



# QUALITY

## GUIDANCE NOTE ON PROCUREMENT

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JUNE 2018

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## ABOUT THIS PUBLICATION

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In April 2017, the Asian Development Bank (ADB) approved its new procurement framework, the ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time); and the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time). These replace the former Guidelines on the Use of Consultants (2013, as amended from time to time) and Procurement Guidelines (2015, as amended from time to time). The procurement policy and the procurement regulations address the procurement activities of project executing agencies and implementing agencies on projects financed in whole or in part by a loan or grant from ADB, or by ADB-administered funds. ADB designed the 2017 procurement policy to deliver significant benefits and flexibility throughout the project procurement cycle, as well as to improve project delivery through a renewed focus on the concepts of quality, value for money (VFM), and fitness for purpose.

This note is part of a series of guidance notes published by ADB in 2018 to accompany the 2017 procurement policy and the procurement regulations. Each note discusses a topical issue for borrowers (including grant recipients), bidders, and civil society under the new framework (see list below). The guidance notes cross-reference each other frequently and should be read in conjunction. All references to “guidance notes” pertain to these notes. The notes may be updated, replaced, or withdrawn from time to time.



### List of Guidance Notes for the 2017 ADB Procurement Policy and the Procurement Regulations

1. Value for Money
  2. Procurement Risk Framework
  3. Strategic Procurement Planning
  4. Procurement Review
  5. Alternative Procurement Arrangements
  6. Open Competitive Bidding
  7. Price Adjustment
  8. Abnormally Low Bids
  9. Domestic Preference
  10. Prequalification
  11. Subcontracting
  12. Consulting Services Administered by ADB Borrowers
  13. Nonconsulting Services Administered by ADB Borrowers
  14. High-Level Technology
  15. Quality
  16. Bidding-Related Complaints
  17. Noncompliance in Procurement
  18. Standstill Period
  19. State-Owned Enterprises
  20. E-Procurement
  21. Framework Agreements for Consulting Services
  22. Public-Private Partnerships
  23. Contract Management
  24. Fragile, Conflict-Affected, and Emergency Situations
-

ADB procurement reforms intend to ensure VFM by improving flexibility, quality, and efficiency throughout the procurement cycle (see illustration below and the *Guidance Note on Value for Money*). VFM is part of a holistic procurement structure with three support pillars: efficiency, quality, and flexibility. The two key principles of transparency and fairness weave across all elements of the structure.



**Time**

Time is an important element of VFM. When a project is delivered promptly or when a process is completed rapidly, greater value is created for all stakeholders. For example, a road project completed early provides economic benefit, security, or other value to the community it serves. It increases the return on investment to the executing agency and accelerates the project and payment cycle to the successful bidder. Likewise, a project delivered late loses significant value.

When considering VFM in the context of procurement, pay attention to anything that (i) shortens the procurement cycle time frame or (ii) accelerates delivery of the development project.



## Objective

This guidance note is intended to assist readers by elaborating on and explaining ADB's 2017 procurement policy and procurement regulations for borrowers (including grant recipients).

This note identifies additional information for the reader to consider when applying ADB's procurement policy and procurement regulations to their circumstances.



## Living Document

This guidance note is intended to be a living document and will be revised as required.

Be sure to check the ADB Business Center website for the latest version and updates, <https://www.adb.org/business/main>.



## The Reader

In many circumstances, readers are expected to use this guidance note in a manner unique to their needs. For consistency throughout the suite of guidance notes, the following assumption is made about the reader:

The reader is a professional involved in activities financed in whole or in part by an ADB loan or grant, or by ADB-administered funds.



## FAQs

Frequently asked questions, clarifications, examples, additional information, links to training, and other useful resources will be made available on the ADB website.

Be sure to check the ADB Business Center website for more information, <https://www.adb.org/business/main>.



## Legal and Order of Priority

This guidance note explains and elaborates on the provisions of the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) applicable to executing (and implementing) agencies under sovereign (including subsovereign) projects financed in whole or in part by an investment loan from ADB (i.e., excluding ADB results- or policy-based loans), ADB-financed grant (excluding ADB-administered technical assistance and staff consultancies), or by ADB-administered funds.

In the event of any discrepancy between this guidance note and the procurement regulations, the latter will prevail. The financing agreement governs the legal relationships between the borrower and ADB. The rights and obligations between the borrower and the provider of goods, works, or services are governed by the specific procurement document issued by the borrower and by the contract signed between the borrower and the provider, and not by this guidance note.



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## ABBREVIATIONS

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ADB	—	Asian Development Bank
CMP	—	contract management plan
PPP	—	public–private partnership
SMART	—	specific, measurable, achievable, relevant, time-bound
VFM	—	value for money

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## EXECUTIVE SUMMARY

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This guidance note provides information to borrowers (including grant recipients) on applying the principle of quality in the key stages of the ADB procurement cycle (i.e., procurement planning, design and bidding document preparation, bid evaluation, and contract management). It provides a checklist of items that may be considered by the procurement practitioner to ensure that quality is integrated into the decisions made during the procurement process.

Improvement in the quality of procurement decision-making and support may

### **Increase Efficiency and Reduce Procurement Time**

- Allow quality to be planned early in the procurement cycle, ensuring a fit-for-purpose procurement process and reducing the likelihood of project delays.

### **Reduce Risk**

- Allow the borrower to have a better understanding of quality requirements such as conformance, durability, and perception.
- With the help of the procurement risk framework, the borrower can plan and implement risk mitigation strategies by understanding the risks to quality at each stage of the procurement cycle.

### **Increase Value for Money**

- In conjunction with the principle of value for money, assist in delivering a fit-for-purpose product or service.
- Promote consideration of trade-offs between costs and quality.



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# I. Introduction

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## A. Purpose

1.1 The purpose of this guidance note is to explain the importance of quality throughout the procurement cycle of the Asian Development Bank (ADB). This note will guide borrowers (including grant recipients) on how to incorporate quality at key stages of the procurement process, including addressing the trade-offs between quality and cost, and the ways to manage and mitigate the risk of impacts to quality. Quality is one part of the value for money (VFM) equation, which seeks to compare the benefits gained from improved quality against the costs incurred, to achieve fit-for-purpose development project outcomes. As such, this guidance note should be read in conjunction with the *Guidance Note on Value for Money*.

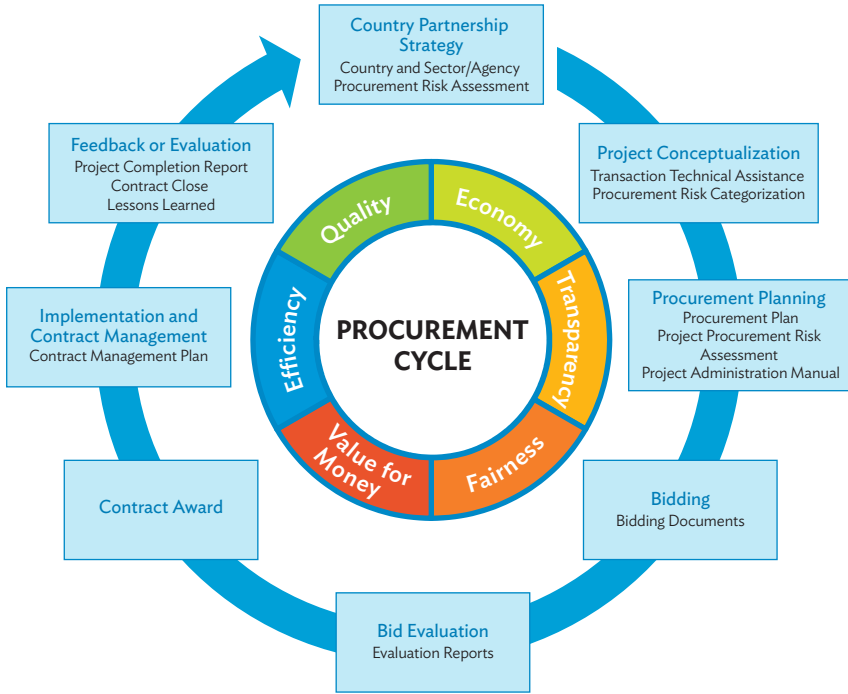
1.2 This guidance note applies to quality in the procurement of goods, works, plant, and nonconsulting services under projects financed in whole or in part by an ADB loan or grant, or by ADB-administered funds, for which the ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) apply. Quality with respect to the procurement of consulting services is dealt with in the *Guidance Note on Consulting Services Administered by ADB Borrowers*.

