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## Chapter 8.

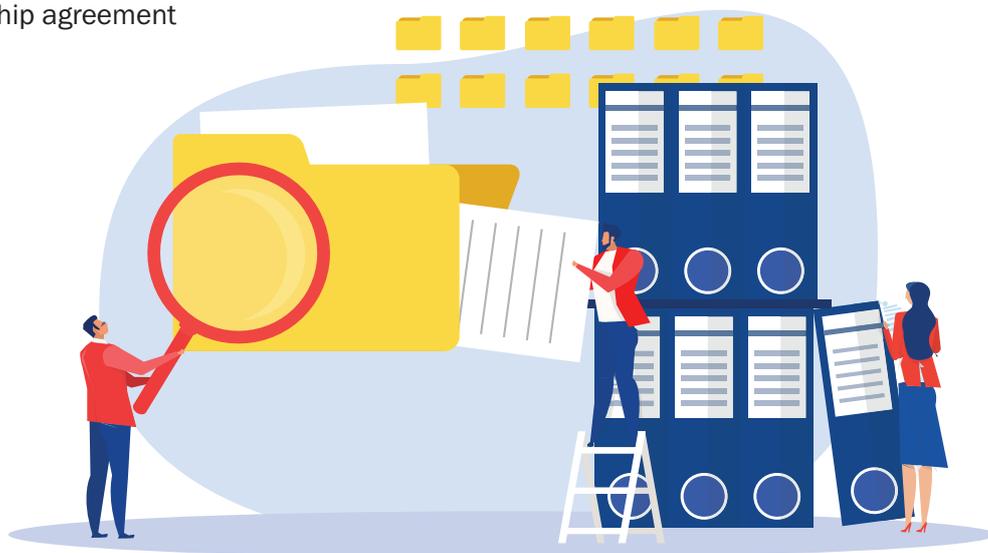
# Annotated recommendations on monitoring the quality of service and output of PPP projects

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## Acronyms

<b>KPI</b>	Key performance indicator
<b>PPP</b>	Public-private partnership
<b>PPPA</b>	Public-private partnership agreement



### 1. Description of and general principles for monitoring the implementation of a PPP project

Public-private partnership (PPP) project implementation monitoring is a regular assessment process used to verify compliance of the services provided by a private partner with the required standards and to determine actions relating to instances where they have been violated. The monitoring of project implementation includes the following tasks, which are usually stipulated in a PPP agreement (PPPA):

- analysis of the specific indicators of the functional characteristics of an asset carried out by a private party
- review of oversight and quality assurance procedures applied by a private partner to confirm their effectiveness
- independent monitoring carried out by a public partner to control the reliability and validity of the private partner's monitoring systems
- independent assessment of the monitoring tools to confirm their accuracy.

The PPPA should also stipulate the terms governing oversight of implementation of the PPP project carried out by the public partner and the contractual consequences (financial and other) of default of the private partner's obligations.

When project implementation is traditionally carried out (via public procurement), monitoring by the

public entity includes direct sampling, analysis and determination of compliance with target key performance indicator (KPI) parameters. When project implementation is carried out under PPPs, the procedures governing monitoring and control of service quality will be included in the duties of the private partner. In this case, the public partner will have the right to verify independently information about the results of project implementation provided by the private partner.

The project implementation monitoring levels include:

- Self-regulation of the private partner through its own monitoring system
- Assessment of the private partner's monitoring and quality-control systems by the public partner, including the right to conduct scheduled and unscheduled inspections
- The ability of users and other independent parties to report functioning problems

The level of service requirements the private partner should achieve for the proper functioning of the asset is determined in the specification of the final results prepared by the authority. The objectives established for preparing the final specifications are as follows:

- documentation of the public partner's requirements for the asset's service levels and quality

- formation of the underlying principles for monitoring the quality of service and functioning of the asset.

Both objectives must be determined before signing the agreement with the private partner.

Unlike the indicators and technical specifications governing the project's implementation, the specifications of the final results that determine the required level of functioning of the asset are prepared in accordance with the users' needs.

Without an effective project implementation monitoring system, the public partner will not have access to the relevant data on the private partner's work, making it difficult to identify potential threats to reaching objectives at an early stage.

An effective monitoring strategy is based on the following elements:

- The public partner understands the objectives of state participation in the project. The established KPIs serve as the basis for monitoring implementation and consequently must reflect the wider strategic goals and required project implementation outputs.
- The public partner understands the business processes undertaken by the private partner – for instance, the arrangements and processes governing its use of funding, and the functioning of the private partner's internal control system.
- The public partner monitors the private partner's quality performance indicators.
- The public partner assesses on a regular basis the quality of the private partner's work by analysing established KPIs.
- Based on analysis of monitoring data, adjustments can be made to manage risks and improve the value-for-money ratio.

