include: 1. Shared decision making among team members, 2. Clear award fee evaluation expectations in Section L of the RFP, and 3. Robust communication throughout the process with the team and industry. Thoughtful planning will facilitate smooth procurement and implementation.

Context

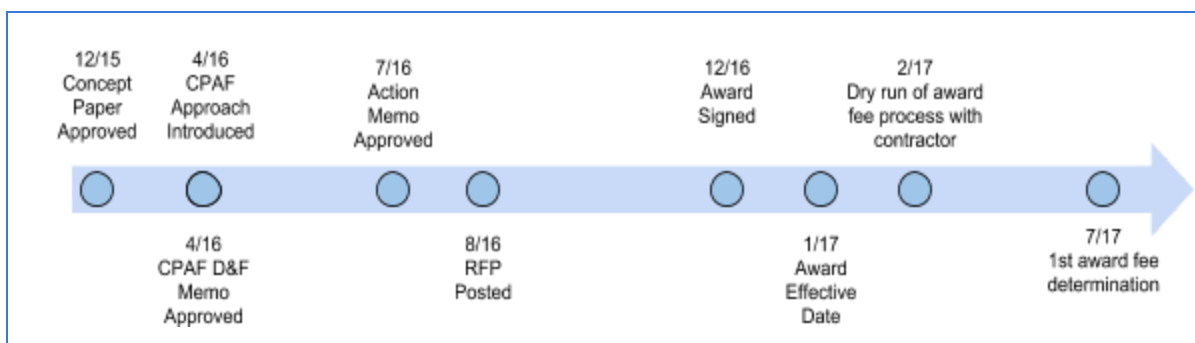
USAID/Kosovo did not have experience with a CPAF at the Mission. Given the objectives of this Activity, the Office of Acquisition and Assistance (OAA) pushed for using a CPAF. OAA's rationale was

that USAID often defaults to Cost-Plus-Fixed-Fee (CPFF) type contracts when confronted with this type of complex development activity because performance uncertainties make it difficult to accurately estimate costs in advance. The CPAF contract-type, however, provides additional incentive to the contractor to achieve better outcomes because the award fee provides the contractor the opportunity to earn additional money based on USAID's judgement of their performance.

The award fee is a pool of money the contractor may earn in whole or in part by meeting or exceeding performance criteria. The Integrated Activity Team must work together to tailor performance criteria. The team has broad discretion in deciding on criteria. USAID also has a unilateral right to change the evaluation criteria during performance. Instead of a CPFF's guaranteed fee based on contractor best efforts, the CPAF's award pool incentivizes the contractor to strive for maximum impact.

Process

Timeline of major milestones



The procurement process from approved concept paper to award took 12 months. It began with an approved concept note explaining the Activity's anti-corruption components which were a new space in which the Mission would invest. Upon reviewing the Statement of Work, OAA decided that a CPAF was the appropriate contract-type because the activity tackled complicated anti-corruption objectives and it was not possible to identify what "measurable success" looked like. OAA saw the potential benefits of a CPAF quickly and made a unilateral decision that CPAF would be the contract-type for the Activity.

As CPAF was a new contract-type for USAID/Kosovo, others at the Mission, including the technical team, had reservations about it. Some of the reservations included:

- Uncertainty why CPAF was selected instead of the more familiar CPFF.
- Concerns that the award fee process would add administrative work without much benefit.
- Concerns that the award fee process could negatively affect the relationship between the Contracting Officer's Representative (COR) and contractor, possibly making the COR only a monitor and reporter.
- Concerns that the award fee process would distract the contractor and Mission staff from focusing on outcomes for this already complicated Activity.
- Concerns that the technical nature of the activity minimized the possibility for identifying clear and measurable evaluation criteria that differentiate ratings.

It took USAID/Kosovo about 5 months to work through these reservations and to agree on proceeding with CPAF. Important factors which contributed to this extended dialog about contract-type included:

- OAA's unilateral decision to use a CPAF without taking the step of acclimating the Integrated Activity Team to the approach.
- The tension between detailed expert Activity planning vs. authorizing acceptance of Activity uncertainty (essentially telling the contractor what to do vs. acknowledging that learning during implementation will determine what to do).
- Lack of trust and transparency in arguing pros/cons and deciding the way forward.

