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ABOUT THIS PUBLICATION

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 The notes may be updated, replaced, or withdrawn from time to time.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.

**Transparency**

Value for Money

The effective, efficient, and economic use of resources, which requires an evaluation of relevant costs and benefits along with an assessment of risks, nonprice attributes, and/or total cost of ownership as appropriate

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Quality</th>
<th>Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased transaction costs</td>
<td>Contract management support</td>
<td>Open competitive bidding</td>
</tr>
<tr>
<td>Increased skills</td>
<td>Prompt resolution of complaints</td>
<td>Decentralization</td>
</tr>
<tr>
<td>Increased high-level technology usage</td>
<td>Improved developing member country procurement process</td>
<td>Accreditation for alternative procurement arrangements</td>
</tr>
<tr>
<td>Improved procurement planning</td>
<td>Improved procurement planning</td>
<td>Principles-based decisions</td>
</tr>
<tr>
<td>Support and encouragement of e-procurement systems</td>
<td>Governance</td>
<td>Improved procurement planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delegation</td>
</tr>
</tbody>
</table>

**Fairness**

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.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>KPI</td>
<td>key performance indicator</td>
</tr>
<tr>
<td>PPP</td>
<td>public–private partnership</td>
</tr>
<tr>
<td>TCO</td>
<td>total costs of ownership</td>
</tr>
<tr>
<td>VFM</td>
<td>value for money</td>
</tr>
</tbody>
</table>
This guidance note expounds on the principle of value for money (VFM) and its relevance and application to the different phases of the Asian Development Bank (ADB) procurement cycle. It also introduces “life cycle costing,” which takes into account not only the acquisition cost, but also a combination of paid price plus the cost of operating and maintaining the goods or services procured. The guidance note provides a matrix of the relationship of VFM with other ADB core procurement principles to give a better understanding of how VFM works with the other principles.

Effective application of the VFM principle may

**Reduce Risk and Improve Quality**

- Risks are appropriately identified and managed through better design of the procurement arrangements.
- Contracts awarded are based on suitable evaluation criteria and an appropriate assessment of cost over the life of the asset.

**Improves Performance**

- Suppliers may offer cost-effective and innovative solutions to meet the identified needs.
- Contracts are managed effectively to ensure that the desired balance between cost and benefit is achieved throughout delivery.

**Improve Fairness and Transparency**

- The needs of end users and other stakeholders are identified and incorporated into the project procurement design.
I. Introduction

A. Scope and Definition

1.1 This guidance note elaborates on the core procurement principle of value for money (VFM) of the Asian Development Bank (ADB) and on how borrowers (including grant recipients) may apply it throughout the procurement cycle in projects financed in whole or in part by an ADB loan or grant, or by ADB-administered funds. The Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) contain the requirements for implementing the concepts outlined in this guidance note, particularly in its Appendix 1 on VFM.

1.2 ADB defined VFM as a core procurement principle for the first time in 2017 in its ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time). The procurement policy defines VFM as the principle that “enables the borrower to obtain optimal benefits through effective, efficient, and economic use of resources by applying, as appropriate, the core procurement principles and related considerations, which may include life cycle costs and socioeconomic and environmental development objectives of the borrower. Price alone may not sufficiently represent VFM.”

B. Value for Money in the Procurement Cycle

1.3 Whenever decisions are made during the procurement cycle, there will be a trade-off between the benefits gained and the costs incurred relative to the benefits and costs of an alternative approach. There are opportunities throughout the procurement cycle to more effectively, efficiently, and economically use the resources available to a project—in other words, to achieve VFM. This may include, for example, ensuring that

(i) transparency and integrity are achieved throughout the procurement cycle;

(ii) the needs of end users and other stakeholders are appropriately identified and factored into the procurement arrangements;

(iii) a clear statement of the procurement needs and objectives is developed, including permitted socioeconomic or environmental goals, if any;
(iv) a procurement modality proportional to the risk, value, context, and strategic importance of the procurement (i.e., making the process fit for purpose) is chosen;

(v) the technical requirements are adequately specified, as are the cost and noncost elements that will need to be evaluated to achieve those requirements, including on a life cycle basis where appropriate;

(vi) a contractual form appropriate for the objectives is selected;

(vii) clear evaluation criteria aligned with the needs and objectives are developed;

(viii) the bidder whose bid best meets the needs and objectives is selected; and

(ix) an effective contract management plan is developed to ensure that the contract is successfully implemented and that the deliverables are met as agreed in the contract.

1.4 VFM is the result of a cost–benefit analysis applied to a specific set of risks present in a procurement cycle. These risks are dependent on country context and the procurement objectives. Achieving VFM through the effective, efficient, and economic use of resources requires the evaluation of relevant costs, and price and nonprice benefits (based on the objectives sought), along with an assessment of risks, nonprice attributes, and/or total costs of ownership (TCO), as appropriate. Appendix 1 describes the concept of TCO in more detail.

1.5 ADB defines the procurement cycle as the process that starts with the identification of a need, through its country partnership strategy and project conceptualization processes, and continues through procurement planning; preparation of specifications, cost estimates, and bidding documents; bidding; bid evaluation; contract award; contract management; and contract and project closure. VFM considerations apply throughout the ADB procurement cycle (Figure 1).

C. Achieving Value for Money in the Procurement Cycle

1.6 This guidance note introduces options to achieve VFM at four key stages of the procurement cycle:

(i) appropriate levels of planning to develop a suitable procurement plan, including design of the procurement approach;

(ii) identifying the requirements (specifications and/or terms of reference) to be delivered through the contract;

(iii) appropriate use of evaluation criteria; and

(iv) management of the contract.

1.7 Appendix 2 of this guidance note outlines the types of issues that should be considered in each stage of the procurement cycle and sets out the implications of doing so. It should serve as a guide to some of the issues that should be considered for the purposes of assessing VFM options—not as a strict methodology.
1.8 The exercise of identifying VFM begins at the start of the procurement cycle and continues throughout. VFM entails balancing the principles of quality, efficiency, and economy in making procurement decisions to achieve optimal solutions that support development objectives.

