STANDARD PROCUREMENT DOCUMENTS

User's Guide For Prequalification Document For Procurement of Works

Islamic Development Bank

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Introduction

The User's Guide for Standard Prequalification Document for Procurement of Works have been designed to: (i) simplify the Employer's preparation of a specific Prequalification Document (PQD) for Procurement of Works; (ii) minimize the Bank's time required for the prior review of the PQD; (iii) reduce the Applicants' preparation time and effort; and (iv) facilitate and simplify the Employer's evaluation of applications. Beneficiaries shall use SPD with minimum changes as may be necessary and acceptable to the Bank when prequalification is required prior to bidding under international competitive bidding procedures.

The purpose of this User's Guide is to help the Employers in preparing the prequalification documents for works based on the Standard Prequalification Document and prepare the Invitation for Prequalification (IFP). The provisions in **Section I, Instructions to Applicants (ITA) of the SPD must be used without any modification to its text or format.** Any data and provisions that this section requires for a specific prequalification shall be included in **Section II, Prequalification Data Sheet.**

The remaining sections of the SPD, which are also explained in the Guide, are: **Section III, Qualification Criteria and Requirements; Section IV, Application Forms; and Section VII, Scope of Works.**

At the end of each section of the Guide, **"Guidance Notes for Users,"** explain the rationale for certain clauses of the SPD, and provide guidance for executing agencies and their consultants to prepare a particular prequalification questionnaire and evaluating the submissions of Applicants. The last section of this Guide provides guidance to evaluate the applications.

Procurements under projects financed by the Islamic Development Bank (hereinafter called "the Bank") are carried out in accordance with policies and procedures laid down in the *Guidelines for Procurement of Goods and Works under Islamic Development Bank Financing, May 2009,* hereinafter referred to as the "Guidelines."

The Standard Prequalification Document has been prepared for use by the Bank's Beneficiaries and their implementing agencies in the procurement of works primarily through International Competitive Bidding limited to Member Countries (ICB/MC) and open International Competitive Bidding (ICB). These principles may also be applied if prequalification is to be carried out under National Competitive Bidding (NCB). The procedures presented are based on good international practice, and are in compliance with the Bank's Guidelines.

When ICB or ICB/MC is the appropriate method for procurement, the use of the Bank's Standard Bidding Documents (SBDs) is mandatory. The Bank's SBD for the Procurement of Works has been prepared on the basis that prequalification, in accordance with this document, will have taken place prior to bidding. The Bank has also issued an SBD for smaller contracts or simple Works, for which prequalification is optional. If prequalification is required for smaller contracts or simple works, it should be carried out in accordance with this document.

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Acronyms & Abbreviations

PDS	Prequalification Data Sheet
FIDIC	Federation Internationale des Ingénieurs-Conseils; an association based in Switzerland that produces Conditions of Contract for different classes of works construction.
ICB/MC	International Competitive Bidding limited to Member Countries.
ICB	International Competitive Bidding.
IFB	Invitation for Bids
IFP	Invitation for Prequalification
ITA	Instructions to Applicants
JV	Joint Venture
NCB	National Competitive Bidding
PQ	Prequalification
PQD	Prequalification Document
SBD	Standard Bidding Documents
SPD	Standard Prequalification Document

Glossary

Employer	One of the two parties to a works contract, the other party being the "Contractor."
Contractor	The legal entity that is party to and performs a works contract, the other party to the contract being the "Employer."
Joint Venture	An ad hoc association of firms that pool their resources and skills to undertake a large or complex contract in the role of "Contractor," with all firms (members in the JV) being legally liable, jointly and severally, for the execution of the contract in the event of a member's withdrawal.
Management Contractor	A firm, acting in the role of "Contractor," that does not normally usually perform contract construction work directly, but manages the work of other (sub) contractors, while bearing full responsibility and risk for price, quality, and timely performance of the work contract.
Construction Manager	A consultant, acting as agent of the Beneficiary/Employer, engaged to coordinate and monitor the timing of preparation, bidding award, and execution of a number of different contracts comprising a project, but does not take on the responsibility for price, quality, or performance of those contracts.
Nominated Subcontractor	A specialized enterprise approved by the Employer to provide pre specified works included in the Bill of Quantities and nominated as subcontractor to the main Contractor for such purpose.
Post qualification	An assessment made by the Employer after the evaluation of bids and immediately prior to award of contract, to ensure that the lowest-evaluated, responsive, eligible Bidder is qualified to perform the contract in accordance with previously specified prequalification requirements.
Prequalification	An assessment made by the Employer before inviting bids, of the appropriate level of experience and capacity of firms expressing interest in undertaking a particular contract, before inviting them to bid.
Prime Contractor	A firm that performs a substantial part of a contract construction work itself and the balance, if any, by subcontractors, while bearing full responsibility for the whole contract.
Provisional Sum	A sum included provisionally in the Bill of Quantities of a contract, normally for a specialized part of the Works or for contingencies, which shall be used only on the instructions of the Employer/Engineer for payments to the contractor and/or to nominated subcontractors.
Slice and Package	A procedure whereby a large homogeneous project is sliced into smaller similar contracts, which are bid simultaneously so as to attract the interest of both small and large firms; firms offer bids on individual contracts (slices) or on a group of similar contracts (packages), and award is made to the combination of bids

	offering the lowest cost to the Employer. Slices comprising a number of similar construction units together in a small area are sometimes referred to as "lots," which are bid concurrently with other similar "lots" as part of the larger "package.
Turnover	The gross earnings of a firm (in this context, a construction contractor), defined as the billings for contract work in progress and/or completed, normally expressed on an annual basis, and excluding income from other sources.
Works	The total work involvement in a construction contract, including the "Permanent" Works or finished product as specified, and the "Temporary" Works required in by the Contractor for the execution and completion of the contract.
In writing	For the purpose of this document, means authenticated handwritten, typed, or printed; a document prepared in writing can be transmitted by telex, electronic mail, facsimile, with proof of receipt; and in the form requested by the sender.

Why Prequalification?

Introduction

1. The successful execution of contracts for large buildings, civil engineering, supply and installation, turnkey, and design and build projects requires that contracts be awarded only to firms, or combinations of firms, that are suitably experienced in the type of work and construction technology involved, that are financially and managerially sound, and that can provide all the equipment required in a timely manner. The assessment by an implementing agency of the suitability of firms to carry out a particular contract **prior** to being invited to submit a bid is a process called **prequalification.**

The Requirement for Prequalification of Bidders

2. Most multilateral financing institutions require the prequalification of firms for the construction of large or complex works contracts, followed by a competitive bidding procedure in which only those firms meeting specified prequalification criteria are invited to submit a bid. The Procurement Guidelines applicable to contracts financed by the Islamic Development Bank state the requirements for prequalification in Para 2.6.

3. Prequalification is usually necessary for large or complex works, or in any other circumstances in which the high costs of preparing detailed bids could discourage competition, such as custom-designed equipment, industrial plant, specialized services, some complex information and technology and contracts to be let under single responsibility (including turnkey,), design and build, or management contracting. This also ensures that invitations to bid are extended only to those who have adequate capabilities and resources.

4. The decision whether to carry out prequalification is a matter of professional judgment based upon a number of considerations about the contract itself, and about the actual process of prequalification. Contract considerations include its size, complexity, cost of preparing bids, limitations on completion time, the critical nature of the works, environmental impact, associated risks, etc.

5. Prequalification shall be based entirely upon the capability and resources of prospective eligible bidders to perform the particular contract satisfactorily, taking into account objective and measurable factors, including: (a) relevant general and specific experience, and satisfactory past performance and successful completion of similar contracts over a given period; (b) financial position; and, where relevant, (c) capability of construction and/or manufacturing facilities.

6. It is Bank policy that all Applicants meeting the specified criteria shall be allowed to bid. Therefore, prequalification should not be used for limiting competition to a predetermined number of potential bidders.

