

Output Based Aid/Contracts

This financing model is based on payment for project outputs rather than the inputs required for the project. It has been used most widely for water, sanitation, electricity supply and medical services. It is particularly well adapted to services that are metered and/or have a user pay system. It has, however, been applied to roads with some success.

In **Argentina**, it has been applied to rural road maintenance. It has been so successful that they are now applying OBA to road rehabilitation projects as well. The application to rehabilitation has many of the same benefits of contracting a period of maintenance with a road construction project. It encourages good planning, good materials and quality control on the initial work to avoid high post-construction maintenance costs.

Introduction of OBA began with a nationwide survey of roads, identification of subsections to contract, definition of minimum standards, and determination of the rehabilitation and maintenance required to achieve uniform national standards. Contracts were awarded to the lowest lump sum bidders with a portion of the payment reserved for output quality. A World Bank loan supported 75% for the first stage and 50% for the second stage with the balance being covered by the Argentine government budget.

The first stage covered maintenance of paved roads in fair to good condition with monthly per kilometer installments conditional on work complying with technical standards. This stage worked well and contracts were renewed with the same contractors. Routine maintenance is



Source: The International Fund for Agricultural Development (IFAD)

costing about US\$175 per km per month with penalties for poor performance averaging only 1% of contract value.

The second stage issued a series of contracts to rehabilitate and then maintain a network of roads for a lump sum. Several timeframes were tested and the decision was made to require all rehabilitation in the first year followed by routine maintenance for the remainder of the five year contracts. 60% of the contract was paid in the first year to cover the higher costs of rehabilitation. The remaining 40% was paid in 48 equal monthly instalments. The contractor can recommend the amount and type of rehabilitation works required to get each section to a level that can be kept at required technical standards through routine maintenance for the remaining four years. Sections are inspected monthly and user input is encouraged. For the first set of contracts, about 74% of the total contract cost was for rehabilitation and the total contract costs are within the average for the Latin American region.

Private sector interest in bidding has remained high suggesting that the system was also attractive for the private sector.



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Requiring contractors to develop their own programme design and quality control has reduced government costs. Fixed price contracts also reduced cost overruns. The long-term payment commitments in the contracts required the government to commit and disburse funds for 5 year periods. Therefore, budget shortfalls did not affect maintenance delivery. Regular maintenance is reducing the need for capital improvements by about 30%. The share of roads in poor condition was reduced from 25% to 5% between 1995 and 1999 and the resulting reduction in road user costs is estimated at 10%.

Key Documents:

- [Output-based Aid: Supporting Infrastructure Delivery Through Explicit and Performance-based Subsidies](#), 2005, Global Partnership on Output-Based Aid (GPOBA)
- Smith Warrick, "[Designing Output-based Aid Schemes: A Check List](#)", GPOBA
- Liautaud, Gerard, "[Maintaining Roads: Experience with Output-based Contracts in Argentina](#)".

Recommended Links:

- [Global Partnership for Output-based Aid](#)

For further information

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