Low Tenders
The Azerbaijan Experience
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Azeryolservis ASC

• Azeryolservis manages the Azerbaijan 17,520 km road network
• Part of Ministry of Transport
• 13 billion USD of rehabilitation, new roads and maintenance planned for the next 10 years
• Financing from State Budget, IFIs and commercial banks
• Contractors from Azerbaijan, Turkey, EU and Asia.
Objectives for Road Construction

• Quality is essential
• Time is important
• Cost is the least critical constraint

• Increased competition and competitiveness
• Profitable contractors
• Realist rates
• Unrealistically low prices do not benefit Azeryolservis in the long-term
Problems

Consequence of contractors minimizing costs and maximizing payments
• Delays: very common
• Claims and Disputes: increasing
• Poor quality material and work
• Increased risk of contract failure

Low rates increase contract problems
Low and Abnormally Low Tenders

Procurement Rules – lowest bid wins
Average winning bid is 78% of the average bid price
Winning bids significantly less than detailed cost estimates
Some bids (4 from 16 international tenders) are “abnormally” low using typical guidance criteria:

• 25% below average
• 15% below second ranked bidder

PROBLEM IS LOW BIDS, NOT JUST “ABNORMALLY” LOW BIDS
Case Study 1

A Major Italian Contractor building 48 km of new motorway

- Low Bid – but not abnormally low by usual definitions
- About 15% less than average of other bidders
- Failed to source materials and subcontractors at rates which ensured a profit
- Progressed at less than half the necessary rate for 2 years
- Contracts terminated
- Unprofitable rates given as a reason for failure

Outcome - Retender and long delays to the project
Case Study 2

An Italian Contractor building 37 km city bypass
- Abnormally Low Bid – 74% of average
- Subcontracted most of the works
- Failed to pay subcontractor due to financial problems in Italy
- Works failed to progress
- Direct payments made by Azeryolservis to Sub-contractors (agreed with ADB, and contractor)

Outcome – Delays but project completed
Case Study 3

A Chinese firm bidding for 16 km of new motorway

- Abnormally Low Bid – 71% of average and >15% lower than next lowest
- Bid was 67% of Engineer's estimate
- Showed a Time for Completion longer than stated the bidding documents.
- Bid rejected by Tender Commission
- Bank did not accept evaluation
- Outcome – Tender cancelled. Delays due to retendering
Reasons for low bids

• Competitive market conditions
• Shortage / cost of quality materials not foreseen during bidding
• Expectation of compromise with Employer
• Skill shortages in the supervision and management of contracts
Low tenders may be rejected

Clause 2.7.4: “In case of a large difference between the price of any tender proposal and estimated cost of relevant goods (services and works) the Client has a right to reject the proposal. This decision should be confirmed by relevant Executive Agency.”
AYS Action to Address Low Bids

- Warning bidders of material constraints (e.g. bitumen)
- Reducing incentives for delay (cost adjustment, delay damages)
- Improving contract supervision and management
- Improving designs to reduce variations and opportunities for claims
- Careful analysis of bids at evaluation stage (action limited to clarification – impossible to reject)
- Increasing Performance Security ? (no evidence of any effect)
Other Ideas to Address Low Bids

Azeryolservis and Financing Institutions
• Rigorous Shortlisting – proven capacity and resources in country
• Reject contractors with poor performance for Azeryolservis ASC
• No cost adjustment (indexing) for changes in cost
• Include rate breakdowns in bids and reject bids with unrealistic rates
• Clear guidance and procedures for dealing with insufficient tenders
• Harmonization of rules and application between financing institutions
• Consider other procurement and selection methods rather than lowest ICB – e.g. Limited International Bidding.