



**GUIDANCE NOTE ON THE ASSESSMENT OF
ABNORMALLY LOW BIDS FOR WORKS CONTRACTS**

February 2022

Prepared by The Caribbean Development Bank



COMMON ABBREVIATIONS AND DEFINED TERMS

Common abbreviations and defined terms that are used in this Guidance Note. Defined terms are written using capital letters.

Abbreviation/term	Full terminology/definition
ALT	Abnormally Low Bids.
Bid	An offer, by a Bidder, in response to a Request for Bids, to provide the required Goods, and/or Works and/or related services.
Bidder	A firm that submits a Bid for the provision of Goods and/or Works and/or related Services.
B/Q	Bills of Quantity.
CBD	Caribbean Development Bank.
Contractor	A firm that is contracted to provide Works.
GN	Guidance Note.
MDB	Multi-Lateral Development Bank.
SBDs	Standard Bidding Documents.
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 1 – INTRODUCTION

Overview

This Guidance Note (GN) is consistent with the provisions in the Procurement Policy of the Caribbean Development Bank (CDB) for Projects Financed by CDB (November 2019), Procurement Procedures for Projects Financed by CDB (January 2021), the GN for Bid Evaluation for Goods, Works and Non-Consulting Services and CDB's standard bidding documents (SBDs) for Works^{1/}. The relevant provisions in the aforementioned Procedures and SBDs permit clients^{2/} to reject Abnormally Low Bids (“ALBs”) following a comprehensive clarification and examination process. CDB recognises that the grounds upon which an ALB may be rejected can be highly contentious and controversial. As such, any decision to reject a Bid on this basis must be supported by robust documentary evidence and be able to withstand scrutiny. To assist clients in this regard, CDB has produced this GN with the intention of clarifying the process that CDB clients shall follow during the Bid evaluation process prior to making a decision as to whether an ALB shall be accepted or rejected. This GN only applies to the procurement of Works.

Definition of an ALB

It is generally accepted that it is very difficult, if not impossible, to provide a definition of an ALB that captures all possible scenarios. For the purposes of this GN, and as a general rule, CDB considers an ALB to be a Bid submission where the Bid price, in combination with other constituent elements of the submission, appears to be abnormally low in relation to the subject matter of the contract to the extent that the Bid price raises material concerns with the procuring entity as to the capability of the Bidder to perform the contract for the offered Bid price.

^{1/} All these documents can be found at: www.caribank.org/work-with-us/procurement/resources.

^{2/} Whom may also be referred to as “the Employer” in this Guidance Note and other CDB procurement documents.

SECTION 2 – ALB EVALUATION AND CLARIFICATION PROCESS

Identification of an ALB

In view of the general difficulty in establishing a common definition of an ALB, the first essential step in the Bid evaluation process is to identify if the most advantageous Bid^{3/} may be an ALB and therefore requires further in-depth review and clarification. Typically, there are two approaches that may be followed in this regard, the ‘absolute’ approach and the ‘relative’ approach. The ‘absolute’ approach generally entails the identification of an ALB based on a comparison of a Bid price, and its constituent parts, with the client’s own cost estimate for the Works, whilst the ‘relative’ approach provides for the identification of an ALB based on a comparison of a Bid price with the average Bid price submitted by other Bidders (whilst disregarding the client’s own cost estimates) and taking into account the statistical deviation from the average using the rules of normal distribution in statistical analysis. Whilst the ‘absolute’ approach can theoretically be applied in any given situation (on the assumption that a reliable cost estimate exists), the ‘relative’ approach can only be considered reliable in a situation where a reasonable number of Bids have been submitted.

