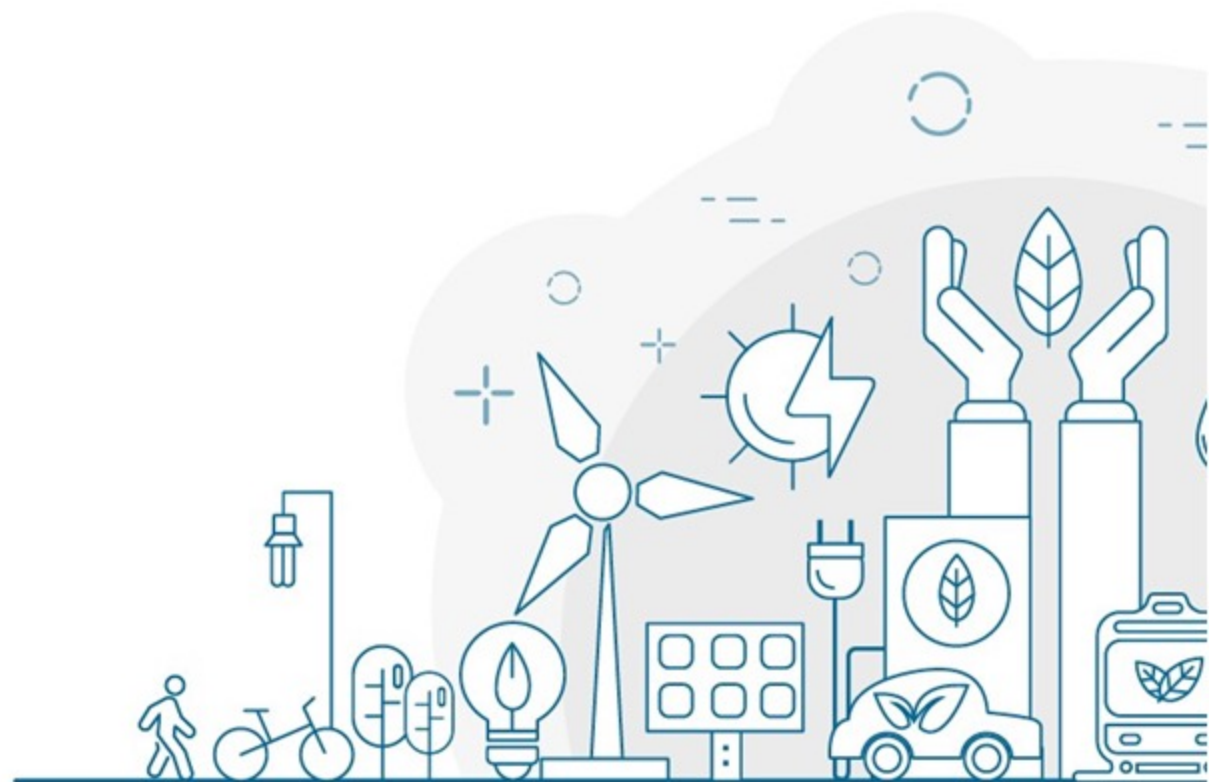


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# PROCUREMENT RISK MANAGEMENT

