

RURAL HOUSING SCHEME: CONTRACTOR SELECTION

1. The Rural Housing Scheme (RHS) is a high priority government program strategically designed to build affordable modern rural housing to improve rural living standards. To assure the lowest cost and highest value for money, all houses constructed under the RHS are cost-based and exempt from value-added tax (VAT), wherein costs must be prepared in accordance with requirements detailed in the Resolution of Cabinet of Ministers № 261, “On Transition to Contract Prices for the Realization of Investment Projects at the Expense of Centralized Capital Investments”, 11 June 2003.

A. RHS Procurement Process 2009 to 2011

2. **Procurement regulations.** To ensure a competitive and efficient procurement process, the selection of RHS contractors has been conducted in accordance with (a) Cabinet of Ministers Resolution No. 280, (b) Instructions for Qishloq Qurilish Invest (QQI) Selection of Contractors for the RHS (approved on 12 October 2010 by Qishloq Qurilish Bank [QQB] and the State Committee for Architecture and Construction [SCAC]), and (c) Cabinet of Ministers Resolution No. 302 “On Measures to Improve the System of Bidding in Capital Construction,” 3 July 2003. A brief overview of the RHS procurement procedures that have been followed for the selection and contracting of contractors for construction of 7,647 RHS houses built in 2009 and 2010, and the 7,400 RHS commissioned for 2011 follows.

3. **Procurement responsibilities.** Provincial and district local governments (*hokimiyats*) are the developers. District *hokimiyats* are responsible for identifying and providing state land suitable for residential development and coordinating with respective infrastructure and social sector ministries and utility agencies to provide access to basic utilities and social services. Provincial *hokimiyats* are responsible for leading and implementing the contractor procurement process in accordance with government guidelines and utilizing standardized documents specifically customized for the RHS. QQI is mandated¹ to provide technical support to the Provincial *hokimiyats* in the packaging and initiating competitive procurement of turnkey contracts for rural housing and rural community facilities.

4. **RHS Provincial Procurement Commission.** As defined by resolution and outlined in the above referenced instructions, a 7-member² RHS Provincial Procurement Commission³ (Procurement Commission) is required to be established. The Procurement Commission is responsible for the overall request for bids and tendering process, and approves the invitation to bid, the bid evaluation criteria, and bidding documents. The Procurement Commission supervises the bidding and bid evaluation process, and approves the selection of the winning bid based upon the predefined evaluation criteria. The Procurement Commission may appoint a bid evaluation commission to assist in bid evaluation.

5. **Contract packaging.** Since the initiation of the RHS in 2009, the construction of over 15,000 rural houses has been commissioned under 1,200 contracts (an average of 12.5 houses

¹ Presidential Resolution PP-1167 “On Additional Measures to Expand the Scope of Housing Construction in Rural Areas”, 3 August 2009.

² The Chair and the Deputy Chair of the Commission are the First Deputy Governor of the Province (for Construction Issues), and the Head of the QQI Regional Branch, respectively. Commission members include: the Deputy Mayor of the District, the Provincial Head of the State Antimonopoly Committee for Competition and Entrepreneurship, the Provincial Head of the State Committee for Architecture and Construction, the Chief Financial Officer of the district *hokimiyat*, and a second representative of QQI to serve as the Procurement Commission Secretary.

³ National guidelines require only a 5-member Procurement Commission.

per contract package or average contract value of SUM1,000 million [about \$600,000]). A breakdown of the number of rural houses contracted for and the average size of the contract package each year is detailed in Table 1.

Table 1: RHS New House Construction 2009 to 2011

	2009	2010	2011
Number of new houses	847	6,800	7,400
Number of contracts	45	405	750
Average number of houses per contract	19	17	10
Average cost of house (SUM million)	60	65	78
Average value of contract package (SUM million)	1,140	1,105	780

Source: QQB and ADB staff estimates

6. The RHS strategy for packaging of construction contracts seeks to increase opportunities and improve the capacity of small and medium sized rural residential housing contractors. The packaging of contracts has been organized by province and by site location, and is based on the number of registered small and medium sized local contractors within close proximity of the site and their assessed capacity.⁴ The size and scope on individual package size are based on the site size, location, and street layout, and the number of model designs to be implemented.

