



15th Meeting of the CAREC Transport Sector Coordinating Committee

20-22 April 2016 • Bangkok, Thailand

15-е заседание Координационного комитета по транспортному сектору

20-22 апреля 2016 г. • Бангкок, Таиланд

Performance Based Contracts (PBC): Enabling better RAM

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- 7. PBC in CAREC Member Countries**



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1. Introduction



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Roads in many CAREC member countries are under-financed and are poorly maintained.

- On average, only 20 - 50% of the budget required is actually spent on routine and periodic maintenance.
- 1/3 of the main road networks are in good condition ($IRI < 3.0$)
- 1/3 in regular condition ($3.0 > IRI < 5.5$)
- 1/3 in poor condition ($IRI > 5.5$)



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Letting roads deteriorate to the point where rehabilitation is required is a waste of valuable budget resources.

Every \$1 spent on timely maintenance can save \$4 to \$5 on rehabilitation.



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2. Delivery of Road Maintenance



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- **In-house with own staff (force account)**
- **Contracts with private sector**
 - *Traditional contracts*
 - Unit rates for work items
 - Payments are based on quantity of completed and measured work
 - *Pure performance contract (PBC)*
 - Performance Standards or Service Quality Levels
 - Fixed monthly payments if service quality levels are complied with
 - *Hybrid contract (PBC)*
 - Mixture of method based contract and performance contract



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3. Characteristics of PBC



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- Performance or Service Levels define the minimum conditions related to road assets, and management and operation of the assets, during the entire contract period
- The contractor is free to decide on how to satisfy the minimum conditions.



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- **Lump sum payments are made periodically (usually monthly) and might be adjusted in accordance with agreed factors, for example inflation or increased traffic volumes.**



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- **Deductions are made for non-compliance with terms and conditions of contract, particularly the service levels.**



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- **Duration of contracts should include one periodic maintenance cycle (4-5 years for gravel and 8-12 years for bituminous roads).**
- **Pure routine maintenance contracts are normally between 1-3 years.**
- ***Pilot contracts* may be of shorter duration.**



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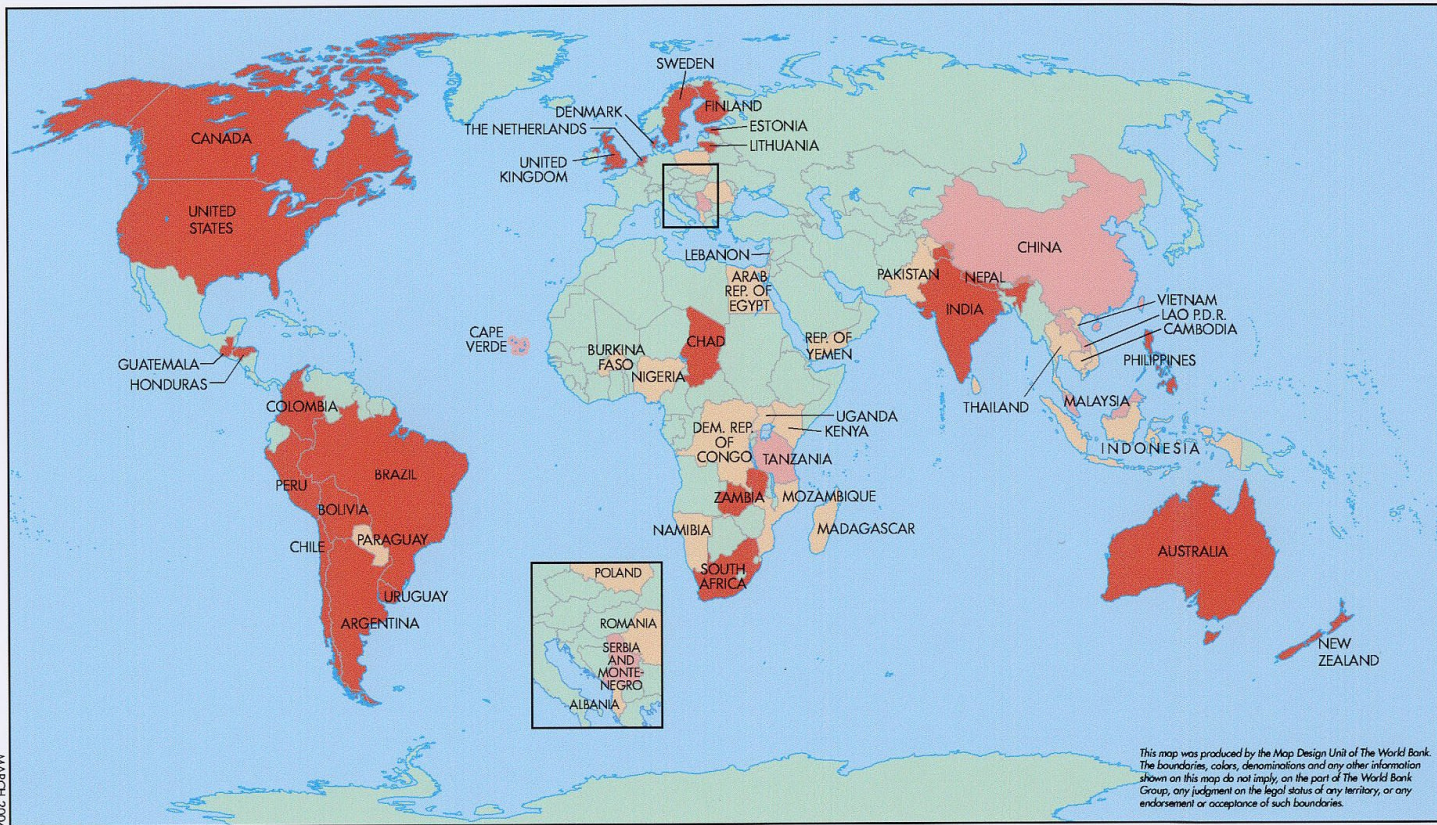
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APPLICATION OF PERFORMANCE-BASED CONTRACTING TO MANAGE AND MAINTAIN ROADS ACROSS THE WORLD