1.9 VFM addresses a concern with obtaining quality results. Contract decisions based on efficiency or economy alone can result in a contract being awarded to the lowest-priced bid regardless of other relevant factors. The application of VFM overcomes this by allowing procurement to

(i) reflect TCO, thus incorporating issues of reliability, performance, maintenance, and other factors that determine overall quality;
(ii) provide a platform for both quantitative and qualitative factors to be incorporated into the evaluation; and
(iii) take account of externalities, such as environmental and social impacts.
1.10 Borrowers will need to make a full assessment of how ADB’s core procurement principles will be applied in practice to a procurement process to take account of its risk and complexity. Appendix 3 provides an indicative tool that may be used to identify the interplay among the core procurement principles, allowing for an appropriate balance between the principles to be achieved based on individual circumstances.
A. Procurement Strategy and Procurement Planning Process

2.1 The best opportunity for achieving VFM is at the planning stage of the procurement cycle through the procurement plan. Achieving good procurement outcomes depends on the way the procurement activities are carried out. This will be supported by conducting thorough strategic procurement planning and developing a fit-for-purpose procurement strategy and procurement plan. The Guidance Note on Strategic Procurement Planning provides further details to the concepts discussed throughout this section.

2.2 The preparation of the procurement strategy and procurement plan should begin as early as possible once the key requirements of the project are understood, normally at or immediately after the project conceptualization stage. The strategy and plan should cover all contract requirements foreseen and should be updated when additional important information becomes known.

2.3 Through the strategy and planning process, the borrower and ADB consider, among other things, market conditions; operational context; client capability; contract duration and timing; previous experience; risks present; and all appropriate procurement modalities and bidding arrangements. Appropriate levels of research and analysis are needed to identify the inherent risks and opportunities in these areas. From these, the optimal procurement approach can be determined.

2.4 Significant procurement risks can then be factored into the procurement arrangements. For example,

(i) experience implementing similar contracts can be factored in to speed up implementation, such as resettlement or licensing requirements that delay contractor mobilization;
(ii) identified market obstacles may be addressed through appropriate contract packaging or choice of procurement modality to encourage appropriate bidder participation;
(iii) low capability to manage the contract can be improved through additional support; and
(iv) complex procurements that would benefit from high-level technology, innovation, and solutions known by bidders may be better served by using a multistage bidding arrangement.
2.5 The procurement plan should ensure that it represents fitness for purpose under each of its sections and is based on findings of the country and sector/agency procurement risk assessment and the project procurement risk assessment. The Guidance Note on Procurement Risk Framework and the Guidance Note on Strategic Procurement Planning contain further details on these two risk assessments.

B. Procurement Approach

2.6 The procurement approach should be designed to ensure that the bidders who are most capable of delivering VFM are encouraged to bid and are given the best opportunity to demonstrate the value they can offer through the selection process, so that the right bidder is ultimately selected for contract award. By using the right procurement modality and bidding arrangements, there is a far greater likelihood of the right bidders participating and better bids being received, and there will be an increased chance overall of achieving optimal VFM.

2.7 Borrowers can choose from different contract forms, procurement modalities, and bidding arrangements to determine the most fit-for-purpose approach. Options include, among others:

(i) use of open or limited competitive bidding;
(ii) use of national or international advertising arrangements;
(iii) use of prequalification or shortlisting arrangements;
(iv) use of one- or two-stage bidding processes with submissions in one or two envelopes;
(v) procurement of firms or individuals; and
(vi) use of lump sum, time-based/unit price, performance-based, percentage, or framework contract forms, or other specialized contracting arrangements such as design–build, design–build–operate, build–operate–transfer, etc.

2.8 Deciding which option to use is primarily dependent on the level of competition in the market, the number of capable prospective bidders available, the specificity and nature of the requirements, the urgency of the requirement, proposed financing arrangements, the borrower’s capacity, and the inherent risks involved in delivery and desired risk-sharing arrangements.

2.9 Each combination of options will present a different trade-off between cost and benefit. The borrower should consider what is fit-for-purpose and will give the best VFM, in terms of

(i) time and resources to carry out the procurement process;
(ii) transaction costs for bidders inherent in the procurement approach that might affect their willingness and ability to participate; and
(iii) the risk of not achieving the desired outcome due to the borrower’s lack of capacity to manage the procurement process, including its integrity-related risks.
2.10 Table 1 lists some of the options for procurement modalities and bidding arrangements, and provides an indication of the circumstances where each is best suited for use. The choice of procurement approach may also be influenced by the type of specification that would normally be used, discussed further in section III. Further details can be found in the 2017 procurement regulations and the Guidance Notes on (i) Open Competitive Bidding, (ii) Consulting Services Administered by ADB Borrowers, (iii) Nonconsulting Services Administered by ADB Borrowers, (iv) Framework Agreements for Consulting Services, and (v) Prequalification.

Table 1: Some Options for Procurement Modalities and Bidding Arrangements

<table>
<thead>
<tr>
<th>Procurement Modality</th>
<th>Characteristics</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open competitive bidding</td>
<td>• Openly advertised so any eligible bidder may participate</td>
<td>• Widespread use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ADB’s preferred approach</td>
</tr>
<tr>
<td>Limited competitive bidding</td>
<td>• Limited number of bidders invited without advertisement</td>
<td>• Limited pool of capable bidders or a narrow market</td>
</tr>
<tr>
<td></td>
<td>• Used in circumstances where advertising offers no advantage in satisfying the core procurement principles, e.g., in emergency situations or where justified by market assessment</td>
<td></td>
</tr>
<tr>
<td>Request for quotations</td>
<td>• Usually a direct invitation to a limited number of bidders</td>
<td>• Small value does not justify cost of more complex modalities</td>
</tr>
<tr>
<td></td>
<td>• Used for standard and routine, small-value procurement</td>
<td></td>
</tr>
<tr>
<td>Direct contracting</td>
<td>• Invitation to one bidder only</td>
<td>• Only one suitable bidder</td>
</tr>
<tr>
<td></td>
<td>• Noncompetitive and must be justified and agreed with ADB</td>
<td>• Justified based on the criteria in para. 2.17 of the Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time)</td>
</tr>
</tbody>
</table>

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### Table 1 continued

<table>
<thead>
<tr>
<th>Bidding Arrangement (shortlisting)</th>
<th>Characteristics</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use of qualification criteria to rule out bidders not capable of delivering the requirement</td>
<td>• Most consulting firm selections</td>
<td></td>
</tr>
<tr>
<td>• Large and complex projects where bid costs are likely to limit market interest</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Two-stage process</th>
<th>Characteristics</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Initial conceptual design or performance proposal</td>
<td>• Where requirements cannot be specified with sufficient certainty to allow use of a competitive process without the use of dialogue</td>
<td></td>
</tr>
<tr>
<td>• Commercial confidence must be maintained, and participants must be treated fairly</td>
<td>• First stage used to shape subsequent second-stage bidding using one or two envelopes</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multistage procedure (or competitive dialogue)</th>
<th>Characteristics</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dialogue based on initial design or performance proposal</td>
<td>• Complex procurement</td>
<td></td>
</tr>
<tr>
<td>• Allows emergence of preferred outcome</td>
<td>• For example, those involving high-level technologies</td>
<td></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.

