Effective Contracting Out

A Road Agency has a choice of several **forms of contract**:

- Lump sum contracts, with payment based on a single price for the total work
- Admeasure contracts, where payment is based on the quantity of work completed, valued at tender rates in a Bill of Quantities;
- Cost-reimbursable contracts, with payment based on actual costs(requiring "open book" accounting plus an agreed fee to cover overheads and profits; and
- Target-cost contracts, where payment is based on actual costs, plus a fee, together with an incentive payment related to any savings beyond the initial target costs

The main difference among these forms relates to the way risk is allocated between the contractor and the client. In lump sum and admeasure, essentially price based, the contractor bears much of the risk and prices the tender accordingly. The higher is the risk, the higher the price. Cost reimbursement and target-cost contracts are cost based for which the client bears the main risk. These contracts are staff intensive, require good cost accounts, and work only where there is good governance. Most road agencies in developing and transitional countries thus favor price based contracts, particularly admeasure contracts.

The second choice is the **type of specifications** to be used.

1. Procedural or method specification:

- The client defines the work to be carried out
- The contractor is encouraged to find the best way of meeting the performance requirement by maximizing their own particular skills, equipment and materials

2. Functional or end product specifications:

- Such as specifying pavement performance in terms of roughness, rutting, surface friction, pot holing, etc.
- Testing facility performance

Type 2 requires much less supervision and encourages contractor innovation. In recent years there has been a trend towards greater use of the latter and experience has been encouraging.

Periodic and routine maintenance are usually contracted separately, often using different standard contract documents. But some countries, including Algeria and Brazil, are now letting combined contracts for specific road sections. Other countries including Chile, Columbia, Malaysia, and the U.K. are combining all maintenance

works on specific routes or geographical areas for several years.

Major constraints in contracting out include:

1. the lack of capabilities in management, work skills, and finance of local contractors,
2. lack of staff in the road agency trained to bid and award contracts and supervise implantation of works, when accustomed largely to doing work in-house and
3. the need to up-grade agency management information systems.

Moreover, the needed civil service restructuring and down-sizing will likely create redundancies.

Key Documents:

- Andreski, Adam, Subhash, Seth, Walker, Wendy, "How a Road Agency can Transform Force Account Road Maintenance to Contracting", World Bank, June 01, 2006.
- Malmberg Calvo, Christina. "Options for Managing and Financing Rural Transport Infrastructure", Technical Paper 411, World Bank, Washington, DC, 1998.
- Stankevich, Natalya, Navaid Qureshi, Cesar Queiroz, "Performance-based Contracting for Preservation and Improvement of Road Assets", World Bank, September 01, 2005.

Recommended Links:

- SSATP
- The World Bank

For further information
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