**Kirsteen Mack**  
**Procurement Specialist**



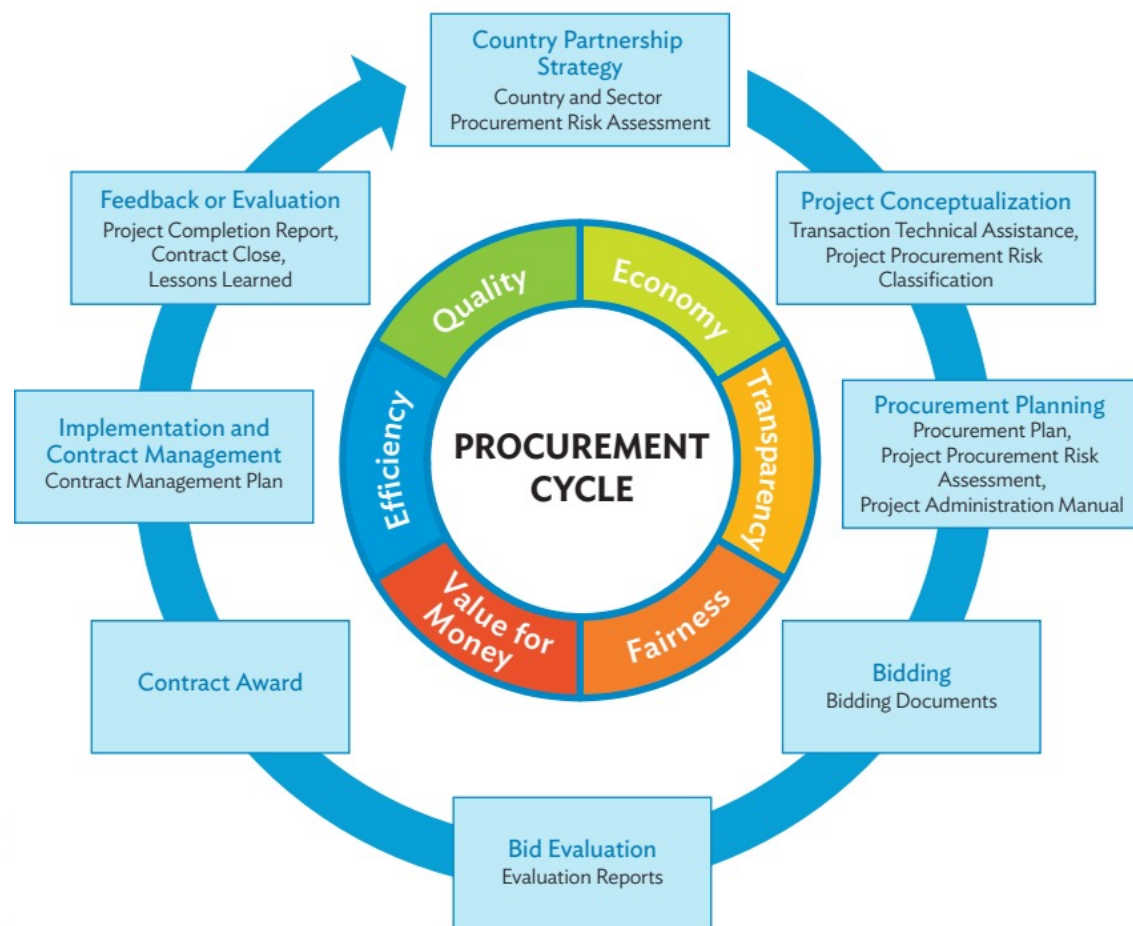
# ADB Procurement Principles



# Risk Management & Value for Money (VfM)

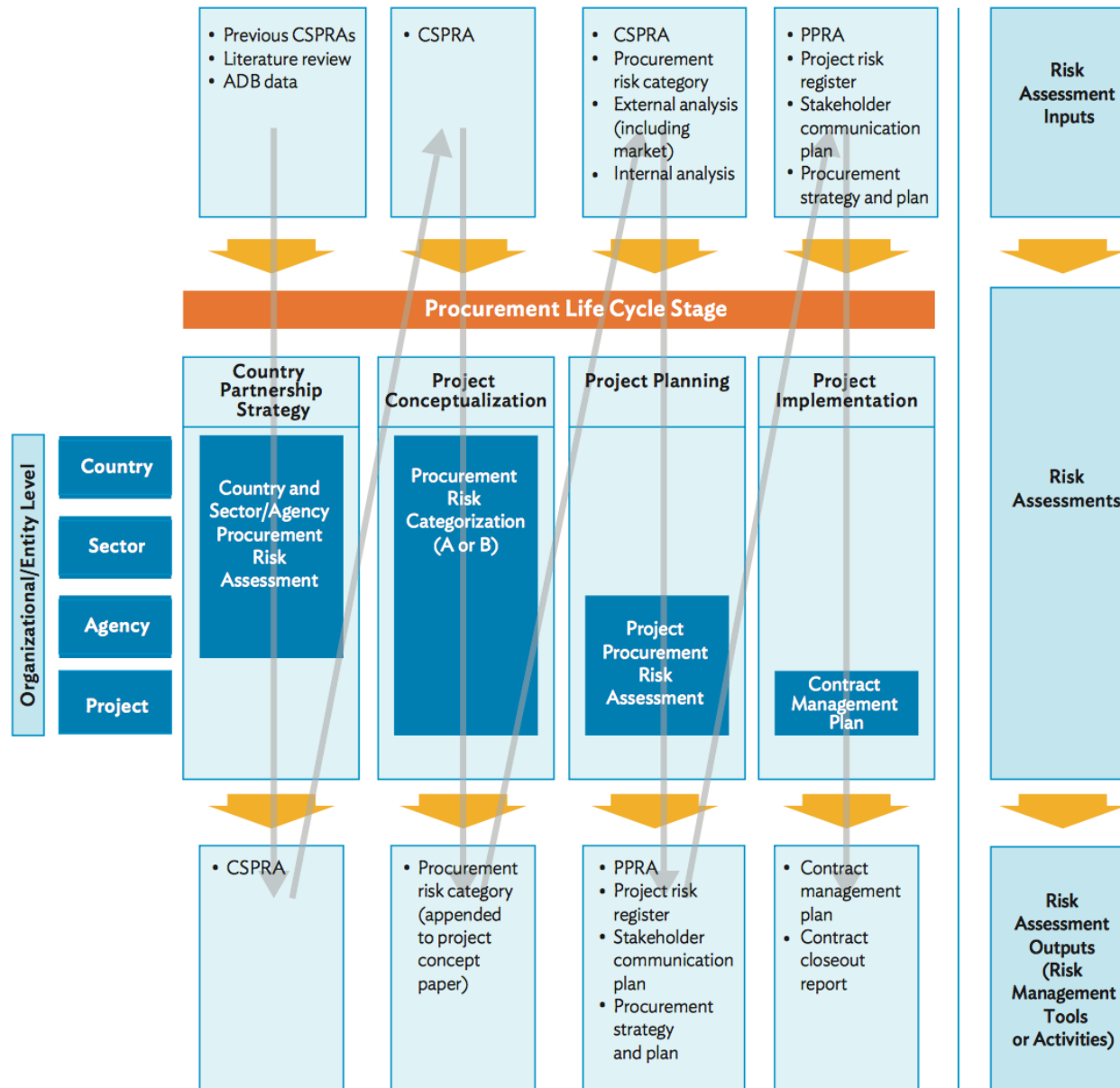


# The Procurement Cycle



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

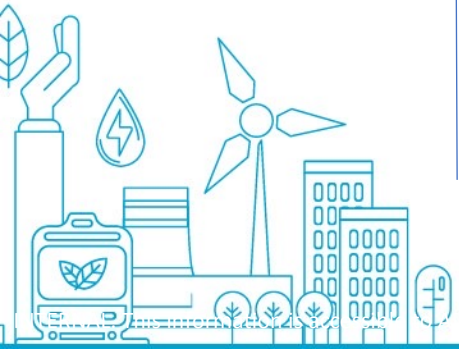




# Identifying Procurement Risk



- 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)