1.3 This guidance note discusses quality within the (i) procurement planning, (ii) design (specification and engineering design) and bidding document preparation, (iii) bid evaluation and contract award, and (iv) implementation and contract management stages of the ADB procurement cycle (Figure 1).

## B. Accountabilities for Quality

1.4 Quality is an important factor at all stages of the contract and project life cycles, from conceptualization and business case development; through planning and design; to procurement, implementation, and completion. The procurement process is one important phase in the contract and project life cycle which, like other phases, presents an opportunity to assure that quality requirements are met or exceeded and that procurement processes are fit for purpose, taking those requirements into account.

Figure 1: The ADB Procurement Cycle



Source: Asian Development Bank.

1.5 All parties to the project and its contracts contribute to quality: ADB; the borrower; and the contractors, suppliers, or service providers.<sup>1</sup> Project owners, project managers, stakeholders, contract managers, and contractors need to be actively engaged at appropriate points in the process to ensure that the procurement process contributes to quality outcomes.

### C. The Role of Quality in Procurement

1.6 Quality is one of the core procurement principles under the 2017 ADB procurement policy. The others are economy, efficiency, fairness, transparency, and VFM. This is a move away from the traditional perspective of quality in procurement. Historically, quality in procurement has often been limited to incorporating a specification of minimum requirements into bidding documents and then awarding the contract to the lowest priced bidder that substantially meets these minimum requirements.

<sup>1</sup> Hereafter in this guidance note, contractors, suppliers, and service providers are collectively referred to as “contractors.”

1.7 While this approach is appropriate for low-risk procurement of highly standardized products and simple services, it is less suitable for more complex goods, works, and services, where there may be trade-offs between quality and costs. For these types of procurement, awarding the contract to the lowest priced bidder that meets the minimum requirements may end up adversely affecting contract or project outcomes or benefits, total life cycle costs, and implementation schedules.

1.8 The elevation of quality to a core procurement principle reflects ADB's view that considering quality during the procurement process is essential, albeit not sufficient, to achieve VFM and to improve the likelihood of achieving contract and project outcomes and development objectives.

## **D. Subjectivity in the Assessment of Quality**

1.9 The specification and evaluation of quality may introduce subjectivity, which may be difficult to justify if challenged and be prone to abuse. This potential subjectivity requires careful examination during the procurement risk assessment process.

1.10 Assessment of qualitative factors can be open to risks of abuse of discretion and conscious or unconscious bias influencing decision-making. These risks need to be addressed and this guidance note provides some suggestions on methodologies that can be used to increase objectivity and auditability of the evaluation of qualitative criteria.

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## II. Defining Quality

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### A. Definition of Quality

2.1 ADB defined quality as a core procurement principle for the first time in its 2017 procurement policy. The procurement policy defines quality as the principle that “requires that the procurement arrangements are structured to procure inputs and deliver outputs of appropriate standard in a timely and effective manner to achieve the project outcomes and development objectives, taking into account the context, risk, value, and complexity of procurement.”

2.2 This definition of quality can be more easily understood by analyzing each part of the definition in the following subsections.

#### 1. ***...the procurement arrangements are structured...***

- (i) The borrower’s procurement practitioners have a responsibility during the procurement planning stage to analyze and select procurement arrangements that are fit for purpose, considering the nature, value, risk, and complexity of the procurement.
- (ii) The 2017 procurement regulations (in Appendix 2, para. 4[e]) define “procurement arrangements” as “comprising procurement methods, qualifications and evaluation criteria, and contracting strategy (contract packaging, types of contracts, key contractual provisions, and key delivery and payment milestones), including the justification for each decision; and outline of the key specifications and quality requirements.”
- (iii) The *Guidance Note on Strategic Procurement Planning* provides further information on the activities in procurement planning, including analysis and development of procurement strategies.

#### 2. ***...to procure inputs and deliver outputs of appropriate standard in a timely and effective manner...***

- (i) The procurement arrangements should be designed to ensure that they result in the selection of a bidder (or bidders) that has the required capability to supply the goods, or provide the services or works, to the appropriate standard.

- (ii) Bidders must be aware of the requirements and measures of the quality of outcomes so they would be able to meet the appropriate standard. An accurate and sufficiently comprehensive specification of requirements (or design) is, therefore, a critical contributor to quality outcomes.
- (iii) An essential aspect of quality is the assessment of the bidder's capability to meet the requirements. Therefore, prequalification may be required, especially for more complex goods, works, and services, where it is usually not sufficient to specify requirements and to then award on the basis of price alone. The borrower should assess the likelihood that bidders will be capable of meeting contract objectives (including quality, schedule, and cost).

**3. ...to achieve the project outcomes and development objectives, taking into account the context, risk, value, and complexity of procurement.**

- (i) The aim of procurement planning and strategy development, and bidding, evaluation, and contractor selection, is to increase the probability that the work of contractors contributes to the achievement of project outcomes in line with ADB's principles and standards of integrity.
- (ii) This process should be informed by procurement risk assessments at the country, sector or agency, and project level, to plan and implement risk mitigation strategies by understanding the risks to quality at each stage of the procurement cycle. The *Guidance Note on Procurement Risk Framework* and the *Guidance Note on Strategic Procurement Planning* provide further information on these risk assessments.
- (iii) The procurement process plays a critical part in achieving quality project outcomes. ADB encourages an active role with regard to quality in the procurement process, to ensure project outcomes are achieved.

## **B. Defining Quality for Individual Procurements**

2.3 Quality can be defined in various ways depending on the nature of the goods, works, or services being procured. Table 1 provides examples of some ways quality can be defined for various procurement types.

2.4 The procurement regulations (Appendix 3, paras. 36–41) require designs and specifications to have a defined level of quality. This does not mean the highest quality available (which could result in “gold plating,” i.e., a quality higher than is needed given the project objectives), but the appropriate quality which satisfies the objectives and delivers VFM within the available budget.



**Table 1: Definitions of Quality for Individual Procurements**

Type of Procurement	Ways to Define Quality
Standard goods	<ul style="list-style-type: none"> <li>• Technical specifications and standards</li> <li>• Product characteristics and tolerances</li> </ul>
Routine construction services	<ul style="list-style-type: none"> <li>• Technical specifications of the defined inputs</li> <li>• Industry standards applying to construction methods</li> </ul>
Large infrastructure projects, or where the use of high-level technology is proposed	<ul style="list-style-type: none"> <li>• Functional objectives achieved</li> <li>• Serviceability, durability, and functionality</li> <li>• Social, economic, and environmental impact</li> </ul>

