Performance Based Contracts for Procurement of Energy Efficiency Services

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18th Nov 2010

Differences from conventional procurement

- Output based (rather than inputs)
  - Technical specifications define desired results
  - Which outputs will be measured and how
  - Aimed at satisfying the functional need in terms of quality, quantity and reliability
- Bids may be dissimilar
  - Allow for bidder innovation (most appropriate solution)
  - Blend of goods (equipment), works (construction, installation) and services (design, energy audits)
- Risk allocation
  - Contractor bears commercial and performance risk
  - Payment milestones subject to level of quality (performance)

Examples of areas where Performance based contracting has been used

- Management contracts
- Roads rehabilitation, maintenance & management contracts (OPRC)
- Design-Build-Operate (DBO) contracts
- Concessions with Output-Based Aid (OBA) schemes
- Investment lending projects with Output-Based Disbursement (OBD) mechanisms

Bank experience with use of Management Contracts

- Contracts awarded under process combining elements from procurement & consultant guidelines
- Bank-financed fixed base fee and/or performance based incentive payments
- Results
  - Improvement in service quantity, quality and/or coverage
  - Commercial & physical losses reduced and revenue increased
  - Most contractors received incentive payments but payments retained for non- or sub-standard performance

Learnings

- Contractual arrangements to be suited to each case
- Critical: selection of appropriate number and type of indicators
- Indicators measurement methods should be non-contestable
- Payments to include fixed payments (advance and/or monthly) & variable payments for outputs meeting standards
- Task teams may need further guidance on provisions to strengthen contractual provisions (management services contracts, output based contracts, cost plus contracts, prequalification and two stage bidding)