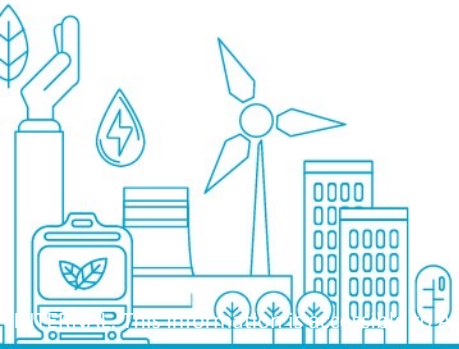




# Contract Operation Risk



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



## Procurement

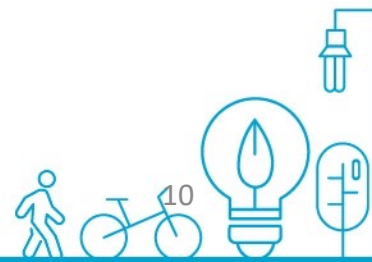
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## Contract Implementation

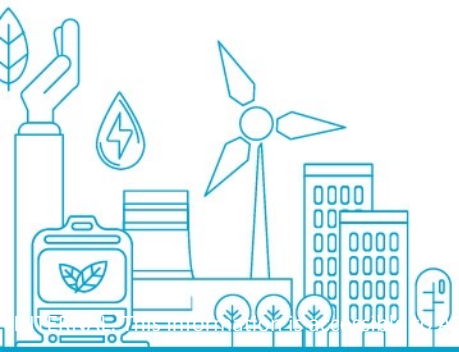
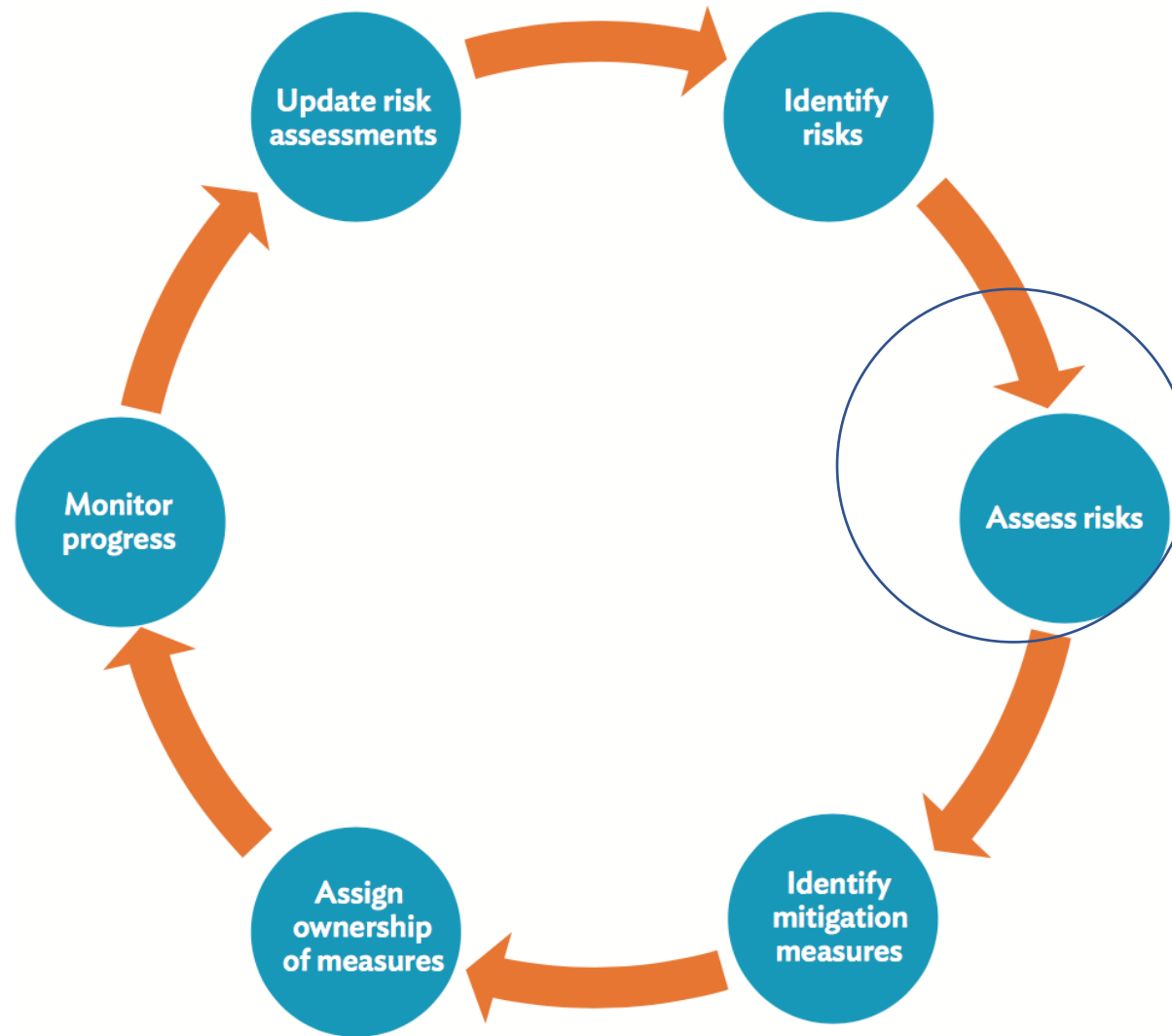
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## Operation

