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PROCUREMENT RISK MANAGEMENT

Kirsteen Mack
Procurement Specialist



ADB Procurement Principles



Economy



Efficiency



Fairness



Transparency



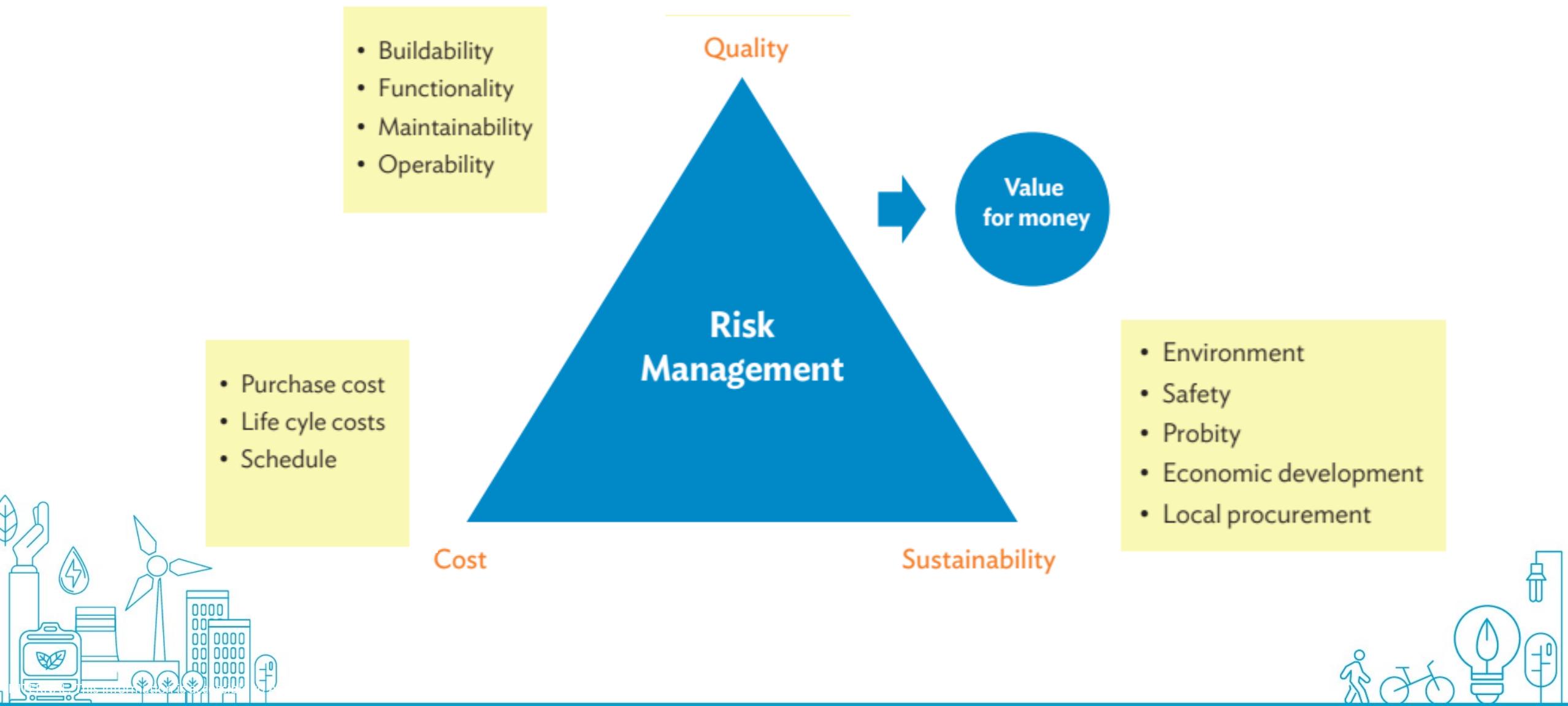
Quality



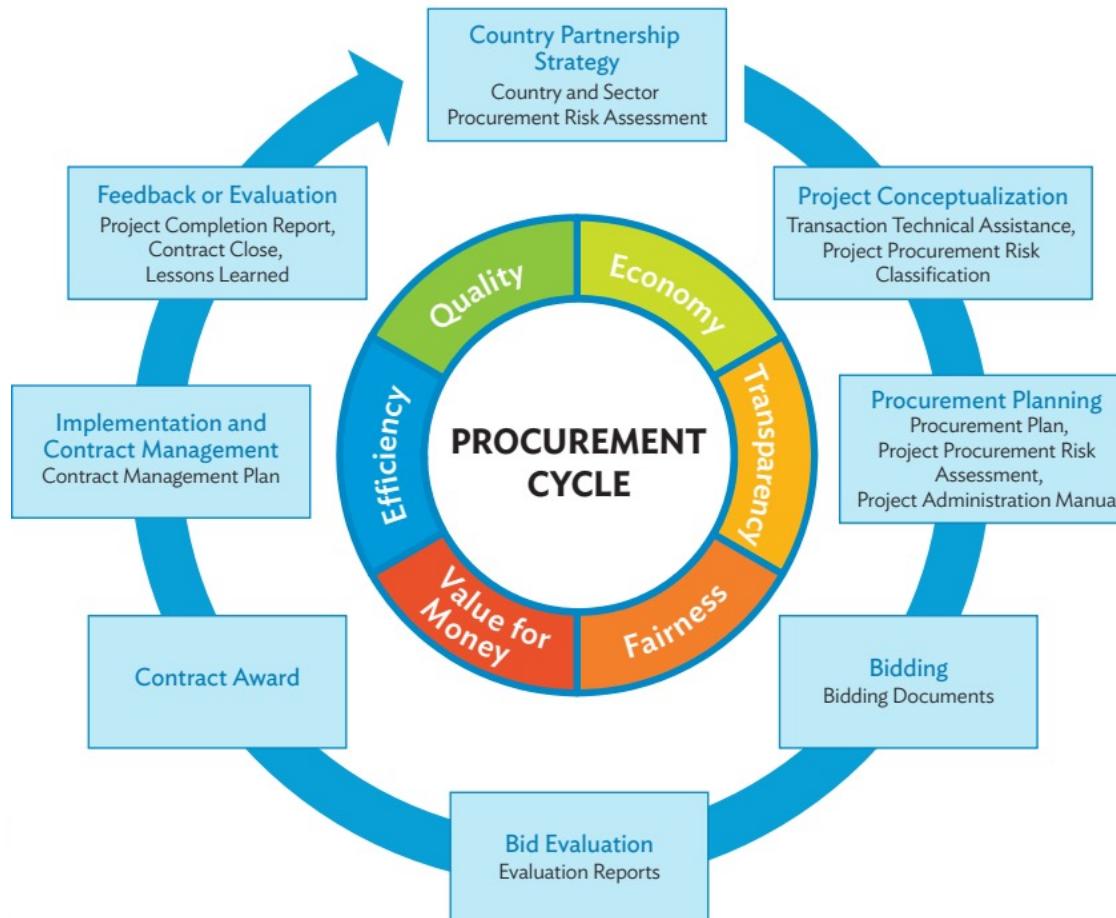
Value for money



Risk Management & Value for Money (VfM)

