

PROCUREMENT GUIDANCE



Abnormally Low Bids and Proposals

Guide to the identification and treatment of
Abnormally Low Bids and Proposals

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Common Abbreviations and Defined Terms

This section explains the common abbreviations and defined terms that are used in this guidance. Defined terms are written using capital letters.

Abbreviation / term	Full terminology / definition
Annex	An Annex to the World Bank Procurement Regulations for Borrowers.
Applicant	A firm, joint venture or Consultant that submits an Application in response to an invitation for Prequalification, Initial Selection or Shortlisting.
Application	A document submitted by an Applicant in response to an invitation for prequalification or initial selection.
BAFO	Best and final offer.
Bank	IBRD and/or IDA (whether acting on its own account or in its capacity as administrator of trust funds provided by other donors).
Bid	An offer, by a firm or joint venture, in response to a Request for Bids to provide the required Goods, Works or Non-consulting Services.
Bidder	A firm or joint venture that submits a Bid for Goods, Works, or Non-consulting Services in response to a Request for Bids.
Borrower	The Borrower or recipient of Investment Project Financing (IPF). The term may include any entity of the Borrower that is involved in the implementation of a project financed by IPF.
Consultant	A variety of private entities, joint ventures, or individuals that provide a services of an advisory or professional nature. Where the Consultant is an individual they are not engaged as an employee.
Consulting Services	<p>Covers a range of services that are of an advisory or professional nature and are provided by Consultants.</p> <p>These Services typically involve providing expert or strategic advice e.g. management consultants, policy consultants or communications consultants. Advisory and project related Consulting Services include, for example: feasibility studies, project management, engineering services, finance and accounting services, training and development.</p>

Abbreviation / term	Full terminology / definition
Fraud and Corruption	The sanctionable practices of corruption, fraud, collusion, coercion and obstruction defined in the Anti-Corruption Guidelines and reflected in paragraph 2.2a of Annex IV of these Procurement Regulations.
Goods	A category of Procurement that includes: commodities, raw material, machinery, equipment, vehicles, Plant, and related services such as transportation, insurance, installation, commissioning, training, and initial maintenance,
Initial Selection (IS)	The shortlisting process used prior to inviting request for Proposals in the Procurement of Goods, Works or Non-consulting Services.
Investment Project Financing (IPF)	The Bank's financing of investment projects that aims to promote poverty reduction and sustainable development. IPF supports projects with defined development objectives, activities, and results, and disburses the proceeds of Bank financing against specific eligible expenditures.
Most Advantageous Bid/Proposal	The Bid/Proposal that meets the qualification criteria and has been determined to be substantially responsive to the request for bids/request for proposals document; and is also the highest ranked Bid/Proposal.
Non-consulting Services:	Services which are not Consulting Services. Non-consulting Services are normally Bid and contracted on the basis of performance of measurable outputs, and for which performance standards can be clearly identified and consistently applied. Examples include: drilling, aerial photography, satellite imagery, mapping, and similar operations.
Prequalification	The shortlisting process which can be used prior to inviting request for bids in the procurement of Goods, Works or Non-consulting Services.
Probity Assurance Provider	A third party that provides specialist probity services for concurrent monitoring of the Procurement Process.
Procurement	The function of planning for, and sourcing Goods, Works, Non-consulting Services, and/or Consulting Services to meet required objectives.
Procurement Documents	A generic term used in these Regulations to cover all Procurement Documents issued by the Borrower. It includes: GPN, SPN, EOI, REOI, Prequalification document, Initial Selection document, RFB and RFP, including any addenda.