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



# Assessing Risks



# Procurement Risk Register

Risk assessment involves the following steps:

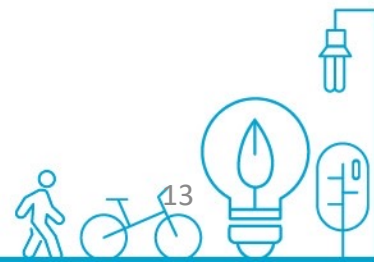
- (i) Estimating the likelihood of the risk;
- (ii) Estimating the consequence of the risk;
- (iii) Determining the risk rating;
- (iv) Prioritizing risks for treatment.



# 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%

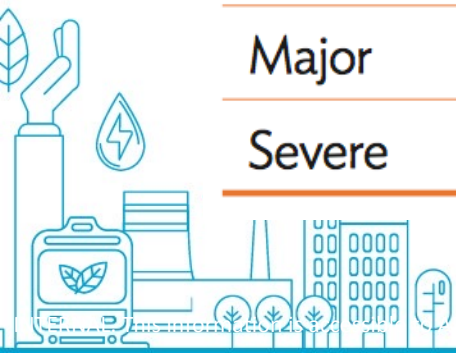


# Estimating the Consequence of the Risk

## Risk Consequence

		How the risk identified affects the achievement of					Value for
Descriptor	Consequence Score <sup>a</sup>	Economy	Efficiency	Fairness	Transparency	Quality	Money
		(1)	(2)	(3)	(4)	(5)	(6)
Insignificant	1						
Minor	2						
Moderate	3					✓	
Major	4						✓
Severe	5						