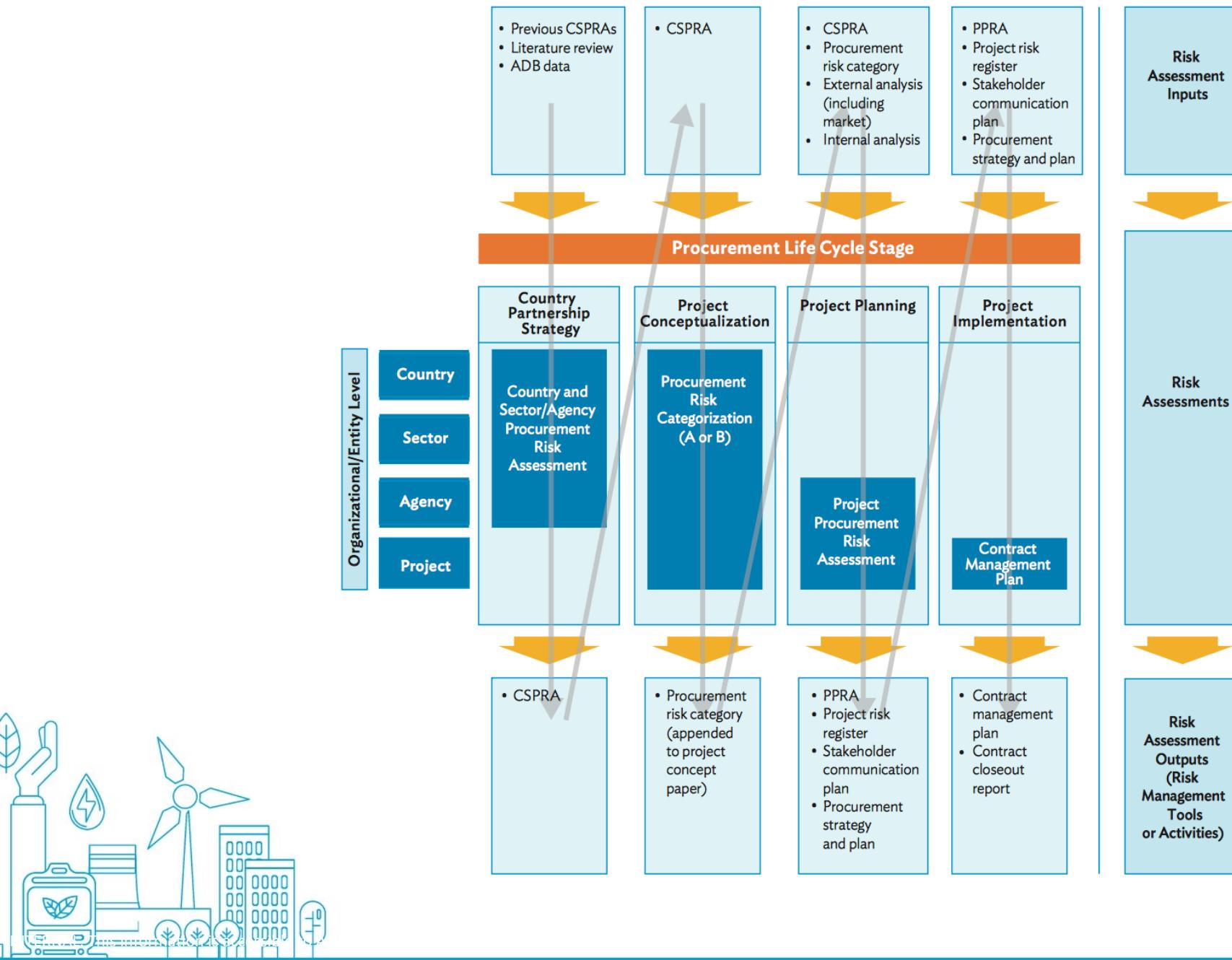


The Procurement Cycle

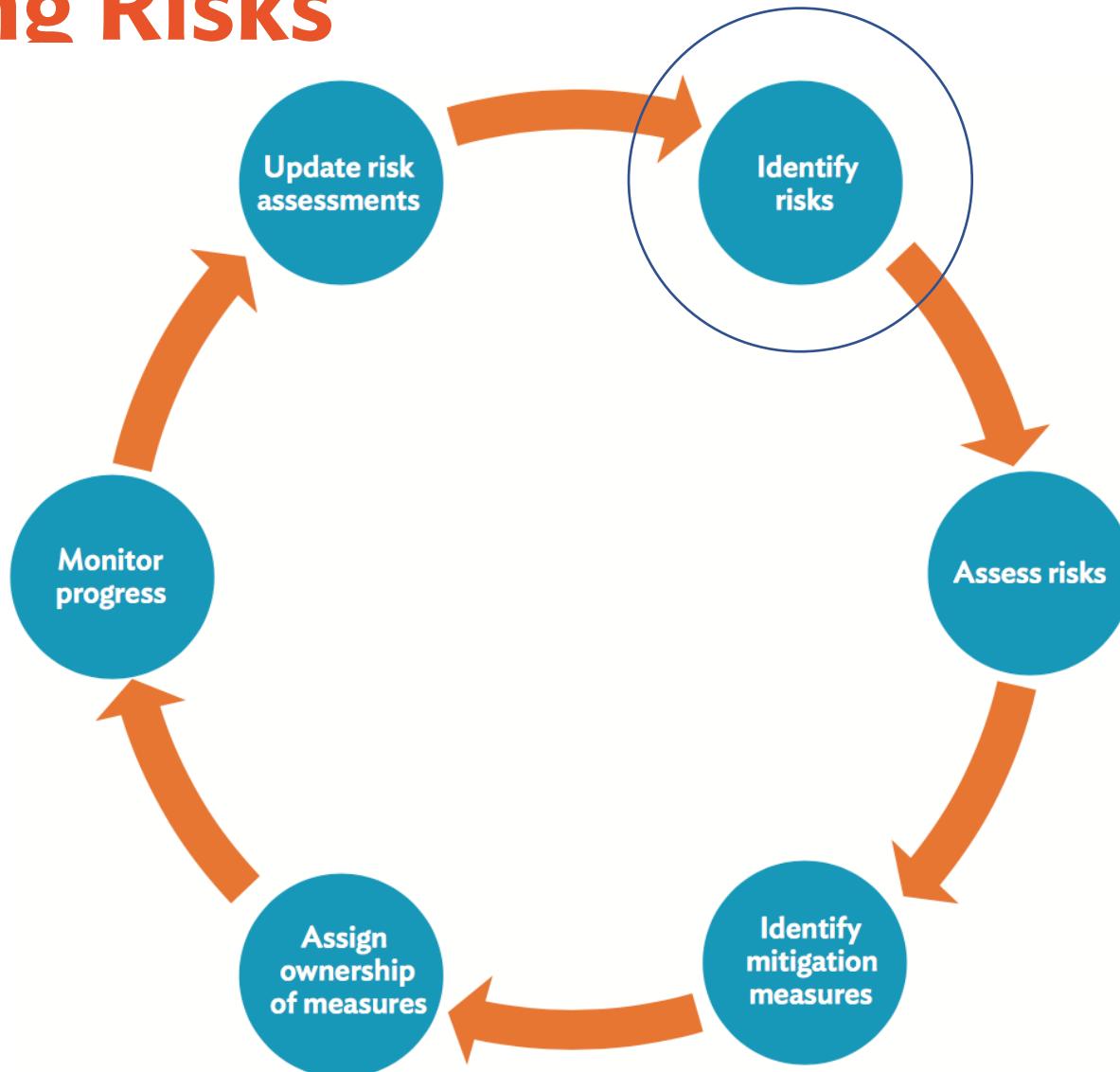


Procurement Cycle Stage	Risk Management Tool	Allocation of Responsibilities	
		Asian Development Bank	Borrower
Country Partnership Strategy	Country and Sector/ Agency Procurement Risk Assessment	Responsible	Consulted
Project Conceptualization	Procurement Risk Categorization	Responsible	Consulted
Procurement Planning	Project Procurement Risk Assessment	Accountable	Responsible
Implementation and Contract Management	Contract Management Plan	Consulted	Responsible