3.1 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 required in terms of business or functional performance requirements.

3.2 By identifying the requirements through technical specifications and/or terms of reference, the borrower is setting the acceptable characteristics of the goods, works, nonconsulting, and consulting services they require to achieve VFM, which gives clarity to suppliers as to what they should offer.

3.3 By defining the requirements clearly and in a way that promotes the most competitive and innovative response from bidders, borrowers will maximize the VFM achieved through this stage of the procurement cycle.

3.4 When deciding between a conformance- or performance-based specification, obtaining the best VFM may involve trade-offs among

(i) the cost and time needed to create the specification,

(ii) who will bear the risk due to a poorly developed or incorrect specification,

(iii) the ability of bidders to innovate in their response, and

(iv) the complexity of the evaluation.

Figure 2 summarizes the trade-offs between conformance- and performance-based specifications.

1 Requirements for consulting services are drafted by terms of reference.
A. Conformance-Based Specifications

3.5 Conformance-based specifications are used where a thorough understanding of the requirements already exists, and there is little or no need for bidders to innovate. In these circumstances, where the borrower wants to retain higher levels of control over design and delivery, the borrower normally has a comprehensive understanding of the requirements and can describe them in detail. This includes its technical, design, and functional requirements, as well as being able to describe exactly how the supplier must perform and deliver the requirements. Conformance-based specifications work best for simple purchases of goods, services, and works, where there is a focus on defining specific quantities and specifications for the requirements, unit price (or time-based) costing, and specific details around the time, place, and manner for delivery and acceptance.
3.6 The main risk of a conformance specification is that the prescribed requirement does not accurately meet the need or is technically incorrect—for example, the design does not function as intended or is obsolete. In this case, all the up-front cost of developing the specification and the risk and cost to rectify it lies with the borrower because they have specified exactly what they want.

B. Performance-Based Specifications

3.7 Performance-based specifications are used where (i) the understanding of what is required in terms of outputs or results can be described, (ii) the borrower is uncertain of the best process or method to deliver the requirements, and/or (iii) suppliers are known to have the capability to design fit-for-purpose solutions.

3.8 Performance-based specifications focus on outputs or results rather than detailing the process of production, construction, inputs, and/or delivery. They are particularly effective at allowing bidders to bring their own expertise, creativity, innovation, and resources to the bidding process without restricting them to predetermined methods or detailed processes. This approach allows bidders to reduce costs, and ideally passes the risk of both cost and performance to the winning supplier. Key characteristics include the following:

(i) As a rule, performance-based specifications focus on achieving results; whereas conformance-based specifications focus on meeting specified design and resource requirements.

(ii) Performance-based specifications should be drafted such that bidders are allowed appropriate flexibility when meeting the requirements; whereas conformance-based specifications exclude flexibility, unless alternative bids are permitted.

C. Additional Sustainable Procurement Requirements

3.9 The inclusion of sustainable procurement requirements in a procurement process (e.g., environmental, social, or developmental considerations), beyond those required by ADB, is not mandatory. Borrowers can determine the extent to which they implement nationally sanctioned sustainable procurement requirements—provided these practices are applied in ways that are consistent with ADB’s core procurement principles and agreed to by ADB.

3.10 The intention of the borrower to adopt additional sustainable procurement requirements in the procurement approach should be identified during the specification development stage, along with the stated requirements. The procurement approach can be designed to consider additional sustainable procurement requirements across several stages of the procurement cycle. For example, the use of such requirements may also affect the evaluation criteria to be applied. Early consideration of additional sustainable procurement requirements thus ensures they are included in the overall procurement approach.
3.11 The borrower should ensure that the specification is the right type; that the basic elements are defined clearly to inform the evaluation criteria; and that risks are appropriately allocated between the contracting parties.

3.12 Sustainability risks and opportunities that could be managed through the procurement process may also be identified during project design or through environmental and social impact assessments undertaken during project preparation. For example, such sustainability criteria might include the protection of local ecosystems near a work site, health and safety requirements, or minimizing impact on people affected by the project.
IV. Evaluation Criteria and Value for Money

4.1 Evaluation criteria are a standard used in the evaluation of bids to identify the substantially responsive bid that offers the best VFM.

4.2 The following requirements govern the bid evaluation criteria:

(i) The evaluation criteria must be proportionate and appropriate to the type, nature, market conditions, complexity, risk, value, and objective of what is being procured.
(ii) To the extent practicable, evaluation criteria should be quantifiable (such as convertible to monetary terms).
(iii) The bidding document must include the complete evaluation criteria and the specific way each criterion shall be applied.
(iv) Only the evaluation criteria indicated in the bidding document may be applied.
(v) Once the bidding document has been issued, any change to the evaluation criteria may be made only through addenda circulated to all bidders.
(vi) The evaluation criteria must be applied consistently to all bids submitted.

4.3 There are different approaches that can be used to initially select or qualify prospective suppliers and to evaluate their bids, depending on the procurement modality and bidding arrangements that are chosen. To achieve VFM, evaluation criteria may consider factors including cost, quality, risk, sustainability, and innovation, as described further in Figure 3. The following subsections discuss some selected approaches for achieving VFM through evaluation.