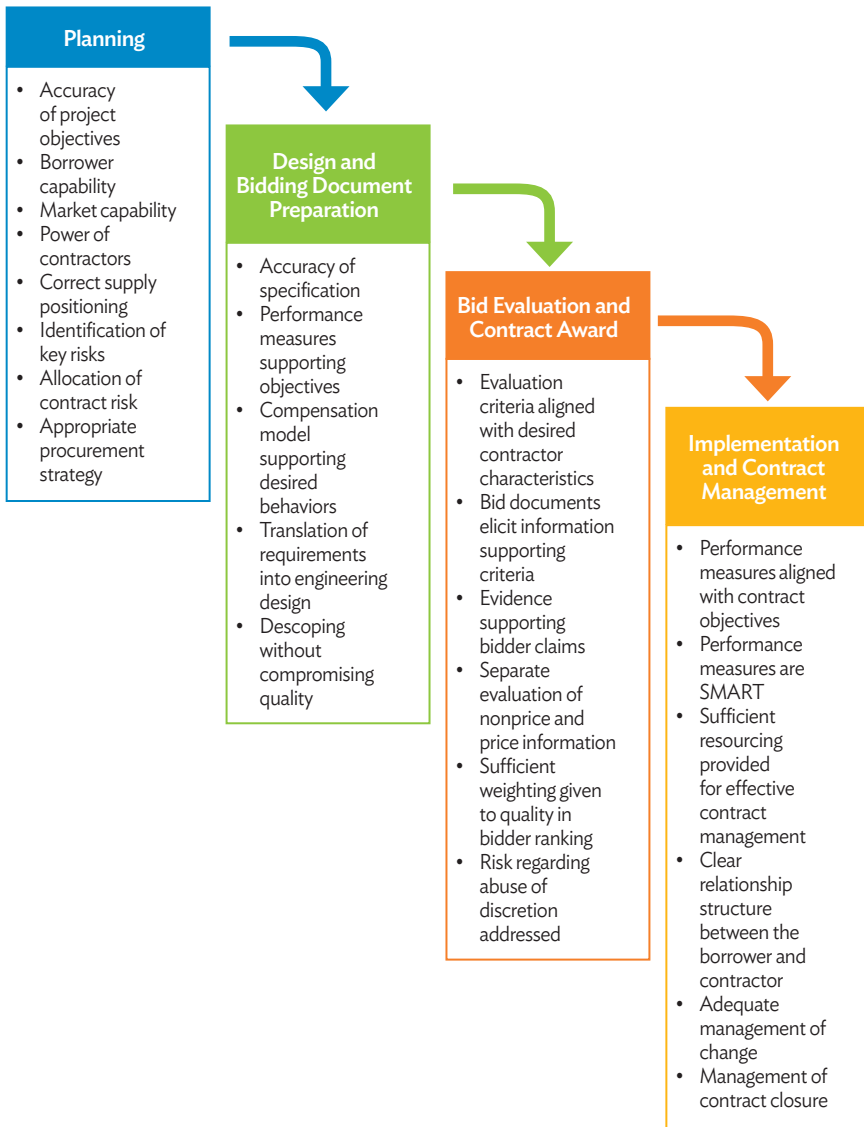
Source: Asian Development Bank.

## C. Contribution to Quality of the Procurement Cycle

2.5 To improve the likelihood that the result of a procurement is fit for purpose and that it meets the requirements of the borrower and/or end users, the contribution to quality of each stage of the procurement cycle needs to be understood. Figure 2 summarizes these contributions for key stages of the procurement cycle.

2.6 The contribution to quality, the potential issues that affect quality, and the actions that can be taken to avoid or mitigate the impact are described for each key stage of the procurement cycle in the following sections of this guidance note. Appendix 1 provides a checklist to support this process.

Figure 2: Contribution to Quality of Key Stages in the Procurement Cycle



SMART = specific, measurable, achievable, relevant, time-bound.

Source: Asian Development Bank.

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## III. Procurement Planning

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### A. Contribution to Quality

3.1 The procurement planning stage involves decisions that impact on quality throughout the procurement process and over the life of a contract. It is critical that procurement planning is done well, and that quality is considered, since the impacts on quality can be high and can carry through the entire project or contract life cycle.

3.2 As per section II of this guidance note, the selection of procurement arrangements is an important contributor to the achievement of project objectives. It is critical that the borrower's or end user's needs, and minimum requirements and project objectives, are clearly identified at the outset of the procurement process (or, preferably, beforehand during the project conceptualization stage of the ADB procurement cycle).

### B. Potential Issues Affecting Quality

3.3 Potential issues affecting quality can occur during each of the activities comprising procurement planning (the *Guidance Note on Strategic Procurement Planning* has more information). Some of these are described in Table 2.

**Table 2: Issues Affecting Quality in the Procurement Planning Stage**

Activity	Potential Issues Affecting Quality
Project concept	<ul style="list-style-type: none"><li>• Borrower or end user requirements incorrectly defined or there is a lack of alignment on requirements among project owners and stakeholders</li><li>• Project delivery methodology not defined</li></ul>
Project and borrower overview	<ul style="list-style-type: none"><li>• Borrower capability and capacity insufficient to ensure quality procurement process and ongoing contract management</li></ul>
Market analysis	<ul style="list-style-type: none"><li>• Suitably qualified contractors do not exist in the geographical market or market sector</li><li>• The power of contractors is high, and the risk of substitutes and new entrants is low</li><li>• Incorrect supply positioning</li></ul>

*continued on next page*

Table 2 continued

Activity	Potential Issues Affecting Quality
Risk management	<ul style="list-style-type: none"> <li>• Risk assessment fails to identify integrity-related risks and key risks to quality, or fails to cover key stages of the contract life cycle</li> <li>• Excessive allocation of risk to contractor reduces motivation of private sector to participate, potentially leading to lower quality outcomes</li> </ul>
Options analysis and procurement strategy development	<ul style="list-style-type: none"> <li>• Procurement strategy options generated or selected are not the most appropriate to ensure quality and do not adequately avoid or manage potential integrity-related risks.</li> </ul>

Source: Asian Development Bank.

## C. Mitigating Measures

### 1. Project Concept Issues

**3.4 Borrower or end user requirements incorrectly defined or lack alignment.** The 2017 procurement regulations (para. 1.37) state that the procurement plan describes how the procurement activities support the development objectives of the project and deliver VFM under a risk-managed approach. It is imperative to ensure that the requirements and project objectives stated in the procurement plan accurately and clearly reflect the needs of the borrower or end user, and that project objectives are aligned among project owners and/or project stakeholders. This can be achieved by

- (i) performing the procurement planning stage comprehensively and with care;
- (ii) engaging extensively with end user representatives and project owners (on a fit-for-purpose basis); and
- (iii) recording the borrower's understanding of the project objectives and end user needs in writing and asking end users and project owners to validate and confirm the stated objectives and needs, using the *Guidance Note on Strategic Procurement Planning* and ADB templates.

**3.5 Project delivery methodology not defined.** For some projects, it may not be possible to define the delivery methodology clearly because their contracts can be performed in different and innovative ways, the contracts may be subject to an undefined technology solution provided by the supply market, or the project owner may be considered an “uninformed” buyer where knowledge and expertise on how to deliver the requirements does not exist within the project owner’s organization.

**3.6** When the project delivery methodology is not defined, several measures can be used to mitigate the risk to quality:

- (i) Develop a performance specification (the *Guidance Note on Strategic Procurement Planning* provides more details), in which the outcomes of the contract are defined while allowing bidders to specify how the

contract is delivered. For example, a new road construction contract could be specified in terms of capability to carry certain volumes of traffic, or a specified number of heavy vehicles per day, rather than specifying the number of traffic lanes and road construction materials.

- (ii) Consider a multistage procurement process, using the first stage to determine the range of solutions available in the market and using that information to more accurately define the requirements in the second stage of the procurement process. Depending on the outcomes of the first stage, the second stage could be a competitive tender or a direct negotiation with a contractor that offers the only viable solution.
- (iii) An alternative to a multistage approach is to use a “design and build” approach, whereby a competitive bid is conducted with bidders required to propose a solution and provide pricing for both the design and implementation phases.
- (iv) An initial stage of the bid could be used to identify a contractor(s) with whom a collaboration could be formed. This would allow the borrower and the contractor(s) to work closely together through the design and implementation stages. This is often associated with a “cost plus,” or component pricing, compensation model, to reduce the risk to the contractor of an unclear scope.
- (v) If requirements are unclear or the buyer is an “uninformed” buyer, consultants may be hired to add their expertise and knowledge.

3.7 In complex infrastructure projects, including projects that use high-level technology, feasibility studies can be used to identify the necessary quality of the infrastructure project and select a contract implementation method, such as the public sector conventional model or a public–private partnership (PPP) model (where “conventional model” here means contract delivery methods other than PPP), that will best deliver the requirements.

3.8 Different methods of the conventional model may carry higher or lower levels of quality risk. The conventional model methods that may be considered include design–bid–build, design–and–build (or engineer–procure–construct), design–build–maintain (or engineer–procure–construct–maintain), and design–build–maintain–operate, among others.

3.9 The selection of the model may be limited by factors such as the availability of public or private funds, the urgency of the infrastructure need, and the number of private sector entities able to participate in a PPP model. The *Guidance Note on Public–Private Partnerships* has further details on the PPP model.

## 2. Insufficient Borrower Capability

3.10 The borrower capability assessment conducted during procurement planning may identify a gap in the ability of the borrower to identify and manage the quality expectations, or to exercise sound discretion in the subjective evaluation of the quality of bids received. This may indicate the need for additional design

consultants, further assistance in project preparation, increased project supervision, increased procurement oversight, or enhanced contract management provisions.