Abbreviation / term	Full terminology / definition
Procurement Process	The whole Procurement lifecycle that starts with the identification of a need and continues through planning, preparation of specifications/ requirements, budget considerations, selection, contract award, and contract management. It ends on the last day of the warranty period.
Project Procurement Strategy for Development (PPSD)	A project-level strategy document, prepared by the Borrower, that describes how Procurement in IPF operations will support the development objectives of the project and deliver VfM.
Proposal	An offer, in response to a Request for Proposals, which may or may not include price, by one party to provide Goods, Works, Non-consulting Services or Consulting Services to another party.
Proposer	An individual entity or joint venture that submits a Proposal for Goods, Works, and Non-consulting Services in response to a Request for Proposals.
Standard Procurement Documents (SPDs)	Procurement documents issued by the Bank to be used by Borrowers for IPF financed projects. These include, GPN, SPN, EOI, REOI, Prequalification document, Initial Selection documents, RFB and RFP documents.
Substantially Responsive Bid	A bid that is assessed to be complete and without major deviations from the eligibility, technical and commercial requirements in the Procurement Documents.
VfM	Value for Money.
Works	A category of Procurement that refers to construction, repair, rehabilitation, demolition, restoration, maintenance of civil work structures, and related services such as transportation, insurance, installation, commissioning, and training.

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Section I. Introduction

This Procurement Guidance relates to Abnormally Low Bids and Proposals. In World Bank (Bank) procurement, this means Abnormally Low Bids or Abnormally Low Proposals that arise when procuring Goods, Works or Non-consulting services funded through Bank Investment Project Financing (IPF). The purpose of this guidance is to provide a structured approach for Borrowers to identify, clarify, and treat ALBs.

The Procurement Regulations provide the following definition:

“An Abnormally Low Bid/Proposal is one in which the Bid/Proposal price, in combination with other elements of the Bid/Proposal, appears so low that it raises material concerns with the Borrower as to the capability of the Bidder/Proposer to perform the contract for the offered price.”

Examples of how a Bid/Proposal (hereafter Bid) may appear Abnormally Low include:

- a) When it is compared with the Borrower’s cost estimate for the contract if there is no ability to compare to market prices;
- b) When it is compared with all other Substantially Responsive Bids;
- c) When it does not appear to provide margin for profit; and
- d) Where the low price cannot be explained by, for example:
 - i. The economy of the selected constructions method, or
 - ii. The technical solution chosen.

For Goods, Works and Non-consulting services, the World Bank Standard Procurement Document (SPD) contains an ALB instruction to Bidder/proposer (hereafter Bidder). If the Borrower uses an SPD with the ALB instruction they shall check if the Bid price is Abnormally Low and make use of the ALB clauses in the SPD.

While it is expected that in all contract award decisions, the Borrower will undertake reasonable due diligence to ensure the Bidder is capable of performing the contract, in the case of a suspected ALB, there is a requirement to undertake enhanced due diligence on the Bid.

While an Abnormally Low Bid may appear to represent good value, it can result in greater overall costs, contract delays or even the collapse of a contract. In other terms, accepting ALBs has the potential to put the contract in jeopardy, as ALBs are often submitted by contractors that may not be able to complete their work as priced or they may simply have made errors in their Bids and be unable to complete the work at that price. Public authorities must then spend time and money managing a poorly performing contractor, or finding a new contractor to complete the job.

A number of steps can be taken to reduce the potential for an ALB – these typically constitute ‘best practice’. The risk of receiving an ALB are reduced if the following have been adequately addressed:

- a) Adequate market research and planning through the Project Procurement Strategy for Development (PPSD);

- b) High quality selection documentation (particularly adequate technical specifications and terms of reference);
- c) Borrower engages with the market adequately to encourage a competitive response and to ensure clarity of the requirements;
- d) A sufficient period is allowed for the preparation of Bids;
- e) Borrower issues adequate and timely responses to clarification requests;
- f) Borrower undertakes a prequalification phase, where appropriate;
- g) Borrower ensures qualification criteria are adequate and appropriate; and
- h) Borrower maintains an updated prices data base and prepares a realistic cost estimate.

However, even if all of the above have been satisfactorily addressed and/or taken into account, there still remains a possibility that a Bidder may, intentionally or inadvertently, submit an ALB.

The process of establishing whether a Bidder is capable to perform a contract within its total evaluated Bid price can be highly complex and subjective, particularly for design and build type contracts, and in instances where Bank clients do not have the necessary in-house capability and expertise, clients may require the input of independent consultants with technical knowledge and experience relevant to the specification.

