Proactive Integrity Review

Loan 3275-UZB: Djizzak Sanitation System Development Project

Office of Anticorruption and Integrity

September 2021

This is a redacted version of the document, which excludes information that is subject to exceptions to disclosure set forth in ADB’s Access to Information policy.
CURRENCY EQUIVALENTS
(as of 31 August 2020, the review cut-off date)

Currency unit – Uzbekistan Sum
UZS 1.00 = $0.0000974631
$1.00 = UZS 10,260.29

ABBREVIATIONS

ADB - Asian Development Bank
BEC - bid evaluation committee
BER - bid evaluation report
BOQ - Bill of quantities
CSA - Communal Services Agency
CSC - consultant selection committee
CWRD - Central and West Asia Department
EA - executing agency
IA - implementing agency
ITB - instructions to bidders
OAI - Office of Anticorruption and Integrity
PCU - project coordination unit
PIR - proactive integrity review
**Proactive Integrity Reviews**

**Mandate:**

The *Anticorruption Policy* of the Asian Development Bank (ADB) requires all parties, including borrowers, beneficiaries, bidders, consultants, suppliers, contractors, and ADB staff to observe the highest ethical standards when participating in ADB-related activities. The Policy supports ADB’s obligation, in accordance with Article 14 (xi) of the Agreement Establishing the Asian Development Bank, to ensure that the proceeds of ADB financing are used only for intended purposes.

The Office of Anticorruption and Integrity (OAI) conducts proactive integrity reviews (PIRs), to help prevent, and detect indicators of, integrity violations (i.e., fraud, corruption, collusion, coercion, abuse, conflict of interest, and obstruction).

**Objective:**

*A PIR identifies and assesses project integrity risks* through the (i) examination of processes, procedures, and documentation related to procurement, financial management, and contract implementation/management, and (ii) inspection of project outputs. Where necessary, OAI recommends enhancements to mitigate or eliminate opportunities for integrity violations.

*OAI conducts follow-up reviews on selected PIRs* to (i) assess the implementation progress of the PIR recommendations, and (ii) assist the executing/implementing agencies and ADB in implementing any remaining recommendations.

*A PIR is neither an investigation nor an evaluation to assess development effectiveness of ADB funded projects.* It does not review project outcomes or development impact, which can only be assessed after the completion of a project. However, OAI’s mandate is underpinned by ADB’s zero tolerance for integrity violations. Any suspected violation of ADB’s Anticorruption Policy is assessed in accordance with ADB’s Integrity Principles and Guidelines (2015).
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>I. OVERVIEW</td>
<td>1</td>
</tr>
<tr>
<td>II. RESULTS</td>
<td>3</td>
</tr>
<tr>
<td>III. CONCLUDING REMARKS</td>
<td>8</td>
</tr>
<tr>
<td>IV. ACKNOWLEDGEMENTS</td>
<td>9</td>
</tr>
</tbody>
</table>
Executive Summary

The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a proactive integrity review (PIR) of the Djizzak Sanitation System Development Project in Uzbekistan. The review commenced in August 2020 with fieldwork conducted remotely from 4 September to 5 November 2020.

Background

The project aims to support the Uzbekistan government’s development plans to revitalize and expand the Djizzak city’s sewerage system with outputs including improved wastewater management system in Djizzak city and increased institutional capacity of Djizzak Regional Water Supply and Sewerage Enterprise. The estimated project cost is $96.56 million, funded by ADB and the Government of Uzbekistan.

During the PIR fieldwork, the executing agency (EA) was the Agency “Kommunhizmat”, or Communal Services Agency (CSA), which was responsible for procurement, contract management, project administration and reporting through its ADB Project Coordination Unit (PCU). After the fieldwork completion, the Government of Uzbekistan as part of sector reform initiatives transferred the EA role to Uzsuvtaminot JSC with the PCU staff transferring to the new EA.

The review covered five selected contracts with ADB funding amounting to $36.59 million, being just over 83% of the total value of contracts awarded; and disbursements of $17.71 million under those same contracts, representing just over 73% of total disbursements. Project outputs were not inspected due to restrictions caused by the COVID-19 pandemic.

