JUSTIFICATION FOR PROPOSED AMENDMENT IN FINANCIAL QUALIFICATION CRITERIA AND PERFORMACE GUARANTEE/MOBILIZATION ADVANCE

Subject: Request for Amendment in Clause 1.4.1 – Financial Qualification Criteria to Ensure Fair Competition and Participation of Local Contractors

It is respectfully submitted that the financial qualification criteria prescribed under Clause 1.4.1 require reconsideration and rationalization in view of the estimated cost of the project, the prevailing market conditions, and the objective of ensuring fair and healthy competition.

The present financial requirements, particularly the requirements relating to project-specific credit facilities, average working capital, and average annual turnover, appear disproportionately high in comparison with the estimated project cost of approximately **PKR 5 billion**. These conditions may substantially restrict participation to a very limited class of large contractors and may effectively exclude competent local contractors, even where they are otherwise technically and financially capable of executing the project, including through Joint Ventures (JV).

1. Proposed Amendment in Project-Specific Bank Credit Facility

The existing requirement provides:

- PKR 2.0 billion credit line as the threshold for obtaining marks; and
- Full marks at a credit line of PKR 4.5 billion or above.

It is requested that the minimum threshold be reduced from **PKR 2.0 billion to PKR 1.0 billion**.

Justification

For a project having an estimated cost of approximately **PKR 5 billion**, requiring a project-specific sanctioned credit line of PKR 2 billion creates an excessive financial barrier.

A credit line of PKR 1 billion, supported by a credible banking institution and available specifically for the project, would still provide substantial evidence of the contractor's financial capacity while allowing competent contractors to participate.

The purpose of a financial qualification criterion should be to establish the bidder's **capacity to execute the project**, rather than creating a financial threshold that only a small number of exceptionally large contractors can satisfy.

The proposed reduction would therefore:

1. Increase competition among qualified contractors;
2. Facilitate participation of competent local contractors;
3. Encourage meaningful participation through JVs;
4. Avoid unnecessary exclusion based solely on the size of existing banking limits; and
5. Maintain adequate financial safeguards for the Employer.

2. Proposed Amendment in Average Working Capital

The existing criterion requires an average working capital of **PKR 2.0 billion** for the minimum qualifying level, with higher marks for increased working capital.

It is proposed that the minimum threshold be reduced from:

PKR 2.0 billion → PKR 1.0 billion.

Justification

The working capital requirement should be proportionate to the actual cash-flow requirements of the project.

For a project estimated at approximately PKR 5 billion, a requirement of PKR 2 billion average working capital represents approximately **40% of the total project value**, which is exceptionally high for a single project and may not reasonably reflect the actual working-capital requirement where payments are made against measured work, interim payment certificates, mobilization advance, and other contractual mechanisms.

A minimum working capital requirement of PKR 1 billion would still represent approximately **20% of the estimated project cost** and would provide a substantial financial capacity test.

This would ensure that the Employer retains adequate protection while preventing the qualification criteria from unnecessarily excluding otherwise capable contractors.

3. Proposed Amendment in Average Annual Turnover

The existing criterion requires an average annual turnover of **PKR 5 billion** for the minimum score, with full marks for an average annual turnover of PKR 10 billion or above.

It is proposed that the turnover requirement be substantially reduced so that contractors having an average annual turnover of **less than PKR 2 billion** may also be considered eligible, subject to their technical capability and other financial qualifications.

Justification

The current turnover requirement is disproportionate to the project size.

A project having an estimated cost of approximately **PKR 5 billion** should not ordinarily require a contractor to demonstrate an average annual turnover equal to or exceeding the entire project cost merely to obtain the minimum financial score.

Such a requirement can disproportionately favor contractors who have historically executed mega projects and disadvantage competent regional contractors who may have adequate technical resources, manpower, equipment, experience, and financial strength but operate in a comparatively smaller market.

This is particularly relevant in **Gilgit-Baltistan**, where the number of mega-scale infrastructure projects is comparatively limited. Consequently, local contractors may not have the same historical turnover figures as contractors operating in larger provincial and metropolitan markets, despite possessing the capacity to execute significant infrastructure projects.

The turnover criterion should therefore assess the contractor's **realistic capacity to execute the proposed project**, rather than merely rewarding historical participation in exceptionally large projects.

4. Impact on Local Contractors and Competition

The proposed financial criteria, if retained in their present form, may significantly limit participation to a particular class of large contractors.