As a general rule, in situations where fewer than five (5) Bids have been submitted, CDB advocates the use of the ‘absolute’ approach as a basis to identify ALBs. In situations where five (5) or more Bids have been submitted, CDB advocates the use of the ‘relative’ approach which provides sound results. Nevertheless, it is considered that the ‘relative’ approach, albeit with less reliable results, may be used even if the number of Bids is as low as three (3). In this regard, the MDB Heads of Procurement grouping, who collaborate to further procurement harmonisation, have developed a mathematical formula, for the purposes of attempting to identify Bids which fall into the ALB ‘risk zone’, which shall be used when the ‘relative’ approach is to be applied. The formula may be used in MS Excel, or similar applications, by entering the array of data (say A1...AN), the mean can be calculated by using the following function AVERAGE (A1:AN), and the standard deviation by using the formula STDEV(A1:AN). Thus, the formula for calculation of the ALB risk zone threshold is: AVERAGE(A1:AN)-STDEV(A1:AN).

Following the ‘relative approach’, any Bid that falls into the ALB risk zone (and is therefore potentially an ALB), and which is subsequently proposed for contract award, must be subjected to the ALB Evaluation and Clarification Process elaborated in the following section of this GN prior to the submission of a contract award recommendation to CDB^{4/}. In the event that fewer than 5 (five) Bids are submitted all Bids shall be considered to be in the ALB risk zone and the Bid which is subsequently proposed for contract award must be subjected to the ALB Evaluation and Clarification Process.

In the event that an ALB has been identified in the Bid evaluation process, the Bid evaluation report shall contain full details of the ‘absolute’ or ‘relative’ basis upon which an ALB (or ALBs) has or have been identified.

Notwithstanding whether an ‘absolute’ or a ‘relative’ approach is applied to identify a potential ALB, clients shall be aware that CDB will not, under any circumstances whatsoever, accept or agree to the automatic rejection of a Bid suspected to be an ALB in a situation where no attempt to clarify the basis for the suspected ALB has been made by the client. Equally, no Bidder shall be permitted by a client to withdraw its Bid (without the forfeiture of its Bid security) during the Bid validity period purely on the basis of its own determination that its Bid is an ALB (for example, based on a comparison of its own Bid price with the read-out prices of the other Bidders).

^{3/} This will usually be the lowest priced substantively responsive Bid but this is not always the case as set out in the above-mentioned GN for Bid Evaluation for Goods, Works and Non-Consulting Services and the associated GN for Evaluation Criteria for the Procurement of Goods, Works and Non-Consulting Services, both of which can be found on CDB’s website.

^{4/} Should prior review apply to the Contract in question.

ALB Evaluation and Clarification Process

Preliminary Evaluation

Following a determination by a client that a Bidder has submitted a Bid that is potentially an ALB, in the event that a client subsequently proposes to recommend award of contract to that Bidder, the client has a mandatory requirement to establish the capability of the Bidder to perform the contract within its total Bid price, before submitting the Bid evaluation report to CDB for no-objection (for contracts subject to prior review), or, finalising the Bid evaluation process and awarding the contract (for contracts subject to post review).

The process of establishing whether a Bidder is capable to perform a contract within its total Bid price can be highly complex and subjective, particularly for design-build type contracts. In instances where CDB clients do not have the necessary in-house capability and expertise, clients may require the input of independent consultants with substantial knowledge and experience in the relevant sector. Nevertheless, CDB will be unable to provide its no-objection to a proposal to reject a Bid on the basis that it is an ALB until such time as it is satisfied that the client has undertaken the necessary analysis and due diligence as detailed in this GN.

The following provides details of a sample procedure that could be applied to Works contracts of an average complexity, particularly where a detailed design and Bills 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 engineering consultant(s) include an appropriate provision at the outset of the project).

The determination as to whether an ALB shall be rejected shall be made in accordance with Section I: Instructions to Bidders of the SBDs for Works which states, "In the event of identification of a potentially Abnormally Low Bid, the Employer shall seek written clarifications from the Bidder, including detailed price analyses of its Bid price in relation to the subject matter of the contract, scope, proposed methodology, schedule, allocation of risks and responsibilities and any other requirements of the Bidding document" and "After evaluation of the price analyses, in the event that the Employer determines that the Bidder has failed to demonstrate its capability to perform the Contract for the offered Bid Price, the Employer shall reject the Bid."

