

# Implementation of Performance-Based Contract in Indonesia Construction

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## **SUMMARY**

The main problem in road construction in Indonesia is the age of the road that is very far below the age of the road plan. Therefore, the Indonesian government implements a performance-based contract as a solution to the problem. Performance Based Contract (PBC) is output-based or outcome-based contracts. In PBC, the contractor is responsible at certain times according to the contract to carry out a whole set of activities starting from the design, construction, and maintenance with a performance-based payment system, and thus PBC has several potential advantages over traditional approaches. This study is a literature study on PBC and its implementation problem in Indonesia. Similar with World Bank Output and Performance based Road Contracts (OPRC) system, PBC in Indonesia is applied to maintenance projects that are accompanied by improvements to national roads. However, PBC practice in Indonesia does not follow the OPRC limitations on risk to the contractor. Experience shows that the application of PBC in Indonesia has many obstacles caused by risk factors that occur. Researches on this matter suggests the need for an optimal risk allocation mechanism among parties who contract for the PBC in Indonesia. It is concluded that the optimal risk allocation is held by parties who are able to assess, control and manage risks; has the best access to hedging instruments; has the greatest ability to diversify risk; and bears risk at a low cost.