7. While the total national cost of construction for the RHS program for 2011 is SUM576.54 billion (\$350 million), by province the total amount contracted ranges between approximately SUM25 billion (\$15 million) in Syrdarya and SUM65 billion (\$40 million) in Kashkadarya. Nationwide, the average value of the contract packages is SUM780 million (\$500,000). By province, the average value of the contract packages ranges between SUM500 million (\$300 thousand) in Namangan, and SUM1,600 million (\$1 million) in Tashkent.

8. For 2011, as detailed in Table 2, there are 372 sites across 13 provinces (between 15 to 44 sites per province), with 750 contractors (between 32 to 90 contracts per province), and 7,400 new houses to be built nationwide (between 310 to 805 houses per province). On average, there are 20 houses per site nationwide, with the largest number of houses per site in Tashkent Province at 31 houses, and the smallest number of houses per site in Bukhara Province at 13 houses. On average, there are 10 houses per contract nationwide, with the largest number of houses per contract in Tashkent Province at 20 houses, and the smallest number of houses per contract in Namangan Province at 6 houses.

Table 2: RHS Housing Sites by Province, 2011

Province	Provincial Population per RHS House (000's)	No. of Sites	No. of Contracts	No. of Houses	Average No. of Houses per Site	Average No. of Houses per Contract
Karakalpakstan	4.68	24	42	345	14.4	8.2
Andijan	3.76	37	50	665	18.0	13.3
Bukhara	2.76	44	61	575	13.1	9.4
Ferghana	4.48	32	51	675	21.1	13.2
Jizzakh	3.05	19	35	360	18.9	10.3

⁴ To better achieve RHS strategic objectives, the average contract package size was decreased from 19 houses per contract in 2009, to 17 houses in 2010, and 10 houses in 2011. During the pilot phase, it was determined that a contract size of about 5 to 15 houses is optimal to ensure quality and timely delivery by small contractors in rural areas targeted by the RHS.

Province	Provincial Population per RHS House (000's)	No. of Sites	No. of Contracts	No. of Houses	Average No. of Houses per Site	Average No. of Houses per Contract
Kashkadarya	3.18	31	90	805	26.0	8.9
Khorezm	2.69	25	74	570	22.8	7.7
Namangan	3.99	32	90	555	17.3	6.2
Navoiy	1.71	30	54	490	16.3	9.1
Samarkand	4.41	23	75	695	30.2	9.3
Surkhandarya	3.01	38	62	675	17.8	10.9
Syrdarya	2.27	15	32	310	20.7	9.7
Tashkent	3.75	22	34	680	30.9	20.0
Total	3.72	372	750	7,400	19.9	9.9

Source: QQI, PP-1403

9. **Bidding documents.** RHS standard bidding documents have been prepared using national bidding document standards⁵ for local competitive bidding on a turnkey contract basis. Bidding documents are supplied at a fixed cost equal to 1 times the minimum monthly wage (SUM49,735 or about \$30).⁶ As per regulation, the documents are presented in three main sections with each section covering general, technical and commercial aspects. The general section includes instruction to bidders, evaluation and qualification criteria, bidding forms, and eligibility requirements. The technical section includes detailed designs with drawings, technical specifications, the bill of quantities, and other relevant requirements. The commercial section includes expected implementation schedule, terms of payment and source of financing, and contract forms (with general and specific conditions of the contract). The bidding documents are reviewed by the SCAC prior to issuance.

10. **Bid evaluation criteria.** Evaluation is undertaken based on technical and financial criteria.⁷ Main criteria with respective weights are contractor's capacity (15%), human resources (10%), construction equipment and machinery (10%), financial resources (25%), experience in similar work (18%), and subcontracting arrangements (22%).