Requests for Clarifications to Bidders to produce and submit "detailed price analyses" and any associated supplementary evidence shall be carried out in accordance with the procedure contained in Section I of the aforementioned SBDs. Clients shall ensure that Bidders are provided with a reasonable period within which to provide any requested clarifications, detailed price analyses, and supplementary evidence. Under normal circumstances, and dependent upon the volume/complexity of information to be provided by a Bidder, a period of five (5) – ten (10) business days shall be considered to generally constitute a reasonable period.

The price analysis would normally comprise of the following basic cost components: Bid Price = Cost of Works (materials and labour) + Overhead Expenses + Contingency + Profit. Therefore, the Employer's evaluation of the capability of a Bidder to perform the contract within its total Bid price shall focus on the price analysis of any or all the items of the Works to be performed by the Bidder and their internal consistency with the Bidder's estimate of the resource inputs required for the performance of the Works and/or associated pricing by the Bidder.

The evaluation process shall commence with an arithmetical check of each Bid followed by a preliminary evaluation of the Bid price. The purpose of this preliminary evaluation is to identify any particular parts of the Works which may have been grossly underestimated by the Bidder and which

would therefore merit further detailed evaluation of the Bidder's estimate of resource inputs and associated pricing incorporated in the Bidder's total Bid price. This preliminary examination should look to identify issues such as:

- Has the Bidder omitted to price some items and does this appear to have been intentional or accidental?
- Are some items priced significantly lower than estimated? And if so, is this a consequence of an arithmetical error or a misplacement of a decimal point or has the Bidder misunderstood what is to be included in the rate?
- Are certain items/types of items consistently under-priced across the B/Q (e.g., cost per metre of laying pipes in a trench), and are there any indications why this may be the case?

Detailed Analysis

Following the aforementioned preliminary evaluation, the following steps shall be undertaken:

Step 1:

Evaluation of the Bidder's Estimate of Resource Inputs associated with Performance of the Works. Contractors may perform identical Works using differing volumes, sequencing, timing and combination of resource inputs, such as construction equipment, staff and labour, materials. A Bidder's estimate of such resource inputs, which would be required for the performance of the Works, shall be the first step in the evaluation of the Bidder's capability to perform the contract. All Bidders should have estimated the volume of the resource inputs required for the performance of the Works on the basis of the construction methods, sequence and timing of the various construction activities, sources of materials, etc. i.e., on the basis of the Bidder's preliminary work programme. Accordingly, the Employer shall first examine the preliminary work programme submitted in the Bid evaluated to be the most advantageous and determine if it is in fact realistic, taking into account the specific circumstances of the project site.

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 as compared to other construction methods. Consequently, the selected construction method should have a direct impact on the prospective cost of the Works to the Bidder and ultimately its Bid price. However, should the Bidder misjudge 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 and, if awarded the contract, will suffer substantial cost overruns during the execution of the Works on account of having to: (a) modify or substitute the selected construction method; and (b) cover the cost of additional support or new equipment, operating costs, etc. Moreover, if the Employer were to accept the Bidder's Bid price, having full knowledge that it is based on a flawed preliminary work programme, then the possibility arises that following contract award to the Bidder, any inability to execute the Works in accordance with such a programme could give rise to a claim or variation by the Bidder.

In view of the above, if the Employer determines that the preliminary work programme submitted by the most advantageous Bidder for any part or all of the Works is not realistic, the Employer shall evaluate whether the Bidder will be capable to modify or substitute the proposed construction method(s) therein within the Bidder's total Bid price whilst remaining consistent with the mandatory requirements of the contract. It should be noted that such evaluation can be carried out by the Employer without

violation of CDB's procurement procedures (i.e., Bidders shall not be allowed or asked to change their Bids during evaluation or as a condition of award) only if the preliminary work programme accompanies, but does not form a part of, the Bidder's Bid. (Note: This provision is also consistent with the FIDIC recommended Example Form of Instruction to Bidders, according to which, "the tenderer shall also submit the following supplementary information accompanying, but not forming part of, his Tender:" --- "(d) details of the arrangements and methods which the Bidder proposes to adopt for the execution of the Works").