A. Prequalification

4.4 Prequalification (or shortlisting for consulting services) is a process used to assess the suitability of applicants to carry out a specific contract before inviting them to submit a bid. Generally, all applicants that meet the minimum prequalification criteria are invited to bid, though there are situations where a limit may be placed on the number of successfully prequalified applicants. This process ensures that only those with appropriate and adequate capacity, capability, and resources as assessed against the prequalification criteria are invited to submit bids.
Figure 3: Factors for Evaluation Criteria to Consider

<table>
<thead>
<tr>
<th>COST</th>
<th>Evaluation of cost using a methodology appropriate to the procurement approach, such as evaluated bid price or evaluated bid price plus the running or recurrent cost over the useful lifetime of the asset on a net present cost basis (also known as the “total costs of ownership”)</th>
</tr>
</thead>
<tbody>
<tr>
<td>QUALITY</td>
<td>Evaluation of quality using a methodology to determine the degree to which the goods, works, nonconsulting, or consulting services meet the requirements</td>
</tr>
<tr>
<td>RISK</td>
<td>Criteria that mitigate the relevant assessed risk</td>
</tr>
<tr>
<td>SUSTAINABILITY</td>
<td>Criteria that consider stated economic, environmental, and social benefits in support of the project objectives, and may include the flexibility of the bid to adapt to possible changes over the project life cycle</td>
</tr>
<tr>
<td>INNOVATION</td>
<td>Criteria that allow assessment of innovation in the design and/or delivery of the goods, works, nonconsulting, or consulting services and that give bidders the opportunity to include in their bids, when appropriate, alternative solutions that could deliver better value for money</td>
</tr>
</tbody>
</table>


4.5 Prequalification may be appropriate in the following circumstances, among others:

(i) large or complex works,
(ii) custom-designed equipment,
(iii) industrial plant,
(iv) complex information and technology systems,
(v) high-level technology,
(vi) design–build (turnkey) contracts,
(vii) consulting services,
(viii) contracts in which the high cost of preparing detailed bids may discourage participation,
(ix) where the number of bidders likely to be qualified is high, and/or
(x) where a “standing list” of prequalified bidders is to be established for groups of contracts to be awarded over time.
4.6 In addition to assessing qualifications and experience, the prequalification stage also provides an opportunity to take account of bidders’ past performance and track record. This is particularly important in the case of complex or innovative projects where quality is a key factor. Selecting the best qualified bidders is more likely to achieve VFM outcomes. The Guidance Note on Prequalification has further information.

B. Nonprice Criteria

4.7 The lowest price may not necessarily represent VFM. Depending on the circumstances, several nonprice criteria may need to be considered during evaluation to obtain the best VFM. These may include the quality of the goods, works, and/or services to be delivered; responsiveness to socioeconomic or environmental objectives; and fitness for purpose. It may also be necessary to apply different methods of assessing costs such as the TCO, which includes initial price together with, as appropriate, costs of maintenance, operation, licensing, additional features, consumables, disposal, etc. The Guidance Note on Quality contains further details.

4.8 Where nonprice criteria cannot be monetized, they are assessed using a scoring system, such as the example given in Table 2. Each criterion is weighted according to its relative importance. Weightings, which are disclosed in advance in the bidding documents, are then applied to the scores. This facilitates the evaluation of technical merit, quality, risk, price, and other relevant factors, and objectively compares one solution against another. Once the total weighted scores are known, bids can be ranked in order of merit based on the highest to lowest scores. The higher the score, the better the proposal meets the nonprice criteria and offers VFM.

4.9 Points-based criteria can be used in conjunction with pass/fail criteria (i) to rank and initially select bidders and (ii) to identify the bid offering optimum VFM during bid evaluation. Nonprice criteria may include the following features as relevant, among others:

(i) quality of methodology and work plan;
(ii) performance, capacity, or functionality features; and
(iii) sustainable procurement.

C. Evaluation of Bid Cost

4.10 As specified in the bidding documents, quoted prices are evaluated against factors that may affect the actual price to be paid by the borrower. The borrower will need to specify the relevant factors in the bidding documents that are to be considered in bid cost evaluation, and the way they will be applied for the purpose of determining the total evaluated cost of each bid. This allows the borrower to compare and evaluate the total costs of each bid more holistically than just the offered bid price, which can help to achieve VFM.
### Table 2: Example of Weighted Bid Scoring with Nonprice Criteria

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>Weighting</th>
<th>Contractor A Score/10</th>
<th>Weighted Score</th>
<th>Contractor B Score/10</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Price weighting</td>
<td>40</td>
<td>5</td>
<td>200</td>
<td>9</td>
<td>360</td>
</tr>
<tr>
<td>2</td>
<td>Proposed methodology</td>
<td>10</td>
<td>9</td>
<td>90</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>3</td>
<td>Work plan</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>4</td>
<td>Management expertise</td>
<td>5</td>
<td>4</td>
<td>20</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>5</td>
<td>Technical expertise</td>
<td>10</td>
<td>8</td>
<td>80</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>Use of high-level technology</td>
<td>5</td>
<td>7</td>
<td>35</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>7</td>
<td>Technical innovation</td>
<td>5</td>
<td>6</td>
<td>30</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>8</td>
<td>Health and safety record</td>
<td>5</td>
<td>9</td>
<td>45</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>9</td>
<td>Corporate social responsibility</td>
<td>5</td>
<td>7</td>
<td>35</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>10</td>
<td>Knowledge of organization</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>620</strong></td>
<td><strong>Weighted Total</strong></td>
<td><strong>770</strong></td>
<td><strong>Weighted Total</strong></td>
</tr>
</tbody>
</table>


4.11 Examples of where factors that affect the bid price can apply include, among others,

(i) domestic margin of preference,
(ii) time schedule adjustment,
(iii) payment schedule adjustment,
(iv) TCO,
(v) functional guarantees, and
(vi) discounts for multiple lots.
D. Identification of Abnormally Low Bids

4.12 VFM presupposes the ability of a bidder to meet the stated requirements at the best price, taking account of the nonprice criteria where appropriate. Low prices, however, do not always represent VFM and abnormally low prices entail a significant risk of nonperformance. Abnormally low bids are a potential risk to the contractor being able to meet their obligations under the contract. Where a bidder intentionally or inadvertently submits a bid that may be abnormally low, the borrower should undertake due diligence in accordance with the guidance described in the *Guidance Note on Abnormally Low Bids*. 
5.1 Contract management is critical for ensuring both the supplier and the borrower meet their contractual commitments to time, cost, and quality, to deliver the expected VFM. It requires systematic and efficient planning, execution, monitoring, and evaluation to ensure that both parties fulfill their contractual obligations with the goal of achieving VFM and contractual results. It involves

