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Procurement of Goods, Works, and Non-consulting Services

Price Adjustment

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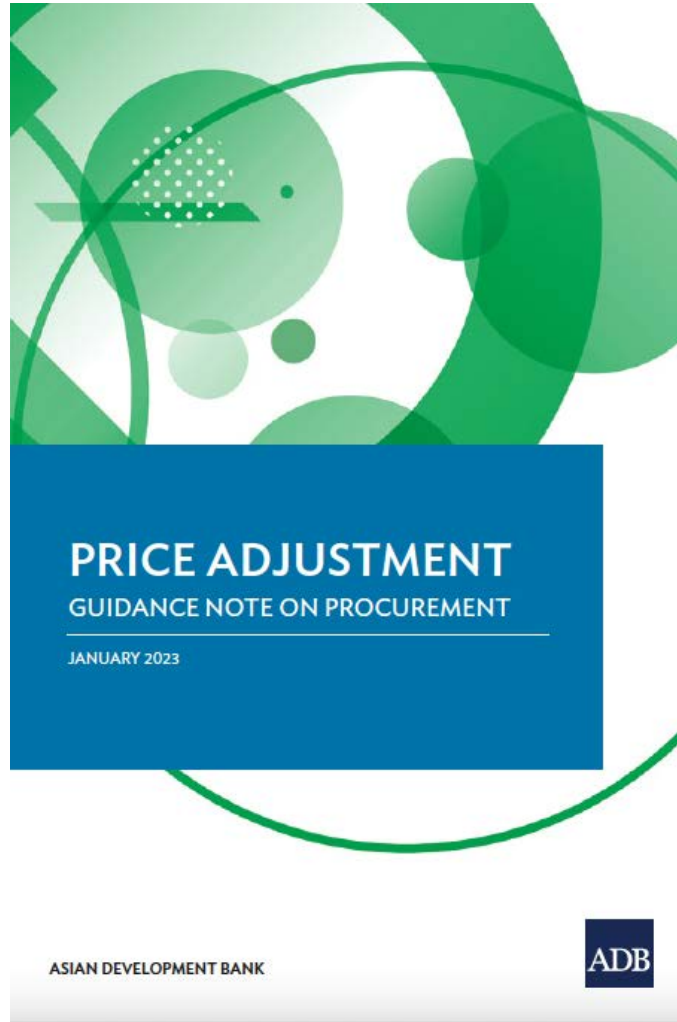
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Guidance Notes on Price Adjustment



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ADB Procurement



Price Adjustment Provisions

- Modification made to the overall price of a contract to take account of legitimate changes in the costs of inputs
- Price adjustment provisions include formulas to estimate actual cost implications
- Apply to goods, works, and plant contracts
- Planned during strategic procurement planning and bid preparation stages, used as necessary during contract implementation stage



Fixed-Price Contracts

- Bidders bears financial risks due to price escalation
- Inaccurate estimation by the bidders will reduce economy and efficiency of contract and increase the risks of nonperformance



Price Escalation

- Upward movement of prices that can affect cash flow, delays, and quality
- Cumulative impacts of price escalation can be substantial:
 - in contracts with long delivery and completion periods (18 months)
 - in contracts that contain price-sensitive supplies or commodities
 - in time-based consulting services, such as construction supervision services
 - due to any unusual circumstances in the market.



Benefits of Price Adjustment Provisions

- Estimates price fluctuations to financially protect both borrower and contractors
- Allow contractors to offer more realistic prices at the time of bidding
- Can pass on savings to borrower due to downward movements in price



Price Adjustment May Not Be Needed

- Simple supply contract with short delivery period
- Non-price sensitive goods and services
- The non-adjustable price components are predominant.



