



# Strengthening Private Sector Involvement for Infrastructure in the Pacific Region

Performance Benchmarking & Project Management  
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# Agenda

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- ▶ Contract Management Overview
- ▶ Managing Risk Allocation
- ▶ Ensuring Performance and Value
  - ▶ Contract Management
  - ▶ Payment Mechanism
  - ▶ Implementation

# Performance Benchmarking and Project Management

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- ▶ New contractual agreements and mechanisms for agencies
- ▶ An understanding of the risk allocation, mitigation and management are important
- ▶ Contract Management commences at Financial Close
- ▶ Given the long term nature of the contracts, effective contract management is required to ensure ongoing success of the project.
- ▶ Proactive management of the Project Agreements, including monitoring service delivery, managing variations and maintaining the integrity of the contract

# Managing the Risk Allocation

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- ▶ All risks borne or shared by the government identified in the Project Contract
- ▶ Services, expressed as outputs, are measurable against Key Performance Indicators (KPIs)
- ▶ The payment mechanism supports the risk allocation strategy by rewarding good performance and abating the payment stream if performance is poor.

# Ensuring Value and Performance

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- ▶ Effective Contract Management essential to ensure obtain VfM and Risk Allocation that has been negotiated
- ▶ PPP projects are typically complex and require effort to manage:
  - ▶ Payment mechanisms
  - ▶ Variations and change inevitable over the long term
  - ▶ Government can be a partner as sole or co-service provider
- ▶ Objectives of contract management are to:
  - ▶ Effectively manage Government's risks
  - ▶ Ensure outcomes bid are delivered

# Ensuring Performance - Contract Management

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- ▶ Contract management framework to have 3 pillars:
  - ▶ Quality of Government's counterparty - key issue is ongoing credit worthiness of private sector entity
  - ▶ Quality of management of contract by public sector - key issue is building and maintaining a relationship
  - ▶ Quality of the underlying contract - key issue is clarity of performance requirements and reporting obligations
- ▶ Public sector needs to understand the business of the provider
- ▶ Early warnings on health of counterparty

# Government's Role in Effective Contract Management

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## Contract Performance

- ▶ Work on the continual improvement of general staff skills in delivering value for money for the government
- ▶ Maintain a consistent approach to risk sharing where appropriate across all PPP projects
- ▶ Develop a coordinated approach to achieve benefits of standardisation and enhance procurement skills
- ▶ Promote the development and sharing of PPP best practice

# Ensuring Performance – Payment Mechanism

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- ▶ Payment Mechanism should provide realistic, challenging but achievable availability and performance standards for private sector
- ▶ Must be capable of objective measurement
- ▶ Must be recordable and reflect commercial reality
- ▶ Provides private sector with incentive to meet the required standards and to rectify problems
- ▶ Allows payments to match standards of service
- ▶ Encourages private sector to innovate and secure efficiency gains
- ▶ Essential that it is objective, transparent and easy to operate

# Ensuring Performance - Implementation

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## Role of contract administration manual

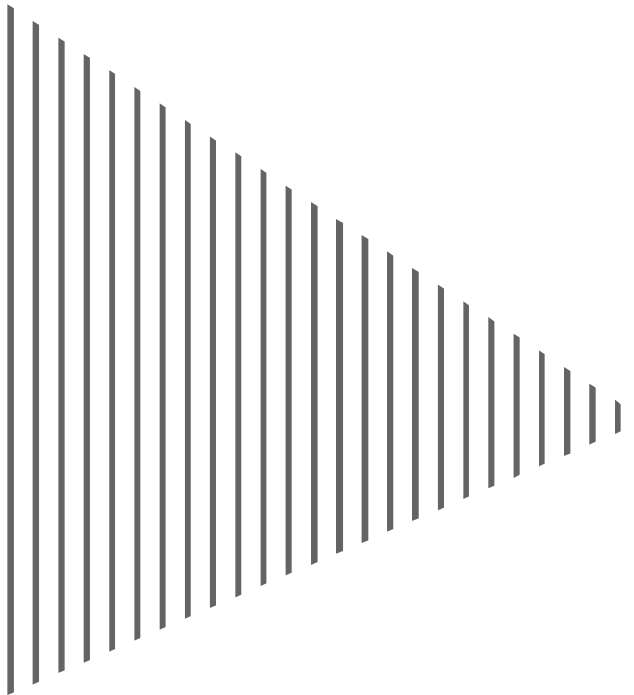
- ▶ Understand provisions of contract including dispute resolution
- ▶ Allocate responsibilities and resources
- ▶ Describe reporting and monitoring requirements (templates for payment and KPI monitoring)
- ▶ Contingency planning where service interruption

# Ensuring Performance - Implementation

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Continuity and retention of corporate knowledge in public sector is crucial

- ▶ Continuity of personnel from procurement process to operating phase
- ▶ Commitment of senior staff to manage contract and build relationship



# Thank you

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