- COUNTRIES THAT HAVE ESTABLISHED PBC PROGRAMS
- COUNTRIES THAT ARE AT EARLY STAGES OF PBC PROGRAM IMPLEMENTATION
- COUNTRIES THAT ARE PREPARING TO LAUNCH PBC'S
- COUNTRIES THAT DO NOT USE PBC'S OR COUNTRIES FOR WHICH NOT RELATED DATA WAS LOCATED

NOTE: This does not imply that every province/region/state has PBC's: the data pertains to the national level only, not sub-national ones.



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4. Advantages of PBC



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Improved efficiency and effectiveness

Switching from in-house maintenance or force account to external private maintenance contracts can save between 20% and 50%

Introducing PBC can *save an additional 15% to 35%*



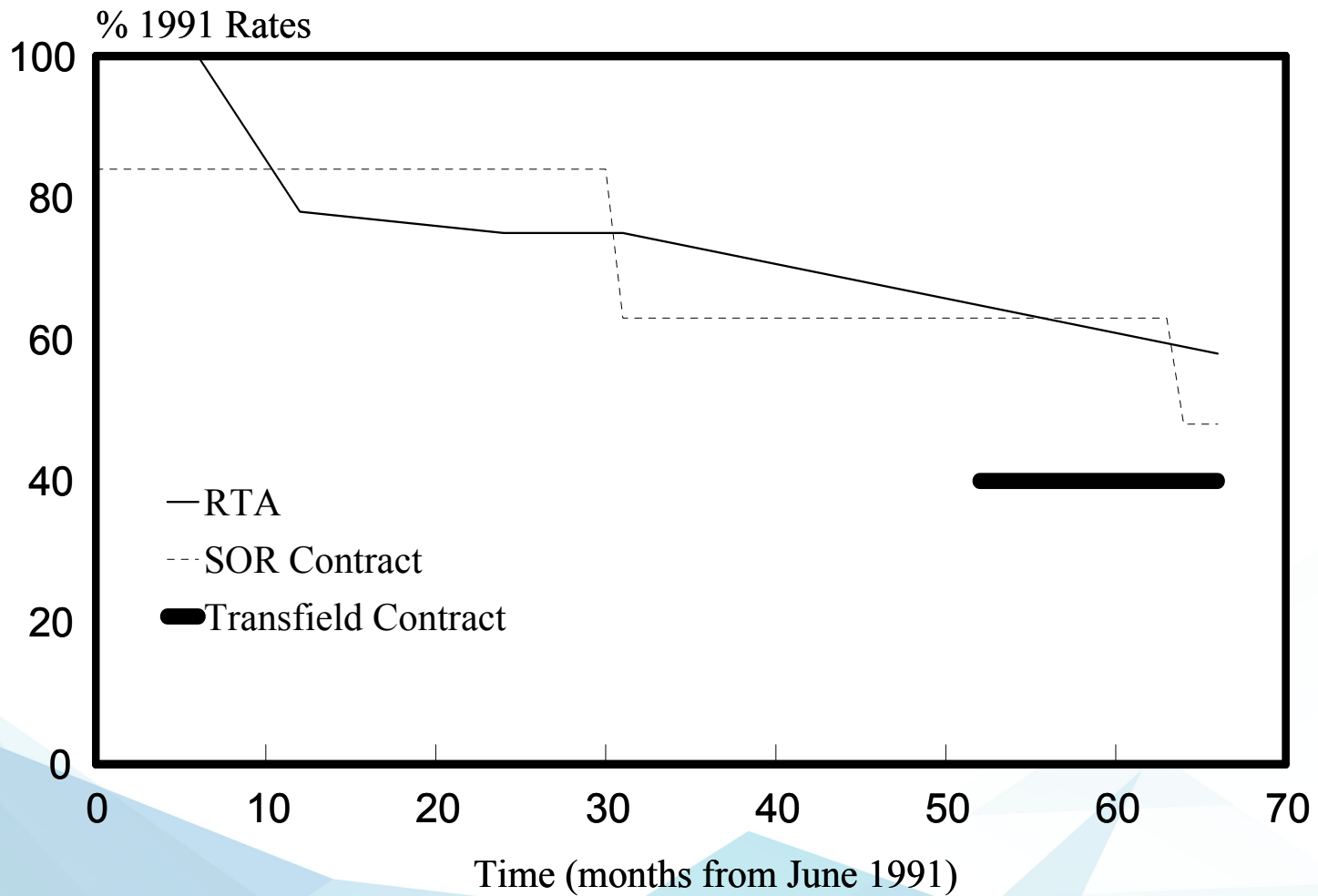
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Development of Road Maintenance Cost in Sydney, Australia