7. The bidding documents shall be made available to the qualified prospective bidders as soon as the prequalification process has been completed. For prequalification for groups of contracts to be awarded either at the same time or over a period of time, a limit for the number or total value of awards to any one bidder may be made on the basis of the bidder's technical capability and financial resources to meet

qualification criteria for the combined contracts.

8. When the time elapsed between the Beneficiary's decision with regard to the list of prequalified firms and the issuance of bid invitations is longer than 12 (twelve) months, the Bank may require that the a new prequalification process be conducted through re-advertisement. The verification of the information upon which bidders were prequalified, including their current commitments, shall be carried out at the time of the award of contract, along with their capability with respect to personnel and equipment.

9. The award may be denied to a bidder that is judged to no longer meet the required qualification criteria with respect to technical capability and financial resources to successfully perform the contract. If none or very few Applicants are found to be prequalified, which would result in a lack of competition, the Beneficiary may issue a revised prequalification invitation subject to the Bank's prior no objection.

10. Procurement plans should identify the contracts that will be subject to prequalification. In order to avoid delays in implementation, advance actions for prequalification should be agreed with the Bank at an early stage of the project cycle.

The Prequalification Process

The prequalification process includes four main phases: (i) Advertising, (ii) Preparation and Issuing of the Prequalification Document, (iii) Application Preparation and Submission, (iv) Application Evaluation, and Prequalification of Applicants.

Advertising (Procurement Guidelines; Para 2.2, and 2.6)

The Employer is required to prepare and submit to the Bank, a General Procurement Notice (GPN). The GPN shall contain information concerning the Beneficiary (or prospective Beneficiary), amount and purpose of the financing, scope of procurement reflecting the Procurement Plan, and the name, telephone (or fax) number, and address (es) of the Beneficiary's agency (ies) responsible for procurement, and the address of a widely used electronic portal with free national and international access or website where the subsequent Specific Procurement Notices (SPN) will be posted. If known, the scheduled date for availability of prequalification or bidding documents should be indicated.

The related prequalification documents shall not be released to the public earlier than the date of publication of the General Procurement Notice. The Bank will arrange for publication of the GPN in IDB's Website on-line (www.isdb.org).

Invitations to prequalify shall be advertised as Invitation for Prequalification (IFP) in:

(a) at least one newspaper of national circulation in the Beneficiary's Country or in the official gazette, or on a widely used website or electronic portal with free national and international access, and

(b) IDB's Website, and/or in well-known technical magazines

Notification shall be given in sufficient time to enable prospective bidders to obtain prequalification and prepare and submit their Applications. The Bank will arrange the simultaneous publication of all SPNs prepared and submitted by the Beneficiaries on the Bank's website.

Preparation and Issuing of the Prequalification Document

The Employer and the Applicant should keep in mind that:

- The Employer is responsible for the preparation and issuance of the Prequalification Document (PQD).
- The Employer shall use the Standard Prequalification Document for Procurement of Works (SPD) issued by the Bank, as this is mandatory for ICB/MC contracts to be financed by the Bank.
- The Employer shall prepare the PQD using the published version of the SPD without suppressing or adding text in Section I Instructions to Applicants (ITA) and Section VI Bank Policy - Corrupt and Fraudulent practices, which does not allow modifications. All information and data specific

to an individual prequalification process must be provided by the Employer in the following sections of the PQD:

- Section II, Prequalification Data Sheet
- Section III, Qualification Criteria and Requirements
- Section IV, Application Forms
- Section V, Eligible Countries
- Section VII, Scope of Works

- The Employer shall allow Applicants sufficient time for studying the prequalification documents, preparing complete and responsive applications and submitting the applications (see Advertising above).

Preparation of Application and Submission

The Applicant is responsible for the preparation and submission of its application. During this stage, the Employer shall:

- Promptly respond to requests for clarifications from Applicants and amend, as needed, the PQD,
- Amend the PQD only with the Bank's "no objection" in contracts subject to the Bank's prior review.

Evaluation of Applications and Prequalification

The Employer is responsible for the evaluation of applications and the prequalification of Applicants. To that effect, the Employer shall appoint experienced staff to conduct the evaluation of applications. Mistakes committed at the application evaluation stage may later prompt complaints from Applicants, hence requiring reevaluation of the applications, with the consequent delays and waste of time and resources.

The Employer, in observance of best practices, shall:

- *Maintain the application evaluation process confidential;*
- *Reject any attempts or pressures to bias the evaluation, including through fraud and corruption;*
- *Comply with the prior-review requirements of the Bank; and*
- *Apply the qualification criteria specified in the Prequalification Document Section III, Qualification Criteria and Requirements in a consistent manner.*

The Evaluation report should be sufficiently informative instead of merely stating "*complied*", "*yes*" or "*no*". Past experience and achievements of the Applicants should be described in sufficient detail, e.g. amounts for average annual turnover, liquid assets, contracts performed in the past, rates of production, etc. In case the evaluation report is found deficient, the Bank may ask the Employer to revise the report to the Bank's satisfaction.

Section I. Instructions to Applicants (ITA)

The Instructions to Applicants (ITA) specify the procedures that regulate the prequalification process. The ITA contains standard provisions that have been designed to remain unchanged, and therefore their wording should not be modified. On the other hand, the ITA refers those clauses that need to be complemented to suit the conditions of a particular prequalification process to the Prequalification Data Sheet (PDS); the PDS provides such additional information.

Section II. Prequalification Data Sheet (PDS)

General

The Prequalification Data Sheet (PDS) contains information and provisions that are specific to a particular prequalification process. The Employer must specify in a PDS clause only the information that the corresponding ITA requests. All requested information shall be provided; **no clause of the PDS shall be left blank.**

To facilitate the preparation of the PDS, its clauses are numbered with the same numbers as the corresponding ITA clause. Section II, Prequalification Data Sheet, provides information to the Employer on how to enter all required information.

Guidance Notes

1. Slice and Package of Similar Contracts (ITA 1.1 and 25.3)

(a) Where a project is divided into separate contracts, Applicants may be prequalified through a single prequalification exercise. Applicants will be asked to indicate in their Applications the individual contract or combination of contracts in which they are interested. The Employer shall prequalify each Applicant for the maximum combination of contracts for which the Applicant has thereby indicated its interest and for which the Applicant meets the appropriate aggregate requirements.

In the case the separate contracts are dissimilar, the nonstandard, contract specific parts of the bidding documents (Bill of Quantities, Drawings, etc.) shall be prepared for each individual contract (slice) in the event that award of individual contracts will be made to different bidders. In the prequalification document, Section III should state the prequalification requirements for each slice based upon the Employer's cost estimates, including contingencies. Applicants will be asked to indicate in their submissions the individual contract (slice) or combination of contracts (package) in which they are interested, and will be invited to bid on those or similar contracts for which their assessed capacity is sufficient (see (g) below).

<u>Basic Philosophy</u>

(b) The Procurement principles refer to bidding on a slice and package basis as follows:

"For a project requiring similar but separate items of equipment or works, bids may be invited under a slice and package procedure that would attract the interest of both small and large firms, which could be allowed, at their option, to bid for individual contracts (slices) or for a group of similar contracts (package). All bids and combinations of bids shall be received by the same deadline and opened and evaluated simultaneously so as to determine the bid or combination of bids offering the lowest evaluated cost to the Beneficiary."

(c) The essential requirement for breaking a large Works construction project into a

package of similar individual contracts or "slices" is that the Works, in the first instance, must be reasonably homogeneous, and that the execution of individual slices by different contractors on a "single responsibility" basis would still result in a timely and satisfactory completion of the whole package. For example: a number of similar building types (such as health clinics, schools, houses, etc.); irrigation canals; pipelines; rural roads; highways in similar terrain, etc.

(d) The manner in which the Works are sliced is of importance. A highway sliced "horizontally" into separate radically different elements such as earthworks, culverts, bridges, road foundation, and paving is not suited for bidding such individual elements as separate contracts on a "slice and package" basis, because of potential problems with contract interfacing and assigning responsibility for any subsequent defects. However, a highway sliced "vertically" into sections with similar features is suited, since each slice is a complete, self-contained entity in itself.