Use of Fixed-Price Contract

If proposed, must be justified by looking at

- Percentage of fixed-price cost components
- The effect of fixed-price contract to competitiveness of the procurement process



Components of Price Adjustment Formula

- Nonadjustable component,
- Adjustable component, and
- Price index to measure the adjustment.
- Example formula (Works):

$$P_n = a + b \frac{L_n}{L_0} + c \frac{E_n}{E_0} + d \frac{M_n}{M_0} + \dots$$

Price Adjustment Provisions in SBD (Works)

Tables of Adjustment Data

Table A: Local Currency

Index Code	Index Description	Source of Index	Base Value and Date	Bidder's Proposed Weighting
L: Labor E: Equipment M1: Material 1 M2: Material 2 ..etc...	Nonadjustable	—	—	a: <u>0.15</u> b: _____ c: _____ d: _____ e: _____
Total				1.00

To be entered by the Employer

To be entered by the Bidder. (Employer may prescribe the range of weighting)

Price Adjustment Provisions in SBD (Works)

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Price Adjustment in 2010 Pink Book

13.8 Adjustments for Changes in Cost

In this Sub-Clause, "table of adjustment data" means the completed table of adjustment data for local and foreign currencies included in the Schedules. If there is no such table of adjustment data, this Sub-Clause shall not apply.

If this Sub-Clause applies, the amounts payable to the Contractor shall be adjusted for rises or falls in the cost of labour, Goods and other inputs to the Works, by the addition or deduction of the amounts determined by the formulae prescribed in this Sub-Clause. To the extent that full compensation for any rise or fall in Costs is not covered by the provisions of this or other Clauses, the Accepted Contract Amount shall be deemed to have included amounts to cover the contingency of other rises and falls in costs.

The adjustment to be applied to the amount otherwise payable to the Contractor, as valued in accordance with the appropriate Schedule and certified in Payment Certificates, shall be determined from formulae for each of the currencies in which the Contract Price is payable. No adjustment is to be applied to work valued on the basis of Cost or current prices. The formulae shall be of the following general type:

$$P_n = a + b L_n/L_o + c E_n/E_o + d M_n/M_o + \dots$$

where:

" P_n " is the adjustment multiplier to be applied to the estimated contract value in the relevant currency of the work carried out in period "n", this period being a month unless otherwise stated in the Contract Data;

"a" is a fixed coefficient, stated in the relevant table of adjustment data, representing the non-adjustable portion in contractual payments;

"b", "c", "d", ... are coefficients representing the estimated proportion of each cost element related to the execution of the Works, as stated in the relevant table of adjustment data; such tabulated cost elements may be indicative of resources such as labour, equipment and materials;

" L_n ", " E_n ", " M_n ", ... are the current cost indices or reference prices for period "n", expressed in the relevant currency of payment, each of which is applicable to the relevant tabulated cost element on the date 49 days prior to the last day of the period (to which the particular Payment Certificate relates); and



Price Adjustment in 2017 Red Book

13.7

Adjustments for Changes in Cost

If Schedule(s) of cost indexation are not included in the Contract, this Sub-Clause shall not apply.

The amounts payable to the Contractor shall be adjusted for rises or falls in the cost of labour, Goods and other inputs to the Works, by the addition or deduction of the amounts calculated in accordance with the Schedule(s) of cost indexation.

To the extent that full compensation for any rise or fall in Costs is not covered by this Sub-Clause or other Clauses of these Conditions, the Accepted Contract Amount shall be deemed to have included amounts to cover the contingency of other rises and falls in costs.

The adjustment to be applied to the amount otherwise payable to the Contractor, as certified in Payment Certificates, shall be calculated for each of the currencies in which the Contract Price is payable. No adjustment shall be applied to work valued on the basis of Cost or current prices.

Until such time as each current cost index is available, the Engineer shall use a provisional index for the issue of Interim Payment Certificates. When a current cost index is available, the adjustment shall be recalculated accordingly.

If the Contractor fails to complete the Works within the Time for Completion, adjustment of prices thereafter shall be made using either:

- (a) each index or price applicable on the date 49 days before the expiry of the Time for Completion of the Works; or
- (b) the current index or price

whichever is more favourable to the Employer.



Challenges in Application of Price Adjustment

- Restriction in local regulations
- Availability of index
- Currency of index