3.11 The borrower may also refer to sources such as universities, research bodies, nongovernment organizations, think tanks, etc. The borrower may also seek critical inputs directly from the private sector, which may have special expertise or skills. Engaging the private sector as a partner will, in some circumstances, improve the quality of the output through additional funding, expertise, and innovation.

### 3. Market Issues

3.12 **Qualified contractors do not exist in the geographical market or market sector.** If the market analysis indicates that suitable contractors are not available to deliver the contract to the required quality, the following mitigating measures could be taken:

- (i) Expand the market analysis to consider other geographical markets (international or national) or market sectors (e.g., for road construction, consider civil works contractors with experience in similar activities, such as the construction of an airport runway, where relevant).
- (ii) Select a contractor with the capability closest to the requirements and then work with them to develop their capability to the required level.

3.13 **The power of contractors is high, and the risk of substitutes and new entrants is low.** This may result in a lower motivation for the current, available contractors to provide high-quality goods, works, or services. Mitigating measures include

- (i) building incentives and penalties into the contract linked to quality measures;
- (ii) broadening the supply base to increase competition among contractors;
- (iii) expanding markets, e.g., in cases where the technology is new; and
- (iv) insourcing the requirement (i.e., contracting out a third-party provider to perform the task[s]).

3.14 **Incorrect supply positioning.** This can have significant impacts on quality. For example, a contract or requirement incorrectly categorized during procurement planning (the *Guidance Note on Strategic Procurement Planning* has further information) could result in under-resourcing of contract management and loss of value from the contract. Performing supply positioning in a considered way and validating the results from experienced procurement personnel and stakeholders may mitigate this risk.

#### 4. Risk Management Issues

3.15 **Risk assessment fails to cover key risks and key stages of the contract.**

Risk assessments are a critical activity to ensure quality not only throughout the procurement process, but also over the life of the contract. It is important that the risk assessments are effective, in that they cover each stage of a project and its contracts, including the procurement process, contract implementation, and contract closure. They must also be done with care to ensure that all key risks are considered at each key stage.

3.16 **Overallocation of risk to contractor reduces market motivation to participate.** An allocation of risks to the parties to a contract that is not aligned with their ability to control them may lead either to significant increases in cost, or to reduced interest of prospective contractors in the contract, or both. The borrower should be cognizant of the impact on quality of risk allocation and design the requirements to ensure VFM. Risk allocation can also be reviewed during the procurement process in response to feedback and pricing received from bidders, e.g., where a multistage procurement method is used.

#### 5. Options Analysis and Procurement Strategy Development Issues

3.17 **Procurement strategy options are not appropriate to ensure quality or do not adequately address risks.** A lack of knowledge or diligence in developing strategic options or in selecting a suboptimal procurement strategy may affect the quality or fail to address integrity-related issues or other key risks. The borrower needs to be aware of strategic options as discussed in the *Guidance Note on Strategic Procurement Planning*, including the concept of packaging into “lots,” risk allocation, the contracting model, procurement method, pricing model, type of specification, evaluation criteria, and performance measures (i.e., key performance indicators). The borrower should consider seeking assistance from procurement consultants if this knowledge is not available within its executing and/or implementing agencies.

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## IV. Design and Bidding Document Preparation

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4.1 In this guidance note, “design” refers to both (i) the specification development activity within the bidding stage of the procurement cycle and (ii) the engineering or architectural design of a project, where this is most common in infrastructure construction or complex high-level technology projects.

### A. Contribution to Quality

4.2 While the procurement planning stage identifies requirements and develops a procurement strategy, the bidding stage involves the development of procurement documentation in preparation for the procurement process, including the development of the specification.

4.3 The development of the specification is an important step in accurately translating the borrower’s or end user’s requirements or project objectives into a detailed written document. The specification should clearly communicate the requirements to bidders in sufficient detail so they can formulate a delivery methodology that will provide the required quality, and can accurately price the requirement.

4.4 Generally, there are two broad categories of specifications:

- (i) Conformance-based specifications describe in detail the technical requirements of the design, method of production, construction, services, and/or delivery.
- (ii) Performance-based specifications describe the outcomes, results, or outputs related to the business or functional performance requirements.

The *Guidance Note on Value for Money* discusses these two categories in more detail, and their implications on quality.

4.5 For nonconsulting services, the specification is often developed in the form of a work statement and service level agreement. These are discussed further in the *Guidance Note on Nonconsulting Services Administered by ADB Borrowers*.

4.6 For civil works, an engineering design is a detailed way of translating borrower or end user needs or project objectives into requirements to be delivered by the contractor. It is usually, but not exclusively, used for complex construction



and high-level technology projects, which involve requirements that are not easily reflected in a written specification or for which the means of delivery of the outcomes are not defined in detail.

4.7 An engineering design has a significant impact on quality, in that it specifies the function and form in detail and, therefore, dictates the way requirements will be met by the contractor. For example, the serviceability requirements of a concrete bridge are dictated by the dimensions and span of bridge beams and the thickness of concrete cover over the steel reinforcement. Once this is specified, assuming design and implementation are separate contracts, the contractor has little ability to affect serviceability. The contractor's primary task, then, is to meet the design specification.

## B. Potential Issues Affecting Quality

4.8 The specification will usually include performance measures (i.e., key performance indicators), a compensation model, and incentives and penalties. Poorly written specifications can have distorting effects on competition, and on contractor behavior and quality of deliverables.

4.9 Some of the issues associated with developing specifications and engineering designs that affect quality are described in Table 3.

**Table 3: Issues Affecting Quality in the Design and Bidding Document Preparation Stage**

Activity	Potential Issues Affecting Quality
Development of specification	<ul style="list-style-type: none"> <li>• Inaccurate translation of requirements into written specification</li> <li>• Difficulty in defining requirements</li> <li>• Performance measures (i.e., key performance indicators) distort contractor behavior and competition</li> <li>• Compensation model distorts contractor behavior and competition</li> </ul>
Engineering design	<ul style="list-style-type: none"> <li>• Inaccurate translation of requirements into design</li> <li>• Insufficient detail in design leading to misinterpretation by contractor</li> <li>• Despecification to reduce costs</li> </ul>

Source: Asian Development Bank.

## C. Mitigating Measures

### 1. Specification Issues

4.10 **Inaccurate translation of requirements into written specification.** The accurate translation of project objectives and requirements into a written specification that can be understood by bidders and implemented by the

contractor is critical in ensuring quality contract outcomes. Inaccurate specifications may lead to outcomes that do not meet project objectives.

4.11 This risk can be mitigated by

- (i) using a structured approach to collecting stakeholder requirements,
- (ii) requiring stakeholders to validate and approve the specification,
- (iii) requiring stakeholders to validate and approve contract performance measures and targets, and
- (iv) involving stakeholders in the development of procurement evaluation criteria.

4.12 The risk of poor quality can be mitigated through the specification of contractual mechanisms, including

- (i) quality assurance mechanisms, such as quality testing and inspection;
- (ii) warranties;
- (iii) defect liability clauses;
- (iv) functional guarantees;
- (v) performance securities;
- (vi) insurances; and
- (vii) completion or performance certificates linked to payments.

4.13 **Difficulty in defining requirements.** Depending on the contract, the specification of requirements and level of quality can be straightforward and objective or ambiguous and subjective.

4.14 In more straightforward requirements, accuracy of specification of quality levels can be achieved using industry product or service standards, which may be easily measured by referring to physical characteristics. In the case of goods, the specification will usually involve a description of the characteristics of the goods as well as their quantity, quality, durability, and safety issues, and may involve a description of physical properties, such as the materials, or the production processes to be used.

4.15 In some cases, it may be difficult to define requirements, especially where the outputs can be delivered in various ways or a solution needs to be provided by the supply market. One way to ensure delivery of the desired quality is to define technical requirements through output specifications, rather than by referring to standards. This might include a description of the outputs required (for example, quantity, level, speed), the performance standards to be achieved, and/or the delivery schedule.

4.16 Output specifications are inevitable in the case of innovative or high-level technologies, and may be preferred in any event in other cases, since they allow bidders to offer solutions against an output to be achieved (by whatever means they are able), rather than restricting them to static characteristics that may or may not offer the best VFM.