Procurement Risk Framework



Identifying Risks



Identifying Procurement Risk



- Adequate number of bids
- Prices vs budget
- Collusion
- Conflict of interest - bidder
- Conflict of interest – EA/Procurement
- Bidder challenge to process fairness
- Scope/terms of reference – accuracy
- Bidders not meeting requirements



Contract Implementation Risk



- Preliminaries risks (insurance certificates, project plan, etc.)
- Project management risks
- Contract management risks
- Quality risks
- Schedule risks (contractor start date vs schedule, progress slippage)
- Sustainability risks (health, safety, environmental, community)
- Cost risks (change control, price adjustments)
- Contractor/supplier financial stability
- Stakeholder support risks (e.g. community/CSO)
- Handover risks (from contract implementation to operation)



Contract Operation Risk



- Functionality/serviceability risks
- Operability risks
- Sustainability risks (health, safety, environmental, community)
- Technology/systems/data risks
- Operational cost risks



Procurement

- Adequate number of bids
- Prices vs budget
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Contract Implementation

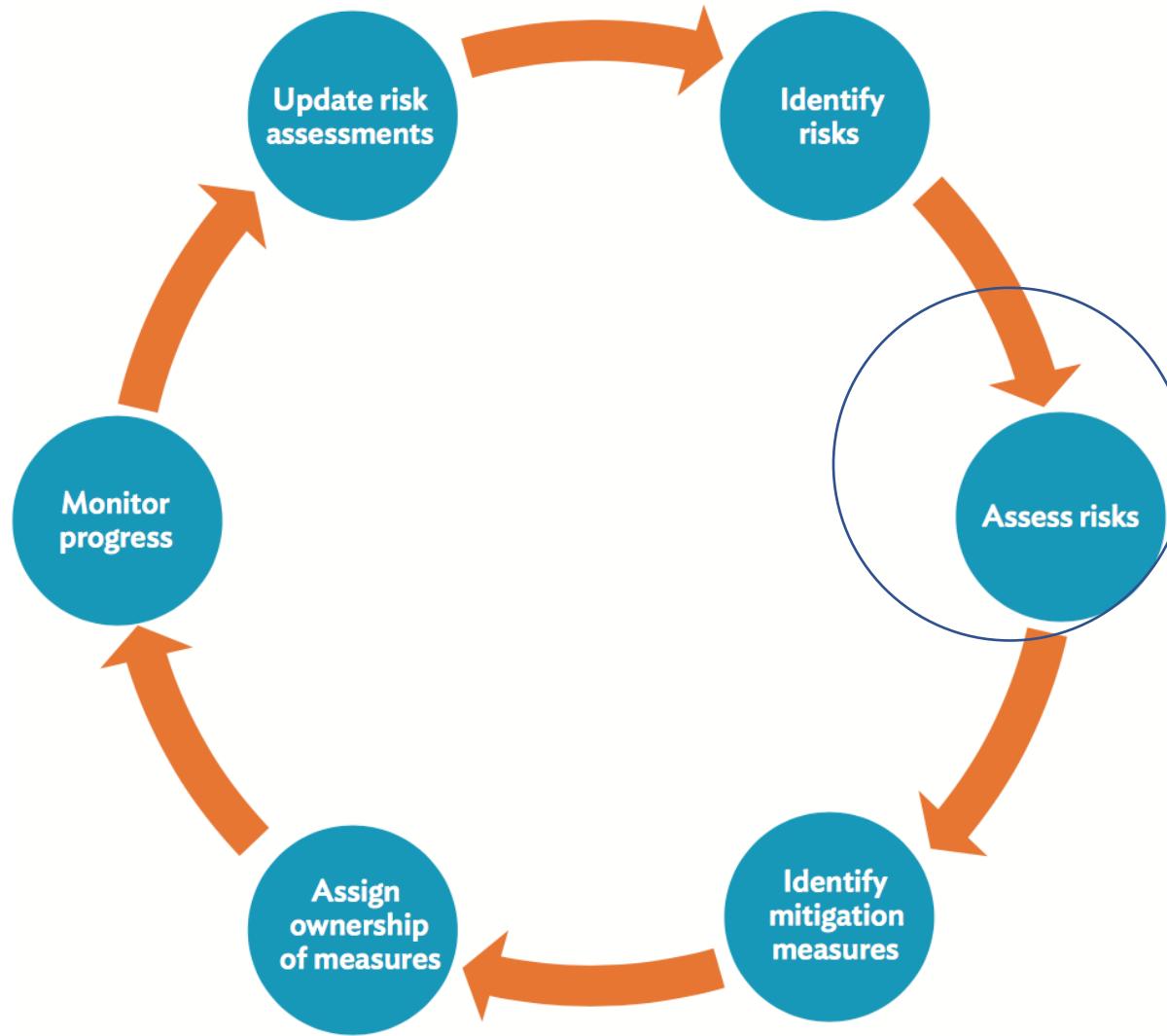
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Operation

- Functionality/serviceability risks
- Operability risks
- Sustainability risks (health, safety, environmental, community)
- Technology/systems/data risks
- Operational cost risks



Assessing Risks



Procurement Risk Register

Risk assessment involves the following steps:

- (i) Estimating the likelihood of the risk;
- (ii) Estimating the consequence of the risk;
- (iii) Determining the risk rating;
- (iv) Prioritizing risks for treatment.