(i) tracking and monitoring the delivery of work and its costs, time, and quality;
(ii) supplier development to collaboratively improve performance and promote opportunities for ongoing innovation, e.g., value engineering in appropriate contracts;
(iii) being clear on roles and responsibilities of both borrower and supplier;
(iv) managing relationships with the supplier and key stakeholders;
(v) managing payments;
(vi) being proactive throughout the contract to anticipate problems and issues before they arise;
(vii) ensuring that integrity is observed and upheld throughout the implementation phase of the contract; and
(viii) managing problems and issues quickly, effectively, fairly, and in a transparent manner.

5.2 From the borrower’s perspective, contract management helps to deliver VFM by

(i) ensuring the supplier delivers on its commitments,
(ii) managing supply risks for the duration of the contract,
(iii) continually challenging the borrower and supplier to drive the best value in the contract,
(iv) ensuring effective contracts that continue to deliver the requirements,
(v) demonstrating the best procurement practice in the management of contracts,
(vi) ensuring that all parties always act within the highest standards of ethics, and
(vii) providing evidence to support any audits.

5.3 To effectively manage a contract, it is best practice for the borrower to develop a contract management plan with key performance indicators (KPIs) and milestone events. KPIs are measures of contract performance that are aligned with the key outcomes that the procurement approach has been designed to
deliver. The borrower should monitor the performance and progress of contracts, in accordance with the contract management plan, and provide timely reports to ADB.

5.4 To achieve VFM, KPIs should be specific, measurable, achievable, relevant, and time-bound (SMART). They should also be directly linked to the project objectives, which will help ensure contract delivery is fully aligned with the desired outcome. The KPIs should be included in the contract management plan, and if they link to incentive mechanisms or payment decisions, they will need to be agreed on and included as part of the contract before it is signed. The Guidance Note on Contract Management has examples of KPIs and provides further information on contract management.
A1.1 Value for money (VFM) seeks to consider the real or total costs of the goods, works, or services procured. This is based not only on the price paid, but also on a combination of costs involved in the acquisition, operating, maintaining, and disposing of the goods, works, or services procured, i.e., what the product or service will ultimately cost the borrower. This involves examining the total costs of ownership (TCO) and requires a more sophisticated approach to cost evaluation during procurement. Figure A1 describes some common costs that may comprise the TCO.

A1.2 Conducting a TCO analysis can be complex and involves making assumptions about likely future events and their impact on costs. For example, the initial purchase price of capital equipment will often be significantly less than the subsequent operation and maintenance costs over the product’s life. Risks associated with the inefficient use of funds exist in both underestimating and overestimating these costs.

A1.3 For VFM purposes, a TCO assessment is essential to understanding the true costs of long-term, complex procurements. At the same time, there is generally little benefit in undertaking a detailed formal assessment for single purchase, low-cost products or services, especially when comparing them with other well-known, off-the-shelf options. However, even this will depend on the nature of the procurement. For example, even relatively inexpensive products such as printers may be expensive to run because of the price of the consumables (toner). Over the life of the product, a cheap printer using expensive toner cartridge may end up costing more than an expensive printer using cheaper toner, i.e., the acquisition price is less an indicator of the true cost of the procurement than the running costs.

A1.4 Calculating TCO may be difficult and there is no one formula that covers all circumstances. Judgment is needed when determining the extent and method of the TCO assessment.

A1.5 In some cases, calculating TCO will be straightforward, as the total costs and benefits of ownership will be apparent and based on a few parameters, e.g., printer and toner.
## Figure A1: Common Costs Comprising the Total Costs of Ownership

<table>
<thead>
<tr>
<th>Total Costs of Ownership</th>
<th>Operating Costs</th>
<th>Maintenance Costs</th>
<th>Disposal Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement process costs</td>
<td>Fuel</td>
<td>Consumables</td>
<td>Residual or salvage value</td>
</tr>
<tr>
<td>Price</td>
<td>Energy</td>
<td>Maintenance</td>
<td>Disposal method</td>
</tr>
<tr>
<td>Capital cost</td>
<td>Operators</td>
<td>Recallibration</td>
<td>Transport</td>
</tr>
<tr>
<td>Logistics</td>
<td>Security</td>
<td>Overhaul and repair</td>
<td>Decommissioning</td>
</tr>
<tr>
<td>Permits and licenses</td>
<td>Health and safety</td>
<td>Logistics</td>
<td>Management</td>
</tr>
<tr>
<td>Fees, including legal fees</td>
<td>Training</td>
<td>Storage and warehousing</td>
<td>and administration</td>
</tr>
<tr>
<td>Surveys</td>
<td>Order processing</td>
<td>Systems monitoring</td>
<td>Statutory compliance</td>
</tr>
<tr>
<td>Land</td>
<td>Performance Monitoring</td>
<td>Quality audit</td>
<td>Demolition or destruction</td>
</tr>
<tr>
<td>Communication</td>
<td>Contract management</td>
<td>Warranty conditions</td>
<td>Environmental compliance</td>
</tr>
<tr>
<td>Storage and warehousing</td>
<td>Cleaning</td>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>Quality assurance and control</td>
<td>Insurance</td>
<td>Modifications</td>
<td></td>
</tr>
<tr>
<td>Handling and insurance</td>
<td>Rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissioning</td>
<td>Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manuals and literature</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety compliance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Asian Development Bank.*
However, a formal evaluation should be used when comparing options with noticeably different initial prices and different

(i) technical and performance features,
(ii) life expectancy,
(iii) ongoing costs,
(iv) residual value, and/or
(v) disposal costs.