(e) The procurement strategy for complex projects, where the risk of planning and coordinating the phasing and site relationships between contractors is high and where such risk is assumed by the Employer should be discussed with the Bank before starting the preparation of the prequalification documentation. Works under these projects are often divided up in separate contracts of a different nature and with critical completion dates. Potential contractors for these separate contracts may be simultaneously prequalified and the contracts may also be simultaneously bid, but their packaging for prequalification and bidding purposes may become very complicated. As an example, the construction of a port could be divided up into several separate contracts for access roads, breakwater and quays, dredging, buildings, etc., with prequalification and bidding each carried out at the same time and the possibility of multiple awards to one or more contractors.

Number of Slices

(f) The number of slices or individual contracts into which the project is divided is also of importance, and will affect the complexity of the prequalification evaluation and, subsequently, the bid evaluation and contract administration. The complexity of the prequalification and bid evaluation increases very rapidly with the number of slices. The number of combinations of individual contracts above three may require a complex matrix for evaluation purposes. Therefore up to three slices or individual contracts are recommended. A large number of small slices, while encouraging small domestic contractors, may discourage larger and more efficient contractors from bidding on a package of small contracts. Even with a reasonable number of slices, the evaluation of different combinations may be somewhat complex, particularly if different time periods are permitted for package construction.

Determining appropriate aggregate requirements of the Applicant

(g) Prequalification for one contract

N is the minimum number of contracts

V is the minimum value of a single contract in this lot and is about 80% of the estimated

value of respective Contract (Lot).

Option 1: (i) N contracts, each of minimum value V;

Or

Option 2: (i) N contracts, each of minimum value V, or

(ii) Less than or equal to N contracts, each of minimum value V, but with total value of all contracts equal or more than N x V;

Example 1: if the requirement is minimum 3 contracts of minimum value of $70 million each, the Applicants may be deemed qualified if any one of the following conditions have been met:

- 3 contracts of equal or more than $70 million each, Or
- 2 contracts including 1 contract of equal or more than $70 million and 1 contract of equal or more than $140 million, Or
- 1 contract of equal or more than $210 million

The following are not acceptable:

- 3 contracts of $70 million, $70 million and $45 million
- 2 contracts of $70 million and $110 million
- 1 contract of value $180 million each

(h) Prequalification for multiple contracts

Minimum requirements for combined contract(s) shall be the aggregate requirements for each contract for which the Applicant has applied for as follows, and N1, N2, N3, etc. shall be different contracts:

Option 1: (i) Minimum requirements for combined contract(s) shall be the aggregate requirements for each contract for which the applicant has applied for as follows, and N1, N2, N3, etc. shall be different contracts:

Lot 1: N1 contracts, each of minimum value V1;

Lot 2: N2 contracts, each of minimum value V2;

Lot 3: N3 contracts, each of minimum value V3;

----etc.

Or

Option 2: (i) Minimum requirements for combined contract(s) shall be the aggregate requirements for each contract for which the applicant has applied for as follows, and N1, N2, N3, etc. shall be different contracts:

Lot 1: N1 contracts, each of minimum value V1;

Lot 2: N2 contracts, each of minimum value V2;

Lot 3: N3 contracts, each of minimum value V3;

----etc, or

(ii) Lot 1: N1 contracts, each of minimum value V1; or number of contracts less than or equal to N1, each of minimum value V1, but with total value of all contracts equal or more than N1 x V1

Lot 2: N2 contracts, each of minimum value V2; or number of contracts less than or equal to N2, each of minimum value V2, but with total value of all contracts equal or more than N2 x V2

Lot 3: N3 contracts, each of minimum value V3; or number of contracts less than or equal to N3, each of minimum value V3, but with total value of all contracts equal or more than N3 x V3

----etc.

Or

Option 3: (i) Minimum requirements for combined contract(s) shall be the aggregate requirements for each contract for which the applicant has applied for as follows, and N1, N2, N3, etc. shall be different contracts:

Lot 1: N1 contracts, each of minimum value V1;

Lot 2: N2 contracts, each of minimum value V2;

Lot 3: N3 contracts, each of minimum value V3;

----etc, Or

(ii) Lot 1: N1 contracts, each of minimum value V1; or number of contracts less than or equal to N1, each of minimum value V1, but with total value of all contracts equal or more than N1 x V1

Lot 2: N2 contracts, each of minimum value V2; or number of contracts less than or equal to N2, each of minimum value V2, but with total value of all contracts equal or more than N2 x V2

Lot 3: N3 contracts, each of minimum value V3; or number of contracts less than or equal to N3, each of minimum value V3, but with total value of all contracts equal or more than N3 x V3

----etc, Or

(iii) Subject to compliance as per (ii) above with respect to minimum value of single contract for each lot, total number of contracts is equal or less than N1 + N2 + N3 +--but the total value of all such contracts is equal or more than N1 x V1 + N2 x V2 + N3 x V3 +---.

Example 2:

Lot 1: 1 contract (N1) of minimum value of $120 million (V1) each;
Lot 2: 2 contracts (N2) of minimum value of $70 million (V2) each;
Lot 3: 3 contracts (N3) of minimum value of $30 million (V3) each;

The Applicants may be deemed qualified if any one of the following conditions has been met:

Lot 1: 1 contract of equal or more than $120 million
Lot 2: 2 contracts of equal or more than $70 million each
Lot 3: 3 contracts of equal or more than $30 million each

Or

Lot 1: 1 contract of equal or more than $120 million
Lot 2: 2 contracts of equal or more than $70 million, **or** 1 contract of equal or more than $140 million
Lot 3: 3 contracts of equal or more than $30 million, **or** 2 contracts of equal or more than $30 million each and total value equal or more than $90 million, **or** 1 contract of equal or more than $90 million

Or

Lot 1, 2 and 3:

6 contracts of which 1 contract equal or more than $120 million, 2 contracts equal or more than $70 million each, and 3 contracts equal or more than $30 million each, **or**

5 or less contracts of which 1 contract equal or more than $120 million, 2 contracts equal or more than $70 million each, and total of all contracts is equal or more than $350 million, **or**

4 contracts of which 1 contract equal or more than $120 million, 2 contracts equal or more than $70 million each, and total of all contracts is equal or more than $350 million, **or**

3 contracts of which 1 contract equal or more than $120 million, 2 contracts equal or more than $70 million each, and total of all contracts is equal or more than $350 million, **or**

2 contracts of which 1 contract equal or more than $120 million, and total of all contracts is equal or more than $350 million, **or**

1 contract equal or more than $350 million

Example 3:

Applicants to meet the following conditions:

Contract 1: 2 contracts each of minimum value $20 million
Contract 2: 2 contracts each of minimum value of $50 million
Contract 3: 2 contracts each of minimum value of $42 million
(for combination of contracts applicant shall be required to meet aggregate of the respective requirement for each contract as above)

Alternately, Applicants may be deemed qualified if any of the following conditions have been met:

Contract 1: 1 contract of a minimum of $40 million
Contract 2: 1 contract of a minimum of $ 100 million
Contract 3: 1 contract of a minimum of $84 million
(For combination of contracts applicant shall be required to meet aggregate of the respective requirement for each contract as above)

Or

Subject to completion of

2 contracts each of minimum for $20 million or 1 contract of minimum $40 million for Contract 1

2 contracts each of minimum $50 million or 1 contract of minimum $100 million for Contract 2; and

2 contracts each of minimum $42 million or 1 contract of minimum $84 million for Contract 3, the total number of contracts completed is 6 or less for combined qualification of all 3 contracts and total number of contracts completed is 4 or less for combined qualification of any 2 contracts such that the total value of all such contracts is equal or more than $ 140 million (20x2+50x2) for Contracts 1+2, $124 million (20x2+42x2) for Contracts 1+3, $184 million (50x2+42x2) for Contracts 2+3, and $224 million (20x2+50x2+42x2) for Contracts 1+2+3.