The project is located in a region where opportunities for mega projects are relatively limited. Local contractors therefore naturally have lower historical turnover and banking limits than contractors operating continuously in major cities and large infrastructure markets.

Excessively high financial thresholds can consequently result in:

- Reduced competition;
- Limited participation of local contractors;
- Reduced opportunities for competent regional firms;
- Dependence on a small number of large contractors;
- Difficulty in forming meaningful JVs; and
- Potentially higher bid prices due to restricted competition.

The qualification criteria should be designed to achieve a balance between **financial security of the Employer and maximum participation of technically and financially capable bidders**.

5. Financial Burden of Performance Guarantee and Project-Specific Credit Line

Another important consideration is that the successful contractor will already be required to provide the prescribed **Performance Guarantee**, in addition to fulfilling project-specific banking requirements.

Furthermore, where a contractor is required to maintain a substantial project-specific sanctioned credit facility while simultaneously arranging the Performance Guarantee and other contractual securities, a significant amount of financial capacity becomes blocked for the duration of the project.

For a project of approximately **PKR 5 billion**, the cumulative financial exposure created through Performance Guarantee, project-specific credit arrangements, retention/security requirements, and other contractual obligations can place a substantial burden on the contractor's banking capacity for an extended period.

This is particularly challenging for local contractors and may discourage otherwise capable firms from participating.

6. Acceptance of Guarantees from AA-Rated Insurance Companies

It is also requested that, wherever permissible under the applicable procurement rules and contract conditions, the Employer may consider accepting **Performance Guarantees and guarantees for Mobilization Advance from reputable AA-rated insurance companies**, in addition to guarantees issued by scheduled banks.

Such an arrangement would:

- Provide equivalent financial security to the Employer where the issuing institution satisfies the prescribed credit-rating and regulatory requirements;
- Reduce unnecessary blocking of contractors' banking limits;
- Improve liquidity and cash-flow management;
- Facilitate participation of competent contractors; and
- Promote greater competition without compromising the Employer's financial protection.

Any such guarantee should, of course, be unconditional, irrevocable, payable on demand, and issued by an institution meeting the financial-strength and regulatory requirements prescribed by the Employer.

7. Principle of Proportionality

Financial qualification criteria should remain **reasonable, proportionate, project-specific, and directly related to the actual financial requirements of the works**.

For a project estimated at approximately PKR 5 billion, requiring extremely high turnover, working capital, and project-specific banking limits simultaneously may result in an unnecessarily restrictive qualification framework.

The objective should be to identify contractors who possess adequate:

- Financial capacity;
- Relevant technical experience;
- Human resources;
- Equipment and machinery;
- Banking support;
- Cash-flow capacity; and
- Organizational capability.

No single financial indicator should unnecessarily become a barrier to otherwise competent bidders.

8. Requested Amendments

In view of the above, it is respectfully requested that Clause 1.4.1 – Financial Qualification Criteria may kindly be amended as follows:

Financial Criterion	**Existing Requirement**	**Proposed Requirement**
Project-Specific Bank Credit Facility	Minimum PKR 2.0 Billion	**Minimum PKR 1.0 Billion**
Average Working Capital	Minimum PKR 2.0 Billion	**Minimum PKR 1.0 Billion**
Average Annual Turnover	Minimum PKR 5.0 Billion	**Reduced to a level below PKR 2.0 Billion / proportionate threshold**
Performance/Mobilization Guarantees	Primarily banking arrangements	**AA-rated insurance company guarantees may also be considered, subject to applicable rules and conditions**

9. Conclusion

The proposed amendments are not intended to compromise the financial security of the Employer. Rather, they seek to establish **reasonable and proportionate financial qualification criteria** commensurate with the estimated project value and the actual operating environment of Gilgit-Baltistan.

The present thresholds appear capable of restricting competition to a limited class of contractors and may prevent competent local firms from participating, even through Joint Ventures.

Reducing the project-specific credit facility and working-capital thresholds from **PKR 2 billion to PKR 1 billion**, rationalizing the turnover requirement to a level below **PKR 2 billion**, and allowing appropriately secured guarantees from **AA-rated insurance companies** would substantially improve competition while continuing to protect the

Employer against financial and contractual risks.

It is therefore requested that the proposed amendments may kindly be incorporated in the tender/prequalification criteria in the larger interest of **fair competition, transparency, local participation, value for money, and successful execution of the project**.

Submitted for kind consideration and necessary amendment.

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