In seeking to make a calculation, there are likely to be several common steps. These include

(i) estimating the life of the product or service;
(ii) listing all financial costs and benefits in the year in which they occur;
(iii) choosing a method of analysis (for example, net present value);
(iv) determining the uncertainty of the data being used; and
(v) calculating the TCO.
Appendix 2: Value for Money in the Procurement Cycle

A2.1 Value for money (VFM) needs to be considered at all stages of the procurement cycle to ensure the timely delivery of quality outputs. The summary in Table A2 is intended to guide those responsible for procurement by setting out those issues that may be relevant to making key decisions along the way. This summary is not comprehensive or conclusive, and issues are not mutually exclusive. For example, issues arising during planning will affect choices at other stages, while decisions on specifications may affect the choice of procurement modality or award criteria, etc. This summary is intended to inform the process, not to determine the solutions. VFM solutions depend on the context, including the complexity, risks, market capability, and other issues.

Table A2: Issues to Consider for Achieving Value for Money in the Procurement Cycle

<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Planning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1. Does procurement design help in efficient attainment of the project objectives?</td>
<td>• Is the design realistic (nature, quantity, etc.)?</td>
<td>• Consider various procurement approaches and their interlinkages. Will they create effective competition?</td>
</tr>
<tr>
<td></td>
<td>• Is there sufficient budget available?</td>
<td>• Are VFM and quality factored appropriately?</td>
</tr>
<tr>
<td></td>
<td>• Can the needs be met more efficiently?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Will the market be responsive?</td>
<td></td>
</tr>
<tr>
<td>A2. Will the operational environment be able to support what is needed?</td>
<td>• Are there issues of procurement capacity?</td>
<td>• Consider</td>
</tr>
<tr>
<td></td>
<td>• Are there risks of state fragility?</td>
<td>› which procurement rules to apply,</td>
</tr>
<tr>
<td></td>
<td>• Does the size of the economy or geographical location pose problems?</td>
<td>› how best to package contracts,</td>
</tr>
<tr>
<td></td>
<td>• Is the local legal framework suitable?</td>
<td>› how to define qualification criteria,</td>
</tr>
<tr>
<td></td>
<td>• Are there security or integrity concerns?</td>
<td>› whether to use national or international advertising,</td>
</tr>
<tr>
<td></td>
<td>• Are there any economic issues of concern, e.g., high inflation, exchange rates, payment issues?</td>
<td>› how to incorporate sustainability requirements,</td>
</tr>
<tr>
<td></td>
<td>• Are there specific environmental concerns?</td>
<td>› the extent to which e-procurement can be relied upon, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>› how to monitor implementation.</td>
</tr>
</tbody>
</table>

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### Primary Question
#### A3. Will the market support delivery of proposed outcomes?
- Does the country apply sustainability provisions (social, environmental, labor-related)?
- How extensive is the use of technology?
- What is the nature of the supply market: national or international?
- Are there many or few suppliers?
- Are markets competitive or cartelized?
- To what extent are local inputs available?
- Are there artificial pricing risks (national preferences or development objectives; costs associated with local supply and/or distribution; requirements relating to establishment or employment of labor)?
- What are the market risks in terms of interest rate or foreign exchange risks, legal risks, or political risks?

<table>
<thead>
<tr>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• This has implications for:</td>
<td></td>
</tr>
<tr>
<td>› level of advertising,</td>
<td></td>
</tr>
<tr>
<td>› procurement approach selected,</td>
<td></td>
</tr>
<tr>
<td>› specifications and contract packaging,</td>
<td></td>
</tr>
<tr>
<td>› setting of bidder qualifications, and</td>
<td></td>
</tr>
<tr>
<td>› the choice of performance indicators.</td>
<td></td>
</tr>
</tbody>
</table>

#### A4. Is there capacity to complete the project procurement as envisaged?
- Does the borrower have sufficient resources (institutional and human) to carry out the procurement?
- What is the extent of the borrower’s experience with complex procurement arrangements?
- Does the borrower use an electronic procurement system?

<table>
<thead>
<tr>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• This will help determine the level of support required, choice of procurement approach, and the level of supervision.</td>
<td></td>
</tr>
</tbody>
</table>

*continued on next page*
### B. Procurement Methods

<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B1. Is the market competitive?</strong></td>
<td>• Are there many bidders capable of meeting the requirements?</td>
<td>• This will determine whether open or limited competitive bidding is to be preferred.</td>
</tr>
<tr>
<td></td>
<td>• Are there only a limited number of potential bidders?</td>
<td>• If there are many bidders, this might also favor prequalification for more complex procurement, to balance the cost of the approach with the outcome.</td>
</tr>
<tr>
<td></td>
<td>• Is quality a key issue?</td>
<td></td>
</tr>
<tr>
<td><strong>B2. If the market is not competitive, what are the reasons?</strong></td>
<td>• Is the requirement too complex?</td>
<td>• This affects the choice of approach; for example:</td>
</tr>
<tr>
<td></td>
<td>• Do bidders face restrictions?</td>
<td>‣ complexity might indicate the desirability of multistage procurement,</td>
</tr>
<tr>
<td></td>
<td>• Is there risk of collusion?</td>
<td>‣ the existence of intellectual property rights may point to the need to use direct contracting, and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>‣ the existence of the risk of collusion requires competitive processes that are carefully monitored, where the increased cost is justified by integrity considerations.</td>
</tr>
<tr>
<td><strong>B3. Are there any geographical constraints?</strong></td>
<td>• Are there sufficient local suppliers?</td>
<td>• This will affect whether the contracts should be advertised nationally or internationally.</td>
</tr>
<tr>
<td></td>
<td>• Will international bidders be interested?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Are the local conditions difficult, suggesting a preference for local supply?</td>
<td></td>
</tr>
<tr>
<td><strong>B4. What are the characteristics of the product or service?</strong></td>
<td>• Is this a highly complex one-off project?</td>
<td>• This will affect choice of the procurement method:</td>
</tr>
<tr>
<td></td>
<td>• Is it innovative?</td>
<td>‣ innovation generally requires multistage procurement while</td>
</tr>
<tr>
<td></td>
<td>• Is it concerned with standardized products or services?</td>
<td>‣ recurrent requirements may be amenable to framework agreements, reducing transaction costs.</td>
</tr>
<tr>
<td></td>
<td>• Is it a recurrent requirement?</td>
<td></td>
</tr>
<tr>
<td><strong>B5. Will delivery require long-term solutions with private sector partners?</strong></td>
<td>• Is the commitment long-term?</td>
<td>• Is this suitable for alternative arrangements, such as PPPs?</td>
</tr>
<tr>
<td></td>
<td>• Does it involve multiple partners?</td>
<td>• Performance requirements and incentives may need to be built into the contract.</td>
</tr>
<tr>
<td></td>
<td>• Is there a need to share risk or leverage private financing?</td>
<td>• Alternative contractual arrangements such as PPPs will require multistage or specialized procurement methods.</td>
</tr>
</tbody>
</table>