Estimating the Likelihood of the Risk

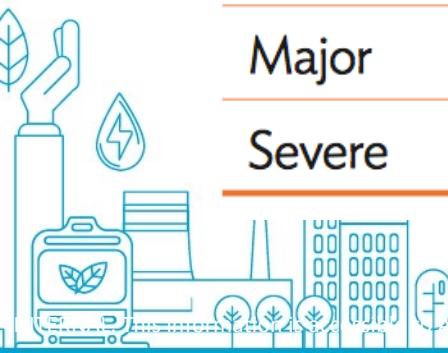
Risk Likelihood			
Descriptor	Likelihood Score	Description	Indicative Probability
Almost certain	5	Expected to occur	> 95%
Likely	4	Probably will occur	66%–95%
Possible	3	May occur at some stage	26%–65%
Unlikely	2	Would be surprising if it occurred	5%–25%
Rare	1	May never occur	< 5%



Estimating the Consequence of the Risk

Risk Consequence

		How the risk identified affects the achievement of					
Consequence		Economy	Efficiency	Fairness	Transparency	Quality	Value for Money
Descriptor	Score ^a	(1)	(2)	(3)	(4)	(5)	(6)
Insignificant	1						
Minor	2						Remove principles – just descriptor + consequence
Moderate	3						✓
Major	4						✓
Severe	5						



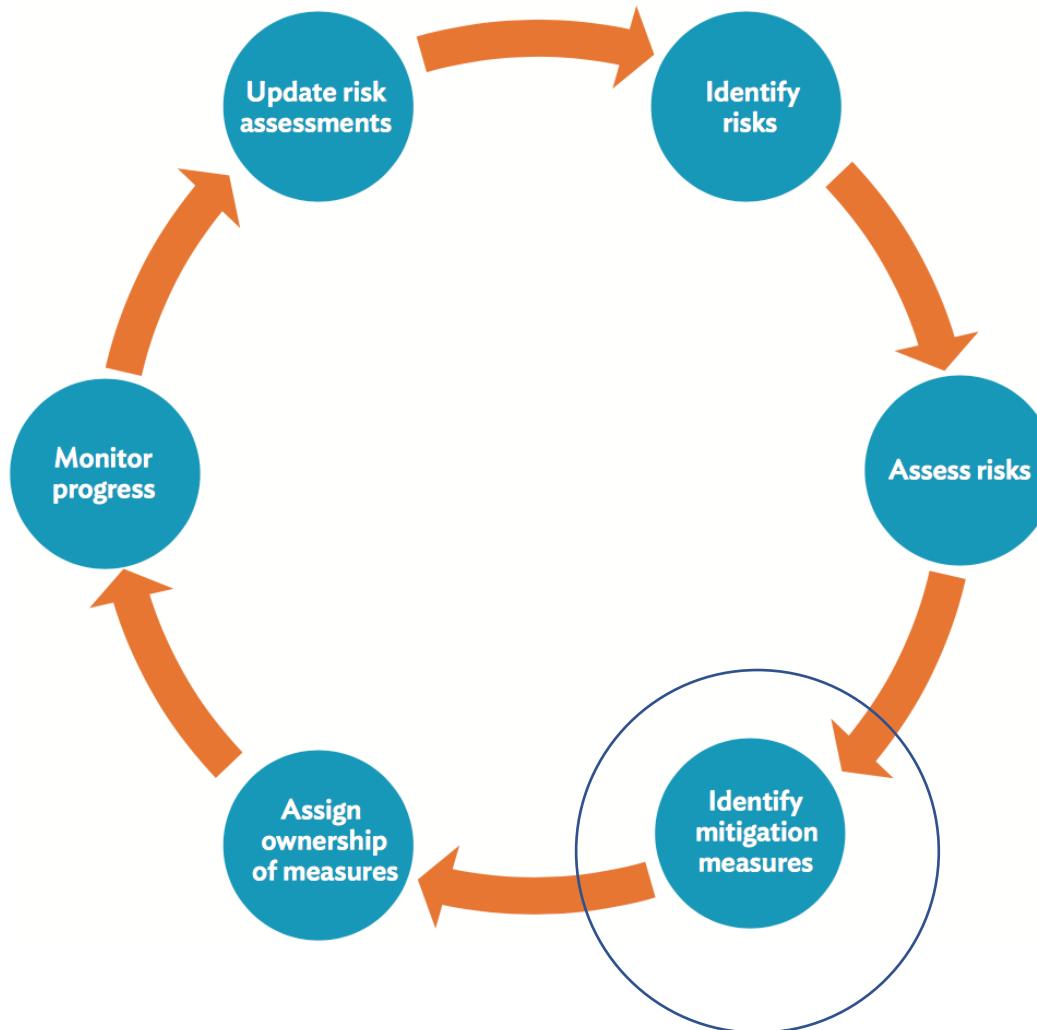
Determining the Risk Rating

Risk Rating Matrix

		Risk Consequence				
		Insignificant	Minor	Moderate	Major	Severe
		1	2	3	4	5
Almost Certain	5	Medium	Medium	High	Extreme	Extreme
Likely	4	Medium	Medium	High	High	Extreme
Possible	3	Low	Medium	Medium	High	High
Unlikely	2	Low	Low	Medium	Medium	High
Rare	1	Low	Low	Low	Medium	Medium