Results

In general, adequate controls, processes, and systems are in place with further enhancement opportunities to mitigate project integrity risks. The review resulted in one high-risk finding and five medium-risk findings that require action and stakeholder attention when assessed against the core pillars of integrity: (i) transparency; (ii) fairness; and (iii) accountability and control.

The high-risk finding is summarized below, and in detail in section IC-1 of the main report.

Inadequate records management system. Due to an inadequate records management system and inappropriate document handover during staff turnover, the PCU was unable to provide key procurement documents and the latest progress reports. As a result, OAI was unable to review the procurement processes of one contract and experienced substantial limitations in reviewing the remaining four selected contracts.

Five medium-risk findings, discussed under sections PR-1 to PR-5 of the main report, concern (i) unauthorized changes in bidding documents, (ii) deficiencies in signing bid opening meeting records, letters of bid and bills of quantities, (iii) incorrect evaluation and shortlisting procedures, (iv) awarding a contract beyond validity period, and (v) deficient performance security. The PIR also resulted in four low-risk findings.
**Recommendations**

Uzsvitzaminot JSC, the new EA of the project, should establish an effective PCU document management system to enhance accountability and control and prevent the recurrence of the high-risk finding. The EA should develop and implement guidelines for the document management system, including procedures for handover of project documents during staff turnover.

Further, the EA and the PCU should implement procedures ensuring strict adherence to the requirements of ADB procurement regulations, guides and issued bidding documents in all procurement stages from bidding to contract award by the EA and PCU staff and the Procurement Committee members.

The EA and the PCU, in collaboration with ADB’s Central and West Asia Department (CWRD), should conduct targeted trainings to mitigate the risks noted in this report. OAI also recommends CWRD to exercise closer review of documents in specific procurement processes noted in this report.

**Concluding Remarks**

OAI discussed the preliminary findings with CSA and the PCU, and suitably incorporated their feedback into this report. The lessons drawn from this PIR will enhance the project implementation and will strengthen the internal controls of the procurement processes, thus preventing losses of project funds due to error or integrity violations.

OAI commends the CWRD’s Project Team and PCU for the continued support in the review, especially during the time of the pandemic, and the positive reception to the PIR findings.
I. OVERVIEW

1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a proactive integrity review (PIR) of the Djizzak Sanitation System Development Project in Uzbekistan. The review commenced in August 2020 with fieldwork conducted remotely from 4 September to 5 November 2020.¹

2. OAI conducted the PIR to (i) identify and assess integrity risks in the project’s procurement and financial management, and (ii) recommend measures to mitigate or eliminate integrity risks to ensure that the project funds are used for the intended purposes.

Project Background

3. The project aims to support the Uzbekistan government’s development plans to revitalize and expand the Djizzak city’s sewerage system. Project outcome is an improved and expanded access to reliable, sustainable, and affordable water supply and sanitation services in Djizzak with outputs including improved wastewater management system and increased institutional capacity of Djizzak Regional Water Supply and Sewerage Enterprise. The estimated project cost at the time of approval was $96.56 million funded by ADB and the Government of Uzbekistan.²

4. During the PIR fieldwork, the executing agency (EA) was the Agency “Kommunhizmat”, or Communal Services Agency (CSA), which was responsible for procurement, contract management, project administration and reporting through its ADB Project Coordination Unit (PCU). Djizzak Province State Unitary Enterprise Suvokova, the implementing agency (IA), and its project implementation unit undertook the day-to-day management of project activities. After the PIR fieldwork completion, the Cabinet of Ministers of the Republic of Uzbekistan transferred the EA role from CSA to Uzsuvtaminot JSC.³ The PCU staff were transferred to the new PCU under Uzsuvtaminot JSC, and the IA was renamed from Djizzak Province State Unitary Enterprise Suvokova to Djizzak Suvtaminot LLC.