*continued on next page*
<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C. Procurement Requirements</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **C1. Is this a standard product or service?** | • Are descriptive conformance-based specifications readily available?  
• Are they up-to-date?  
• If not, can they be easily prepared or updated?  
• Do the specifications also describe delivery and performance requirements?  
• Is there sufficient experience within the borrower to prepare such specifications? | • The use of existing conformance-based specifications may be sufficient for standard requirements  
• Care needs to be taken to ensure that the specifications are up-to-date and that there is sufficient experience to update them if necessary  
• Otherwise, it may be preferable to rely on performance specifications |
| **C2. Is the requirement more complex?** | • Do standard specifications fail to describe delivery and performance requirements?  
• Is the desired outcome or performance clearly identifiable?  
• Is it innovative?  
• Is there sufficient experience within the borrower to prepare a more complex specification?  
• Are bidders capable of tailoring offerings to be fit for purpose? | • The use of performance-based specifications may be more appropriate for complex requirements.  
• The cost of outsourcing the design may be justified where there is insufficient in-house capacity to prepare the output specifications.  
• Where the product or service is innovative, this may require adopting a procurement method that allows bidders to offer different solutions. |
| **C3. Is quality particularly important for the product or service in question?** | • Is the product or service innovative?  
• Is the commitment long-term?  
• Does it involve multiple partners? | • Innovation may require multistage procedures.  
• Life cycle costing may need to form part of the evaluation and the requisite elements identified in the requirement (e.g., operation and maintenance).  
• Performance-based specifications may become critical. |
| **C4. Is sustainability an issue?** | • Can legal environmental requirements be guaranteed through contract conditions?  
• Is there a need to define the product or service in terms of environmental characteristics?  
• Are there additional socioeconomic requirements imposed that need to be addressed? | • It may be that sustainability requirements can be included in specifications, e.g.,  
› performance levels,  
› product or service characteristics, and/or  
› production or process methods. |
### Primary Question

#### D. Supplier Qualification Criteria

<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
</table>
| D1. At what level will the competition take place? | • Is there a sufficient number of local and capable bidders?  
• Will foreign bidders be required?  
• How are contracts to be packaged?  
• Is there a need to subcontract? | • Criteria must be appropriate and proportionate to the need while guaranteeing adequate capacity, capability, and resources.  
• Excessive requirements increase costs and reduce VFM.  
• Qualifications of subcontractors may need to be given consideration. |

#### D2. When should qualification be conducted?

• Is this a complex procurement where several bidders are capable of bidding?  
• Is preparation of bid submissions likely to be time-consuming and costly?  
• Will bid evaluation be time-consuming?  
• What level of bidder qualification is required?  

• This raises issues of cost and benefit:  
  › Is it better to conduct prequalification and require only the most highly qualified to prepare bids?  
  › Will postqualification be sufficient?  
  › Should prequalification form part of a multistage process? |

#### D3. Does the required quality level impact qualification?

• Are there likely to be multiple solutions available?  
• Is the product or service innovative?  
• Is this a high-level technology project?  
• Does the project require multiple advisory services (e.g., PPPs)?  

• Certain qualification criteria may become critical in the absence of easily measurable criteria (such as assets, equipment, etc.):  
  › past performance and track record,  
  › ability to provide innovative solutions, and  
  › robust internal management systems. |

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## E. Evaluation Criteria

<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
</table>
| E1. What is the nature and type of the requirement? | • Is this a standardized procurement where price is the main factor?  
• Are market offerings mostly comparable (homogenous)?  
• Are inputs easily identifiable and verifiable (e.g., through a bill of quantities)? | • These are indications (inconclusive) that VFM may be achieved using price-based evaluation criteria.  
• This may include the traditional “evaluated” price.  
• Life cycle costing might also be considered. |
| E2. Are there operating costs associated with the procurement? | • Are operating and maintenance costs inherent to the product?  
• Are those costs quantifiable?  
• Is this a long-term contract? | • This suggests that life cycle costing is required to achieve VFM. |
| E3. Is sustainability an issue? | • Are sustainability requirements capable of being incorporated into specifications or imposed as contract conditions?  
• Is their application only possible through evaluation?  
• Are the criteria quantifiable in monetary terms? | • Consider the use of nonprice criteria where the requirements cannot be monetized. |
| E4. Are there other reasons why price criteria are insufficient? | • Is this a case where quality is particularly important?  
• Is this a high-level technology procurement?  
• Is this an innovative project? | • This may require identification of suitable criteria relating to, e.g.,  
› performance or functionality;  
› quality of offering (key personnel, access to key equipment, site organization, safety, quality assurance);  
› quality of delivery (method statement, mobilization schedule, implementation schedule);  
› life cycle elements not capable of monetary evaluation; and  
› design of method of evaluation and prioritization, including use of multistage bidding. |
<table>
<thead>
<tr>
<th>Primary Question</th>
<th>Issues to Consider</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F. Contract Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F1. Are adequate provisions in place for standard contracts?</td>
<td>• Are responsibilities assigned and methods in place to track key contractual elements: delivery, quality, and cost?</td>
<td>• This requires verification of procedures in place or imposition of appropriate requirements.</td>
</tr>
<tr>
<td></td>
<td>• Is supervision necessary and in place?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Is implementation monitored?</td>
<td></td>
</tr>
<tr>
<td>F2. Are additional provisions required?</td>
<td>• Is this a complex and/or innovative project?</td>
<td>• Additional contract management requirements may include:</td>
</tr>
<tr>
<td></td>
<td>• Does it involve multiple partners?</td>
<td>› imposing KPIs and monitoring compliance and</td>
</tr>
<tr>
<td></td>
<td>• Is it a PPP?</td>
<td>› introducing incentives linked to KPIs.</td>
</tr>
<tr>
<td></td>
<td>• Did the evaluation rely on nonprice criteria?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Was the procurement based on performance-based specifications?</td>
<td></td>
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</tbody>
</table>

KPI = key performance indicator, PPP = public–private partnership, VFM = value for money.