During this extended debate, USAID/Kosovo drafted documents to work through these issues. The documents include a Determination and Findings Memo For Use of a CPAF; Draft Award Fee Plan; and Possible Award Fee Evaluation Factors. To a certain extent, these documents helped increase comfort with the CPAF approach. In retrospect, OAA should have been more inclusive in making the contract-type decision by presenting the CPAF as a possible tool to the technical team and then working together towards a final decision on contract-type before beginning to prepare approval and solicitation documents.

Key Benefits and Costs

Benefits

- **Leverage:** Use of potential profit as leverage for performance, while the government still assumes most of the cost risk.
- **Focus more on outcomes:** Through award fee evaluation assess results of activity compared to its intended purpose more than outputs (tabulation of efforts) or inputs (use of resources).
- **Structured Feedback:** Disciplined feedback loops for reflection on contractor performance.

Costs and Risks

- **Cost of Staff Time:** Increased COR level-of-effort compared to common Mission practice. At least 5 Mission Staff will be required to participate in the award fee process twice a year. Logistical challenge with competing priorities and staff turnover.
- **Relationship Risk:** Award fee evaluation could affect COR/Contractor relationship. Overzealous focus on award fee.
- **Evaluation Slippage:** Over the 5 year period of performance risk that award fee evaluation will lose rigor and effectiveness.

As the Activity moved through approvals, and in line with the new Automated Directives System 200, USAID/Kosovo also decided that soliciting for a contractor with a robust adaptive management approach could help reduce uncertainty about effective and efficient interventions and lead to better outcomes. The Integrated Activity Team did this by: 1. amplifying adaptation language in the Statement of Work, 2. Including a proposal evaluation factor on adaptive management in the solicitation, and 3. Including adaptation as an award fee evaluation factor.

Once USAID/Kosovo agreed to move forward with the CPAF, the Mission finalized and posted the Request for Proposal. The proposal evaluation proceeded normally in accordance with USAID policy. Evaluating proposed award fee pools and distribution were somewhat new. Offerors proposed the award fee pool amount and how to distribute the pool among the 10 6-month award fee periods which were analyzed for realism and reasonableness. USAID/Kosovo did not enter into discussions for this procurement, so it did not take the opportunity to negotiate award fee pools or distribution

with offerors. There were a range of award fee proposals with different sized pools and distribution. Federal guidance advises against base fee for professional service CPAFs. It is an open question for future CPAF procurements to provide lessons on negotiating award fee structures.

During the debriefings of unsuccessful offerors, OAA also asked questions about using the CPAF and the general process to gauge offerors' understanding. OAA found that, in general, offerors were not familiar with the award type and did not necessarily understand how it would be administered. Better explanation in the solicitation and pre-proposal conferences could mitigate this in the future.

After award, USAID/Kosovo scheduled a dry-run of the award fee determination with the contractor within a month of the award's effective date. Performing the dry-run early in the first award fee evaluation period was important because it clarified roles and responsibilities and also gave USAID/Kosovo and the contractor an opportunity to discuss expectations and scenarios that would affect the award fee determination. The 2-hour meeting focused on expectations and logistics for the award fee evaluation. The participants felt that the dry-run meeting was useful in setting the stage for implementation. They also saw a contrast to usual CPFF mobilization meetings in that the CO, COR, Award Fee Board, and contractor were all involved in discussing performance expectations and goals for implementation in a detailed and concrete manner. A message that resonated throughout the meeting was that performance similar to performance in a CPFF would be rated "Satisfactory" in the Award Fee Rating Matrix and the Mission is looking for better performance than our usual CPFF performance to justify a higher performance rating. Another evaluation standard discussed came from [NASA's FAR Supplement](#) which is: "As a benchmark for evaluation, in order to be rated 'Excellent' overall, the contractor would typically be under cost, on or ahead of schedule, and providing outstanding technical performance."

A useful scenario to illustrate these rating expectations was "quality of 5 focus municipalities selection". The team discussed important elements involved in selection such as transparent selection process, potential of municipalities selected for relationship building, and view of the process by unselected municipalities. Through these types of qualitative factors, the Award Fee Board would judge the contractor's performance. In a broader sense, the effectiveness and impact of contractor interventions will hinge on stakeholder buy-in and adaptive tailoring of interventions, therefore USAID/Kosovo and municipal perceptions will be considered in the award fee determination.

From the dry-run meeting, USAID/Kosovo and the contractor agreed on the following next steps:

- Develop logistics for evaluation, such as put calendar reminders on all participants calendars so that they know when they have award fee evaluation responsibilities.
- Decide on award fee evaluation documentation and timing, such as Performance Monitoring Report and Contractor Self-Assessment.
- Review and raise any changes to the Award Fee Plan and discuss.