In all the examples above, each substantially completed contract shall be different from the other.

2. Documents comprising the Application (ITA 11.2)

If agreed with the Bank, the Employer may require the Applicants to include a statement of undertaking of the Applicant to observe, in competing for and executing a contract, the

Beneficiary country's laws against fraud and corruption (including bribery). This may be specified in the prequalification datasheet.

3. Domestic Bidders Preference (ITA 23.1)

(a) If the Financing Agreement allow a margin of preference for domestic contractors, and the Employer wishes to use the preference for the award of contract(s) subject to this prequalification, the PQD (and subsequent Bidding Documents) should include basic information on the preference (eligible countries, **reference to the Guidelines Para 1.7** for its application). In particular:

A domestic bidder is one that meets the following criteria:

(i) For an individual firm:

(A) is registered in the member country of the Beneficiary;

(B) has more than 50 percent ownership by nationals of the member country of the Beneficiary;

(C) does not subcontract more than 10 percent of the contract price, excluding provisional sums, to foreign contractors.

(ii) for a joint venture (JV) of domestic firms:

(A) individual member firms shall satisfy (i) and (ii) above;

(B) the JV shall be registered in the member country of the Beneficiary;

(C) the JV shall not subcontract more than 10 percent of the contract price, excluding provisional sums, to foreign firms.

(b) JVs between foreign and national firms will not be eligible for domestic preference.

4. Subcontractors (ITA 24.1, 24.2 and 24.3)

In large, complex Works contracts, the construction strategy of the Employer may provide for the execution of certain specialized parts of the Works by Specialized Subcontractors in accordance with the provisions of the FIDIC General Conditions of Contract.[1] A typical example would be the supply and installation of the ventilation and lighting systems for a tunnel contract.

The experience and financial resources of subcontractors proposed by the Applicants, unless permitted by the Employer, will be disregarded for purposes of evaluation of prequalification. The cumulative experience and capacity of an Applicant gained as a former sub-contractor may qualify it as an Applicant for certain works. Applicants may propose subcontracting up to the percentage of the total value of the contract or the volume of works as mentioned in the PDS.

[1] Copies of the FIDIC Conditions of Contract can be obtained from: FIDIC Secretariat, P.O. Box 86, 1000 Lausanne 12. Switzerland. Facsimile: 41 21 653 5432. Telephone: 41 21 653 5003

5. Prequalification of Applicants (ITA 27.1)

If the qualification of the Applicant falls short of the required parameter by a marginal amount (say 10% or less), the Employer may consider such an Applicant to be substantially responsive. However, this may not be applicable for critical parameters where a reduction in the requirement may impact the ability of the Applicant to perform.

Section III. Qualification Criteria and Requirements

The purpose of Section III. Qualification Criteria and Requirements is to specify the criteria and corresponding requirements that the Employer shall use to evaluate the applications and prequalify the Applicants.

III.1 Guidance Notes

Qualification Criteria and Requirements (Table)

The Employer shall specify the "Qualification Criteria and Requirements" in the table below. The four main qualification criteria are:

1. Eligibility
2. Historical Contract Non-Performance
3. Financial Situation
4. Experience

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
1. Eligibility							
1.1	**Nationality**	Nationality in accordance with ITA Sub-Clause 4.5	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Forms ELI – 1.1 and 1.2, with attachments
1.2	**Conflict of Interest**	No conflicts of interest in ITA Sub-Clause 4.6	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Application Submission Form
1.3	**Bank Eligibility**	Not having been declared ineligible by the Bank, as described in ITA Sub-Clause 4.7 and	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Application Submission Form

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
		5.1					
1.4	**Government Owned Entity of the Beneficiary country**	Applicant required to meet conditions of ITA Sub-Clause 4.9	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Forms ELI – 1.1 and 1.2, with attachments
1.5	**United Nations resolution or Beneficiary's country law or Boycott Regulations of the Organization of the Islamic Cooperation, the League of Arab States and the African Union. (Para 1.7.1 and 1.7.2 of Guidelines for Procurement of Goods and Works Under the Islamic Development Bank Financing, May 2009 are prevailed)**	Not having been excluded as a result of prohibition in the Beneficiary's country laws or official regulations against commercial relations with the Applicant's country, or the Boycott Regulations of the Organization of the Islamic Cooperation, the League of Arab States and the African Union, both in accordance with ITA 5.1 and Section V.	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Forms ELI – 1.1 and 1.2, with attachments
2. Historical Contract Non-Performance							
2.1	**History of Non-Performing**	Non-performance of a contract[2] did not occur as a result of	Must meet requirement[3]	Must meet requirement	Must meet requirement3	N/A	Form CON-2

[2] Nonperformance, as decided by the Employer, shall include all contracts where (a) nonperformance was not challenged by the contractor, including through referral to the dispute resolution mechanism under the respective contract, and (b) contracts that were so challenged but fully settled against the contractor. Nonperformance shall not include contracts where Employers decision was overruled by the dispute resolution mechanism. Nonperformance must be based on all information on fully settled disputes or litigation, i.e. dispute or litigation that has been resolved in accordance with the dispute resolution mechanism under the respective contract and where all appeal instances available to the Applicant have been exhausted.

[3] This requirement also applies to contracts executed by the Applicant as JV member.

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
	Contracts	contractor's default since 1st January [*insert year].*					
2.2	**Suspension Based on Execution of Bid Securing Declaration by the Employer named in the IFP**	Not under suspension based on execution of a Bid Securing Declaration pursuant to ITA 4.10.	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Application Submission Form
2.3	**Pending Litigation**	Applicant's financial position and prospective long term profitability still sound according to criteria established in 3.1 below and assuming that all pending litigation will be resolved against the Applicant	Must meet requirement	N/A	Must meet requirement	N/A	Form CON – 2
2.4	**Litigation History**	No consistent history of court/arbitral award decisions against the Applicant [4] since 1st January *[insert year]*	Must meet requirement	Must meet requirement	Must meet requirement	N/A	Form CON – 2
Years should usually be one or two years prior.							
3. Financial Situation							
3.1	**Financial Capabilities**	(i) The Applicant shall demonstrate that it has access to, or has	Must meet requirement	Must meet requirement	N/A	N/A	Form FIN – 3.1, with attachments

[4] The Applicant shall provide accurate information on the related Application Form about any litigation or arbitration resulting from contracts completed or ongoing under its execution over the last five years. A consistent history of awards against the Applicant or any member of a joint venture may result in failure of the application.

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
		available, liquid assets, unencumbered real assets, lines of credit, and other financial means (independent of any contractual advance payment) sufficient to meet the construction cash flow requirements estimated as USD $ *[insert amount in US$]* for the subject contract(s) net of the Applicants other commitments					
		(ii) The Applicant shall also demonstrate, to the satisfaction of the Employer, that it has adequate sources of finance to meet the cash flow requirements on works currently in progress and for future contract commitments.	Must meet requirement	Must meet requirement	N/A	N/A	
		(iii) The audited balance sheets or, if not required by the laws of the Applicant's country, other financial statements acceptable to the Employer, for the last *[insert number]* years shall be submitted and must demonstrate the current soundness	Must meet requirement	N/A	Must meet requirement	N/A	

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
		of the Applicant's financial position and indicate its prospective long-term profitability.					