Table 1: Uzbekistan: Djizzak Sanitation System Development Project - Project at a Glance

<table>
<thead>
<tr>
<th>Project title</th>
<th>Djizzak Sanitation System Development Project</th>
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<tbody>
<tr>
<td>Total estimated financing cost</td>
<td>$96.56 million (at loan approval)</td>
</tr>
<tr>
<td>Financing sources</td>
<td>Asian Development Bank: Loan 3275-UZB (Special Funds): $81 million</td>
</tr>
<tr>
<td></td>
<td>Government Counterpart: $15.56 million</td>
</tr>
<tr>
<td>Approval date</td>
<td>8 September 2015</td>
</tr>
<tr>
<td>Effectivity date</td>
<td>26 February 2016</td>
</tr>
<tr>
<td>Project outputs</td>
<td>(1) Improve wastewater management system in Djizzak city</td>
</tr>
<tr>
<td></td>
<td>(2) Improve institutional capacity of Djizzak Regional Water Supply and Sewerage Enterprise</td>
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¹ Due to safety restrictions posed by coronavirus disease (COVID-19) pandemic, OAI conducted the fieldwork remotely to the extent possible, with the assistance of local experts for procedures that could not be performed remotely.

² On 27 July 2020, Ministry of Finance of Uzbekistan requested cancellation of $14.05 million of unutilized loan savings attributed to lower than expected contract award price against the engineer’s estimates.

Executing and implementing agencies

| EA – Agency “Kommunhizmat”, or Communal Services Agency (during PIR fieldwork), and Uzsvtaminot JSC (at PIR report issuance) |
| IA – Djizzak Province State Unitary Enterprise Suvokova (during PIR fieldwork), Djizzak Suvtaminot LLC (at PIR report issuance) |

EA = executing agency, IA = implementing agency
Source: ADB

Scope and Methodology

5. As of the PIR cut-off date, 14 contracts amounting to $43.98 million had been awarded. Five contracts were selected for the review with a total ADB funding of $36.59 million, being just over 83% of the total value of awarded contracts. These comprised three civil works contracts, one supply of goods contract, and one consulting services contract. Disbursements under the project amounted to $24.22 million of which OAI reviewed $17.71 million, or just over 73% of total disbursements of contract-related payments for the same five selected contracts.

6. OAI (i) examined all stages of the procurement process and related documentation; (ii) verified the appropriateness of project disbursements and the related financial management documentation; (iii) reviewed implementation reports. OAI analyzed how each finding could compromise project integrity as a result of the weaknesses in accountability and control and threats to transparency and fairness.

II. RESULTS

7. In general, adequate controls, processes, and systems are in place with further enhancement opportunities to mitigate project integrity risks. Several areas require enhancements and attention to further mitigate the opportunities of integrity violations. The project demonstrated overall sound financial management, as disbursements to contractors and consultants, that OAI examined, were generally supported and accurate. OAI identified and assigned a high-risk rating to one finding on institutional capacity, and medium-risk ratings to five findings on procurement. The deficiencies noted undermine the transparency, accuracy and accountability in the project’s records management and in all stages of the procurement process from bidding to contract award. The details of the high and medium-risk findings, their respective risk implications and recommendations are presented in the succeeding paragraphs. Also, four low-risk findings were:

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4 OAI sampled transactions from the loan effectivity date, 26 February 2016 up to 31 August 2020, the PIR cut-off date.
5 OAI did not inspect project outputs due to restrictions caused by COVID-19 pandemic. The latest progress report that OAI reviewed covered the project progress for the period of July to September 2019.
6 The three core principles of project integrity or 'integrity pillars' are: (i) Transparency (proper documentation of key decisions, public disclosure of project information, and protection of confidential information); (ii) Fairness (objective and reliable bidding process and requirements optimizing competition, impartial evaluation, and credible complaints mechanism); and (iii) Accountability and control (accurate and timely project accounting and reporting, eligibility of expenditures and timely payments; adherence to contract provisions, and adequate project oversight and management).
7 Risks are defined as follows: (i) High: Immediate attention and prompt corrective action are required since failure to take action could result in major adverse impact on the Project and the reputation of ADB and the Government of Uzbekistan. (ii) Medium: Action is required since failure to take action could result in negative consequences on the Project and the reputation of ADB and the Government of Uzbekistan. (iii) Low: The finding may not negatively impact the Project and ADB’s reputation, yet any corrective actions will result in increased efficiencies.
identified and communicated to the PCU for consideration and corrective action as may be deemed necessary.\(^8\)

