Central Expressway: High ways above and beyond the call of tenders

By Namini Wijedasa

The Government is to call for "Limited Tenders (LT)" from Japanese companies for the construction of the Section III of the Central Expressway (CE), in a clear departure from the open bidding principle.

LTs, as defined online, are not advertised in newspapers. As a result, other bidders generally do not come to know when such a tender is floated.

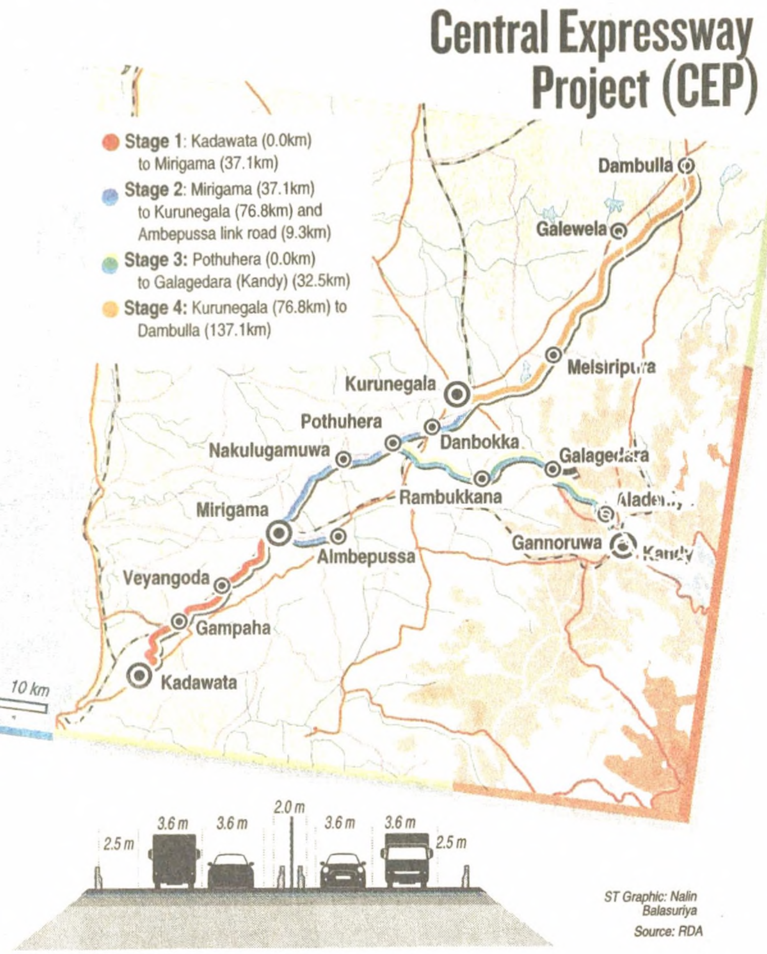
The Cabinet Subcommittee on Economic Affairs has recommended the process, despite it having failed once before. In the first round of LTs for Section III of the CE, only one out of three companies nominated by the Japanese Embassy, applied for the project. But Taisei Corporation neglected to provide the requisite Bid Bond (BB).

"This led to suspicions that Taisei was so confident of securing the tender, they did not bother with a BB," said an authoritative industry source. "None of this would be an issue had the Government gone for open, transparent bidding." The company is reported to have a local agent who is highly connected, politically.

A BB is issued as part of a supply bidding process by the contractor to the project owner, as a guarantee that the winning bidder will undertake the contract under the terms at which they bid. While the Ministry of Highways had been open to accommodating Taisei without the BB, the Prime Minister's office had rejected the application, authoritative sources said.

With its complicated terrain and land acquisition requirements, Section III of the CE is tipped to be one of the most expensive road projects undertaken in recent times. The Government has eschewed open tenders--which would have ensured robust competition and choice of pricing-- in favour of LTs from Japan because, it wants to fund the project through a "tied loan" from the Tokyo Mitsubishi Bank (TMB).

"We are going for LTs from Japanese companies," confirmed Road Development Authority Chairman N.R. Suriyarachchi. "The decision is to get requests from Japanese companies." But, he said the tender would not be open to all Japanese companies. Instead, the Japanese Embassy would once again be requested to nominate some firms for the project owner to choose from.



ST Graphic: Nalin Balasuriya
Source: RDA

"The decision is to contact the Japanese Embassy," said Mr Suriyarachchi. "They might ask the Japanese Chamber. We will go with Japanese tied loan conditions."

A tied loan is one that a Government makes to a foreign borrower in exchange for the promise that the borrower will use it to purchase goods (or services) from the lender's country. It is not immediately clear why the administration did not insist on open tenders within Japan, in exchange for financing from TMB. The Japanese Embassy has also not publicised the criteria on which they nominated the three companies on the first round: Taisei Corporation, Penta Ocean Construction Co Ltd and Wakachiku Construction Co Ltd.

A Japanese Embassy Spokesman refused to divulge information, "The owner of the tender is the Sri Lanka Government," he said. "The process is done by the owner of the tender. We are not involved in procedure of tender." He added that the Embassy was awaiting the decision of the Government.