Effective monitoring of the implementation of a PPP project is possible when there is access to necessary information, on the basis of which it is possible to make suitable decisions on how to minimise emerging risks.

Consequences of a poorly organised PPP project implementation monitoring process include:

- Failure to monitor construction quality may result in defects in the asset's functioning in the long term.
- Failure to monitor appropriate maintenance of the equipment (the asset) may increase the public partner's costs at the end of the effective term of the PPPA (after the transfer of the asset).
- Failure to organise clear communication during

project implementation may result in ambiguity as regards limits on the responsibilities of the private and public partners.

- Lack of independent verification or validation of data provided by the private partner may result in an inability to identify and attribute defective work, as well as accurately give payment for services.
- The lack of a prompt dispute resolution system may result in protracted conflict and obstruct successful implementation of the project.

## 2. Recommendations on how to monitor the results of PPP project implementation

The public partner is required to monitor implementation of the PPP agreement at all project stages, especially at the asset design stage, as the efficacy and reliability of the final asset will be contingent on the quality of the design. Such monitoring is carried out with the use of a design quality management plan and construction quality management plan. Both of these plans are developed by the private partner and provided to the competent authority for review. It should be noted, however, for the critical output KPIs (the key ones upon which payment is based) the public authority may specify detailed procedures in the draft contract. As the private partner independently develops the design and quality management plans, the approach is unique for each project.

All the plans must contain some basic components. These include a description of important monitoring procedures, such as technical analysis and review of the asset. Unlike the operating and maintenance stages of the monitoring process, the design and construction monitoring process includes a combination of both monitoring and simulation tools. The public authority usually sets a number of intermediate design and construction milestones. To encourage the private partner to perform its work on time, the public partner may determine specific amounts of remuneration to be released upon certain completion points. The public authority confirms these milestones individually or with the involvement of third parties.

The monitoring plan at different stages of PPP project implementation should include the following procedures:

- **Preparation stage:** Preliminary assessment of KPIs for the construction and operating stages, establishment of acceptable limits of any deviations from agreed levels and identification of measures to prevent or mitigate them.

• **Construction stage:** Analysis of archived KPIs (from past projects or guidance documents) and adjustment of KPIs for the operating stage (for the specific project), taking into account the required outputs. The organisational structure of the design process includes the following monitoring elements (with the inclusion of corresponding KPIs):

- design and construction schedule
- quality management system audit
- design process quality management plan
- construction process quality management plan
- asset safety check
- asset design and construction programme
- inspection of the completed construction works (including data on compliance with technical KPIs)
- intermediate results of key milestones during the design and construction stage
- management and planning system
- design requirements
- periodic reports on the current stage of the work
- financial reports (including comparison of actual and budget/forecast indicators).

• **Operating stage:** Analysis of achieved KPIs on a regular basis, paired with identification of the reasons for any deviations from key indicators and determination of the affected factors and adjustment options, taking into account possible changes to the terms of the PPPA. The organisational structure of the operating process includes the following monitoring elements (with the inclusion of corresponding KPIs):

- internal control system of the private partner
- operating process of the regular assessment programme
- quality management plans and manuals
- regular meetings and reports
- quality control (for example, the quality of the surface and the condition of the highway drainage system)
- joint report (of both the public and private partners) on the operation of the asset
- asset management plan
- medium-term management plan
- adoption of emergency measures and safety management plan

environment controls

KPI analysis process

reports on user service and claims handling

list of independent inspectors and auditors

data management system regarding the operation of the asset

financial reports (including comparison of actual and budget/forecast indicators).

• **Post-project stage:** Analysis of achieved KPIs, substantiation of the nature and structure of continued operation of the project asset and/or its further development/refinement, preparation of proposals for implementing future projects.

The sources of information for the purposes of conducting monitoring procedures include reports and data provided by the private partner, which are reviewed by the public partner.

Respective types of reporting mechanisms are described below:

• The basic characteristics of the reporting data relating to implementation of the PPP project provided by the private partner (accuracy, completeness and reliability) should be stipulated in the PPP agreement. The private partner must provide reports on project outputs on a regular basis. The periodicity of these reports depends on the specifics of a particular project. These reports must contain sufficient information to calculate the payment for the services provided by the private partner (where applicable) and include the number of instances of established KPI violations for the reporting period and information about each violation. The private partner's authorised representative has to confirm the accuracy of the information in a document in the agreed format that is included in the submitted reports on project implementation.