**High-Risk Finding**

8. **IC-1: Inadequate records management system.** The PCU was unable to locate and provide key project documents relating to procurement and project progress. Among these documents were:

- log register of suppliers who submitted bids for the supply of goods contract;
- submitted bids for two civil works contracts and the supply of goods contract;\(^9\)
- bid opening records for one civil works contract and the supply of goods contract;
- copies of bid securities of the winning and non-winning bidders for the supply of goods contract, and those for non-winning bidders for two civil works contracts;
- bid security extension of the winning bidder for one civil works contract;
- expressions of interest submitted by the winning and one non-winning firms for the consulting services contract; and
- quarterly project progress reports from Q4, 2019 to Q3, 2020.

9. The loan agreement provides that “the Borrower shall enable ADB’s representatives to inspect the project, the goods and works, and any relevant records and documents.”\(^10\) The loan agreement also states that ADB has the right to audit and examine the records and accounts of the executing and implementing agencies and all project contractors, suppliers, consultants and other service providers.\(^11\) To fulfill these provisions requirement, ADB representatives should have access, at all reasonable times, to all relevant records and documents associated with the project as deemed necessary, and paying particular attention to the maintenance of proper books and records.

10. The deviation reflects the lack of an effective document management system that tracks and retrieves project-related documents. Further, procedures did not exist to effectively manage the handover of documents during the turnover of PCU staff who participated in the procurement processes.

11. As a result, OAI was unable to review the procurement processes of the selected supply of goods contract. In addition, substantial limitations were noted in reviewing the procurement processes of the remaining four selected contracts.

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\(^8\) Low-risk findings and minor compliance issues do not directly expose the project to significant integrity risks. However, addressing these gaps will generally help the project mitigate integrity risks or improve efficiency.

\(^9\) Four out of five bids for Contract A, three out of twelve bids for Contract B and four out of seven bids for Contract C were not provided during the course of review.

\(^10\) Section 4.02 of the loan agreement between the Republic of Uzbekistan and ADB.

\(^11\) Para. 23 of Schedule 5 (Governance and Anticorruption) of the loan agreement between Uzbekistan and ADB states that, the Borrower and CSA shall ensure that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of CSA and project implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the project. Additionally, Section 2.06 of the Project Agreement between the EA and ADB states that the EA shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.
12. The inadequate records management system significantly undermined transparency of the procurement processes and made it impossible to verify their accuracy and fairness. Additionally, the lacking project progress reports undermine the accountability of the CSA and restrict ADB’s oversight over project implementation.

13. **Recommendations.** The EA should establish a PCU project record management system by implementing guidelines on documentation management, including filing, storage, tracking and retrieval of project documents. The project record management system should include turnover procedures in case of staff changes, allowing incoming staff to become familiar with the documentation management protocols. The EA should develop guidelines, train the PCU staff to apply the requirements, and periodically check the PCU staff’s compliance with established document management procedures. The EA should also consider implementing an electronic document filing system, whenever possible.

**Medium-Risk Findings**

14. **PR-1: Unauthorized changes in bidding documents.** During the pre-bid meeting, the PCU modified the requirements on the bid security amount and certain evaluation criteria in the bidding documents for three civil works contracts without first seeking ADB’s approval. According to ADB’s Procurement Guidelines, ADB shall be consulted for issuing a “no objection” when the contract is subject to prior review, for any additional information, clarification, correction of errors, or modifications of bidding documents.

15. According to the pre-bid meeting minutes, the CSA substantially reduced the bid security amounts. The PCU also reduced the minimum annual construction turnover and financial resource requirements. The PCU did not seek ADB’s approval and did not issue an addendum to the bidding documents for the changes.

16. The deficiency reflects PCU’s insufficient awareness of the escalation requirements set forth in ADB’s Procurement Guidelines in obtaining ADB’s approval for any changes in the bidding document when the contract is subject to prior review.

17. Decreased bid security amounts and relaxed evaluation criteria may allow less capable bidders or potentially favored bidders to participate in the procurement process and win contracts. The PCU’s failure to seek ADB’s prior approval prevented ADB from assessing the reasonableness of the changes in the bidding documents and compromised the accountability and control of the procurement process.