11. **Advertising and notification.** RHS guidelines specify that invitation for bids are advertised in a national newspaper with mass media coverage and/or invitations to contractors are sent, for a duration of no less than five days,⁸ after the invitation to bid and the bidding documents are pre-approved by the Procurement Commission. Announcements and invitations to bid are required to include the following information: (i) name and address of bidding organizer; (ii) description of the subject of bidding and sources of funding; (iii) price of bidding document and place and time of its acquisition; (iv) main requirements of bidders; (v) the date,

⁵ National bidding document standards generally follow ADB bidding document standards for local competitive bidding (LCB); deviations are noted in the discussion below. Note that the bidding documents include the tender drawings.

⁶ National guidelines stipulate bidding documents be supplied to interested bidders at cost (i.e., all costs pertaining to the bidding process including costs of publication and dissemination).

⁷ Technical criteria comprise: (i) legal status of the contractor and litigation history, (ii) technical capacity of staff and certification for site inspection, (iii) availability of equipment and machinery, (iv) works undertaken during the last three years, (v) works undertaken that exceed SUM500 million, and (vi) experience with turnkey contract delivery. Financial criteria comprise: (i) amount of fixed capital, (ii) amount of outstanding debt obligations, (iii) income derived from operations from last year, and (iv) sufficient liquidity to undertake construction (i.e., at least 20% of construction cost).

⁸ National guidelines specify that national advertisement is undertaken for no less than 30 days, and invitation for bids require at least 35 days.

place and time of deadline for acceptance of offers; (vi) the date, place and time of bid opening; and (vii) the bidding conduct order.

12. **Bid submission and opening.** Deadlines for bid submission are indicated in advertisements and notifications or in invitations, and on bidding documents. All bids must be provided in sealed envelopes. Submission deadlines must be met for bid consideration. For all bids accepted, bidders are required to confirm their counter-acceptance of the project by a specified deadline. In order to secure a bid, the bidder must remit 2% of the bid price to confirm their interest, which is forfeited if the bidder does not go forward with the contract. Within three days following the completion of the contract process, the 2% is returned to the bidder in full.

13. Bids received after the published closing time are not considered. Bids are opened publicly immediately following the posted deadline for bid submission in the presence of the bidder or the bidder's representative. After the bid opening, the names of the bidders, their offered bid, the amount and validity of the bid security, and the amount of discount (if any) are read aloud and recorded. The completeness of the bid documents must be verified, and incomplete bid documents will be disqualified. Bidders are allowed to provide explanations of the contents of their bids during the bid consideration. However, no explanations that change the content of the bid are allowed. If arithmetic errors are found, the amount shown in words will be used instead.

14. **Bid evaluation and award of contract.** All valid and accepted bids are individually and independently evaluated and scored by each member of the Procurement Commission. A single-stage, two-envelope bidding procedure is used for the turnkey contract (which includes supply of material, equipment, and all associated civil, electrical, plumbing, and other works). The evaluation focuses on technical and financial criteria to assess the contractor's capacity to undertake the project. For bids in which the contractor's capacity is determined acceptable, financial offers are compared.⁹ Meetings are videotaped, and minutes of the meeting are documented and approved by the Chair of the Procurement Commission (footnote 2).

15. The winning bid is awarded to the bid with the highest evaluated score.¹⁰ Within five days following the SCAC's approval of the contract award, the winning bid is announced at a meeting to which all contractors are invited. The award of the contract must be completed before the bid validity expires and a contract must be signed¹¹ within 10 days following the notification of the award.¹² Upon signing, the contractor must submit a Performance Security and an Advance Payment Security within the specified period. Payment terms are detailed in the contract, specifically an advance equal to a maximum of 25% of the contract amount payable upon the date of contract effectiveness, and succeeding payments made on a monthly basis (based on physical progress reports) with advances deducted. A retention amount equal to 5% of the total contract amount is withheld as a warranty for a defect liability period equal to one year. As required by law, the bidder awarded the contract is required to make provisions to appropriately insure the project building site.

⁹ If none of the bids are able to meet the technical and financial criteria, a new bidding process is initiated.

¹⁰ In accordance with Annex 2 of the QQI Procurement Guidelines and on the basis of the bid evaluation outcomes, the Chair of the Procurement Commission and the Deputy Mayor of the District must agree on the winning bid with the Chair of SCAC.