If the Bidder is unable to show they can complete the contract for the Bid price, then subject to the Banks Prior Review, the Bid must be rejected.

Bidders whose Bids are rejected due to an ALB will not forfeit their Bid security due to their low Bid.

There are five stages to treatment of an ALB:

1. **Identify:** the Borrower identifies a potential ALB based on comparison with available prices from the market, or with the cost estimate;
2. **Clarify:** the Borrower seeks clarification from the Bidder/proposer (hereafter the Bidder);
3. **Justify:** the Bidder prepares a justification of their price based on the request from the Borrower;
4. **Verify:** the Borrower fully analyzes the Bidder's justification to verify if it is an ALB; and
5. **Decide:** the Borrower fully documents the decision to accept or reject the Bid with the Bank's no-objection.

Flowchart of ALB process:

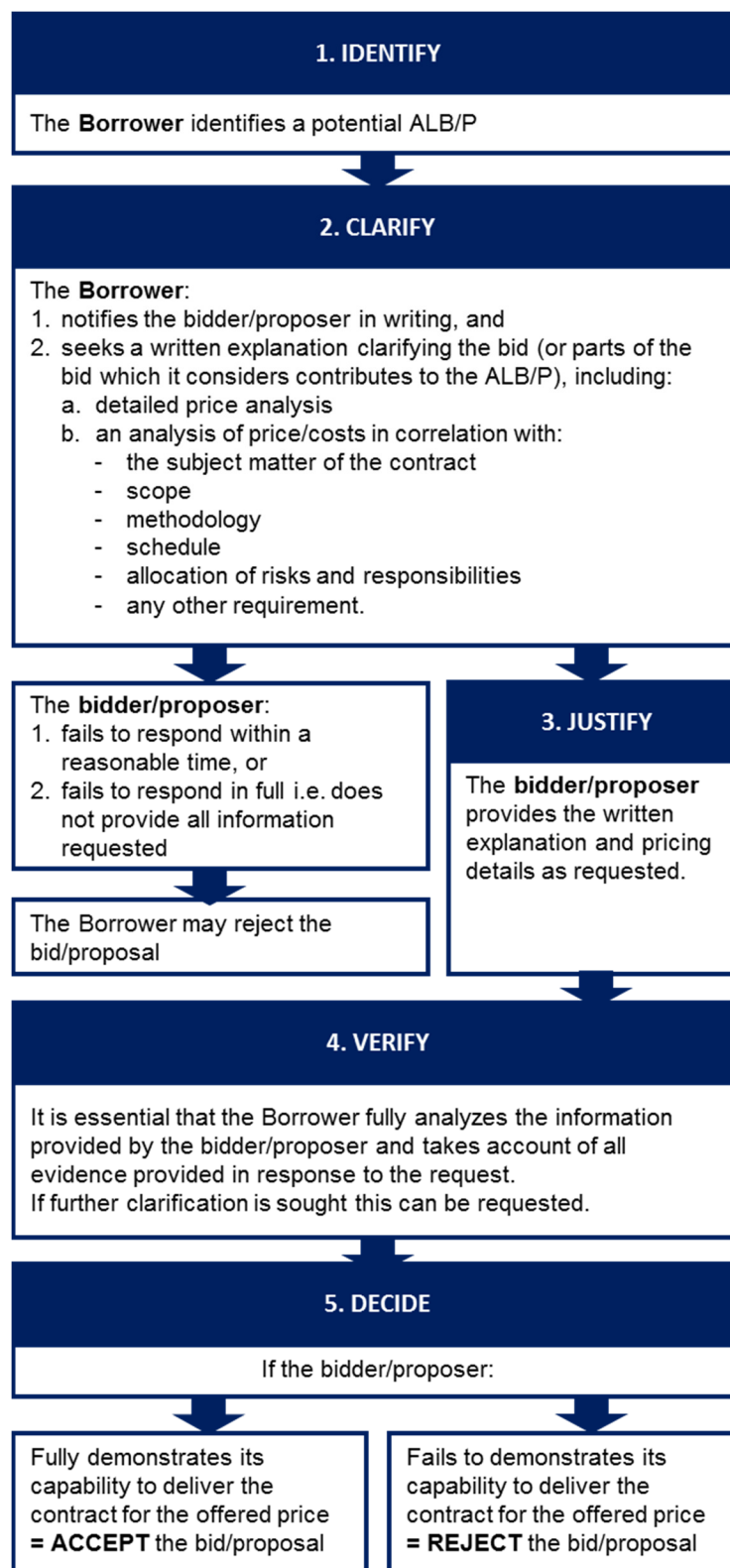


Figure 1 – Flow chart for ALB process

Section II. Process to identify and treat an ALB

Stage 1 - Identify

When the evaluation of Bids has been completed and the Most Advantageous Bid has been identified, if the ALB provision is enabled in the SPDs then the Borrower shall check if the Bid price is unreasonably low.

In all cases the identification of an ALB should be undertaken on the evaluated Bid prices of Substantially Responsive Bids only.

There are two approaches to identifying a potential ALB depending on the number of Bids/Proposals received.

Where fewer than five Substantially Responsive Bids have been received, the 'absolute' approach identifies an ALB based on a comparison of the evaluated Bid price, and its constituent parts, with the Borrower's own cost estimate. If the Bid price is 20% or more below the Borrower's cost estimate when fewer than five Substantially Responsive Bids are received then the Borrower should clarify the Bid price with the Bidder to determine whether the Bid is Abnormally Low.