4.17 The benefit of using output specifications is that it helps in introducing more objectivity during the evaluation process. Using output specifications may also avoid conscious or unconscious bias toward certain contractors by specifying goods or service characteristics, materials, production processes, or technology solutions that only certain contractors can provide may also be avoided by using output specifications. Likewise, proprietary solutions should be avoided to the extent possible and the market assessments can provide more guidance on this.

4.18 More information on output specifications and life cycle approaches are discussed in the *Guidance Note on Value for Money* and the *Guidance Note on High-Level Technology*.

**4.19 Performance measures distort contractor behavior and competition.**

An important part of developing bidding documents is the development of performance measures (often referred to as “performance indicators” or “key performance indicators”). Performance measures reflect what is important to the borrower, enable the borrower to measure and monitor progress and ongoing performance over the life of the contract, and send a signal to the contractor about the most important things to achieve when delivering the contract.

4.20 However, performance measures can distort contractor behavior by focusing the contractor only on achieving the performance measures, to the exclusion of other aspects of performance—for example, focusing on reducing cost at the expense of quality. Poorly crafted or overly rigid performance measures may also dissuade contractors from participating in the bid.

4.21 There are various means to mitigate this risk:

- (i) A range of performance measures across different aspects of performance (often referred to as a “balanced scorecard”) can be used to ensure that the contractor’s focus is not too narrow. A balanced scorecard usually includes measures in the areas of safety, cost, quality, schedule, and client satisfaction.
- (ii) Contracts will specify key performance indicators, but other (non-key) performance indicators can be specified and measured during contract management, as a means of ensuring various aspects of quality are being addressed by the contractor.
- (iii) The ability to periodically review and adjust performance measures can be written into the contract, to enable measures that are causing undesired behaviors to be changed as required or additional measures to be specified.

**4.22 Compensation model distorts contractor behavior and competition.**

Compensation in a contract comprises the pricing arrangement and any incentives and/or penalties. The pricing structure can strongly drive contractor behavior in both desired and undesired ways. For example, a unit rate price for performance of a certain task can provide the borrower with surety that the total cost of a contract can be controlled via the specification of the volume of units. The risk is that the contractor is incentivized to perform the minimum amount of work to complete the task to maximize profitability, which can potentially affect the quality of the results.

#### 4.23 Mitigating measures include

- (i) analysis of potential positive and negative contractor behaviors at the time of design of the pricing structure, and alteration of the structure as required;
- (ii) including quality performance measures to counteract pricing structures that may incentivize reduced effort;
- (iii) open-book pricing and fixed profit percentages to reduce the incentive to maximize profits; and
- (iv) payments for achievement of milestones to encourage progress.

However, these mitigating measures may also drive undesired behaviors that should be considered prior to implementation, e.g., a focus solely on contract activities that link to the achievement of the payment milestones at the expense of other, less closely linked activities.

4.24 Incentives and penalties (if permitted) can have an even stronger effect on contractor behavior. Incentive payments may result in pure profit for the contractor over the base profit assumed when the contractor priced the contract. Incentives can lead to excessive effort being applied by the contractor to achieving the incentive at the expense of the output and quality of the base services.

#### 4.25 Mitigating measures include

- (i) excluding incentives and penalties from the contract;
- (ii) linking incentives and penalties to “balanced scorecard” performance, rather than to individual performance measures; and
- (iii) in the case of certain incentive mechanisms, linking payments to implemented improvement initiatives, rather than just improvement ideas, or linking payments to booked (accounting) improvements for the borrower or end user resulting from the improvement initiative rather than the generation, or even implementation, of improvement initiatives.

## 2. Engineering Design Issues

4.26 **Inaccurate translation of requirements into written design.** The translation of requirements into detailed engineering design documents, such as technical drawings and specifications, can sometimes fail to meet the original requirements.

#### 4.27 Mitigating measures include the following:

- (i) Explicitly document the requirements at the outset of the project to ensure internal alignment and to use as a standard against which the design’s effectiveness and accuracy can be measured.
- (ii) Include design “stage-gates” requiring that a steering committee or overseeing body review and approve the design at predetermined stages.

- (iii) Use a technical expert (e.g., a consultant) employed by the borrower to independently review the design.
- (iv) Make the designer liable for any costs incurred from design changes due to design faults.

**4.28 Insufficient detail in design leading to misinterpretation by contractor.**

Engineering designs may provide a level of detail that requires interpretation and development of solutions by the contractor. This may be a conscious choice, knowing that experienced contractors have the capability to implement solutions at the detailed level. In other cases, a lack of sufficient detail may not be intentional, resulting in contractors misinterpreting intent.

4.29 Mitigating measures include the following:

- (i) Assess the implementation supply market capability prior to determining the level of detail required in the design.
- (ii) Use standards and standard specifications to govern the quality aspects not detailed in the design.
- (iii) Use a bundled “design and build” approach, rather than separate contracts for design and implementation.
- (iv) Use a collaborative approach, where the implementation contractor is involved in the design development phase.

**4.30 Despecification to reduce costs.** This is a particular problem for large-scale projects. A shortage of funds available for infrastructure development, for example, often leads to a preference to award based on the lowest bid. In addition, cost-cutting measures may be employed at the design stage to reduce project cost. This can result in a higher-than-expected overall cost due to the lack of consideration of operation and maintenance costs, long-term durability, safety (including resilience to natural disasters), or environmental factors. In the case of high-level technology projects, the high costs associated with technology failure may outweigh the initial purchase costs.

4.31 Mitigation measures include the following:

- (i) Review the specification using structured “value engineering” methodologies, whereby descoping decisions are made in light of considerations of what aspects of the design are valuable to the borrower.
- (ii) Consider the total cost of ownership, i.e., the determination of the impacts of descoping decisions on the total life cycle cost of the purchase (including construction, operation, maintenance, and disposal costs).
- (iii) Conduct an “operability” review of the design by an expert consultant or independent contractor to advise on the impacts of descoping decisions on the operability and maintainability of the outputs of the contract.

# V. Bid Evaluation and Contract Award

## A. Contribution to Quality

5.1 The bid evaluation and contract award stages of the procurement cycle offer further opportunities to ensure the procurement process delivers quality outcomes. The criteria used to evaluate bids and the methodology for selecting a bidder for award of contract need to be aligned with the desired characteristics of the contractor and the desired outcomes of the contract.

## B. Potential Issues Affecting Quality

5.2 Potential issues that can affect quality arise in the design of evaluation criteria, in the evaluation process itself, and in the methodology used to select a bidder for contract award (Table 4). Good procurement practice is generally the best way of mitigating against the risks of poor quality during these stages of the procurement process.

**Table 4: Issues Affecting Quality in the Bid Evaluation and Contract Award Stages**

Activity	Potential Issues Affecting Quality
Evaluation criteria	<ul style="list-style-type: none"><li>• Evaluation criteria not aligned with desired contractor characteristics</li><li>• Contractor bid response format does not elicit information supporting the evaluation criteria</li><li>• Quality criteria specified cannot be measured objectively and may be prone to abuse of discretion</li></ul>
Evaluation process	<ul style="list-style-type: none"><li>• Difficulty in measuring if contractor meets criteria</li><li>• Evaluation of nonprice factors influenced by pricing information</li></ul>
Contract award	<ul style="list-style-type: none"><li>• Methodology for ranking contractor evaluations insufficiently weights quality</li><li>• Inflexible selection processes may result in awarding contracts to abnormally low bids</li></ul>

Source: Asian Development Bank.

## C. Mitigating Measures

### 1. Evaluation Criteria Issues

#### 5.3 Evaluation criteria not aligned with desired contractor characteristics.

This creates the risk of unsuitable contractors being selected, ultimately affecting the quality of the contract outcomes. A methodology to mitigate this risk is to use what might be called an “evaluation logic chain” to link performance objectives with evaluation criteria, and ultimately with questions asked of bidders in the bidding documents.

5.4 Figure 3 describes an example. It illustrates how following this series of steps can ensure that evaluation criteria directly relate to the desired contractor characteristics which, in turn, directly relate to the performance objectives.

