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Flexible Weighting Under Quality- and Cost-Based Consultant Selection

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
COSO	–	Central Operations Services Office
PAI	–	project administration instruction
QBS	–	quality-based selection
QCBS	–	quality- and cost-based selection
TA	–	technical assistance

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I. INTRODUCTION

1. On 6 February 2006, the Board of Directors of the Asian Development Bank (ADB) approved the revised *Guidelines on the Use of Consultants* (Guidelines). There were several reasons for the changes, including to (i) promote operational efficiency, enhance accountability, and streamline procedures; (ii) permit greater flexibility in procedures used to recruit consultants, given borrower requirements and the increasingly complex and varied nature of ADB projects; and (iii) reduce transaction costs by harmonizing ADB's policies and procedures, to the extent possible, with other multilateral development banks' and financial institutions'.

2. In approving the revised Guidelines, a number of Board members stated that the weighting of cost and quality in recruiting consulting firms under the quality- and cost-based selection (QCBS) method was too rigid and questioned the requirement of having a fixed ratio of 80:20 (quality–cost) for final QCBS proposal ranking. Board members pointed out that the World Bank's consulting services guidelines¹ allow for such flexible weighting under QCBS.

3. The President directed ADB's Central Operations Services Office (COSO) staff to provide the Board with an update on QCBS, including a recommendation on making QCBS weighting more flexible. At a Board briefing held on 28 August 2006, COSO outlined the background of QCBS and explained the issues and factors relating to a possible amendment of the Guidelines to allow a variable weighting in the quality–cost ratio for final ranking of proposals under QCBS. Most Board members supported the change and appreciated this step to further harmonize ADB's policies with those of the World Bank.

4. This paper addresses the use of the 80:20 final ranking weighting ratio and recommends that the Guidelines allow for more flexibility in ranking proposals under QCBS.

¹ The World Bank's *Guidelines for Selection and Employment of Consultants by World Bank Borrowers* apply to recruitment of consultants by its borrowers. ADB's guidelines apply to recruitment of consultants by ADB borrowers and by ADB itself. Section 2.23 of the World Bank guidelines states: "...The total score shall be obtained by weighting the quality and cost scores and adding them. The weight for the 'cost' shall be chosen, taking into account the complexity of the assignment and the relative importance of quality. Except for the type of services specified in Section III, the weight for cost shall normally be 20 points out of a total score of 100 ..."

II. BACKGROUND AND RATIONALE

A. Introduction of Quality- and Cost-Based Selection

5. On 1 April 2002, the Board endorsed the use of QCBS to select consulting firms, and the Guidelines were amended accordingly.² Before that, ADB used only quality-based selection (QBS)³ for competitive selection of consulting firms. QCBS has become the normal method to select consulting firms under ADB-funded or -administered technical assistance (TA) and loans. It is used for about 90% of such recruitment.⁴

6. Under QCBS, the technical and financial proposals of shortlisted consultants are submitted at the same time in separate envelopes. The sealed financial proposals are securely stored until after the technical evaluation of proposals. To ensure an acceptable standard of technical quality, the minimum technical score is 750 out of a possible 1,000 points.⁵ Following technical evaluation, proposals that received or exceeded the minimum technical score are publicly opened. When a proposal receives a technical score of less than 750 points, the proposal is deemed “non-responsive” and the financial proposal is returned to the consulting firm unopened.

7. After the financial proposals are opened, their content is checked for compatibility with the substance of the technical proposals. When there are omissions, the accompanying financial proposals are loaded to include missing costs so they can be evaluated. The final ranking of the proposals is computed using a fixed weighting of 80% for technical quality and 20% for cost. The first-ranked firm is subsequently invited for contract negotiations. During negotiations, only minor adjustments can be made and the remuneration and out-of-pocket unit rates proposed by the consultant are normally not questioned.

B. Critical Factors for Selection Method

8. Several factors need to be considered in determining the most appropriate method for selecting consultants. First, the complexity of the assignment needs to be assessed. For relatively straightforward assignments where the terms of reference are standardized, and few, if any, innovative solutions or recommendations need to be provided by the consultants, cost considerations are more relevant. This has practical significance because, for standardized assignments, costs can be estimated with greater accuracy. However, for assignments that are varied or have unique or nonstandard aspects, or where innovation is particularly important, quality considerations are more important and, correspondingly, it is more difficult to make precise cost calculations.

² ADB. 2002. *Use of Price as a Criterion for Selection of Consultants*. Manila.

³ Under QBS, short-listed consulting firms submit only technical proposals. Following technical proposal evaluation, the first-ranked consultant submits a financial proposal, then contract negotiations are held.

⁴ Since the introduction of QCBS, cost savings have averaged over 10% per contract. A review of 100 QCBS assignments contracted under ADB TA indicates that about 80% of firms whose technical proposal was ranked first were awarded contracts and that, for most of the remaining 20%, the second-ranked firm was contracted. A Board information note providing a detailed update on QCBS was circulated before Board approval of the Guidelines this year. While available data for contracts awarded to consulting firms by borrowers under QCBS are limited, the profile of QCBS contract awards under loans is broadly similar to that under TA, with most contracts awarded to the technically first-ranked consulting firm. The available data on QCBS recruitments under loans also suggest that expert teams are more multi-national, with increased participation of national consultants.