The 'relative' approach uses a statistical calculation using at least five Substantially Responsive prices. A potential ALB is identified where the low Bid is more than one standard deviation below the average of the Substantially Responsive Bids received.

The identification of an ALB using a mathematical calculation assumes that the Bid prices are competitive and independent. That is, that there is not collusion in the market that is artificially keeping prices clustered.

The Borrower should also have considered during the preparation of the PPSD whether the market sector they are approaching has a history of collusion and/or a history of ALBs. If there is a history of collusion or ALBs in the market, then extra care should be taken to identify an ALB even if the low Bid price does not fall within the mathematical ALB risk zone.

	\$M
Bid 1	72
Bid 2	92
Bid 3	82
Bid 4	101
Bid 5	53
Average	80
Std. Dev.	17
ALT threshold	63

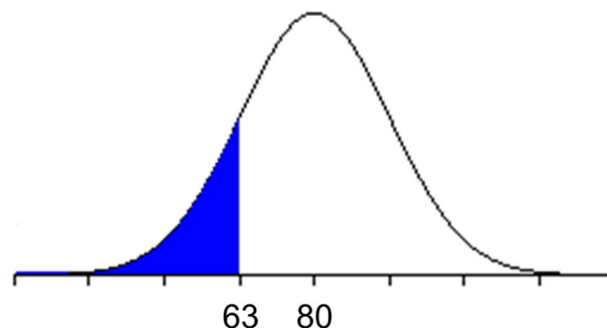


Figure II - Example identification of an ALB using the 'relative' approach

In the example, the average of the Bid prices is \$80M. The standard deviation of the Bid prices is \$17M. So the ALB risk zone is any price below $\$80M - \$17M = \$63M$. In this case the Most Advantageous Bid price of \$53M is a potential ALB.

Whichever approach is applied to identify a potential ALB, Borrower's shall be aware that the Banks' will not accept or agree to the automatic rejection of a Bid suspected to be an ALB without the Borrower first clarifying the basis for the suspected ALB with the Bidder.

If a potential ALB is identified the Borrower shall undertake a preliminary assessment of the Bid to identify any particular parts of the Bid that may have been grossly underestimated by the Bidder. Based on the findings from the preliminary assessment the Borrower should request clarification from the Bidder on the particular elements that appear Abnormally Low.

Following the identification step and a preliminary assessment, if an ALB has been identified in the evaluation process, the evaluation report shall contain full details of the 'absolute' or 'relative' basis upon which an ALB has been identified.