¹¹ Standard contract forms are prescribed in the Annex 2 of the QQI Procurement Guidelines.

¹² The price stated in the winning bid will be the contract price. If an agreement is not reached with the winning bidder or the winning bidder refuses to honor the price, the second highest ranked bidder will be notified and so on.

16. **Bid cancellation.** A bidding process is negated if no bids are submitted, only one bid is received, none of the bids meet the technical/financial requirements of the project, all bids received exceed the detailed cost estimate, and in other cases as agreed to by the Procurement Commission and the SCAC. In case a bid is cancelled, then a request for tender will be reissued. In the case of a reissuance, bidding requirements will be reevaluated.

B. Outcome of RHS Procurement Process for 2009 to 2011

17. **Invitation to bid.** RHS selection of contractors for 2009 to 2011 was undertaken by invitation to bid. For the turnkey construction contracts, the detailed design cost estimate served as a price ceiling for contract bids. For most of all construction contract packages issued in 2009, 2010, and 2011, either three or four contractors were invited¹³ and submitted¹⁴ technical and financial proposals based on detailed design and cost estimate. On average, the bid price of the winning contractor was about 1% below the detailed design cost estimate.¹⁵ VAT-exempt final bids awarded on a turnkey basis are, for all practical purposes, fixed. Unless justified otherwise, higher unit costs or quantities that exceed that specified in the detailed design are not reimbursable. For homebuyers, the price of the house is based on the VAT-exempt final bid. With VAT at 20%, RHS house prices are 20% below market (see supplementary document on Rural Housing Scheme: Pricing of New Houses).

C. Improved RHS Procurement Process under the Program

18. An effective and efficient procurement process and competitive selection of local contractors is critical to ensure value for money and timely completion of properly designed,¹⁶ and soundly constructed houses built in full compliance with national building and construction standards. In close discussion with ADB, a number of improvements will be adopted for the RHS selection of contractors for 2012 to 2015. All procurement will undertaken on an open-competitive basis, and a methodology for determining the size and number of construction packages for each province will be adopted by the end of the third quarter of 2011. The invitation for bids will be nationally advertised and will include details on bid packages, evaluation and qualification criteria, and the process for bid evaluation and contract awards. Preapproved standardized bid documents will be utilized (including invitations for bids, bidding documents, evaluation forms, and construction contracts), and established process flows and timelines will be closely monitored.

19. Contractors will bid on a turnkey basis and, in preparing their bids, will have the option of choosing construction material suppliers at their discretion, based upon the supplier's capacity to supply on a timely basis the quality and quantity of materials required at an acceptable cost, at either wholesale prices (including QQI factories) in accordance with legislation of Uzbekistan or on the open market. Bids will be evaluated in accordance with predetermined evaluation and qualification criteria by the Procurement Commission (the composition of which will be reviewed

¹³ In 2009, more than three contractors were invited and submitted bids for 96% of the 45 contracts packages bid out. In 2010, more than three contractors were invited and submitted bids for all but one of the 405 contract packages bid. In 2011, more than three or four contractors were invited and submitted bids for about 88% of the 750 contract packages issued.

¹⁴ In 2009, at least two or more contractors met the technical requirements for 87% of the contracts bid out. In 2010, and in 2011, at least two or more contractors met the technical requirements for 79% and 80% of the contracts bid out, respectively.

¹⁵ Source: QQI.

¹⁶ Qishloq Qurilish Loyiha has developed a range of architectural design standards for rural housing and rural community facilities that incorporate modern construction technology and materials, and address the full range of regional terrain and climatic conditions and socio-demographic characteristics across the country.

and amended as appropriate). The award of turnkey contracts will be publicly announced and the award results¹⁷ will be published in a national newspaper and posted on a publicly accessible website. An independent technical-financial performance audit and value for money assessment will be initiated in November 2011 and undertaken annually thereafter. General adherence to all procurement procedures will be closely monitored and continually strengthened and improved.

¹⁷ Information on contract awards is required to include information on the name and location of the project contracted for, as well as the name of the winning contractor, the final contract price, and the contract scope and duration.