Remove principles – just descriptor + consequence



# Determining the Risk Rating

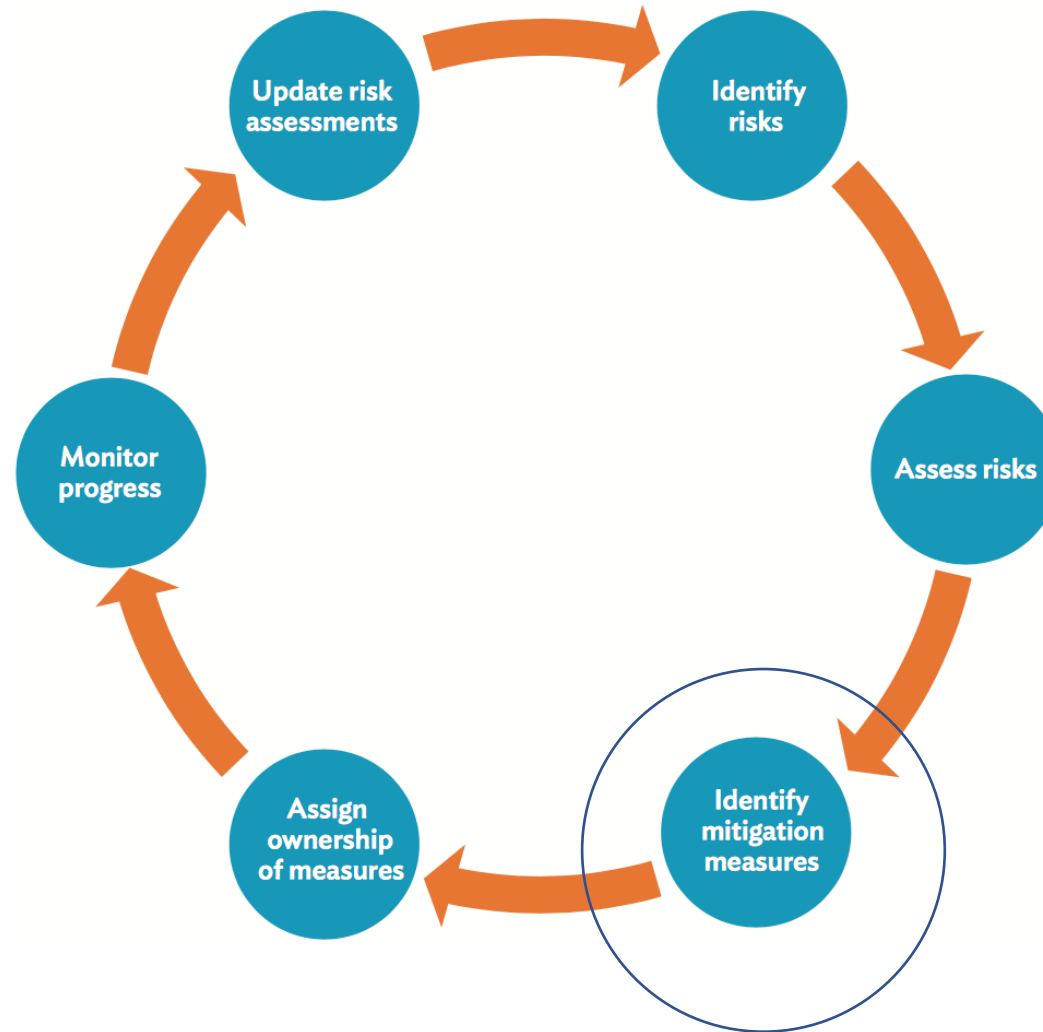
Risk Rating Matrix

			Risk Consequence				
			Insignificant	Minor	Moderate	Major	Severe
			1	2	3	4	5
Risk Likelihood	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

- Avoid the risk by deciding not to proceed with the project or activity.

## Reduce

- 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

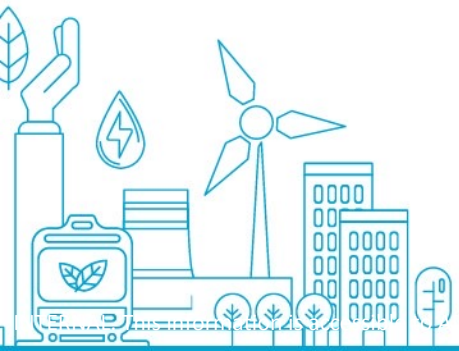
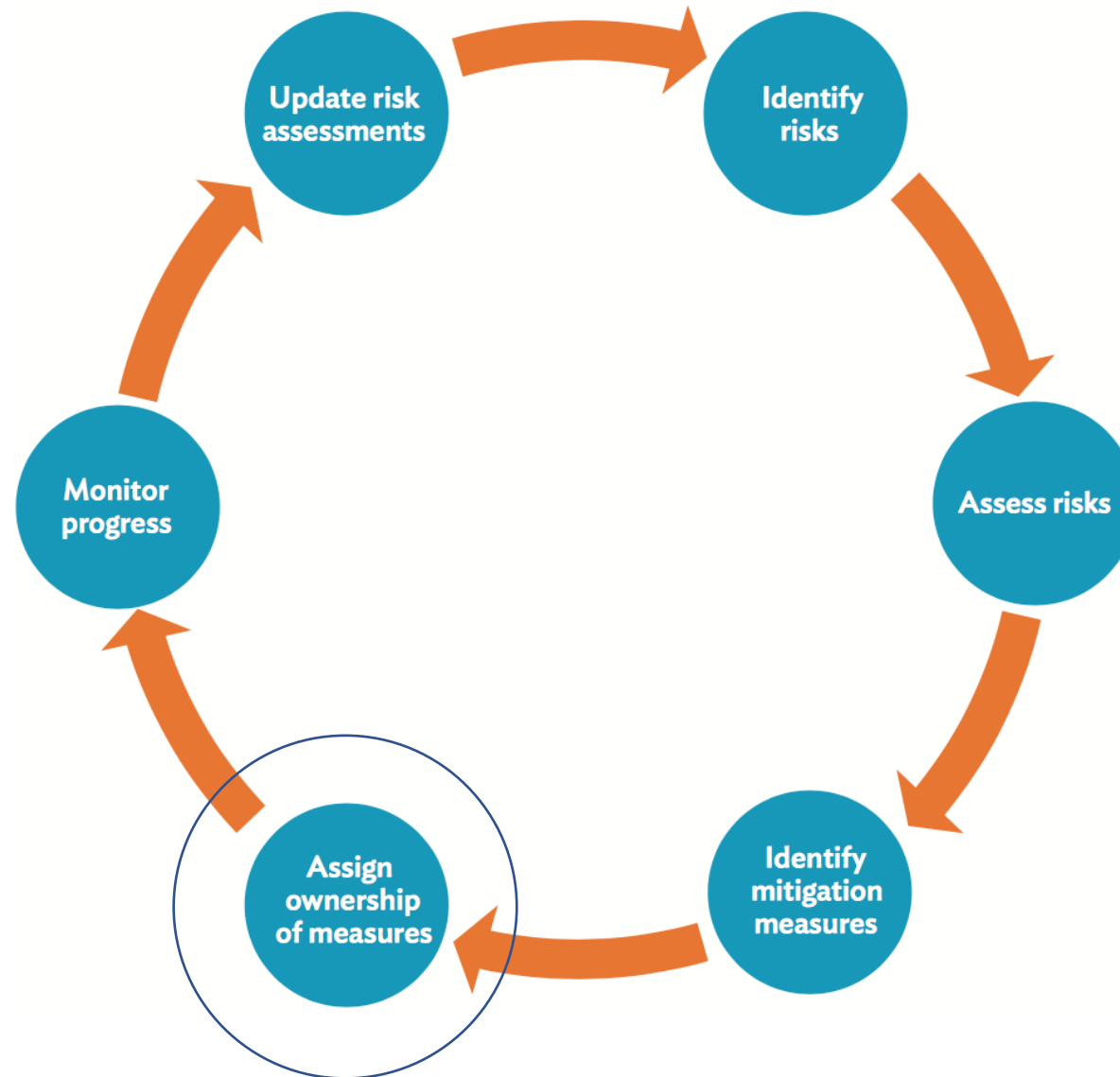
- Transfer the risk to another party, e.g., contract terms, regarding liability and indemnity, insurance, etc.