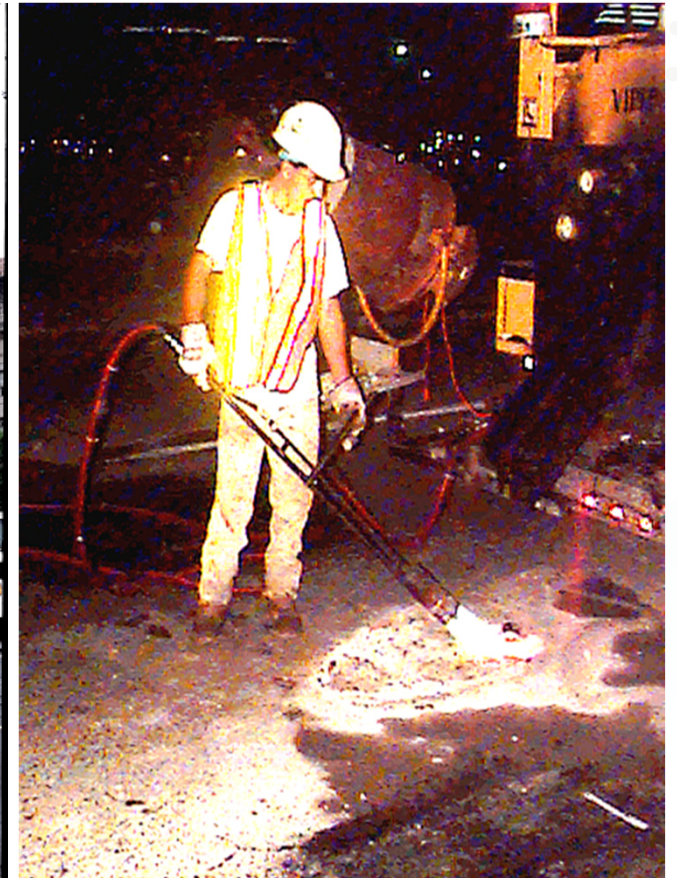


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5. Required Framework



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- **Legal**
 - **Multi-year contracting**
- **Financial**
 - **Sufficient and multi-year funding**
- **Institutional**
 - **Separation of client and contractor**
 - **Privatization of road maintenance**
 - **Competition between qualified contractors**



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6. Lessons Learned



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PBC:

- **Deliver good value for money**
- **Provide better guarantee of sufficient funding for road maintenance**
- **Improve road conditions, help to reduce road user cost and improve road safety**
- **Help to save substantial amounts of road rehabilitation and reconstruction works**



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• Successful implementation needs a conducive environment

- *Strong commitment and support by key decision makers, especially from the Ministry of Finance, the ministry in charge of roads and the road organization;*
- *Positive attitude of road organization's staff;*
- *Well qualified staff of the client, contractors and consultants to plan and manage this new kind of contract;*
- *Adequate road asset management system to support the requirements of PBC.*
- *Long-term funding, and*
- *A competitive market.*



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7. PBCs in CAREC Member Countries



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- **Afghanistan**

- 2006, EC, one 3-year PBC 140 km, routine + winter maintenance paid on lump sum
- 2008, 5 PBCs on 1523 km of national and regional roads; 2011 two more PBCs on 250 km



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- **Peoples Republic of China**

- 2004, Hong Kong first Road Maintenance Term Contracts which contain some elements of PBCs with duration of 4 years. Gradually the number of contracts increased with duration of up to 8 years.
- 2010, ADB, 21 simple PBCs on a total of 165 km of rural roads with local community groups (Yunnan Province)
- 2015, ADB, one PBC with a road contractor (57km over 5 years) , and one with Yunnan Province Highway Bureau (SOE) Maintenance Centre (107km over 3 years)



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• Tajikistan

- Two 3-year PBCs with initial repairs (10km) each 75 km long, lump sum for routine and winter maintenance
- There are several initiatives in other CAREC member countries to implement PBC
- ADB is developing a Reference Note on PBC
- ADB and other IFIs will continue to support such initiatives



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