Identifying Mitigating Actions

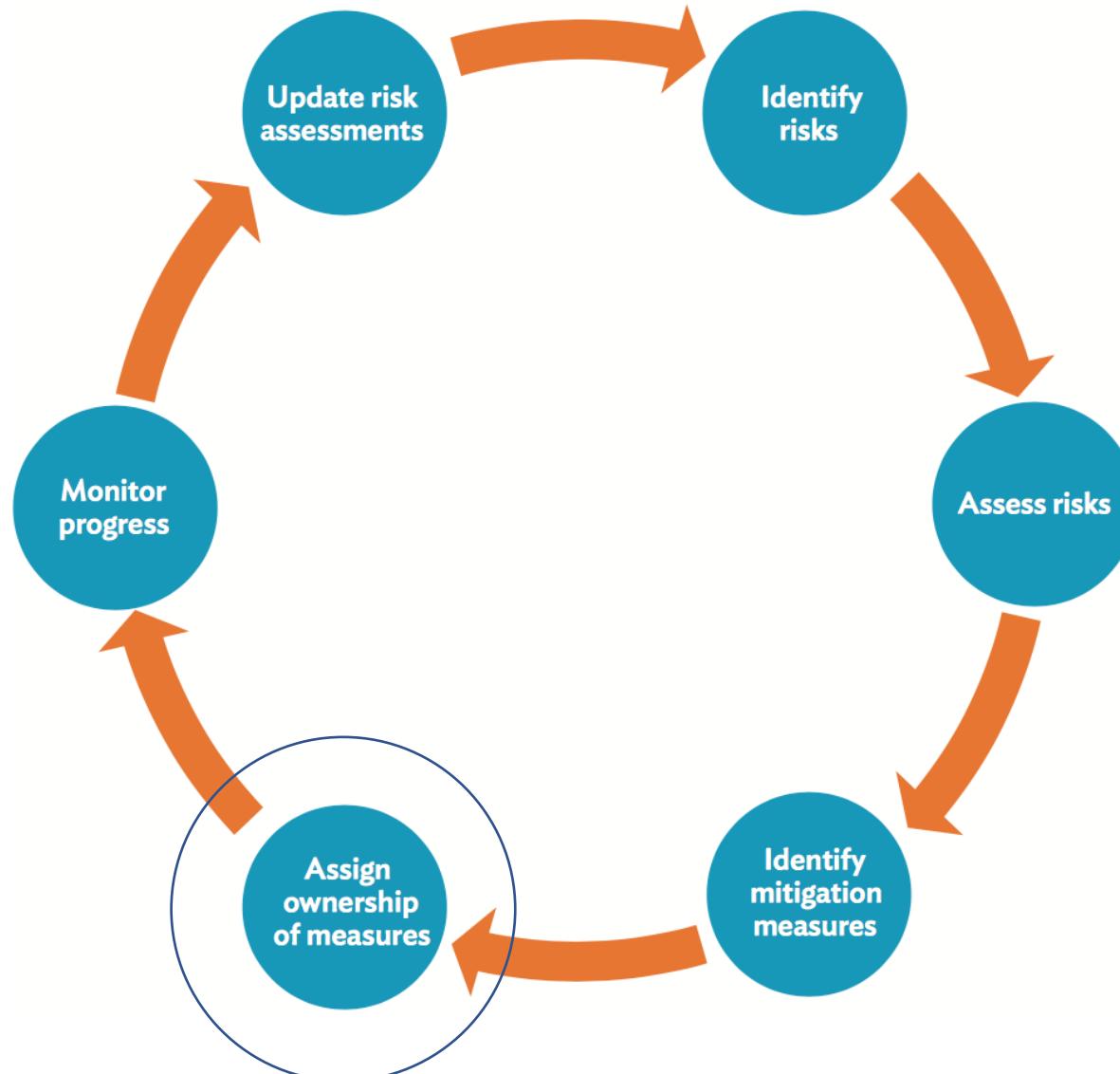


Treating Risks

Avoid	<ul style="list-style-type: none">Avoid the risk by deciding not to proceed with the project or activity.
Reduce	<ul style="list-style-type: none">Reduce the likelihood of the occurrence, e.g., procurement approach, contract terms and conditions, contract management activities, quality control manuals, training, etc.Reduce the consequence of the occurrence, e.g., contingency planning, relocation of an activity or operation, etc.
Transfer	<ul style="list-style-type: none">Transfer the risk to another party, e.g., contract terms, regarding liability and indemnity, insurance, etc.
Accept	<ul style="list-style-type: none">Accept the risk without mitigation. This may occur because<ul style="list-style-type: none">the risk rating is so low as to not warrant mitigation,there is no treatment available, and/orthe costs of treatment outweigh the benefits.