5.5 **Contractor bid response format does not elicit information supporting the evaluation criteria.** While the desired contractor characteristics may be clear and linked to performance objectives and the contract outcomes, the questions asked of bidders in the bidding documents need to directly relate to the evaluation criteria. Otherwise, the bid responses will be difficult to score against the criteria.

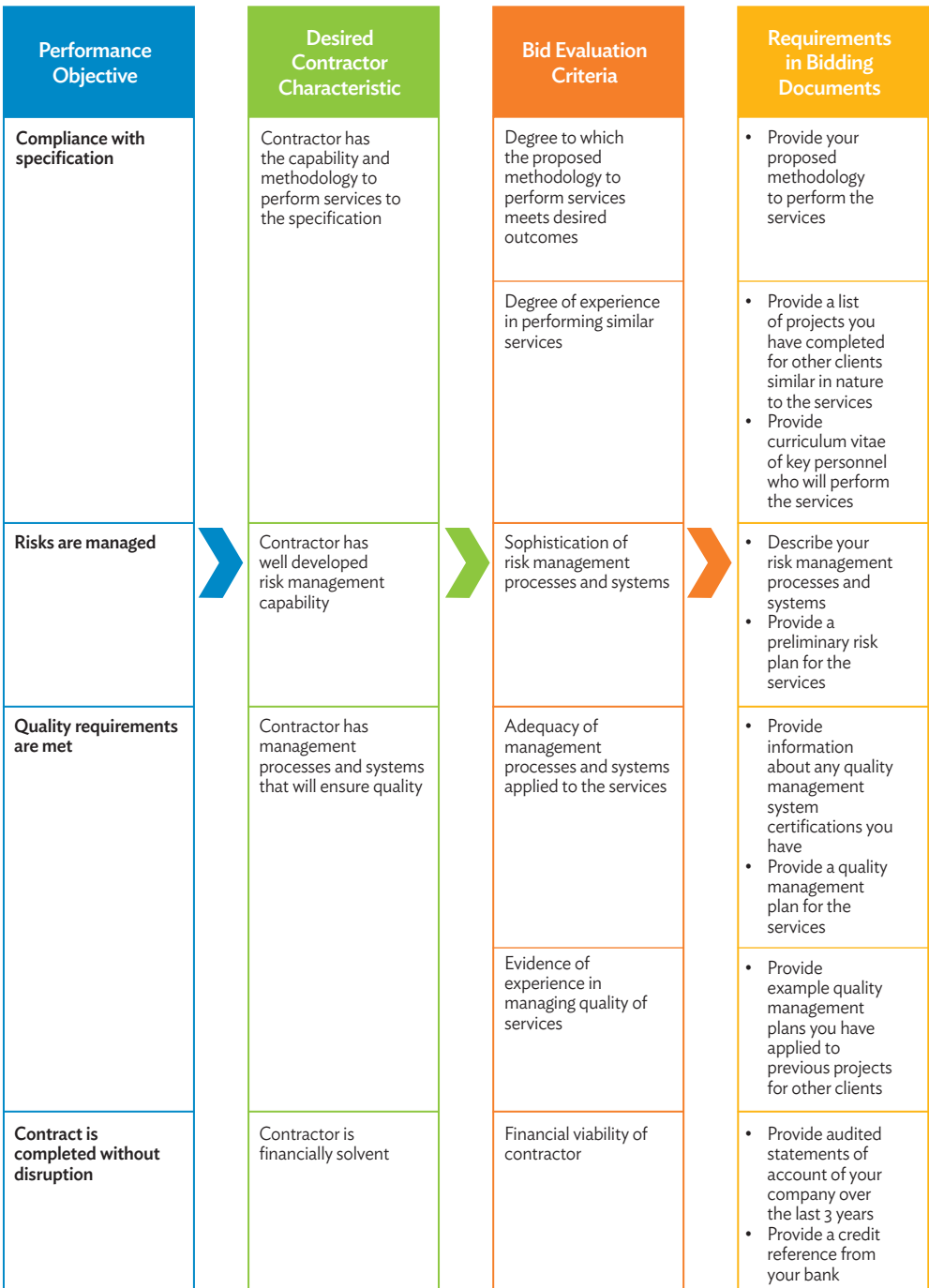
5.6 The evaluation logic chain approach can be used to mitigate this risk. Questions can be developed for bidding documents that directly elicit information that will be effective in determining the contractor’s score against the evaluation criteria and can be shown through this approach to directly relate to contract performance objectives. If personnel in the borrower’s organization suggest questions to be asked of bidders that do not relate to performance objectives, either disallow the question or revisit the contract outcomes and performance objectives.

5.7 **Quality criteria specified cannot be measured objectively.** Depending on the goods, works, or services being procured, criteria used to evaluate the contractor’s ability to meet quality requirements may be clearly objective (e.g., dimensional tolerances for manufactured goods) or subjective (e.g., the provision of services and technology products).

5.8 In the case of services, the quality capabilities of contractors can be determined by seeking information on

- (i) past performance;
- (ii) the proposed quality management plan and quality assurance measures for the services; and
- (iii) the robustness of quality management processes within the contractor’s organization (evidenced through quality certification, quality management systems, stated quality policy, and quality procedures).

Figure 3: Example Evaluation Logic Chain



Source: Asian Development Bank.



5.9 Other contractor attributes that affect the quality of contract outputs can include such factors as capital requirements, availability of plant and equipment, and evidence of managerial and technical capacity. In the case of innovative or high-level technology projects, additional criteria such as the bidder's reputation, abilities on complex projects, and internal processes may need to be considered (tailored to the specific project risks). The *Guidance Note on High-Level Technology* has further details.

5.10 Since evaluation of these criteria can be subjective, objectivity in evaluation can be improved by having multiple evaluators assessing bid responses using a scoring system, with scores defined using score descriptors. During the procurement risk assessment, any risks of subjectivity, bias, and potential abuse of discretion must be carefully considered, and suitable mitigation measures adopted.

5.11 Table 5 gives an example for the evaluation of bidders' quality management and continuous improvement capabilities. The scoring system assigns a score between 0 and 5 for responses to questions in the bidding documents related to the evaluation criterion. The score descriptors provide a benchmark against which a panel of evaluators can score bid responses. The score descriptors should be written prior to the receipt of bids and preferably prior to issuing the bidding documents. While there is still a degree of subjectivity in this approach, the use of multiple evaluators, who may be required to agree on consensus scores after scoring responses individually, instills greater objectivity into the evaluation.

## 2. Evaluation Process Issues

5.12 **Difficulty in measuring if contractor meets criteria.** Even if using objectively measurable quality criteria, there is still a degree of uncertainty around the evaluation of whether a contractor meets these criteria, because the evaluation depends largely on information provided by the contractor.

5.13 To improve the accuracy of the evaluation of contractor quality, objective evidence supporting claimed performance on past projects or services can be required of bidders. In addition, borrowers may rely on data contained in their systems to measure past performance, provided these are objective and nondiscriminatory.

5.14 Several common procurement practices can also be employed to improve confidence in the quality capabilities of contractors, including

- (i) checking the references provided by the contractor, from past clients for whom they have provided similar goods, works, or services;
- (ii) requiring contractors to provide sample quality management plans and quality results from recent assignments; and
- (iii) seeking information on how a "quality culture" exists in the contractor's organization, for example, the knowledge of contractor staff on aspects of their quality management policy and procedures.

**Table 5: Example Score Descriptors**

Evaluation Criteria	Score Descriptor					
	0	1	2	3	4	5
Quality management and assurance, and continuous improvement	Did not respond, or response is inadequate.	Little or no evidence provided for how this management process is applied to their other services or customers. Plan for how this management process is applied to the methodology is either not provided or is of poor quality and is unable to demonstrate any benefit.	A small amount of evidence provided for how this management process is applied to their other services or customers. Evidence shows a low level of proficiency. Plan for how this management process is applied to the methodology is provided, but is of low quality.	Some evidence for how this management process is applied to their other services or customers. The evidence shows some level of proficiency in this management process. Plan for how this management process is applied to the methodology is adequate and will support fair quality outcomes.	Good level of evidence for how this management process is applied to their other services or customers. The evidence shows a good level of proficiency in this management process. Plan for how this management process is applied to the methodology is good and will support good quality outcomes.	Strong evidence for how this management process is applied to their other services or customers, and the evidence shows high proficiency. Plan for how this management process is applied to the methodology is very strong and will support high-quality outcomes.