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
Time period usually specified is 5 years; it may be reduced to three years minimum (in agreement with the Bank) under special country circumstances, such as to provide opportunity for a newly privatized construction industry with limited period of existence, but with suitable experience, etc. Firms owned by individuals and partnerships may not be required to maintain audited balance sheets by the laws of their countries of origin; in such cases, the Employer may relax the audit requirement, but should request other acceptable financial statements.							
3.2	**Average Annual Construction Turnover**	Minimum average annual construction turnover of US$ *[insert amount in US$ equivalent in words and figures]*, calculated as total certified payments received for contracts in progress or completed, within the last *[insert number]* years, *[insert number in words]* years	Must meet requirement	Must meet requirement	Must meet *[insert number]* %, *[insert percentage in words]* of the requirement	Must meet *[insert number]* %, *[insert percentage in words]* of the requirement	Form FIN – 3.2
*The amount stated should normally not be less than twice the estimated annual turnover in the proposed Works contract (based on a straight-line projection of the Employer's estimated cost, including contingencies, over the contract duration). The multiplier of 2 may be reduced for very large contracts (say, greater than US$200 million equivalent) but should not be less than 1.5.** *The time period is normally five years or more, but may be reduced to not less than three years (in agreement with the Bank) under special country circumstances, such as to provide opportunities for a newly privatized construction industry with only a short record of experience, etc.* *An asterix (*) means that some information on the matter is provided in III.2 Guidance Notes.*							
4. Experience							
4.1 (a)	**General Construction Experience**	Experience under construction contracts in the role of prime contractor, JV member, sub-contractor, or management contractor for at least the last *[insert number]* years, starting 1st January _____ *[insert year]*.	Must meet requirement	N/A	Must meet requirement	N/A	Form EXP – 4.1

	Eligibility and Qualification Criteria		**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
As for 3.2, The time period is normally five years or more, but may be reduced to not less than three years (in agreement with the Bank) under special country circumstances, such as to provide opportunities for a newly privatized construction industry with only a short record of experience.							
4.2 (a)	**Specific Construction & Contract Management Experience**	(i) A minimum number of similar [5] contracts specified below that have been satisfactorily and substantially [6] completed as a prime contractor, joint venture member[7], management contractor or sub-contractor[7] between 1st January [insert year] and application submission deadline: (i) N contracts, each of minimum value V; Or (ii) Less than or equal to N contracts, each of minimum value V, but with total value of all contracts equal or more than N x V; *[insert*	Must meet requirement	Must meet requirement[8]	N/A	N/A	Form EXP 4.2(a)

[5] The similarity shall be based on the physical size, complexity, methods/technology and/or other characteristics described in Section VI, Scope of Works. Summation of number of small value contracts (less than the value specified under requirement) to meet the overall requirement will not be accepted.

[6] **Substantial completion shall be based on 80% or more works completed under the contract**.

[7] For contracts under which the Applicant participated as a joint venture member or sub-contractor, only the Applicant's share, by value, shall be considered to meet this requirement.

[8] In the case of JV, the value of contracts completed by its members shall not be aggregated to determine whether the requirement of the minimum value of a single contract has been met. Instead, each contract performed by each member shall satisfy the minimum value of a single contract as required for single entity. In determining whether the JV meets the requirement of total number of contracts, only the number of contracts completed by all members each of value equal or more than the minimum value required shall be aggregated.

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
		values of N & V, delete (ii) above if not applicable]. *[In case the Works are to be bid as individual contracts under a slice and package (multiple contract) procedure, the minimum number of contracts required for purposes of evaluating qualification shall be selected from the options mentioned in ITA 25.3b]*					
		[Add the following if specialized sub-contractor is permitted and describe nature and characteristics of specialized works:] *"(ii) For the following specialized works, the Employer permits specialized sub-contractors as per ITA 24.2"*	*"Must meet requirement for one contract (Requirement can be met through a Specialized Sub-contractor)"*	*"Must meet requirement"*	*"N/A"*	*"Must meet requirement (Requirement can be met through a Specialized Sub-contractor)"*	

The range of contract numbers should be one to three (and is normally two), depending on the size, value, nature and complexity of the subject contract, the exposure of the Employer to risk of contractor default, country conditions and history of similar works constructed in the past. For example, for small- to medium-sized contracts in a country with newly privatized, but lack of participation of construction firms, an Employer may be prepared to risk an award to an Applicant with only one previous similar contract completed. For contracts in a developed environment with high potential supply of construction services, three similar contracts may not limit applications, but would reduce the risk of Contractor default. For very large and complex contracts, competition may be reduced substantially in case three similar contracts are required if not many such contracts were completed in the past five to ten years.

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
4.2 (a) (ii) should be inserted only if the Employer permits specialized sub-contractors. If not, then that row should be deleted. *The time range is normally five to ten years, and should be related to the number of similar contracts stated above.*							

Eligibility and Qualification Criteria			**Compliance Requirements**				**Documentation**
No.	**Subject**	**Requirement**	**Single Entity**	**Joint Venture**			**Submission Requirements**
				All Parties Combined	**Each Member**	**One Member**	
4.2 (b)		For the above and any other contracts completed and under implementation as prime contractor, joint venture member, management contractor or sub-contractor between 1st January *[insert year]* and application submission deadline, a minimum construction experience in the following key activities successfully completed [9] : *[list activities indicating volume, number or rate of production as applicable]*[10]	Must meet requirements	Must meet requirements	N/A	Must meet the following requirements for the key activities listed below[10] *[list key activities and the corresponding minimum requirements]*	Form EXP – 4.2 (b)
List the monthly or annual production rate for the key construction activity (or activities) in the proposed contract or works, e.g., "one million m^3 of rock placed in rock fill dams in one year; X tons of asphalt concrete per month place in road paving; Y m^3 of concrete place in … etc." The rates should be a percentage (say about 80 percent) of the estimated production rate of the key activity (or activities) in the contract or Works as needed to meet the expected construction schedule with due allowance for adverse climatic condition.							

[9] Volume, number or rate of production of any key activity can be demonstrated in one or more contracts combined if executed during same time period. The rate of production shall be the annual production rate for the key construction activity (or activities). For the rate of production, either the average during the entire period or in any one or more years during the period should be specified.

[10] The minimum experience requirement for multiple contracts will be the sum of the minimum requirements for respective individual contracts.

III.2 Guidance Notes

Qualification Criteria

1. The Bank's policy on prequalification is that all potential bidders that meet predefined minimum requirements regarding (inter alia): general construction experience; particular or specialized experience; financial capabilities; personnel capabilities, and equipment availability should be invited to bid. The procedure requires the implementing agency (Employer) to set **Pass/Fail Criteria** which, if all are not met substantially by the Applicants, would cause them to be disqualified.

2. The criteria adopted must relate to characteristics that are essential to ensure satisfactory execution of the subject contract (or each contract in case of slice and package bidding), and they must be precisely stated. Basically, the criteria must be chosen so that only Applicants that are qualified to carry out the work are permitted to bid. It is in the interest of the Employer to have maximum competition at the prequalification stage. Therefore, the Employer should not set the prequalification criteria too high so as to limit the number of eligible firms to be prequalified. Similarly, the criteria should not be set too low so that otherwise unqualified firms may get included. It is in this respect that the Employer should consult with their technical experts to obtain the right market information. All Applicants that meet the criteria should be invited to bid.

3. The verification of availability of resources (key personnel and equipment) should be made at the time of contract award, rather than at the qualification stage. Therefore, such criteria have not been included in the SPD.

4. Whereas it is important that the Applicants submit the required documentation with their application, at times there may be information and/or documentation that has not been submitted. If the missing information and/or documentation are historical information or data, it is in the Employer's interest to ask for such information and/or documents instead of rejecting the Application for lack of these details.

Average Annual Construction Turnover (sub-criterion 3.2)

5. The Applicant's general capabilities in managing construction contracts should be related to its record of the Applicant's recent experience and the value of work undertaken. Experience requirements should be stipulated as a minimum annual value of general construction work carried out over a stated period (normally five years), calculated by applying an appropriate multiplier to the projected annual construction rate on the subject contract. The recommended multiplier is 2.0, and may be reduced to 1.5 for contracts over about US$200 million.

6. **Example:** Estimating required minimum "Average Annual Turnover"

Subject Contract

Description:	Port Facility
Estimated Cost (Including contingencies):	US$120m
Duration:	4 years
Contract:	SBDW Unit Rate

(a) Average expected annual construction billings (turnover), assuming a straight-line projection: $120 ÷4 = $30m per year.

(b) Applying the normal multiplier of 2.0
Required minimum turnover: $30m × 2.0 = $60m per year.