Step 2:

- Statistical Evaluation. All Bidders will have individually determined the prospective cost of the Works prior to the submission of their Bids. Therefore, providing that the preliminary work programmes adopted by the Bids are comparable (see above paragraph), the average subtotal of rates (subtotals) quoted by the Bidders for various parts of the Works should be representative of the actual cost of the Works and constitute a sound benchmark for the preliminary assessment of the sufficiency of subtotals quoted by the most advantageous Bidder for the respective parts of the Works.
- Line Chart of Subtotals Quoted for Various Parts of Works by other Bidders. With the exception of subtotals quoted by the most advantageous Bidder, the Employer shall first enter all subtotals quoted by other Bidders for various parts of the Works into a combined line chart. The Employer's estimated subtotals for the respective parts of the Works should also be inserted into the line chart.

The Employer shall compare all subtotals for each part of the Works in the line chart and note the nature of any inconsistencies with the view to:

- (a) identify any evidence of frontloading; and
- (b) determine the average representative subtotal of rates for each part of the Works (average subtotals).

All line charts should normally be balanced providing that the preliminary work programmes adopted by the respective Bidders are comparable. A substantially unbalanced subtotal should generally constitute evidence of frontloading by a Bidder or incidence of a gross error in the Bidder's estimate of the actual cost of the respective part of the Works. For comparison purposes, such individual subtotals should be adjusted within the total price quoted by the respective Bidder or, as the case may be, the Employer's estimate for the entire Works, in proportion with the average subtotals for the respective parts of the Works quoted by other Bidders and the Employer's estimates.

- Comparison of Subtotals Quoted by most advantageous Price Bidder with those Quoted by other Bidders. Once the Employer has determined the average representative subtotals for each part of the Works (average subtotals), these shall be compared with the respective subtotals quoted by the most advantageous Bidder. In the event that all the subtotals quoted by the most advantageous Bidder transpire to be consistently below the average subtotals, such a price ranking may constitute evidence that the most advantageous Bidder has grossly underestimated its overhead expenses and/or chosen to incorporate an exceptionally low profit margin and contingencies in its rates. In such instances, the Employer's 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 the event of any exceptional shortfall between the average subtotal and the subtotal quoted by the most advantageous Bidder for any individual part of the Works, the Employer's further evaluation should concentrate on the detailed price analyses and assessment of its internal consistency with the estimate of resource inputs and pricing of the respective individual part of the Works.

- Preliminary Clarification and Request for Bidders' Detailed Price Analyses for the Works. Following the preliminary evaluation, if the Employer considers that further clarification from the Bidder is required, the Employer may request the Bidder to produce detailed price analyses for any part of the Works in accordance with the Instructions to Bidders section of the SBD for Works.
- Content of the Employer's Clarification Request for Price Analyses. The Employer's clarification request for price analyses shall focus on the issues that will have been identified during the preliminary evaluation and clarify the basis on which the Employer determined that the Bidder's pricing of the Works may be abnormally low. The contents of the Employer's clarification request shall ensure that the Bidder will be in a position to provide an equally focused response to the Employer. In order to expedite the Bid evaluation, the Employer shall also provide the Bidder with the format in which the Bidder will be expected to submit its price analysis. In this regard, a sample 'Form for Detailed Analysis of Unit Rates' that may be used for this purpose, if appropriate, is attached at Annex 1.
- Clarification of the Bidder's Overhead Expenses and Contingency. It should be noted that the basis upon which a Bidder may factor overhead expenses into its Bid prices can be substantially different from that used by other Bidders. The respective value of the individual overhead expenses may therefore fluctuate within considerable margins. This can be evidenced with reference to the outcome of bidding exercises held on a "slice and package" basis, which show that Bidders' discounts for the award of more than one contract can range between 0-30% of the Bid price. Hence, the margin of overhead expenses may vary substantially and can be manipulated by any Bidder after the date of Bid submission taking into account the ranking of its Bid price vis-à-vis other Bidders. The Employer should therefore require that all Bidders shall provide detailed information pertaining to their overhead expenses as part of the Bid submission. The same position should be taken with regard to contingencies for the same reason.