Assigning Ownership



Example of Risk Register

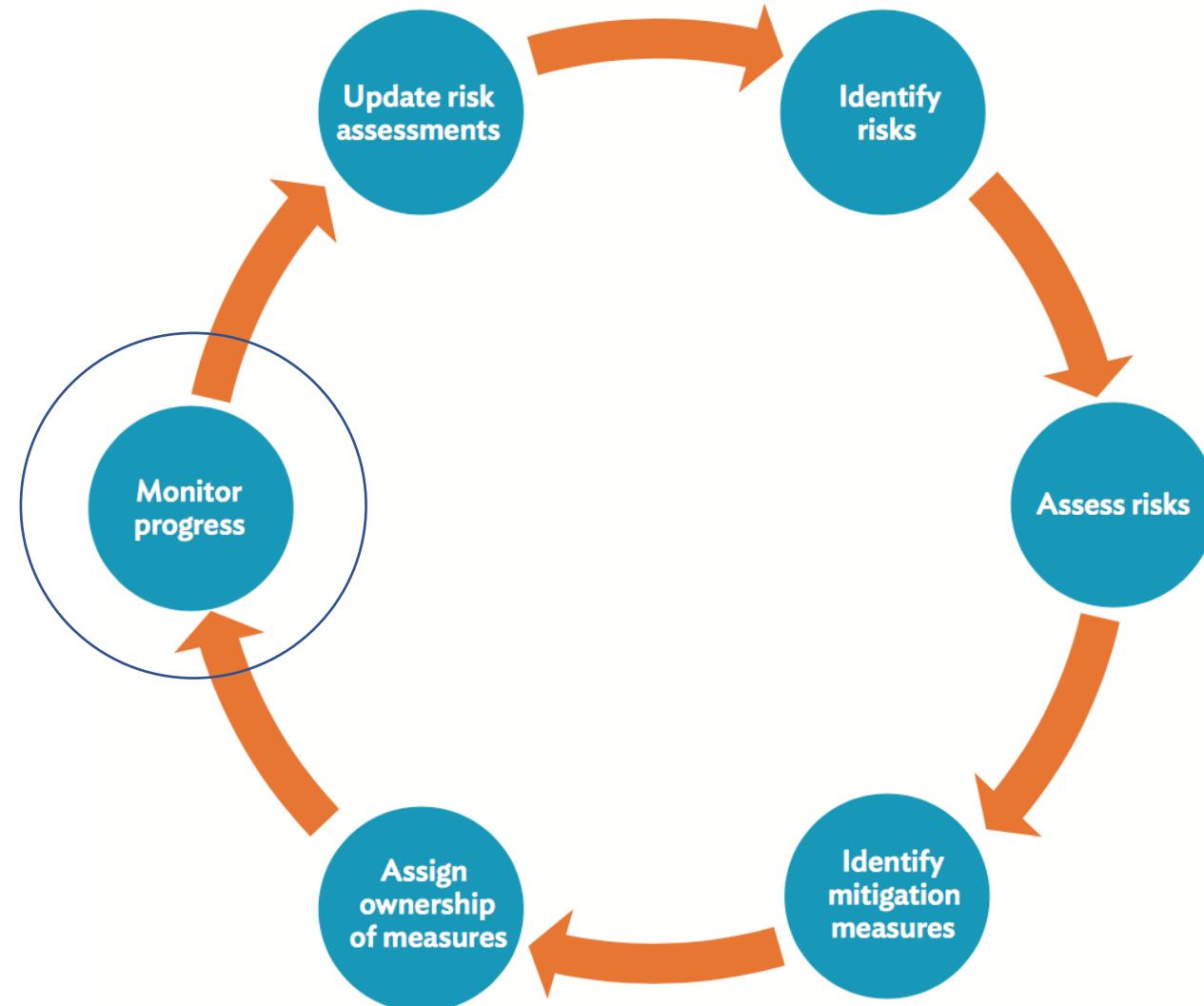
Risk Description	Likelihood (L) (1-5)	Impact (I) (1-5)	Risk Score (L x I)	Proposed Mitigation	Risk Owner
Variation in scope or costing after contract award	2	4	8	Improve specifications and cost estimates	Borrower
Abnormally low bids	2	3	6	Use ADB's processes for handling abnormally low bids	ADB and the borrower
Inadequate information for technical specifications	2	4	8	Early supplier involvement	ADB and the borrower
Evaluation period takes too long	3	4	12	ADB to support the borrower to speed up the process	ADB and the borrower
Poor contract management	2	3	6	Improve the borrower's capacity in contract management	Borrower
Security or civil unrest issues	2	4	8	Provide security support and secure facilities	Borrower