Source: Asian Development Bank.

5.15 For large contracts or high-level technology, where quality is important, prequalification of contractors on the basis of capacity, capability, and quality may be advisable.

5.16 Preregistration of contractors for the supply of certain types of goods, works, or services may be a time-effective means of ensuring that checking of quality capabilities does not extend the procurement process time for individual procurements, and provides a “bench” of suitable contractors. However, preregistration must not override ineligibility to participate, and must not be used as an alternative to prequalification for a particular contract under open competitive bidding.

5.17 **Evaluation of nonprice factors influenced by pricing information.** One risk in the evaluation process is that exposure of evaluators to pricing information prior to evaluating nonprice information may introduce bias toward evaluating lower-priced contractors more favorably.

5.18 This risk can be mitigated through the use of two-envelope bidding procedures, requiring bidders to submit pricing information separately from nonprice (technical) information, and for the evaluation panel to evaluate the nonprice information before the pricing information. The *Guidance Note on Open Competitive Bidding* has further details on different bidding procedures.

### 3. Contractor Selection Issues

5.19 **Methodology for ranking contractor evaluations insufficiently weights quality.** When quality is an important consideration in contractor selection, a methodology for ranking and selecting bidders is necessary, based on a balance of quality; cost; and other desired characteristics such as safety performance, capability, and capacity. This is commonly achieved by applying percentage weightings to the evaluation criteria in proportion to their importance to the achievement of contract outcomes, and totaling 100%.

5.20 VFM is one of the core ADB procurement principles and this is integrated into all procurement governed by the 2017 procurement regulations. A common VFM ranking methodology involves dividing the weighted nonprice score of a bidder’s response, obtained from the nonprice evaluation, into the bidder’s weighted submitted bid price. The resulting VFM calculation can then be represented visually as illustrated in the example in Figure 4.

5.21 Quality may be of such criticality that it is desirable to weight quality higher than price. In these cases, the calculation method should be stated prior to issuing bids. It is recommended that the bidding documents also include the respective weightings, to emphasize to prospective bidders the relative importance of the various factors. Where quality is given a high weighting, the borrower needs to ensure that evaluation criteria and the scoring system are conducted as objectively as possible.

**Figure 4: Example Value for Money Assessment**



Source: Asian Development Bank.

**5.22 Inflexible selection processes may result in contract award to an abnormally low bid.** In evaluating bids, it may be found that some bids have abnormally low pricing compared to the spread of pricing among other bids, the borrower's initial estimate, or to prevailing market conditions. This may indicate a misinterpretation of requirements by the bidder or a deliberate decision to compromise quality to win the contract. An inflexible evaluation and selection process may require that the lowest priced bidder is awarded the contract, risking an abnormally low bid winning the contract, which may compromise quality outcomes.

**5.23** To mitigate this risk, the bidding documents should include the ability to seek explanations for, to increase the performance security of, and, ultimately, to reject bids that are unbalanced or abnormally low. The *Guidance Note on Abnormally Low Bids* has further information on how to deal with abnormally low bids.

# VI. Implementation and Contract Management

## A. Contribution to Quality

6.1 Contract management plays a vital role in contributing to quality outcomes. Active measurement and monitoring of process measures and outputs informs the contractor and borrower on whether the contract objectives are on track or are at risk of not being achieved. This allows rectification when certain milestones are not being met, thus improving the likelihood that desired outcomes are obtained.

## B. Potential Issues Affecting Quality

6.2 Potential issues in the contract management stage of the procurement cycle that affect quality (Table 6) can be categorized into the activities of

- (i) performance measurement,
- (ii) relationship management,
- (iii) contract change management, and
- (iv) contract closure.

**Table 6: Issues Affecting Quality in the Implementation and Contract Management Stage**

Activity	Potential Issues Affecting Quality
Performance measurement	<ul style="list-style-type: none"><li>• Performance measures not aligned with contract objectives</li><li>• Incorrectly designed performance measures</li><li>• Inattention to performance measurement and monitoring</li></ul>
Relationship management	<ul style="list-style-type: none"><li>• Adversarial relationship affects capacity to jointly address quality issues</li><li>• Relationship structure not clearly defined</li><li>• Inadequate contract administration corrodes relationship</li></ul>
Contract change management	<ul style="list-style-type: none"><li>• Contract objectives or scope change over the course of contract</li></ul>
Contract closure	<ul style="list-style-type: none"><li>• Mishandling of contract expiry or termination</li></ul>

Source: Asian Development Bank.

## C. Mitigating Measures

### 1. Performance Measurement Issues

6.3 **Performance measures not aligned with contract objectives.** This can occur because performance measures are not defined at the time that the contract specification and bidding documents were written, or because performance measures were defined by the contract manager after the contract has been awarded, without having a clear view of the contract objectives.

6.4 Mitigating measures include the following:

- (i) Develop performance measures at the time of writing the specification and include them in the bidding documents.
- (ii) Test all performance measures to ensure that they contribute to the contract objectives.
- (iii) Develop a contract management plan (CMP) prior to contract award, clearly setting out the performance measures, which should also have been included in the contract (refer to the *Guidance Note on Contract Management* for further details).

6.5 **Incorrectly designed performance measures.** Performance measures that are not specific, measurable, achievable, relevant, and time-bound (SMART) can be ineffective (e.g., if they are not measurable), or at worst, can inhibit the achievement of contract outcomes (e.g., if they are not relevant to contract objectives). The *Guidance Note on Contract Management* has more information on key performance indicators.

6.6 **Inattention to performance measurement and monitoring.** Where insufficient effort or resourcing is applied to contract management, including performance measurement and monitoring, the level of quality may gradually decrease. Borrowers should plan to resource the management of contracts in accordance with their value, criticality, and risk. For highly critical contracts, the borrower should be prepared to invest in a more formal, multilevel relationship structure, which may include a relationship steering committee. The relationship structure and reporting expectations should be set out in the CMP.

### 2. Relationship Management Issues

6.7 **Adversarial relationship affects capacity to jointly address quality issues.** The nature of the relationship between the contractor and the borrower can vary depending on the nature of the goods, works, or services and how strategically critical they are to the borrower. A more transactional relationship may be appropriate for the supply of commodities, while a high-value, high-risk project that is of strategic importance to the borrower will be more successful if the relationship is collaborative. If the relationship starts or becomes adversarial, it would likely affect the degree to which collaboration can occur and the resulting value that can be obtained from the contract.

6.8 The risk of the relationship becoming adversarial can be mitigated by having clear contract objectives communicated to the contractor, performance measures that reflect the contract objectives, a clear relationship structure that is appropriately resourced, and clearly defined dispute management mechanisms. All of this should be documented in the CMP.

6.9 **Relationship structure not clearly defined.** This can create confusion over reporting lines and the means for raising and escalating disputes.

6.10 This can be mitigated by specifying a fit-for-purpose relationship structure in the contract and the CMP. The *Guidance Note on Contract Management* has more information.

6.11 **Inadequate contract administration corrodes relationship.** While a well-defined and -resourced relationship structure is important to successful contract management, the relationship can be corroded by inadequate contract administration.

6.12 The contract manager needs to pay attention to ensuring payments to the contractor are made on time and that records management is kept up to date, so that the status of the contract and administrative matters are clear at all times.

### 3. Contract Change Management Issues

6.13 **Contract objectives or scope change over the course of contract.** It is normal for changes to occur to the scope of a contract and the contract objectives over the course of a contract. Quality can be affected where those changes are not clearly communicated and managed. In some cases, the changes can be so great that the contractor may not have the skills, capability, or capacity to implement the revised scope.

6.14 The *Guidance Note on Contract Management* provides advice on how contract changes should be managed. If the changes are so significant that the contractor may not be able to deliver, consider closing the current contract and procuring a new one.

### 4. Contract Closure Issues

6.15 **Mishandling of contract expiry or termination.** Contracts can end because the contract objectives have been achieved and the work completed, the work is no longer required or has significantly changed, or there was a breach of contract or performance issues.