# Appendix 3: Interplay among the Core Procurement Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>Others</th>
<th>Relationship</th>
<th>Potential Conflicts</th>
<th>Mitigation</th>
</tr>
</thead>
</table>
| Value for Money | Quality      | • VFM encompasses these other principles and provides the platform for integrating and sorting out any trade-offs and conflicts in an open and transparent manner. | • VFM may conflict with efficiency, particularly since VFM tends to be complex.      | - Appropriate use of VFM  
- Transparency and clear definition of factors to be included in VFM  
- Identification of risks and potential conflicts  
- Mechanism during evaluation for actors (including technical experts and users) to work through any conflicts  
- Valid complaints mechanisms |
|                 | Efficiency   |                                                                              | • Bidding requirements may place an undue burden on bidders, taking more time, and resulting in less competition.  
• Similarly, VFM may involve time-consuming and controversial bid evaluations. |            |
|                 | Economy      |                                                                              | • Because VFM is complex, it may appear to be less transparent and fair and could lead to more bid protests and complaints. |            |
| Quality         | Efficiency   | • Quality and efficiency tend to have a neutral relationship and can be relatively independent.  
• Quality dimensions may support efficiency by making the procurement process simpler. | • There may be cases in which, for reasons of time sensitivity in emergency situations, quality and efficiency may clash.  
• This may also occur for reasons of compatibility, e.g., to ensure (technical) compatibility between existing equipment and equipment to be procured. | - Clear agreement of specifications meeting reasonable operational needs and standards. |
| Transparency    | Fairness     | • Transparency and fairness are essential for all procurement methods.  
• Generally, these principles are mutually reinforcing. |                                                                              |            |

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### Appendix 3

#### Table A2 continued

<table>
<thead>
<tr>
<th>Principle</th>
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<th>Potential Conflicts</th>
<th>Mitigation</th>
</tr>
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</table>
| Economy   | • There is a direct causal relationship; that is, increased quality means increased costs.  
• The main question is what level of quality is needed to meet operational requirements versus what is affordable. | • Quality and economy often are perceived to be at odds, especially if budgetary restrictions come into play.  
• There may be difficulty discerning what is truly needed and what is wanted.  
• Anticipated quality standards may not be realized, leading to poor operational effectiveness and results in terms of economy. | • VFM may be appropriate if quality is an important factor and can be treated as a variable.  
• Clear agreement on specifications meeting reasonable operational needs and standards  
• Reasonable cost estimates at the start  
• Quality assurance and testing throughout  
• Appropriate measures during implementation to make sure quality standards are being met |
| Fairness  | • Quality and fairness interact in terms of specification of operational needs that are unbiased and nondiscriminatory. | • Potential conflicts if quality unduly limits competition | • Up-front market research and industry knowledge to be aware of what the markets can offer  
• Nondiscriminatory specifications with justified exceptions for compatibility  
• Reduce barriers to entry via qualification processes. |
| Transparency | • Generally, quality and transparency can be mutually reinforcing and can be treated independently. | • Rarely are there conflicts | • Make sure that information on ex post quality and contractor performance are recorded and made available. |

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<th>Potential Conflicts</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>Economy</td>
<td>• These two principles can be mutually supportive under open competition.</td>
<td>• Efficiency and economy can conflict especially when noncompetitive modalities come into play, when procurement is time-sensitive, and/or there are compatibility considerations. • The concern is that such noncompetitive modalities undermine economy.</td>
<td>• Market research and industry knowledge • Early dialogue with users and fiscal authorities • Explicit justification and tracking of noncompetitive modalities • Monitoring of number of bidders • Tracking of processing times and milestones</td>
</tr>
<tr>
<td>Fairness</td>
<td></td>
<td>• Openness in considering alternatives can contribute to both efficiency and fairness. • Fairness ought not be lost in the search for efficiency. • E-procurement, framework agreements, reverse auctions, etc., can combine both fairness and efficiency.</td>
<td>• Generally, fairness should be prioritized over efficiency, unless efficiency concerns predominate because of (i) the cost benefit of low-value transactions, (ii) time-sensitive and emergency situations, and/or (iii) compatibility concerns.</td>
<td>• Market analysis and knowledge of suppliers and prices • Use of e-procurement and similar modalities that combine fairness and efficiency • Proportionality considerations, especially for low-value transactions • Justification for noncompetitive transactions</td>
</tr>
<tr>
<td>Transparency</td>
<td></td>
<td>• Efficiency and transparency are mutually reinforcing in that transparency facilitates knowledgeable bidders.</td>
<td>• Generally, these two principles ought not to conflict, although there may be circumstances in which transparency slows the procurement process and issues of confidentiality arise.</td>
<td>• Monitoring of noncompetitive modalities • Transparency of what has been decided, what was done, and the results • Credible and quick procedures for dealing with inquiries, protests, complaints, etc.</td>
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### Table A2 continued

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<th>Potential Conflicts</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>Fairness</td>
<td>• Economy and fairness are mutually reinforcing in that fairness and confidence in the system ought to attract serious bidders.</td>
<td>• Generally, economy and fairness ought not to conflict.</td>
<td>• Transparency in what was decided, what was done, and the results</td>
</tr>
<tr>
<td>Fairness</td>
<td>Transparency</td>
<td>• Transparency and fairness are fundamental and mutually reinforcing.</td>
<td>• Generally, these two ought not to conflict, except for confidentiality of certain information.</td>
<td>• Transparency in what was decided, what was done, and the results • Limit exclusions for reasons of confidentiality</td>
</tr>
</tbody>
</table>

VFM = value for money.

Value for Money
Guidance Note on Procurement

This guidance note discusses the principle of value for money (VFM) and its relevance and application to the different phases of the ADB procurement cycle. It also introduces “life cycle costing,” which takes into account not only the acquisition cost, but also a combination of paid price plus the cost of operating and maintaining the goods or services procured. The guidance note provides a matrix of the relationship of VFM with other ADB core procurement principles to give a better understanding of how VFM works with the other principles.

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