Performance Based Contracts

Performance based contracting is a type of contract in which payments for the management and maintenance of road assets are explicitly linked to the contractor successfully meeting or exceeding certain clearly defined minimum performance indicators. It is very different from traditional contracting, as only performance indicators are specified, not materials and method for delivery. The government agency must fully define the project objectives, rather than the methods by which they are achieved. Based on the objective, the contractor is asked to determine his delivery methods, equipment, materials, staffing and cost.

Performance-based contracts (1) describe the work in terms of what is to be the required output rather than how the work is to be accomplished; (2) place the responsibility for quality performance on the contractor; and (3) stipulate formal and measurable performance standards, including surveillance plans. Incentives should be included for cost-savings, improved financial accountability, and effective use of sub-contractors where quality and cost-savings can be enhanced.

Performance based contracts (PBCs) have been used on roads in Canada, the USA, New Zealand, and Australia since the mid-1990s. In the developing world, Latin America was the pioneer in developing and adopting its own performance-based contracting model. In 1995, Argentina introduced performance-based/output-based contracts, which at present cover 44% of its national network (see output based aid/contracts for a description of the Argentine experience). In the mid nineties Uruguay also piloted PBC, first on a small portion of its national network and then on the main urban roads of Montevideo. Shortly after this, other Latin American countries, such as Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico and Peru, also started adopting a performance-based approach. Gradually, this trend has spread to other developed and developing countries in Europe, Africa and Asia, e.g., UK, Sweden, Finland, Netherlands, Norway, France, Estonia (63% of national roads), South Africa (100% of national roads), Zambia, Chad (17% of all season roads), the Philippines (231 km of national roads).

This approach can be more efficient, as it is 'lighter touch' for the managing authority and it also allows contractors to innovate and make cost savings in delivery. Nevertheless, it requires a considerable culture change for both the highway authorities and contractors: risks and responsibilities must be appropriately apportioned; the right indicators must be specified; and the two organisations need to work together in partnership. It also has the benefit of requiring governments to commit funds on a multi-year contract basis, so that highway maintenance funds cannot be diverted to other priorities.

Key Documents:

- World Bank, Performance Based Contracting for Preservation and Improvement of Road Assets, April 2006. This report reviews where the performance-based contracting approach has been used, and gives advice for developing countries in adopting this approach.

For further information
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