6.16 In each case, the contract closure and transition needs to be managed to avoid adverse outcomes. Risks associated with contract expiry and termination should have been considered during procurement planning and contract management planning, and contingency plans put in place appropriate to the criticality of the contract.

## Appendix: Quality Checklist

A1 Quality needs to be considered at all stages of the procurement cycle to ensure project objectives are achieved. The checklist in the table below is intended to provide procurement practitioners with a list of items to consider at each key stage of the procurement cycle, to ensure quality is being incorporated into decisions made about the procurement process. These items are not a complete list, and the procurement practitioner should consider other aspects that may affect quality that are particular to the procurement of these items.

### Quality Checklist

Item	Yes (✓) or No (X)	Mitigation Measure
<b>Procurement Planning</b>		
Are the project and contract objectives and requirements clear?		<ul style="list-style-type: none"> <li>• Ensure that clear project and contract objectives and requirements have been provided by the borrower or have been validated by the borrower.</li> </ul>
Are the project and contract objectives clearly stated in the procurement plan and are stakeholders aligned?		<ul style="list-style-type: none"> <li>• Ensure that the procurement plan and, specifically, the project and contract objectives have been reviewed and validated by stakeholders.</li> </ul>
Are the borrower's capability and capacity sufficient to ensure a fair and quality procurement process that is free from risks of abuse or bias?		<ul style="list-style-type: none"> <li>• Seek support from external procurement consultants or bring in additional procurement support.</li> </ul>
Do suitably qualified contractors exist in the geographical market or market sector?		<ul style="list-style-type: none"> <li>• Expand the market analysis to other countries or related market sectors.</li> <li>• Work with the contractor on improving their capability, e.g., through industry associations or other private sector interventions.</li> </ul>
Does the market analysis indicate that the power of contractors is such that quality may be compromised?		<ul style="list-style-type: none"> <li>• Build incentives and penalties into the contract linked to quality measures.</li> <li>• Broaden the supply base to increase competition.</li> <li>• Develop industry capability.</li> <li>• Insource the requirement.</li> </ul>

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Quality Checklist *continued*

Item	Yes (✓) or No (X)	Mitigation Measure
Has a comprehensive risk assessment been completed that includes fit-for-purpose and integrity-related issues?		<ul style="list-style-type: none"> <li>• Complete a risk assessment.</li> </ul>
Is the proposed procurement strategy appropriate and will it promote the achievement of project and contract objectives?		<ul style="list-style-type: none"> <li>• Document the selected procurement strategy and validate with procurement managers and stakeholders.</li> </ul>
<b>Design and Bidding Document Preparation</b>		
Are the project requirements accurately reflected in the specification (or design) and do they support an objective evaluation process?		<ul style="list-style-type: none"> <li>• Validate the requirements with stakeholders.</li> <li>• Consider incorporating some of the following, as appropriate:               <ul style="list-style-type: none"> <li>– quality assurance mechanisms (e.g., testing and inspection);</li> <li>– warranties;</li> <li>– defect liability clauses;</li> <li>– functional guarantees;</li> <li>– performance securities;</li> <li>– insurances; and</li> <li>– completion certificates linked to payments.</li> </ul> </li> <li>• Consider using a performance-based specification for outputs rather than inputs or processes.</li> </ul>
Have the performance measures (i.e., key performance indicators) stated in the proposed contract been analyzed for impacts on contractor behavior and competition?		<ul style="list-style-type: none"> <li>• Perform analysis to determine any undesired behavior.</li> <li>• Consider use of a “balanced scorecard” to offset undesired behavior.</li> </ul>
Has the compensation model (pricing structure, and incentives or penalties) been analyzed for impacts on contractor behavior?		<ul style="list-style-type: none"> <li>• Analyze potential positive and negative contractor behaviors.</li> <li>• Include quality performance measures to counteract adverse impacts of pricing structure.</li> <li>• Consider use of payments on achievement of milestones.</li> </ul>
If the requirements are incorporated into a design document, is there sufficient detail to avoid misinterpretation by the contractor?		<ul style="list-style-type: none"> <li>• Assess the supply market capability prior to determining the level of design detail required.</li> <li>• Use standards to govern the quality aspects not detailed in the design.</li> <li>• Involve an expert consultant in the design development phase.</li> </ul>

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Quality Checklist *continued*

Item	Yes (✓) or No (X)	Mitigation Measure
If despecification has occurred to reduce costs, have changes been evaluated against total life cycle costs?		<ul style="list-style-type: none"> <li>• Review the specification using structured “value engineering” methodologies.</li> <li>• Consider the total cost of ownership in determining despecifying changes.</li> <li>• Conduct an operability review of the design by an expert consultant or independent contractor.</li> </ul>
<b>Evaluation and Contract Award</b>		
Are the evaluation criteria objective and aligned with the desired contractor characteristics and project outcomes?		<ul style="list-style-type: none"> <li>• Use an evaluation logic chain to link evaluation criteria to performance objectives.</li> </ul>
Are the evaluation criteria objective and fit for purpose given the nature, value, complexity, and criticality of the procurement?		<ul style="list-style-type: none"> <li>• Validate with procurement colleagues and stakeholders.</li> </ul>
Do the questions asked of bidders in the bidder response template developed as part of the bidding documents elicit information that directly relates to the criteria?		<ul style="list-style-type: none"> <li>• Use an evaluation logic chain to link bidding document questions to evaluation criteria.</li> </ul>
Has the appropriate weighting been applied to cost and noncost factors?		<ul style="list-style-type: none"> <li>• Validate with procurement colleagues, evaluation panel, and stakeholders.</li> </ul>
Does the selection process stated in the bidding documents permit questioning and rejection of abnormally low bids?		<ul style="list-style-type: none"> <li>• Include in bidding documents (as appropriate).</li> </ul>
<b>Implementation and Contract Management</b>		
Are performance measures stated in the contract and CMP aligned with contract objectives?		<ul style="list-style-type: none"> <li>• Develop performance measures when writing the specification.</li> <li>• Test performance measures to ensure they contribute to contract objectives and adjust accordingly.</li> <li>• Include performance measures in the CMP and contract.</li> </ul>
Are the performance measures SMART?		<ul style="list-style-type: none"> <li>• Check and adjust as necessary.</li> </ul>

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Quality Checklist *continued*

Item	Yes (✓) or No (X)	Mitigation Measure
Does the level of resourcing of contract management by the borrower reflect the value, risk, and criticality of the contract?		<ul style="list-style-type: none"> <li>• Document the relationship management structure and required resourcing levels in the CMP and obtain approval.</li> <li>• Include under-resourcing as a risk in the risk assessment.</li> </ul>
Is the dispute resolution mechanism clearly defined?		<ul style="list-style-type: none"> <li>• Include the dispute resolution mechanism in the CMP and in the contract as appropriate.</li> </ul>
Is the relationship structure clearly defined?		<ul style="list-style-type: none"> <li>• Document in the CMP.</li> </ul>
Does the CMP ensure that contract administration (including administration associated with the pricing structure) will be adequately attended to?		<ul style="list-style-type: none"> <li>• Include contract administration requirements in the CMP and include associated activities in the resource estimate in the plan.</li> </ul>
Is there a defined mechanism in the contract for handling contract changes?		<ul style="list-style-type: none"> <li>• Include in the contract.</li> </ul>
Has a contract closure plan been established or included in the CMP?		<ul style="list-style-type: none"> <li>• Identify risks associated with early contract termination and include in the risk assessment.</li> <li>• Include mitigating measures in the contract and the CMP as appropriate.</li> <li>• Include a requirement in the specification for the successful contractor to develop a “transition-out” plan, as appropriate.</li> </ul>

CMP = contract management plan; SMART = specific, measurable, achievable, relevant, time-bound.

Source: Asian Development Bank.

# Quality

## *Guidance Note on Procurement*

Establishing and maintaining quality is crucial to ensuring a good project outcome. This guidance note advises borrowers on how they can incorporate quality at key stages of the ADB procurement cycle and provides ways for them to manage and mitigate the risk of impacts to quality. This note also contains a checklist of items that may be considered by the procurement practitioner to ensure that quality is integrated into the decisions made during the procurement process. Improvement in the quality of procurement decision-making and support will increase efficiency, reduce risk and procurement time, and ensure value for money in ADB-supported projects.

## **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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