Step 3:

- Detailed Clarification and Request for further Bidder's Price Analyses for the Works. Following the receipt of the Bidder's detailed price analyses, the Employer shall determine if the Bidder's estimates of the resource inputs and the pricing of the Works provided therein are consistent with the Employer's respective assumptions. If the Employer determines a potential shortfall in any of the items of the Bidder's price analyses the Employer shall request further clarification from the Bidder which may include appropriate documentary evidence that would validate the Bidder's price analyses. The Employer's clarification request shall focus on the issues that have been identified during the detailed evaluation of the Bidder's initial price analyses and clarify the basis upon which the Employer determined that the Bidder's assessment of the Works may be abnormally low. The Employer should also convey to the Bidder that any attempt of misrepresentation by the Bidder within the framework of the Bid evaluation may fall within the definition of Prohibited Practices within the SBD and may be subject to the CDB's sanctions policies related to these Prohibited Practices.

- Clarification of the Bidder's Estimate of Resource Inputs. If the Employer determines that the Bidder's estimate of a resource input associated with particular part of the Works may not be realistic or is substantially below the Employer's respective assumption, the Employer shall request the Bidder to clarify to the Employer's satisfaction the basis on which the Bidder has:
 - (a) Estimated the respective resource input; or
 - (b) determined that the underlying work programme arrangements can be modified or substituted within its total Bid price.

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

- Estimate of Clarification of the Bidder's Pricing. If the Employer determines that the Bidder's estimate of the cost of a resource input may not be realistic or is substantially below the Employer's respective assumption, the Employer 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 Employer.

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 Bidder utilised for determining its Bid price during the Bidding period.

- Report of Evaluation of Bidder's Detailed Price Analyses and Employer's Recommendation. At the end of the detailed evaluation of the Bidder's price analyses the Employer shall produce a concise report that shall form an annex to the Bid Evaluation Report (BER) and that shall include the following summary information:
 - (a) The value of the Bidder's estimates of the resource items and respective pricing which the Employer determined to be unrealistic or substantially below the level required for satisfactory performance of the Works;
 - (b) The value of the Employer's estimates and assumptions in relation to the resource items and respective pricing required for satisfactory performance of other Works;
 - (c) The value of the shortfall identified in the Bidder's Bid; and
 - (d) The recommended outcome of the 'Detailed Evaluation of the Bidder's Price Analyses'.

The report shall also include details of any objection that the Bidder may have highlighted with regard to the Employer's estimates and assumptions in relation to the resource items and their respective pricing and appropriate justification of the grounds on which the Employer has rejected the Bidder's objections. The Employer's recommendation shall be included in the report. In addition, the Bid evaluation report shall incorporate copies of all clarification exchanges between the client and the Bidder.

Step 4:

Employer's Recommendation. Following evaluation of the Bidder's price analyses and detailed clarification thereof, in the event that the client has established that the Bidder is unable to demonstrate, beyond reasonable doubt, its capability to perform the contract within its total Bid price, reject the Bid submitted by the most advantageous Bidder in accordance with the relevant provision contained in the SBD for Works.

Clients should be aware that, as a part of CDB's fiduciary oversight, for complex/high value/contentious cases it may be necessary for CDB to seek an independent opinion with regard to the basis and logic behind any decision to reject an ALB prior to CDB being in a position to it's no-objection to the proposed contract award.

ANNEX 1 - SAMPLE FORM FOR DETAILED ANALYSIS OF UNIT RATES

Item No.	Description	Unit	Production	Direct Cost									
				Position (4)	Quantity / hour	Unit rate						Total	
(0)	(1)	(2)	(3)										
												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)									
				Expatriate staff								Enter K ₂ multiplying factor of direct costs	
				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									

CARIBBEAN DEVELOPMENT BANK



P.O. Box 408, Wilkey, St. Michael
Barbados BB 11000



246 -539-1600



[.caribank.org](http://www.caribank.org)