18. **Recommendations.** In future procurement activities subject to prior review, the EA should obtain ADB’s approval for any changes in the bidding documents. Before the next procurement process, the EA and PCU, in collaboration with ADB’s Central and West Asia Department (CWRD), should organize procurement trainings for the EA and PCU staff, covering the procedures for changes in bidding documents, including the requirement to seek ADB’s approval. In future procurement activities, CWRD’s Project Team should compare the bid evaluation report (BER) against the issued bidding documents for all the criteria and requirements that affect the

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12 Considering the change of the EA, all the references to the EA in the PIR recommendations throughout this report pertain to Uzsvtaminot JSC, the new EA of the project.

13 Clause 2.18 of ADB’s Procurement Guidelines

14 Non-availability of latest project progress reports did not allow OAI to study the contract implementation progress in connection with capacity of the contractors that could be assessed during the bid evaluation.
recommendation for contract award and, in case of discrepancies, request clarification from the EA and issue appropriate instructions.

19. **PR-2: Deficiencies in signing bid opening meeting records, letters of bid and bills of quantities (BOQ).** For the three civil works contracts reviewed, none of the members of the Procurement Committee signed the record of bid opening and the attendance sheet for opening of bids. Separately, the bid opening meeting minutes contained signatures of only four out of six Procurement Committee members. Furthermore, the letters of bid and price schedules (BOQs) of bidders did not carry signatures of the CSA representatives attending the bid opening meeting.

20. This deviates from ADB’s Guide on Bid Evaluation, which requires bid opening record to be signed by all members of the bid opening committee, and the Instructions to Bidders (ITB), which requires all pages of the Letter of Bid and BOQs to be initialed by at least three representatives of CSA attending bid opening.

21. The deficiencies in the bid opening records, the letters of bid and BOQs reflect the lack of awareness at the CSA and PCU on the requirement for Procurement Committee members and the CSA representatives to exercise the required governance. Without proper authorization, the bid opening records, the letters of bid, and the BOQs are prone to modifications that may result in integrity violations.

22. **Recommendations.** Before the next procurement process, the EA should implement procedures ensuring that Procurement Committee members sign the record of bid opening and the attendance sheet for opening of bids, and that at least three EA representatives initial the letters of bid and BOQs of all bidders. Before the next bidding, the EA and PCU, in collaboration with CWRD, should organize procurement trainings for the EA and PCU staff and for the Procurement Committee members, covering the bid opening procedures including the requirements to sign (initial) relevant documents. For all future procurement activities, CWRD’s Project Team should review the records of bid opening, attendance sheets for opening of bids and sample letters of bid and BOQs shortly after the bid opening date, to check if the documents are appropriately executed.

23. **PR-3: Incorrect evaluation and shortlisting procedures.** The consultant selection committee (CSC) and the bid evaluation committee (BEC) conducted incorrect shortlisting and evaluation procedures, respectively.

24. **PR-3.1: Shortlisting of six firms.** In shortlisting consulting firms, the CSC excluded one participant on the basis that there is already another higher-ranked consulting firm shortlisted from the same country. The approach deviates from the ADB’s Guidelines on the Use of Consultants by ADB and its Borrowers, which states that “Shortlists shall comprise six firms with a wide geographic spread, with no more than two firms from any one country and at least one firm from a developing country, unless qualified firms from developing countries are not identified”.

25. The CSC’s misinterpretation of the requirement and incorrect shortlisting of consulting firms may lead to inappropriate rejection of firms and inaccurate evaluation results. In this particular case,

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15 The record of bid opening and the attendance sheet for opening of bids contain only the signatures of bidders’ representatives who attended the bid opening.
16 Clause 2.2 of ADB’s Guide on Bid Evaluation
17 There were three committees in the consultant selection process — for shortlisting of expression of interests, for evaluation of technical proposals, and for evaluation of financial proposals. In this report reference to consultant selection committee pertains to the respective committee, as applicable.
18 Clause 2.8 of ADB’s Guidelines on the Use of Consultants by ADB and its Borrowers
the impact on the evaluation results cannot be ascertained because the excluded firm did not have a chance to submit its technical and financial proposals.