Without the dry-run meeting, it would not have been clear that these issues needed to be addressed and it might have led to misunderstanding between USAID/Kosovo and the contractor.

The first award fee evaluation will be 6 months after contract effective date. USAID/Kosovo and the contractor seem well positioned to proceed with the process with a common understanding. On the other hand, the risk still remains that the process will have hiccups or the additional administrative effort will not necessarily result in better outcomes than would have been perceived from a CPFF contract.

Contractor Feedback on CPAF and Adaptive Management

USAID/Kosovo solicited and received the following feedback from the successful and unsuccessful offerors about the RFP.

CPAF:

- It caused some debate within a contractor's office if they would submit a proposal or not.
- Another contractor thought it was a good opportunity to phase and time fee to risk.
- Offerors, in general, did not understand the mechanism, e.g. they did not know the statutory fee limitations do not apply.

Adaptive Management:

- Adaptive Management can be hard to put on paper - it seems to be an implementation culture approach. (The technical evaluation committee similarly found evaluating Adaptive Management challenging)
- Pool of talent with specific adaptive management skills is not that great so could be a situation where many people are just dressing up their CVs. Interviews by the contractor, as well as possibly oral presentations to USAID, are important.
- Better explanation in Section L of USAID's interpretation of the term "adaptive management" for a specific activity could be useful since there seems to be multiple views on the term's meaning.

Future considerations

USAID/Kosovo successfully worked through concerns and finally awarded a CPAF contract. Clear and transparent internal discussions contributed to this success. Possible actions that may be used by Integrated Activity Teams that want to experiment with a CPAF include:

- 1) Shared Decision Making: OAA made a decision and told the Mission the approach in this example. A better approach, which the CO has already used for a subsequent procurement, is to present CPAF as an option for the Integrated Activity Team at the Concept Paper stage and present the pros/cons/risks to be discussed and considered before making a decision on the approach.
- 2) Clear Award Fee Evaluation Expectations in Section L of the RFP: During the initial contract kickoff meeting and the dry-run meeting, it was not clear that USAID/Kosovo or contractor staff fully understood award fee evaluation expectations. Section L instructions that the award fee rating of "Satisfactory" corresponds with usual CPFF performance could be helpful. A pre-solicitation/pre-award conference to explain and answer questions about the process could also be useful.
- 3) Robust Communication: Throughout the procurement process the team found that clear communication improved buy-in and employee performance. Greater initial communication with the implementing contractor appears to be increasing understanding of expectations and CPAF incentives. It is reasonable to believe that this communication will contribute to better contractor performance and Activity outcomes. Robust communication during the solicitation and contract kickoff phase should improve the process and decrease administrative uncertainty.

USAID/Kosovo's theory is that the CPAF will result in better outcomes than a CPFF because the award fee process will incentivize the contractor to be more responsive and facilitate better

communication about contractor performance. Embracing uncertainty, incorporating adaptation, and streamlining award fee evaluation process are expected to also contribute to better outcomes during implementation. The risk over the 5-year contract, with changes in personnel and the operating environment, are that the award fee process is a burden on staff and does not actually affect contractor performance or outcomes. Monitoring this contract over time will help determine if CPAF contributes to USAID/Kosovo's development objectives and should be put back into the greater A&A toolbox.

A&A Staff as Business Advisors

The Office of Federal Procurement Policy and the A&A Lab encourage A&A Staff to embrace the role of Business Advisor. With respect to this CPAF Procurement, the Integrated Activity Team found that A&A Staff contracting knowledge of CPAF contracting alone was not effective in actualizing this procurement. Instead, "soft skills" such as communicating to frame the approach, conflict resolution, and shared decision making were more important to facilitate buy-in and confidence in trying a new approach at the Mission.

In subsequent procurements, the OAA team took a more collaborative approach in discussing, presenting, and deciding on use of CPAF which has already led to a better experience for the Integrated Activity Teams and Missions in general.

Sources

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- Performance Evaluation and Measurement Plans for Cost-Reimbursement, Non-Management and Operating Contracts, [DOE Acquisition Guide Chapter 16.2](#), July 2012.
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- [NASA FAR Supplement 1816.405-275, Award fee evaluation rating](#)
- Interviews with Kosovo and Serbia Mission Staff.