Risk owner assigned

Risk owner build up to this slide



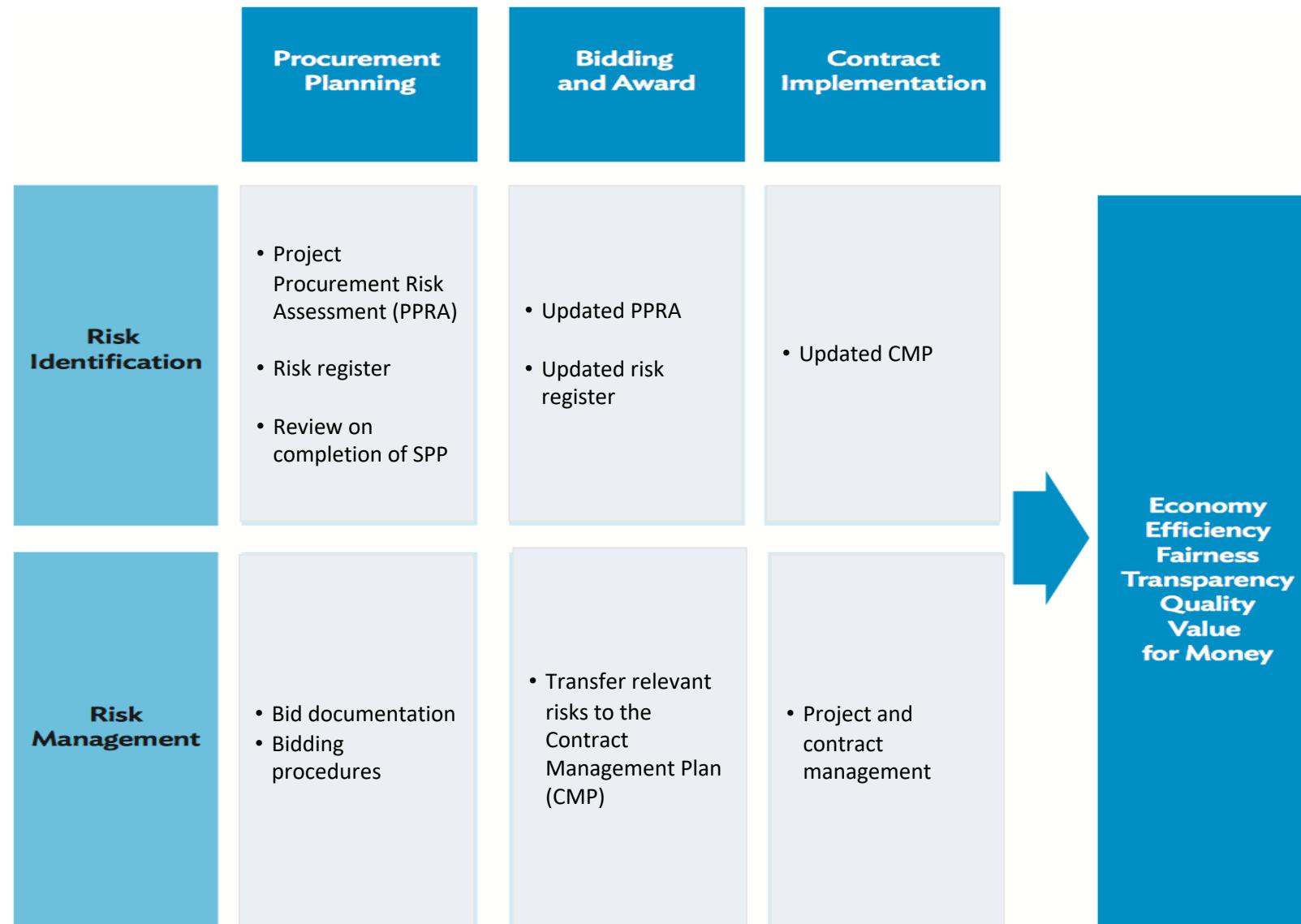
Ongoing Risk Management



Update Risk Assessments



Ongoing Risk Management



Risk in Abnormally Low Bids

Identify

- Revalidate the engineer's cost estimate and compare it with the bid price
- Compare the bid price with the other responsive bids received
- Compare the bid price with prices paid in similar contracts



Clarify and Analyze

- Check for omissions, errors, and underpricing
- Seek explanations for resource, inputs, and pricing
- Review scope compliance
- Review cost breakdowns
- Check for redundancy, contingency, and profit margins
- Check the rate or price quoted by the bidder for similar nature of works in other projects, either government- or development partner-funded



Decide

- Decide on whether to accept or reject the bid based on evidence presented
- Report on outcomes



New Directive to reduce procurement risk

- **From 1st January 2026, the new Procurement Directive for ADB borrowers will come into place. This includes:**
 - **Requirement for Merit Point Criteria in all internationally advertised projects**
 - **Risk of low quality bids & as a result poor quality implementation - bidders are rewarded for prioritizing quality**
 - **Reduced risk of Abnormally low bids**
 - **Requirement to engage the market early, prior to issuance of bidding documents to ensure that the procurement approach, market assessment, specifications etc. are fit for purpose.**



Thank you!