7. The detailed calculation for minimum Average Annual Turnover shall be provided to the Bank when the prequalification document is submitted for Bank review.

Similar Construction Experience (Sub-criterion 4.2)

8. Applicants should demonstrate that they have successfully carried out works, substantially of a nature, size, value, and complexity similar to that of the contract in question. There are two principal criteria for prequalification.

(a) The Applicant should have carried out similar works of a size comparable to that of the package of Works for which prequalification is sought. Depending on the nature of the Works to be bid, the requirement should be for the Applicant to have completed or substantially completed one or more contracts each of an amount (not less than about 80 percent) close to that of the proposed contract, over the last five to ten years.

(b) The Applicant (or a subcontractor designated in Forms ELI-1.2 and EXP4.2b) should have performed operations of a volume, quality, and rate of execution similar to those required for the timely completion of the subject contract. For example, where large-volume earthmoving, tunneling, or concrete placing is involved, the Applicant should demonstrate experience in those operations, having performed them at the rates necessary to meet a percentage **(e.g., 80 percent)** of the estimated monthly peak and/or annual rates required for the subject contract.

9. Applicants should not be required to have had direct experience in the Employer's country or region, but only under similar climatic, geological, and other general conditions.

10. The Employer shall decide if the experience of the Applicant shall be accepted under only one contract or under different contracts. The prequalification criteria shall be set accordingly. For example, for highway construction, which includes structures such as bridges, the Applicant may be required to have experience in construction of highways and bridges. It is possible that the experience for these be required under a single contract (highways and bridge construction together in a same contract) or under different contracts (a separate contract for highway construction and separate for badge construction). In certain other cases, it may be necessary to have separate contracts awarded for highways and bridges in which case the prequalification shall be carried out separately.

Section IV. Application Forms

The Employer shall include in the PQD all application forms that Applicants must complete and submit together with their applications. These forms are as specified in Section IV of the prequalification document:

- Application Submission Form
- Applicant Information Form
- Applicant's Party Information Form
- Historical Contract Non-Performance
- Financial Situation
- General Construction Experience
- Average Annual Construction Turnover
- Similar Construction Experience
- Construction Experience in Key Activities

Section V. Eligible Countries

As per Para 1.7 of Guidelines for Procurement of Goods and Works Under Islamic Development Bank Financing, May 2009, the Employer shall provide the list of ineligible countries by filling Para's 2(a) and (b).

Section VI. Bank Policy - Corrupt and Fraudulent Practices

This Section provides the Applicants with the reference to the Bank's policy in regard to corrupt and fraudulent practices applicable to the prequalification process and contain standard provisions that have been designed to remain unchanged, and therefore their wording should not be modified.

Section VII. Scope of Works

The Scope of Works should provide sufficient information for an Applicant to decide whether or not to compete for that type of works, and whether it will need to use subcontractors for specific parts of the Works, and/or form a Joint Venture. It should provide information on the three following aspects:

1. Description of the Works

Describe the Works in sufficient detail to identify location, nature, and complexity. Indicate the estimated quantities of major components of the works should be indicated in the bill of quantities.

2. Construction Period(s)

State expected construction period and time in weeks or months; if alternative time schedules are permitted, give the range of acceptable construction periods. The period allowed should be reasonable and flexible.

3. Site and other Data

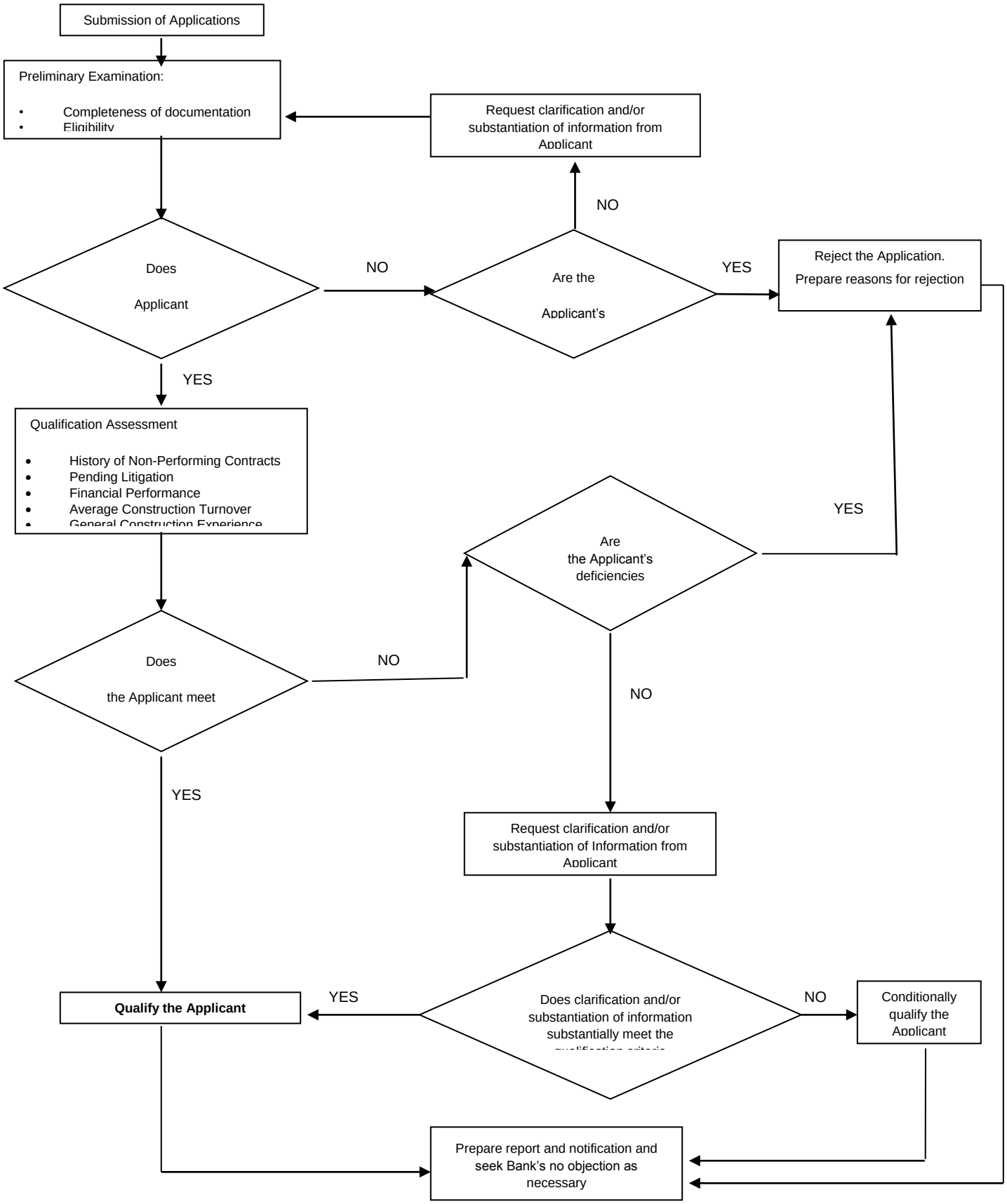
Provide general information on the climate, hydrology, topography, geology, access to site, transportation and communications facilities, medical facilities, project layout, facilities, services provided by the Employer, and other relevant data.

Evaluation of Applications

Prequalification Evaluation Flow Chart

The attached flow chart indicates the successive steps of the evaluation process. The process is consistent with (i) Sections I and II, Instructions to Applicants and Prequalification Data Sheet and (ii) Section III, Qualification Criteria and Requirements. The flow chart should be reviewed by the evaluation team prior to the evaluation, and used as a Guide during the evaluation, concurrently with Section III

Prequalification Evaluation Flow Chart



Guidance Notes

The following notes are intended to give guidance on some of the principal issues confronting the evaluating team. They cover:

1. Single and multiple contract evaluation (slice and package)
2. The assessment of an Applicant's financial soundness
3. Analysis of litigation history
4. Conditional prequalification
5. Prequalification evaluation summary
6. Notification to Applicants

1. Single and Multiple Contract Evaluation (Slice and Package)

1.1 *Single Contract Evaluation (Slice)*

(a) The average annual amount of the Applicant's past turnover on general construction stated by the Applicants in FIN-3.2 should be equal to or greater than that stated in Section III-3.2. If there has been a downward trend in turnover in more recent years over the specified period, a clarification should be sought by the evaluator with a view to a possible weighting of the more recent years in determining the annual average (see example below).