26. **PR-3.2: Treatment of abnormally low bid price as an insignificant deviation.** For one of the civil works contracts, the bid price of the winning bidder is approximately 32% lower than the engineer’s estimate. However, the BEC considered the bid price to be an insignificant deviation and did not seek clarifications from the bidder on the abnormally low bid price. The BER did not state any reasons for considering the deviation as insignificant, and only presented the analysis of the bid price deviations from engineer’s estimate.

27. The BEC deviated from the ITB, which requires: “When the offered bid price appears to be abnormally low, the Employer shall undertake a three-step review process as follows:

   (a) identify abnormally low costs and unit rates by comparing them with the engineer’s estimates, other substantially responsive bids, or recently awarded similar contracts;
   (b) clarify and analyze the bidder’s resource inputs and pricing, including overheads, contingencies and profit margins; and
   (c) decide whether to accept or reject the bid.”

28. Further, the BEC deviated from another ITB provision for the abnormally low bid prices, which requires the CSA to “seek a written explanation from the bidder of the reasons for the offered bid price, including a detailed analysis of costs and unit prices, by reference to the scope, proposed methodology, schedule, and allocation of risks and responsibilities.”

29. The BEC’s acceptance of abnormally low bid prices with insufficient rationale (i.e., without clarifications from the bidder and insufficient documentation) may lead to contracts awarded to unqualified bidders. This in turn could result in bidder’s failure to complete the work satisfactorily. In this particular case, the impact of BEC’s acceptance of abnormally low bid price on the evaluation result cannot be ascertained as the BEC did not seek explanation from the bidder on the reasons for the offered bid price.

30. **PR-3.3: Evaluation of bidder’s historical financial performance.** The BEC considered a non-winning bidder to be non-compliant with the net worth criteria of historical financial performance, as the bidding documents require the bidder to have a positive net worth for the last year. However, based on BEC’s own calculation attached to the BER, as well as per OAI’s recalculation, the bidder was compliant with the qualification requirement.

31. Although the incorrect assessment of the bidder’s net worth did not impact the bid evaluation results, other similar errors could lead to inappropriate disqualification of qualified bidders.

32. The deficiencies presented in paragraphs 23-29 reflect insufficient understanding of the CSC and BEC of the respective requirements in ADB’s guidelines and instructions. The deficiency in paragraphs 30-31 is caused by inadequate verification controls of the BEC, which may lead to

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19 Clause 36.2 of the ITB
20 Clause 36.3 of the ITB
21 Due to non-availability of latest project progress reports OAI could not verify the contractor’s performance for the civil works as compared with contract specifications.
22 Para. 2.3.1 – Historical Financial Performance of Section 3 – Evaluation and Qualification Criteria of the issued bidding documents states: “As a minimum, the Bidder’s net worth for the last year, calculated as the difference between total assets and total liabilities, should be positive.”
human errors in the evaluation of the bids. Also, the above lapses could be perceived as the evaluation committees’ favoritism for some bidders or consulting firms, implying unfair procurement processes.

33. **Recommendations.** The EA and PCU, in collaboration with CWRD, should organize tailored procurement trainings for the EA and PCU staff as well as CSC and BEC members on the shortlisting of consultants and abnormally low bid prices. The EA and PCU should implement procedures to remind the BEC and CSC members before each procurement process to strictly follow the requirements of ADB’s guidelines and bidding documents, specifically focusing on these PIR findings. The EA and PCU should implement cross-checking procedures in the BEC, for calculations and use of the information from bid submissions, to ensure accuracy of evaluation results. In future procurement activities, CWRD’s Project Team should diligently review the evaluation reports for civil works and consultancy services for compliance with guidelines and requirements of bidding documents, as well as for consistency of information used as grounds for rejection of bids, EOIs or proposals.