Stage 2 - Clarify

Once a potential ALB has been identified by the Borrower, and in the event that the Borrower proposes to recommend award of the contract to that Bidder, the Borrower has a mandatory requirement to establish the capability of the Bidder to perform the contract within its total evaluated Bid price. A Borrower must not automatically reject a potential ALB before completing all of the five stages in this process unless the Bidder does not provide the requested clarification in a timely manner and the Bid is rejected on that basis.

Preliminary assessment

Competitive prices generally should not deviate substantially for similar Goods, work methods and Non-consulting services. However, price variations should be expected for elements designed by contractors or when alternative technical solutions are offered.

Cost of materials generally have minimal divergence between the Bidders, however there may be circumstances where a Bidder has an advantage due to locally available resource or reduced cartage costs because of materials within proximity of the proposed contract site.

The preliminary assessment should look to identify issues such as;

- a) Has the Bidder omitted to price some items and was this intentional or accidental?
- b) Are some items priced significantly lower by the Bidder than estimated by the Borrower, and if so, is this an arithmetical error?
- c) Are certain items/types of items consistently underpriced (e.g. cost per meter of laying pipes in a trench) and is it clear why this is the case?

The following provides details of a sample procedure that could be applied to Works contracts of an average complexity, and particularly where a detailed design and Bill of Quantity (B/Q) exists. For more complex Works contracts, for example those requiring a substantial level of innovation from Bidders, a more appropriate procedure may need to be developed with the support and assistance of suitably qualified consultants (if applicable, due consideration to this aspect should be considered during the project planning stage to ensure that the 'Terms of Reference' for any implementation consultant(s) includes an appropriate provision at the outset of the project).

Preliminary assessment Step 1 - Evaluation of estimate of resource inputs

Contractors may perform identical contracts using differing volumes, sequencing, timing, and combination of resource inputs, such as construction equipment, staff, and labor, materials.

For example, a Bidder may choose topsoil removal Works to be executed using self-propelled scrapers. If successful, the Bidder should be able to execute several construction activities using the selected equipment and construction method and ultimately perform the Works faster, with less support equipment, fewer operators and lower operating costs compared to other construction methods.

Consequently, the selected construction method should have direct impact on the prospective cost of the Works to the Bidder and consequently its Bid price. However, if the Bidder misjudged the specific circumstances of the project location e.g. availability of the equipment, transportation distances to the designated dumping sites, concentration of rocks in the topsoil, etc., the Bidder may not be capable of following the selected construction method. If awarded the contract, they would suffer substantial cost overruns during the execution of the Works on account of having to modify or substitute the selected construction method and cover the cost of additional support or new equipment, operating costs, etc.

If the Borrower determines that the preliminary work program submitted by the lowest price Bidder for any part or all of the Works is not realistic, the Borrower shall evaluate whether the Bidder will be capable to modify or substitute the proposed construction methods therein within the Bidder's total Bid price whilst remaining consistent with the mandatory requirements of the contract. It should be noted that the Bidder shall not be allowed or asked change their Bid during evaluation or as a condition of award only if the preliminary work program accompanies, but does not form a part of, the Bid.

Preliminary assessment Step 2 – Evaluation of subtotals quoted for various parts of contract by other Bidders/proposers

All Bidders will have individually determined the price of the various parts of the contract. Therefore, providing that the preliminary work programs adopted by the Bidders are comparable, the average subtotals quoted by the Bidders for various parts of the contract should be representative of the actual price and provide a benchmark for assessing the subtotals quoted by the lowest price Bidder.

The most accurate way to compare the various subtotals is using a line chart of subtotals quoted for various parts of the contract by other Bidders.

With the exception of subtotals quoted by the lowest price Bidder, the Borrower first enters all subtotals quoted by other Bidders for various parts of the contract into a combined line chart.

The Borrower's estimated subtotals for the respective parts of the contract should also be inserted into the line chart.

The Borrower compares all subtotals for each part of the contract and notes the nature of any inconsistencies with the view to determining the average subtotals for each part of the contract.

Once the Borrower has determined the average subtotals for each part of the contract these are compared with the respective subtotals quoted by the lowest price Bidder.