Example:

Year	Turnover	US$ equivalent ($m)
1. 2011 (to end June)	(completed in different currencies)	20
2. 2010	"	40
3. 2009	"	80
4. 2008	"	120
5. 2007	"	100
Totals: 4.5 years		$360m
Average T/O p.a.:	360/4.5 =	$80m p.a.
Minimum Average Requirement stated in Section III-3.2:		$60m p.a.

Note: Although appearing to pass the qualifying criterion, the Applicant has only averaged $56m/p.a. (140/2.5) in the last two and one-half years, with decreasing turnover. In such cases, the Employer should make a thorough investigation of the financial soundness of the Applicant (from data submitted with FIN-3.1) and, failing a satisfactory resolution, the Applicant could be disqualified.

(b) The particular experience on similar contracts, and minimum key production rates (number of contracts) as stated in Section III-4.2, should be compared with information provided in EXP-4.2a and 4.2b. For certain case, the contribution of named specialized subcontractors may be a factor in satisfying these criteria.

1.2 *Multiple Contract Evaluation (Package) Alternative I*

Alternative I

If Applicants have applied for prequalification on more than one particular contract, the procedure in "(1.1) Single Contract Evaluation (slice)" above may be used for evaluation by aggregating the specific requirements for each contract, and comparing the totals of different combinations with the information provided in relevant forms.

Alternative II[11]

The procedure uses the basic information supplied by Applicants to assess the threshold limits (ceilings) for the aggregated total of contract value (or bidding capacity) for which Applicants are considered prequalified by the Employer.

The information provided by the Applicant in FIN-3.2 gives the average annual turnover; this amount is then divided by the multiplier of two (or other factor) as used by the Employer in Section III-3.2, and gives the limit of annual capacity of the Applicant for construction on the subject contracts.

The information provided in EXP-4.2a and 4.2b regarding similar contracts and the annual/monthly key production rates (number of contracts) may lead to a reduction of the ceiling or condition the prequalification.

After refining the initial maximum annual contract amount in the manner stated above, it should be extended over the duration of individual contracts, or over the average durations for multiple contract construction, to provide an indicator of the Applicant's maximum bidding capacity on individual or a group of contracts.

2. The Assessment of Financial Situation and Performance (Section III-3.1)

General Information

2.1 The purpose of assessing the financial capabilities of the Applicants is to reassure the Employer that the individual Applicant's financial standing in its whole does not have structural weaknesses that may result in the Applicant's financial inability to perform, and to give an indication of the scope and value of the work the Applicant would be able to undertake. To place a detailed analysis in context, it is necessary to look at trends in key figures over a number of years and to make comparisons of the firm's annual activities to the same firm's results from previous years.

2.2 Because of differing international accounting practices and tax laws, published information on

[11] A similar, simpler, procedure can be used that consists of compiling registers of contractors for different categories of works under National Competitive Bidding procedures

the financial position of companies and financial ratios derived there from do not provide a uniform and satisfactory basis to compare the financial standing of an Applicant with other Applicants for prequalification purposes. Nevertheless, audited financial statements or balance sheets should be sought as a general guide to the financial situation of the Applicant. Firms owned by individuals and partnerships may not be required to maintain audited accounts by the laws of their countries of origin. In such cases, balance sheets should be certified by a registered accountant and supported by tax returns.

2.3 In any case, the Beneficiary should require Applicants to provide the following background information to support the presentation in the Information Forms:

- audited or certified financial statements for the last five years or for the period stated in the Section III-3.2, supported respectively by audit statements or tax returns; and
- names and addresses of the Applicant's banker(s), as well as the names and addresses of clients or organizations familiar with its financial standing.

Financial Indicators

2.4 The financial information provided by an Applicant should be reviewed in its entirety to allow a truly informed judgment, and the ***pass–fail decision*** on the financial position of the Applicant should be given on this basis. To assist in this review, the indicators used are most frequently are **working capital** and **net worth.** The following table summarizes the financial information of an example firm as would be reported by an Applicant in FIN-3.1, as well as an evaluation by the Employer of the Applicant's **working capital** and **net worth.**

EXAMPLE

Financial Information (US $ million equivalent)

	Actual: previous five				
	5	**4**	**3**	**2**	**1 0**
1. Total assets	18.5	19.0	20.0	23.0	25.0
2. Current assets	12.0	13.0	14.5	14.0	15.0
3. Total liabilities	9.0	10.5	10.0	11.0	11.5
4. Current liabilities	7.0	6.5	7.0	7.5	7.8
5. Profits before taxes	1.4	1.3	1.3	1.4	1.8
6. Profits after taxes	1.0	0.9	0.9	1.0	1.3
7. Net worth (1) - (3)	9.5	8.5	10.0	12.0	13.5
8. Current ratio (2)/(4)	1.7	2.0	2.1	1.9	1.9
9. Return on equity %		13.7	15.3	14.0	15.0
(5)/(7 of prior year)					

2.5 **Working capital** is the difference between current assets and current liabilities, and measures the firm's ability to generate cash in the short term. Current assets are cash and other assets suitable for conversion into cash within one year. Current liabilities are monetary obligations that must be paid out within the current year. To help in the interpretation of the adequacy of **working capital,** the **current ratio,** which compares the current assets with the current liabilities,

is more helpful than a figure for working capital. In the example, the current ratio of the firm varies from 1.7 to 2.1 over the previous five years and the projected ratios for the next two years are also within this range. This indicates that the firm has had a consistent record of its working capital with at least $1.7 in current assets to back each dollar of its current liabilities. Construction firms normally have small inventories and accounts receivable are easy to collect; they can therefore operate safely with a low current ratio. The example firm appears healthy from its **working capital** point of view.

2.6 **Net worth** is the difference between total assets and total liabilities. The **net worth** measures a firm's ability to produce profits over the long run as well as its ability to sustain losses[12].

2.7 Any discontinuities or abnormal features in the above indicators or ratios should alert the Employer to potential financial problems and the need to seek expert professional advice for further review and interpretation.

3. The Analysis of Litigation History (Section III-2)

3.1 The execution of any construction contract will normally result in the payment by the Employer of a number of reasonable claims from the Contractor, e.g., for defaults of the Project Manager, delays, unforeseeable ground and climatic conditions, etc. However, some Contractors have an established business practice of bidding low to obtain award of contract; and then flooding the Employer with excessive or frivolous claims to increase their income. Employers should be on guard against any Contractor who habitually resorts to excessive claims, arbitration, and litigation in the execution of contracts.

3.2 Applicants with a consistent and significant history of excessive contract arbitrations and litigation resulting in awards or decisions against them should not be qualified to bid. So that the litigation history may be evaluated, Applicants should be required to list all contracts over a stated period of time (normally five years) that resulted in litigation or arbitration proceedings, with an indication of the matters and amounts in dispute, the parties involved, and the resolution of the dispute.

3.3 The criterion for rejection should be that of numerous arbitral awards or court decisions against the Applicant in relation to awards for the Applicant, taking the number and amount of contracts executed. As an indicative example, the occurrence of one or two adverse cases over five years for a Contractor handling, on average, ten construction jobs simultaneously, should not be a cause for rejection. If dispute resolution is found relatively frequently in the business of the Applicant, it may indicate an attitude of the management of the firm that could be dangerous for the Employer if the Applicant were awarded the contract, and further investigation with previous Employers may be warranted.