• The public partner may also independently monitor and check the effectiveness of project implementation. In this case, the public partner will cover the cost of such monitoring with the exception of the situations stipulated in the PPPA (for example, when the audit shows that the private partner has provided the wrong information). These sources of information include:

user satisfaction survey regarding the asset

audit

scheduled and unscheduled inspections

feedback of asset users concerning compliance with the agreed quality standards of the asset and the

services provided by the private partner

Access is granted to the information required for monitoring purposes on the basis of the following basic principles:

- The private partner must provide and ensure free access to any data regarding project implementation after the submission of a reasonable request by the public partner.
- It is also necessary to set the period during which copies of all information, documents and data regarding the monitoring system will be kept safe (the recommended period is at least seven years).
- The private partner is required to provide the necessary assistance and access to data in accordance with the requests of the public partner based on the implementation monitoring rights established in the PPP agreement.

Independent experts must conduct any audit of project implementation. The public partner determines the applicable procedure and the terms and conditions of their involvement. Throughout the audit process, if a partner provides monitoring data that contain any inaccuracies, are incomplete or incorrect, then it should:

- correct the errors, release an updated version of the corresponding report or data, and take measures to eliminate defects in the monitoring system which resulted in the errors
- make appropriate adjustments to the subsequent payments for the services if the inaccuracy in the report affected the amount of such payments in the reporting period.

Fraud or perjury during an audit should constitute an instance of default on its obligations by the private partner and may result in the termination of the PPPA.

Regarding the attainment of KPIs established for the monitoring process, it is advisable to apply the following approaches:

- Deduct payments or impose penalties if the quality falls short of target (which should be set at the optimal quality).<sup>1</sup>
- Demand the rectification of shortcomings in the functioning of the asset or in the quality of the services provided by the private partner within the

period established in the PPP agreement (with the right to retain, reduce or even terminate payments to the private partner throughout this period).

- Apply fines due to the private partner's non-compliance with the KPIs.
- Transfer temporary operational control of the project to the state in certain circumstances (such as threat to lives and health, the environment, national security).
- Terminate the PPPA if the private partner fundamentally defaults on its obligations.

Powers of the responsible public authority in relation to PPP project implementation must include:

- Control over the operation of the infrastructure asset implemented by the respective sectoral authorities. These authorities monitor the project within the framework of their powers (in particular, regulating tariffs and monitoring the service quality of the asset). It is advisable for respective sectoral authorities to coordinate decisions that have an impact on project implementation (in particular, regarding income and expenses) or implementation of the PPPA.
- Monitoring of the implementation of the PPPA and the agreed KPIs of the project that was to be performed by the private partner:

The competent public body responsible for PPP development in the state (or public body responsible for monitoring the implementation of a PPP agreement). This institution monitors PPP projects and aggregates the information on project implementation, ensuring its compliance with the applicable KPIs. An officer vested with the functions of a PPP project curator may be appointed at this institution. In accordance with international practice, to be successful in this role, the curator must:<sup>2</sup>

- a) have managerial competencies
- b) have team support – in other words, the presence of staff competent in various aspects of the work within their team
- c) have sufficient scope of authority and influence on the curated project
- d) participate in the implementation of the PPP project from the preparatory works stage
- e) organise a unified PPP project database (this is also recommended, to eliminate the adverse impact

<sup>1</sup> It is advisable to use a payment mechanism that encourages the provision of high-level services (functional characteristics of the asset) by a private party only to the extent that it is required by the asset's users to avoid overstating payments at an unreasonably high service quality (unrelated to a corresponding increase in utility for users).

<sup>2</sup> To improve the decision-making in specialised areas during the implementation of the PPP project, independent expert entities can be used.

of personnel changes that are likely during a long period of project implementation)

Authorised public entity responsible for public financing and budgeting and controlling the expenditure of budget funds and review of their efficiency.

Authorised public entity/ies of the relevant administrative-territorial units (where applicable).

It is advisable to coordinate monitoring of PPP project implementation when structuring the project and preparing the PPPA. Applicable procedures are based on respective laws and regulations and also on the provisions of the PPPA. It is necessary to define the respective monitoring powers and responsibilities of the various public authorities involved in project implementation. It is also advisable for parties to agree/approve the procedure for cooperation between the private partner and public entities.



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