## Accept

- Accept the risk without mitigation. This may occur because
  - the risk rating is so low as to not warrant mitigation,
  - there is no treatment available, and/or
  - the costs of treatment outweigh the benefits.



# Assigning Ownership



# Example of Risk Register

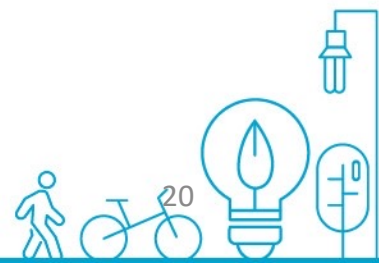
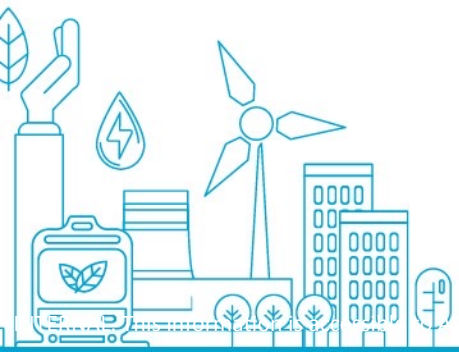
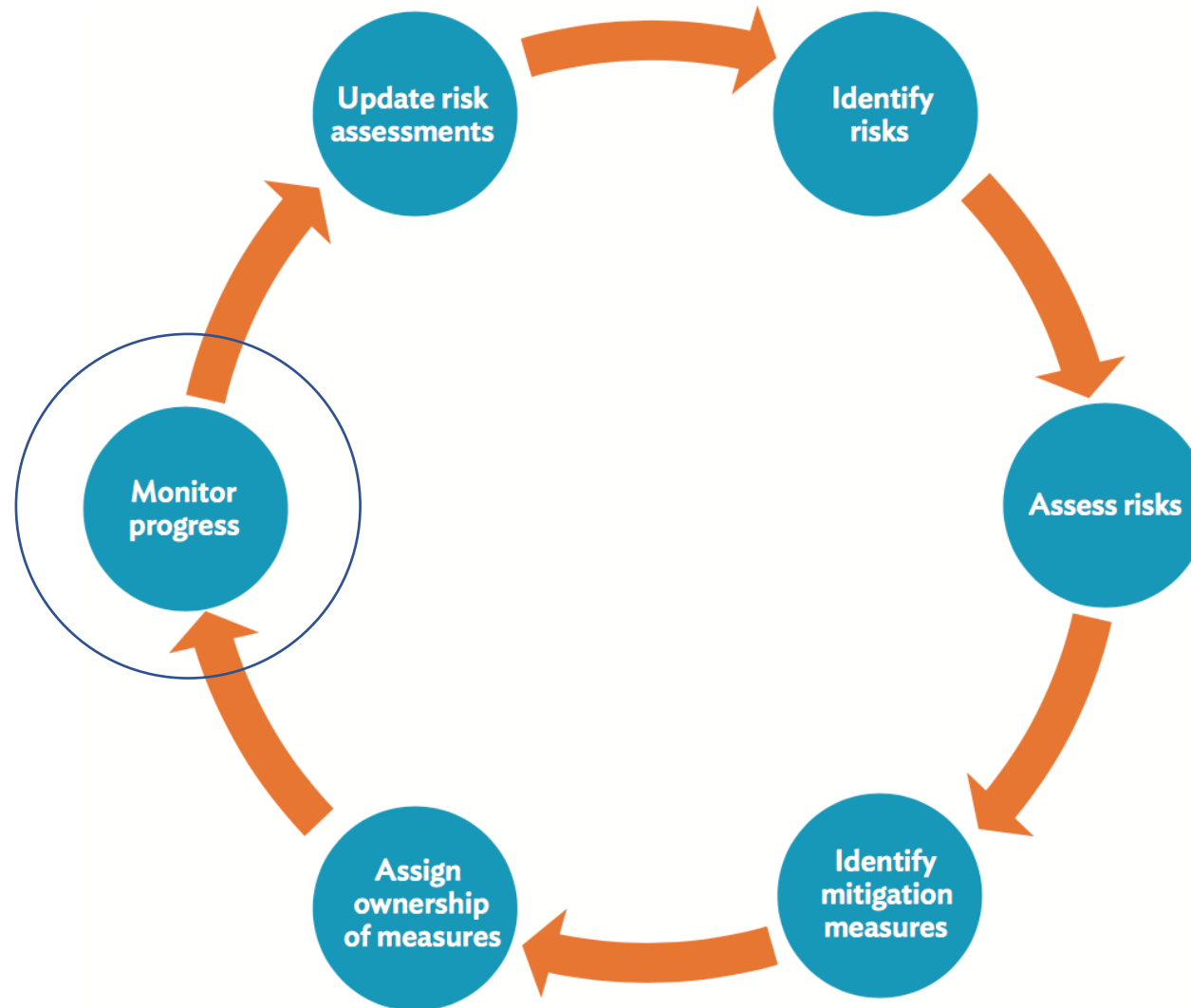
Risk Description	Likelihood (L) (1-5)	Impact (I) (1-5)	Risk Score (L x I)	Proposed Mitigation	Risk Owner
Variation in scope or costing after contract award	2	4	8	Improve specifications and cost estimates	Borrower
Abnormally low bids	2	3	6	Use ADB's processes for handling abnormally low bids	ADB and the 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