If all the subtotals quoted by the lowest price Bidder are below the average subtotals by the same percentage, then the lowest price Bidder may have grossly underestimated its overhead expenses and/or chosen to incorporate an exceptionally low profit margin and contingencies in its rates. In such instances, the Borrowers further evaluation should concentrate on the breakdown of the Bidder's overhead expenses and clarification of the basis for determining its profit margin and contingencies.

In such cases, the Borrower's further assessment should focus on the breakdown of the Bidder's overhead expenses and clarification of the profit margin and contingencies.

If the shortfall is between the average subtotal and the subtotal quoted by the lowest price Bidder for a certain part of the contract, the Borrower's further evaluation should focus on detailed price analyses and assessment for that element of the Bid.

Request for Clarification

Requests to Bidders to produce and submit "detailed price analyses" shall be carried out in accordance with the clarification procedure contained in the relevant selection document.

The clarification request for detailed price analyses should focus on the issues that have been identified during the preliminary evaluation and should clearly state the basis on which the Borrower determined that the Bidder's price may be excessively low.

The contents of the Borrower's clarification request to the Bidder should require the Bidder to provide a focused response to the Borrower. The Borrower should also stipulate how the information is to be provided and may include forms and templates. A sample 'Form for Detailed Analysis of Unit Rates' that may be used for this purpose, if appropriate, is attached at Annex II.

Borrowers shall ensure that Bidders are provided with a sufficient period within which to provide any requested clarifications and/or detailed price analyses. Under normal circumstances, and depending on the volume/complexity of information to be provided by a Bidder, a period of no less than 5 - 10 business days shall generally be considered a reasonable period.

The Borrower should also communicate to the Bidder that any misrepresentation by the Bidder in the information provided shall be subject to the Bank's anti-fraud and corruption guidelines and may be subject to sanction.

The information that is typically requested in a price analysis may comprise the following basic cost components:

Bid price breakdown = Cost of Goods/Works (equipment, materials and labor) +
Overhead Expenses + Contingency + Profit

Clarification of resource inputs and pricing

If the Borrower determines that the Bidder's estimate of a resource input associated with particular part of the Bid may not be realistic or is substantially below the Borrower's respective estimate, the Borrower shall request the Bidder to clarify to the Borrower's satisfaction the basis on which the Bidder has:

- a) Estimated the respective resource input; or
- b) Determined that the underlying arrangements can be modified or substituted within its total Bid price.

If the Borrower determines that the Bidder's estimate of the cost of a resource input may not be realistic or is substantially below the Borrower's respective assumption, the Borrower shall request the Bidder to submit appropriate evidence that would substantiate its pricing of the respective resource input including, as may be necessary, further detailed price analyses in respect of the resource input questioned by the Borrower.

Clarification to be provided by Bidders' subcontractors.

A contractor shall be responsible for the acts or defaults of any subcontractor, his agents, or employees, as if they were the acts or defaults of the contractor. Therefore, the Bidder will satisfy itself that its proposed subcontractor would be fully capable of undertaking the part of the contract that the Bidder chooses to subcontract.

Therefore, if a Bidder proposes a nominated subcontractor for the performance of any part of the contract, the Borrower shall require that the Bidder will demonstrate the capability of its subcontractor to perform the contract as if these were to be performed by the Bidder.

Equally if the clarification response from the Bidder contains a justification that relates to the price of a subcontractor, the Borrower may request details of that price if it is materially low.

Clarification of the Bidder's Overhead expenses.

Overhead components of a Bid are often a source of variation in pricing and depend on, for example:

- a) Organizational and project management arrangements (on and off-site);
- b) Cost of machinery and labor; and
- c) Profit margin allowed by the Bidder for the contract.

The basis on which overhead expenses are factored into a Bid price can be substantially different between Bidders and may therefore fluctuate substantially. The Borrower may therefore require that Bidders provide detailed information about their overhead expenses during Bid evaluation, if required.

Stage 3 - Justify

The time allowed for the preparation and submission of the justification by the Bidder/proposer shall be determined with due considerations to the particular circumstances of the Works and the magnitude and complexity of the procurement. Borrowers should normally ensure that Bidders are provided with a period of no less than 5 - 10 business days.