The Sunday Times earlier reported that the Government is in talks with China's Exim Bank to fund Section I of the CE, which the contractor, Metallurgical Construction Company (MCC) of China, has now priced at Rs 158 billion or, Rs 12 billion more than originally stated. MCC has been awarded the contract without tender.

Section I runs 37.1 km from Kadawatha to Mirigama. At the current price, this translates to nearly Rs. 4.3 billion per km. Section II is to be parcelled out to local contractors. Section III is 32.5 km from Pothuhera to Galagedara in Kandy.

"We are about to start work by December 1," said a project official for Section II, which is divided into four packages. "There are four consortia with 15 contractors. All four were issued bidding documents and we received bids from them all. They are being reviewed and negotiations are ongoing. Most probably, a decision will be made by the Cabinet within the next two weeks."

The CE was called the Northern Expressway under the former administration, which habitually parcelled out such projects on single bids. Following the presidential election in January 2015, the new Government approached traditional funding agencies to finance the initiative. Among those that attended meetings were the Japan International Cooperation Agency (JICA), Asian Development Bank (ADB) and World Bank (WB), all of whom offer funding at minimal interest.

The WB eventually dropped out, but JICA and ADB remained in the running. Official sources said the two agencies had been willing to take a part each: Section I for JICA and Section II for ADB. Both sections had been deemed feasible through studies. Section III was considered more complicated, as the terrain was difficult and there were more social and environmental factors to consider.

Following the Parliamentary election of August 2015, however, things changed. The Highways portfolio was transferred from Minister Kabir Hashim to Minister Lakshman Kiriella. Section I was awarded to MCC and Section II is now going on a tied loan--at higher interest-- to Japan.

The main premise for the shift from a development loan to a commercial one is that JICA was slow. JICA demands observation of stringent environmental and social guidelines, including fair compensation for land acquisition. A source from the Ministry of Finance's External Resources Department said that, with all three agencies--JICA, ADB and WB-- it would take at least two years for a project to get off the ground.

Disturbingly, doubts are now being raised about the Japanese Embassy and its role in diverting the loan from JICA to the private sector TMB. "Why did the Embassy nominate these three companies and not other more high profile Japanese firms?" asked an industry source. "With only one contractor applying, the process became a farce, a single-bid. How is this different from the past? How will the Government evaluate the costs and select the cheapest bidder?"

"Do not forget that this will be a very expensive project," he continued. "The best advantage will be gained from evaluating the offers openly and transparently. Even if it is a tied loan, the project can be made available to a larger array of Japanese companies. Did anyone even vet the shortlist and conduct due diligence on the companies nominated?"

CEB's tardiness to avert power crisis generates angry rebuke from Ministry

By Sandun Jayawardana

Power and Renewable Energy Ministry has expressed dissatisfaction with the Ceylon Electricity Board (CEB) over the latter's slow progress in taking immediate measures to avert an anticipated power crisis in 2018.

The sentiments were conveyed in a strongly worded letter sent by the Ministry secretary, Dr. B.M.S. Batagoda to CEB Chairman Anura Wijepala and General Manager Yamuna Samarasinghe this week.

The letter, seen by *the Sunday Times*, is a follow-up to another letter sent on July 29 instructing the CEB to take immediate measures to avert the anticipated power shortage.

The two most urgent power plants needed to meet the possible electricity shortage - the 300 megawatt (MW) Liquefied Natural Gas (LNG) combined cycle plant in Kerawalapitiya and the 170 MW barge mounted dual fuel plant at Hambantota Port, are already five months behind schedule. Construction of an LNG terminal has also been delayed by nearly five months, while a move to purchase 50 mobile power generation units has been on hold for more than two months, *the Sunday Times* learns.

The situation is precarious given that the country's annual power demand is set to increase by at least 4-5 percent during the next few years. The Government estimates, that by 2018, the CEB would need at least 600MW of additional power.

The Government had earlier directed the CEB to procure the Kerawalapitiya and Hambantota plants on a priority basis. On June 3, two separate Technical Evaluation Committees (TECs) were appointed for the projects. At a meeting with members of the Cabinet Committee on Economic Management (CCEM) on June 8, officials from the CEB and the Ministry of Power and Renewable Energy had agreed to float tenders for the two plants by July 15. The CEB's work schedule notes that the commissioning dates of the Hambantota and Kerawalapitiya plants are April, 2017 and October, 2018 respectively. However, tenders are yet to be called for either.

In this week's letter, the Ministry Secretary observes that it seems the CEB staff and the CEB Board "have not still understood the gravity of the problem."

Dr. Batagoda has also drawn attention to continuing issues with the Lakvijaya Coal Power Plant in Norochcholai. Problems in the CEB's transmission system have still not been properly diagnosed and solutions for the frequent shutting down of the Lakvijaya plant and the time delay it takes to restart it are yet to be found, he points out.

"The Government has given priority for transmission development, power generation and distribution and given enough funding requested by the CEB. Therefore, the CEB and the Ministry have no excuse if HE the President, Hon. Prime Minister or the General Public point finger at us for not doing enough to avoid power crisis," the letter adds.

Dr. Batagoda confirmed that he had sent a letter this week to the CEB in order to push the Board into taking immediate action. He stressed that he believes the CEB is staffed by good and efficient people, but opined the institution itself seemed to be bogged down by procedural delays. "We are still confident we can change that," he added.