4. Conditional Prequalification

4.1 Applicants may not fully meet all the prequalification criteria with their initial applications.

[12] Although the yearly figures for the net worth indicate the growth of the firm, the return on equity gives a better indication of the efficiency with which equity is employed within the firm. This is obtained by dividing the annual profit before taxes by the net worth of the previous year and expressed as a percentage. In the example, for every dollar of equity, the firm made 13.7 to 15.3 cents during the five-year period. The example firm shows a rather consistent net worth record.

Provided the deficiencies do not materially affect the ability of the Applicant to perform the proposed contract, Applicants should be conditionally prequalified. In this case, Applicants should be notified of the deficiencies that they must correct to the satisfaction of the Employer before submitting their bids.

4.2 Typical circumstances for which **conditional prequalification** of Applicants may be appropriate are, inter alia:

- the provision of additional critical information such as cash flow which, in any case, needs to be updated at the time the bids are submitted
- the revision of a preliminary JV Agreement
- Proposals for subcontracting specialized elements of the Works (unless subcontractors' qualification are to be considered for the purpose of evaluation and determination of qualification of the Applicant).
- questionable ability to undertake the subject contract, together with other pending contract awards

4.3 The prequalification process should not restrict competition at the time of bidding. Therefore, it is in the interest of the Employer to qualify larger number of applicants. The Employer shall not reject any Applicant, without giving an opportunity to clarify or furnish a document, when information is lacking in the Application unless the Application has major deficiencies or most of the critical information is lacking.

5. Prequalification Evaluation Summary

5.1 After evaluating the applications received, the implementing agency of the Beneficiary should prepare a summary to be submitted to the Bank for review and comment. The summary should address each of the pass–fail criteria set in the documents. Disqualification of Applicants who fail to meet the criteria should be explained, and details of any conditional prequalified Applicants should be submitted. The Bank may ask the Beneficiary to justify the evaluation and provide further information or clarification.

6. Notification to Applicants (ITA 28.1)

6.1 The implementing agency of the Beneficiary should await the Bank's "no objection" to the proposals in the evaluation summary before notifying Applicants of its decisions. After receiving the Bank's no objection, the implementing agency should:

- notify each Applicant not qualified, giving an indication of the reasons for not being qualified, and
- invite all qualified and conditionally qualified Applicants to bid (see 6.2 below).

6.2 All Applicants, whatever their classification, should be provided with a list (and addresses) of the qualified category and the conditionally qualified category of Applicants (without disclosing details of the conditions). Generally, conditionally qualified Applicants should be invited to submit a bid upon satisfactory compliance with the related conditions. However, in certain circumstances, they may be invited to bid and provide required information or documents as per the details of

conditions along with the bid.

6.3 Bidding documents should be issued only to prequalified Applicants or both prequalified and conditionally prequalified Applicants as the case may be. Verification of critical information provided in the submission for prequalification shall be confirmed at the time of award of contract, and award may be denied to a bidder that is judged to no longer have the capability or resources to successfully perform the contract.

6.4 After prequalification, all Applicants are deemed to have the necessary capabilities to carry out the subject contract or contracts. Within the period specified under ITA 30.1 and in accordance with the provisions therein, the Employer in deciding to agree or reject any request for changes in the formation or composition of the Applicants shall consult the Bank for a no-objection.

Invitation for Prequalification

The IFP provides information for potential bidders to decide whether to participate. Apart from the essential items listed in the Prequalification Document, the IFP shall also indicate any important or specialized prequalification requirements requested to qualify for the prequalification. Notification and advertising of the IFP shall be conducted in accordance with Paras 2.2 and 2.6 of the Procurement Guidelines.

The IFP shall follow the Sample Format indicated hereafter, and shall be issued as a Specific Procurement Notice in (a) at least one newspaper of national circulation in the Beneficiary's Country and in the official gazette, or on a widely used website or electronic portal with free national and international access, and (b) IDB's Website and, at the option of the Employer, in well-known technical magazines and trade publications of wide international circulation (especially for complex and highly specialized projects).

Upon completion of an IFP for publication as described above, the implementing agency should forward it to the appropriate Islamic Development Bank staff (the Project Officer or Procurement Specialist) for review and subsequent submission for publication.

Sample of Standard Format

SPECIFIC PROCUREMENT NOTICE

Invitation for Pre-qualification

[Insert: name of Country]

[Insert: name of Project]

[Insert: Title and Brief Description of Works]

[Insert: Financing No.]

This invitation for prequalification follows the general procurement notice for this project that appeared in [*Insert Name of Newspaper]* No. *[Insert number]* of *[insert date]* [1].

The *[insert name of Beneficiary] [has received/has applied for/intends to apply for]* a *[Finance/grant/TA]* from the *[Islamic Development Bank (ISDB)]* toward the cost of the *[insert name of project]*, and it intends to apply part of the proceeds of this *[financing/grant/TA]* to payments under the contract for *[insert name/no. of contract if prequalification is being invited for more than one contract, describe each contract and indicate whether applications may be made for prequalification for one or more of the contracts]*.[2] The *[insert name of Executing Agency]* intends to prequalify contractors and/or firms for *[insert description of Works or goods to be procured]*.[3] It is expected that invitations for bid will be made in *[insert month and year]*.[4]

Prequalification will be conducted through prequalification procedures specified in the Islamic Development Bank's Guidelines for Procurement of Goods and Works, May 2009 and is open to all bidders from eligible source countries, as defined in the guidelines.[5]

Interested eligible Applicants may obtain further information from and inspect the prequalification document at the *[insert name of Executing Agency]* (address below) *[state address at end of document]* from *[insert office hours]*.[6] A complete set of the prequalification document in *[insert name of language]* may be purchased by interested Applicants (a) on the submission of a written application to the address below and upon payment of a nonrefundable fee[7] of *[insert amount in local currency]* or in *[insert amount in specified convertible currency]*. The method of payment will be *[insert method of payment]*.[8]The document will be sent by *[insert delivery procedure], [insert "alternatively the PQD can be purchased electronically under the procedures described in the attachment to this IFP" if electronic purchase and delivery is an option]*.

Applications for prequalification should be submitted in sealed envelopes, delivered to the address below[9] by *[insert date]*, [10] and be clearly marked "Application to Prequalify for *[insert name of project and the contract name(s) and number(s)]."*

[*Insert name of office*]
[*Insert name of officer*]
[*Insert postal address] and/or [Insert street address*]
[*Insert telephone number, indicate country and city code*]
[*Insert facsimile or cable number*]
[*Insert Email address*]

Notes for preparation

1. *Day,* month, *year; for example 31 January 2011*
2. [*Insert the following if applicable*]. This contract will be jointly financed by [*insert name of co-financing agency*]. Bidding will be governed by the Islamic Development Bank's eligibility rules and procedures.
3. A brief description of the works or goods should be provided, including quantities, location of project, and other information necessary to enable potential bidders to decide whether or not to respond to the invitation. Bidding documents may require bidders to have specialized experience or capabilities; such requirements should also be included in this paragraph.
4. Insert this sentence if applicable.
5. Occasionally, contracts may be financed out of special funds that would further restrict eligibility to a particular group of member countries. When this is the case, it should be mentioned in this paragraph. Also indicate any margin of preference that may be granted as specified in the financing agreement and set forth in the bidding documents.
6. For example, 0900 to 1200 hours.
7. The fee, if any, shall be to defray printing and mailing/shipping costs and shall be nominal.
8. For example, cashier's check, direct deposit to specified account, etc.
9. The office for submission of applications may not necessarily be the same as that for inspection or issuance of documents. If they differ, each address must appear at the end of the notice and be numbered; as, for example, (1), (2), (3). The text in the paragraph would then refer to address (1), (2), etc. Only one office and its address may be specified for submission, and it should be near the place where bids will be opened.
10. The time allowed for preparation of the prequalification submission should be sufficient for Applicants to gather all the information required, generally not less than **eight weeks** after the date the documents are available or the last date of the advertisement, whichever is later. This period may be longer for very large projects, for which more time may be needed for the formation of joint ventures and assembly of the necessary resources.