The Bidder's justification should include all information requested by the Borrower and any documentary evidence that the Bidder used for determining its Bid price.

If the Bidder fails to provide the requested information within the time period stated in the procurement documents, or fails to provide all of the information requested the Borrower may reject the Bid at this point. Equally, no Bidder shall be permitted by a client to withdraw its Bid or add any cost element when providing clarification (without the forfeiture of its Bid security), during the validity period.

The explanation provided by the Bidder may relate to:

- a) The economics of the manufacturing process, of the services provided or of the construction method;
- b) The technical solutions chosen or any exceptionally favorable conditions available to the Bidder for the supply of the Goods, Works or Non-consulting services;
- c) The originality of the work, supplies or services proposed by the Bidder;
- d) compliance with applicable standards and obligations referred to in the selection documents; and
- e) Items above, where the Goods, Works or Non-consulting services are to be provided by a sub-contractor.

The Bidder's justification may include its estimate of labor requirements; sources and volume of materials, construction plant and equipment, transportation distances, etc. required for the performance of the part of the requirements for which the Borrower requires clarification.

The Bidder's clarification may also include a description of the nature of the Bidder's access to the proposed construction equipment e.g. hire, lease, purchase agreement, etc. and any documentary evidence that the tenderer utilized for determining its tender price during the tendering period.

Stage 4 - Verify

On receiving the Bidder's justification, it is essential that the Borrower's suitably qualified personnel fully analyzes the information provided by the Bidder and takes account of all evidence provided in response to the request for clarification.

The Borrower's evaluation of the ability of a Bidder to undertake the contract at the price quoted in its Bid should focus on the price analyses of any or all the items of the Goods or Works to be performed by the Bidder or their subcontractors, in combination with other elements of the Bid/Proposal and their consistency with the Bidder's estimate of the resource inputs required. The Borrower may also evaluate a Bidder's previous satisfactory performance and contract implementation at similar prices.

If further clarification is required from the Bidder, this may be requested following the process outlined above.

For a number of reasons, a Bid price which is below the Borrower's cost estimate may not be considered Abnormally Low. For example:

- a) A Bidder's mobilization costs could be significantly lower if the Bidder already has an on-going construction contract underway near the proposed project site, and could also benefit from economies of scale (for example, when procuring materials);
- b) A Bidder may be keen to enter a new market (e.g. in terms of country of operation and/or type of work) and takes the conscious strategic position to Bid low, using a project as a 'loss leader'. (This is generally more applicable to Goods and non-consultancy services contracts than to Works contracts).
- c) A Bidder could have proposed a much more efficient or innovative method of working than other Bidders;

- d) A Bidder may be attempting to break into a collusive market (in such cases, the “market” prices may be artificially inflated and therefore the Borrower’s estimate could make a competitive Bid look Abnormally Low by comparison; or
- e) A Bidder may have received a state subsidy.

Following verification of the Bidder’s price analyses and detailed justifications provided by the Bidder, the Borrower shall determine if the Bid/Proposal price, in combination with other elements of the Bid/Proposal, is unreasonably low, to the extent that the Bidder has not demonstrated the capability to perform the contract successfully for the price submitted. If the Borrower is not satisfied, and subject to the Bank’s no-objection then the Bid must be rejected.

Stage 5 - Decide

The Bid evaluation report shall include full details of the basis upon which the Borrower’s decision has been made, and shall include the following information:

- a) The value of the Bidder’s estimates of the resource items and respective pricing which the Borrower determined to be unrealistic or substantially below the level required for satisfactory performance of the contract;
- b) The value of the Borrower’s estimates and assumptions in relation to the resource items and respective pricing required for satisfactory performance of the contract, or an explanation as to why the Borrower’s cost estimate was disregarded, as appropriate;
- c) The value of the shortfall identified in the Bidder’s Bid;
- d) The recommended decision to accept or reject the Bid based on the ‘Detailed Evaluation of the Bidder’s Price Analyses’; and
- e) Copies of all clarification exchanges between the client and the Bidder including details of any objection that the Bidder may have highlighted during the clarification exchange process and the basis on which the Borrower rejected the Bidder’s objections.

