

# Project Administration Instructions

PAI 2.02, Part C  
Revised January 2008  
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## RECRUITING CONSULTING FIRMS PART C: TYPES OF CONTRACTS

### A. Introduction

1. This project administration instruction (PAI) outlines the four types of contracts that the Asian Development Bank (ADB) and executing agencies (EAs) use to engage consulting firms and highlights some of the special provisions ADB requires in contracts between EAs and consultants. Also read PAI 2.01, which provides general guidelines on recruiting consultants, and the other parts of PAI 2.02, which provide guidelines on recruiting consulting firms.
2. The Central Operations Services Office (COSO) provides copies of the contracts in its standard documents on ADB's intranet and website. Project officers may ask COSO for more information.

### B. Time-Based Contracts

3. Under time-based contracts, payments are based upon the time inputs of the consultants' experts along with payment for the expenses involved in providing the consulting services. Time inputs are normally funded on the basis of monthly remuneration rate, and expenses are normally funded on a reimbursement basis or through the provision of lump sums. For contract periods of less than 1 month, decimal fractions of a month, are used.<sup>1</sup>
4. ADB and EAs use time-based contracts when expertise, time inputs, outputs, and length of the assignment may be subject to variation during implementation. Time-based contracts generally require a higher degree of supervision and administrative cost than lump-sum contracts. Since outputs cannot be guaranteed for the time inputs provided, time-based contracts entail a certain degree of risk for the contractor, i.e., ADB or the EA.

### C. Lump-Sum Contracts

5. Lump-sum contracts link payments to the consultant's outputs. Payments are generally phased over time during the implementation period. The total price includes all the consultant's costs and is fixed, so it cannot be changed during implementation.
6. ADB and EAs use lump-sum contracts when it is possible to state precisely the length and scope of the assignment and the outputs required. Therefore, ADB and EAs normally use lump-sum contracts when they use selection methods other than quality-based selection and quality- and cost-based selection and when they use simplified or biodata technical proposals. Lump-sum contracts require well-

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<sup>1</sup> When calculating input of less than 1 month, ADB uses two measures: calendar days and working days. One month consists of either 30 calendar days or 22 working days. Calendar days are normally used for periods in the field, while working days are used for time inputs at the home office. If the basis of computation is calendar days, then up to 30 days per month may be charged, and the daily rate is the monthly rate divided by 30. If the basis of computation is working days, then only 22 days per month may be charged, and the daily rate is the monthly rate divided by 22.

defined outputs, costing, and terms of reference but may save time and expense during implementation. In lump-sum contracts, the greater degree of risk is on the consultant, since unforeseen factors may lead to greater than expected costs in order to ensure the agreed upon output.

#### **D. Performance-Based Contracts**

7. Performance-based contracts link some or all of the payments to the consultant achieving specific measurable outputs at clearly indicated times. The outputs are often challenging, and the payments may vary depending on the consultant's performance. Definition of the outputs, and, where appropriate, an outcome, should be derived from the TA or project design and monitoring framework. The contracts may include a separate set of payments linked to the consultant's inputs.

8. ADB and EAs use performance-based contracts to emphasize the quality and timeliness of the consultant's outputs and to obtain the best quality services. The outputs that will trigger payments must be clearly defined and verifiable. It is usually easier to specify verifiable outputs when they are physical, such as in a construction project ("progress" outputs), than when they are intangible, such as in an institutional strengthening project ("process" outputs). When output verification is difficult, the contract usually includes both time- and performance-based payments.

9. Performance-based contracts require extra work for planning the assignment, estimating the costs, and defining the outputs that will trigger payments. They may also require extra effort to negotiate the contract. However, they provide the consultants with incentives to deliver the highest quality services possible.

#### **E. Indefinite-Delivery Contracts**

10. Indefinite-delivery contracts (IDCs) are those in which individual consultants, firms, or consortia of firms are preselected and retained for an indefinite period, which may be up to 4 years, to provide advice on a particular activity, the extent and timing of which cannot be defined in advance. At times a panel of retainer firms is chosen from which expertise may be requested on a competitive basis as and when the need for a particular type of expertise arises. IDCs are most appropriate when (i) the services are required urgently and a lengthy tendering process is impossible; and (ii) each individual assignment is small, making an expensive selection process inefficient, although when added together, the overall amount of work is substantial. The consultant's remuneration rates remain fixed for the period, but the contract does not specify the consultant's inputs or when they will be required. The consultant's actual remuneration depends on the inputs ADB or the EA subsequently uses.

11. ADB and EAs use IDCs to keep consultants on call when it is difficult to predict the extent and timing of the services required. Examples are advisors for implementing complex projects such as those on "dam panels," adjudicators for dispute resolution panels, advisors for institutional reforms, and technical troubleshooters. ADB and EAs may also use IDCs for repetitive assignments such as auditing a series of projects, translating documents, and editing documents.