⁵ Guidelines, para. 2.13.

9. Second, the downstream impact of the assignment needs to be ascertained. Where substandard consultants' outputs might cause potential beneficiary injury, disaster, or financial losses, quality considerations become critical in choosing the consultant selection method. An analysis of the assignment objectives and the tasks, as detailed in the consultant's terms of reference, provides the basis to determine whether quality or cost should be paramount. The Appendix illustrates the relationship between flexible weighting under QCBS (as compared with QBS) depending on the assignment's complexity and impact.

10. From the client's perspective, technically qualified consultants are more commonly available to perform QCBS assignments than the more specialized experts needed under QBS. Therefore, when QCBS is used, the client seeks "best value" and emphasizes cost. While the emphasis on cost is dependent on the technical requirements of an assignment's complexity and impact, the quality–cost ratio norm for QCBS applied by multilateral development banks is 80:20, which has facilitated predictability and smooth administration. For assignments of relatively low levels of complexity and with minimum downstream impact, the weighting for cost under QCBS has not exceeded 30%.⁶ This operational limit is considered reasonable as higher levels of cost weighting are likely to increase the risk of compromising the technical quality of consultant output and performance.

C. Flexibility in Applying the Quality–Cost Ratio under Quality- and Cost-Based Selection

11. When the Board first approved the use of QCBS, it mandated the application of a fixed quality–cost ratio of 80:20 in all cases. This approach has worked reasonably well and has facilitated smooth administration of QCBS. With the recent introduction of new selection methods, cost has become increasingly important in consultant recruitment. In least-cost selection, the "cheapest" proposal wins. In fixed-budget selection, if a proposal exceeds the specified budget, it is rejected. Cost is emphasized in cases of specialized recruitment such as for procurement and inspection agents: cost weighting is permissible up to 50%.

12. However, the more flexible system of quality–cost weighting under QCBS has advantages. With increasingly broad-ranging types of assignments given varied project considerations and borrower needs, more flexibility in applying QCBS quality–cost weighting permits more responsive consultant engagement. In some cases, applying a 70:30 quality–cost ratio can result in considerable cost savings, particularly under ADB-financed loans, with marginal impact, if any, on quality. In other cases, applying a 90:10 quality–cost ratio may be preferable if a project is complex or could have negative downstream impact if quality standards are not high. Moreover, increased flexibility in applying the QCBS quality–cost ratio further harmonizes the approaches of ADB and other multilateral development banks, principally the World Bank. As in the case of the World Bank, most ADB-financed consultant engagements are expected to maintain QCBS quality–cost ratios at 80:20 or higher.⁷

III. IMPLEMENTATION ARRANGEMENTS

13. The revised Guidelines require borrowers, as part of processing of loan and/or grant projects, to prepare a procurement plan⁸ in consultation with ADB. This plan covers the

⁶ Operational practice at the World Bank does not permit cost weighting by borrowers under QCBS to exceed 30%.

⁷ Recent statistics provided by the World Bank indicate that about 90% of all World Bank loan consulting assignments use QCBS. Of these, about 75% apply quality–cost ratios from 80:20 to 90:10, and 25% 70:30 to 80:20.

⁸ Details of the procurement plan are in para. 1.27 of the Guidelines.

packaging and procedures to be used to procure goods and works and select consultants and must be completed before loan negotiations. For consulting services, the plan sets forth (i) each contract package, (ii) the proposed method of selection, (iii) the type of proposal to be used, and (iv) an overall indicative recruitment schedule and budget for each consulting contract.

14. Introducing the procurement plan provides a facility during project design for the borrower and ADB to consider the most appropriate consultant selection method for the various consulting services packages. Where the procurement plan indicates QCBS as the appropriate method, it will propose the weighting for the final-ranking quality–cost ratio. Each procurement plan will be carefully reviewed and approved by ADB during project processing and before loan negotiations.⁹

15. Executing agency and ADB staff will need guidance in determining the appropriate ratio for final ranking of consulting firms' proposals. The project administration instructions (PAIs),¹⁰ therefore, will be revised to provide detailed project-level guidance on applying critical factors (paras. 8-9) in setting the correct QCBS quality–cost ratio as well as, more broadly, in identifying the factors to determine the selection method. This guidance will be disseminated to ADB and executing agency staff and to consultants during COSO's regular seminars and workshops.

IV. RECOMMENDATION

16. It is recommended that the Board approve (i) the use of a flexible weighting in the quality–cost ratio for the final ranking of consultants' proposals when the quality- and cost-based selection (QCBS) method is used, and (ii) the revision of para. 2.16 of the *Guidelines on the Use of Consultants by the Asian Development Bank and its Borrowers* to state:

2.16 The total score shall be obtained by weighting and adding the technical and financial scores; this will determine the overall ranking of the consultants' proposals. The weight for the "cost" shall be chosen, taking into account the complexity of the assignment and the relative importance of quality. Except as provided for in the case of other selection methods, the weight for cost shall normally be 20%.