The Bid evaluation report shall also include details of any objection that the Bidder may have highlighted with regard to the Borrower’s estimates and assumptions in relation to the resource items and their respective pricing and appropriate justification of the grounds on which the Borrower has rejected the Bidder’s objections. The Borrower’s recommendation shall be included in the Bid evaluation report.

Due diligence on the potential ALB price shall be undertaken before submitting the Bid evaluation report to the Bank for no-objection for contracts subject to prior review.

Borrowers should be aware that, for contracts subject to prior review procedures, as a part of the Banks’ fiduciary oversight, the recommendation for acceptance or rejection of the Bid will be subject to the Bank’s no-objection.

Conclusion

The issue of ALBs has increasingly become a major issue for the Multilateral Development Banks (MDBs) and also many public sector entities. This methodology on the identification and treatment of ALBs provides Borrowers with a structured approach to address the issue of ALBs that will better enable them to obtain value for money through investment projects financed by the World Bank.

Annex I. Example identification of an ALB

Example 1 – Identification using the ‘relative’ approach

Cost estimate: \$2,938,140,000

Number of Substantially Responsive Bids: 16

1	2	3	4	5	6	7	8
1,145,142	1,330,191	1,342,106	1,378,232	1,462,176	1,476,269	1,486,226	1,579,100
9	10	11	12	13	14	15	16
1,613,371	1,657,703	1,856,166	1,900,885	1,912,355	2,099,006	2,149,893	2,242,001

Based on the data:

Average Bid price (\bar{x}) = \$1,664,426 and

Standard deviation (σ) = \$315,975

The ALB risk level is defined as the value equal to $\bar{x} - \sigma$

In this example, the ALB limit is equal to \$1,348,452. Hence, all Substantially Responsive Bids with the quoted Bid price (the lowest three Bids) below this level are in the ALB risk zone.

The preferred lowest Substantially Responsive Bid is \$1,145,142 (Bid 1), and should therefore be verified in respect of adequacy of their price.

Example 2 – Identification using the ‘absolute’ approach

Cost estimate: \$150,003,863

Number of Substantially Responsive Bids: 4

1	2	3	4
85,862,863	115,494,160	158,012,899	165,385,533

In this example, since there are fewer than 5 Bids, the absolute approach should be used. Since the preferred lowest Substantially Responsive Bid of \$85,862,863 (Bid 1) is greater than 20% below the cost estimate it should be treated as a potential ALB.

The comparison of the Bid validity should consider the breakdown of the Bid price relative to the other Bids and to the cost estimate to determine where the Bid is low and therefore whether the Bidder is capable of delivering the contract for the Bid price.

Annex II. Sample form for detailed analysis of unit rates

Item No.	Description	Unit	Production	Direct Cost											
(0)	(1)	(2)	(3)	Position (4)	Quantity / hour	Unit rate								Total	
				Sub total 1											
				Materials											
				Type	Quantity / hour	Unit rate									
				Sub total 2											
				Equipment											
				Type	Quantity / hour	Unit rate									
				Sub total 3											
				Total Direct Cost = Sub-total 1 + Sub-total 2 + Sub-total 3											
				Site Overheads											
				Give precise description of each category of site overhead in column (4) below											
				(4)											
					Enter K ₂ multiplying factor of direct costs										
				Expatriate staff	K ₂ =										
				Equipment	K ₂ =										
				Others	K ₂ =										
				Total site overhead cost											
				Headquarters Overheads											
				Give precise description of each category of headquarters overhead in column (4) below											
				(4)											
					Enter K ₃ multiplying factor of direct costs										
				Headquarters	K ₃ =										
				Insurances	K ₃ =										
				Other financial costs	K ₃ =										
				Profit	K ₃ =										
				Total Headquarters Overhead cost											
				Total Unit Rate											



For additional information, such as Standard Procurement Documents (SPDs), Guidance, briefing, training and e-learning materials see www.worldbank.org/procurement