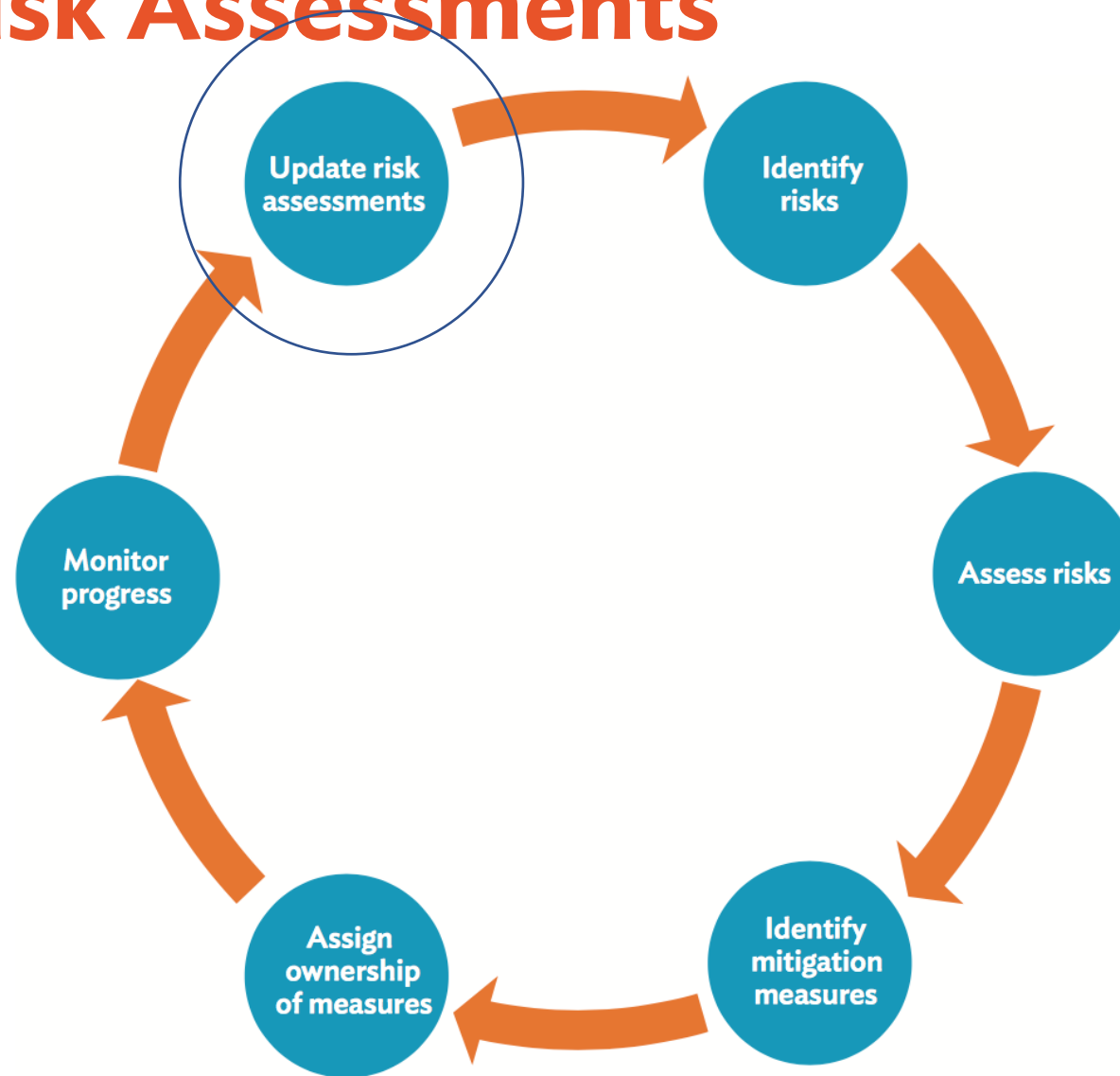
Risk owner build up to this slide



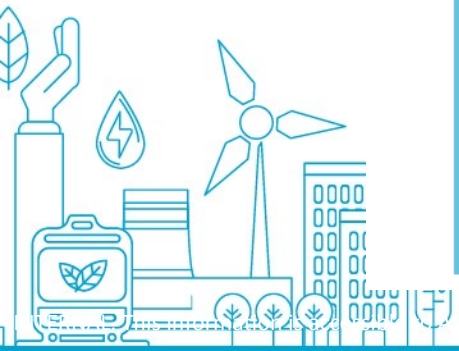
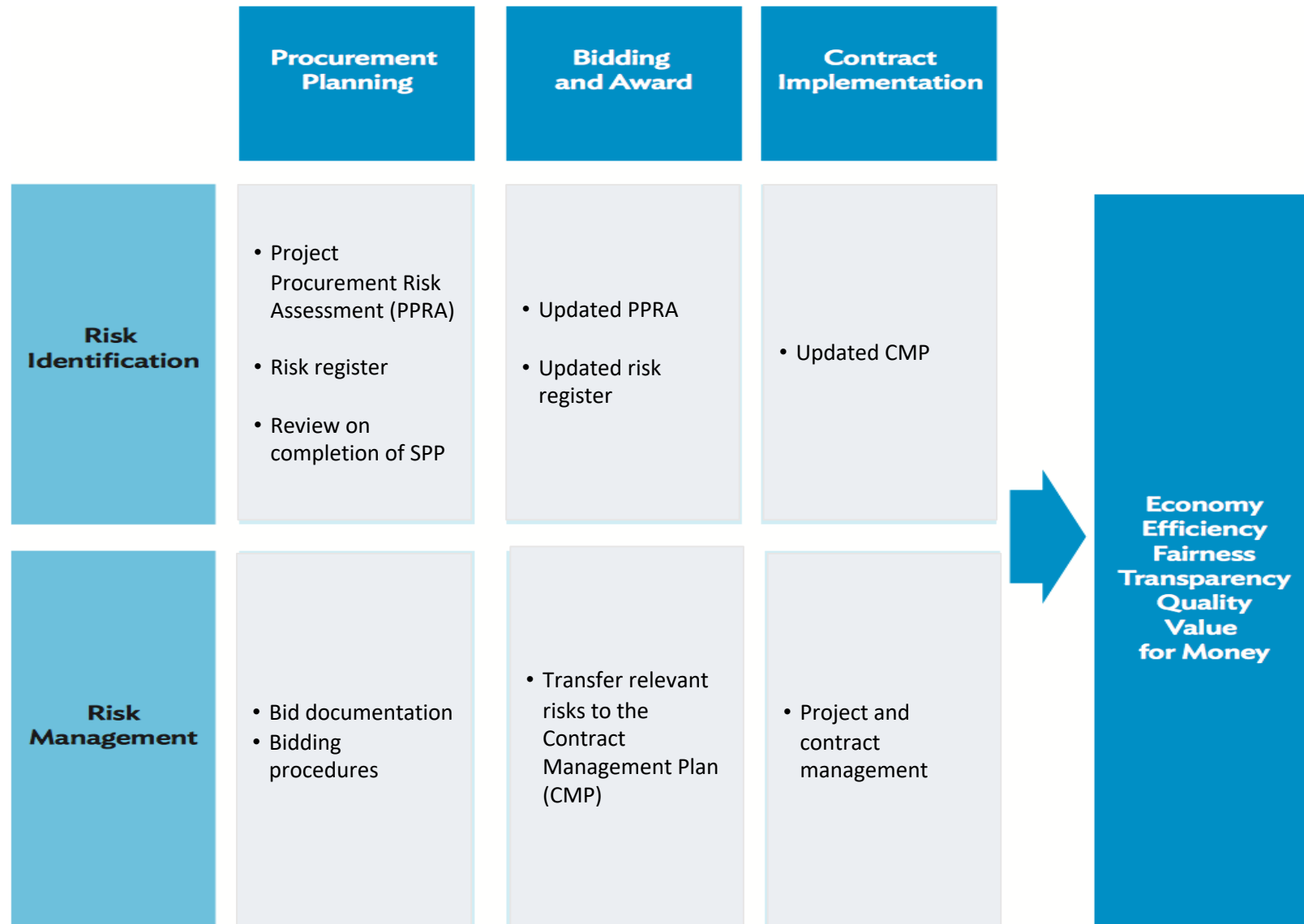
# Ongoing Risk Management



# 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



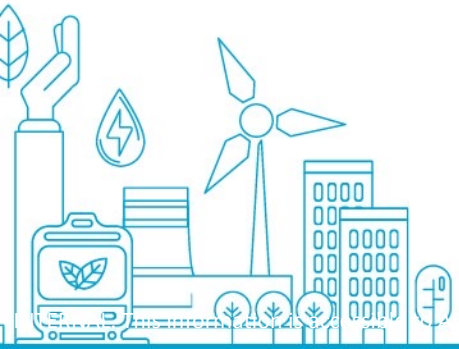
## Clarify and Analyze

- 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 1<sup>st</sup> 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!**