34. **PR-4: Contract awarded beyond bid validity period.** In one civil works contract, the EA awarded the contract to the winning bidder after the expiration of the bid validity period. This deviates from ADB’s Procurement Guidelines, which states that “Bidders shall be required to submit bids valid for a period specified in the bidding documents which shall be sufficient to enable the borrower to complete the comparison and evaluation of bids, review the recommendation of the award with ADB, if a prior review is required, and obtain all the necessary approvals so that the contract can be awarded within that period.”\(^{23}\)

35. The CSA issued the notice of contract award to the winning bidder on 27 May 2019, and the contract was signed on 30 May 2019 while the bid validity period expired on 30 April 2019. ADB issued its no objection to the award of the contract on 10 May 2019, which was also after the expiry of the bid validity period.

36. The bid security remained valid up to the date of the contract, as there was a letter from the winning bidder to the PCU informing about the extension of the bid security validity until 30 May 2019. However, the document issued by the bank and certifying the extension of validity of the bid security was not available.

37. The finding reflects the PCU’s lack of diligence in requesting the winning bidder to extend the bid validity period until the contract was signed or at least until the issuance of the notice of contract award.

38. Non-extension of bid validity compromises accountability and control over the procurement. It may lead to prolonged procurement process and project delays in the event that the bidder refuses to accept the contract award and the PCU has to award the contract to the next lowest evaluated qualified bidder.

39. **Recommendation.** OAI recommends the PCU to diligently check the validity of the bids and request all qualified bidders to extend their bid validity until the anticipated date of contract award.

40. **PR-5: Deficient performance security.** In one civil works contract, the performance security issued by the winning bidder did not fully cover the required period. This deviates from ADB’s Procurement Guidelines, which require that a portion of the security shall extend sufficiently

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\(^{23}\) Clause 2.13 of ADB’s Procurement Guidelines
beyond the date of completion of the works to cover the defects liability or maintenance period up to final acceptance by the borrower.\textsuperscript{24}

41. The performance security issued by the winning bidder was for 612 days only, while the contract provided for 540 calendar days for completion of construction activities, up to two months for the operational acceptance of the works, followed by one year of operational services.\textsuperscript{25}

42. The deviation reflects PCU’s misunderstanding of the contract requirements that at the time of contract signing the performance security should cover the period of operational services. In absence of valid performance security for the full period required by the contract, the damages may not be recovered from the contractor in case of breach of the contract obligations.

43. \textit{Recommendation.} OAI recommends that the EA immediately requests and obtains from the contractor an extended performance security that will cover the full period required by the contract, including the operational services period. For future procurement processes, the EA should establish a robust process to ascertain whether the performance security submitted by contractor at the contract signing covers the full period required by the contract.

\section{III. CONCLUDING REMARKS}

44. OAI recognizes the efforts of CSA and the PCU for the implementation of the project and continued resilience during the time of the COVID-19 pandemic. Generally, project integrity risks are managed through the CSA and the PCU’s internal controls, processes and systems, and through ADB’s oversight. However, the findings noted in this report, if not addressed before the next procurement process, may continue to expose this and future ADB projects to increased integrity risks.

45. The lessons drawn from this review will strengthen internal controls and prevent the project from the loss of funds due to error, fraud or corruption. OAI encourages CWRD to continue collaborating with the Government of Uzbekistan to deliver on its commitment to promote transparency, fairness and accountability in this project and other existing and future projects in Uzbekistan.

46. OAI requests the EA and PCU to address the PIR recommendations, and CWRD to monitor the implementation progress of the recommendations. CWRD should provide periodic progress updates to OAI and share back-to-office reports with OAI following each review mission.

47. Concurrently, the findings noted in this report, if not addressed, may continue to expose the ongoing and future ADB projects to increased integrity risks.

\textsuperscript{24} Clause 2.39 of ADB’s Procurement Guidelines

\textsuperscript{25} Section 8.2 Time for Commencement and Completion of the Special Conditions of Contract states that the time for completion of the whole of the facilities excluding operational services for one year shall be 540 calendar days from the effective date. Also, the operational acceptance should be within 2 months after issuance of completion certificate and the time for completion for operational services is 1 year from the date of operational acceptance.
IV. ACKNOWLEDGEMENTS

48. OAI appreciates the cooperation and support received from the CSA, the PCU, and CWRD’s Project Team in this PIR, including the discussions on the preliminary findings and subsequent inputs before the finalization of this report. OAI remains available for consultation on any matter in this report.