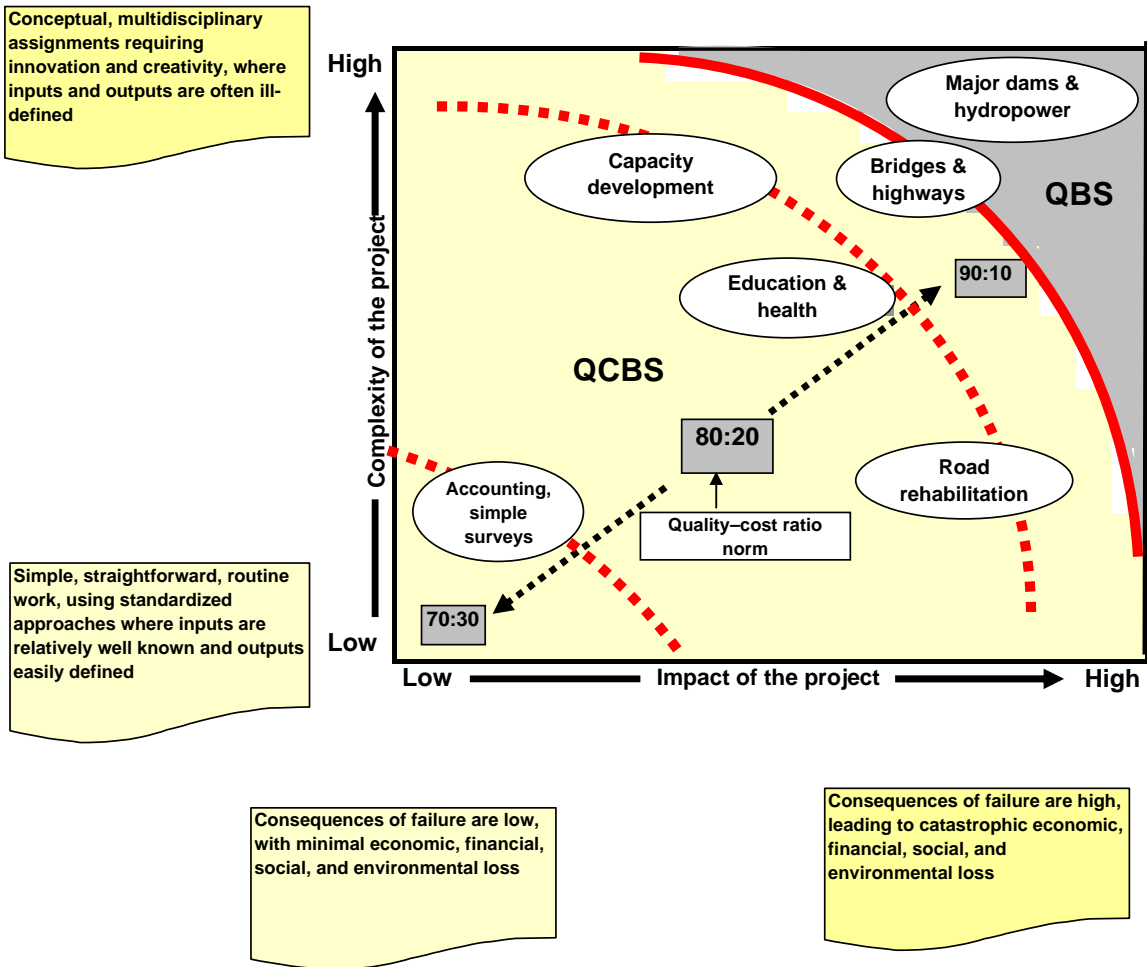
After Board approval, the Guidelines, PAIs, and ADB's standard consulting services documents will be revised to allow the use of a variable QCBS ranking ratio. To provide adequate time to prepare for the change as projects are prepared, (i) in the case of consulting services financed by loans or Asian Development Fund grants, the procurement plan for all projects for which reports and recommendations of the President are circulated after 1 April 2007 will specify the proposed quality–cost ratio when QCBS is used; and (ii) in the case of grant-financed TA, all TA papers approved after 1 April 2007 will specify the proposed quality–cost ratio when QCBS is used.¹¹

⁹ Procurement plans are updated on a "rolling" basis during project implementation.

¹⁰ As the PAIs are accessible on the ADB's website, executing agency staff and members of the consulting industry have access to this information. The PAIs will be updated to include provisions providing guidance on applying flexible cost weighting under QCBS subsequent to Board approval of this Recommendation Paper.

¹¹ In the transition following Board approval, project documents may propose a departure from the 80:20 quality–cost ratio. After 1 April 2007, the weighting must be specified.

FLEXIBLE WEIGHTING UNDER QUALITY- AND -COST-BASED SELECTION (QCBS)



Notes:

1. Figure adapted from a paper prepared by the Joint Working Group of the Consulting Industry (JWCI) at the 1999 Biennial Meeting of the International Lending Agencies and the Consulting Industry (BIMILACI '99).
2. Project examples are for illustrative purpose only.