



8th March 2012

Ms. Nargis Sethi,
Federal Secretary,
Ministry of Defence,
Islamabad.

**Subject: Allegation of Violation of Public Procurement Rules 2004, in procurement of PIA
Crew Hotels within Pakistan-Loss to Exchequer approx. Rs. 315 Million.**

Dear Ma'am,

TI-Pakistan is in receipt of M.D. PIA's letter MDS/OM-08(Flt Ops)/2012, dated March 05, 2012 addressed to Director, Public Procurement Regulatory Authority.

After careful review of the arguments presented that PIA has resorted to invoke Rule 42. 'Alternative methods of procurements, [c][iii] ' where a change of supplier would oblige the procuring agency to acquire material having different technical specifications or characteristics and would result in incompatibility or disproportionate technical difficulties in operation and maintenance, and [d] [iii] for reasons of extreme urgency brought about by events unforeseeable by the procuring agency, the time limits laid down for open and limited bidding methods cannot be met.

These reasons are against the Public Procurement Rules 2004, Rule No 30 as PIA was not authorized to change the evaluation criteria. Rule 30 is quoted below;

30. Evaluation of bids.- (1) *All bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. Save as provided for in clause (iv) of sub-rule (3) of rule 36 no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.*

It has been admitted by the Managing Director himself that PIA invited tenders only from the "Shortlisted Hotels", and therefore there is no reason not to award contracts to the lowest responsive bidders, but that PIA has used evaluation criteria other than the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents, and thus PIA has violated Rule No 30. The reason stated by MD of not accepting bids from the lowest responsive Hotels, (which have been used by PIA in previous years and have been prequalified/shortlisted also) is not a valid reason, in view of the fact that PIA itself has shortlisted the Hotels, and PIA is in the business for last 45 years of hiring Hotel Services for its Crew, and knows fully well how to shortlist Hotels.

In fact Tender offer of M/s Hasho Group was conditional, and as such should have been declared non-responsive, as it did not met the tendered conditions. PIA Evaluation Committee instead of disqualifying the offer, manipulated, and mis-guided the PIA management, and managed to award contract to this non responsive bidder.

It has been established that the following complaint sent to PIA by TIP on 16th February 2012 is correct.

That PIA has invited tenders for annual contract of Crew Hotels for PIA within Pakistan, worth over Rs 750 million, but the evaluated lowest responsive bidder is being deprived of the award of contract and under collusion some favoured party is being manipulated to be awarded the contract.



PIA has therefore committed violation of Rule No 30, knowing fully well that the change in evaluation criteria post tender opening is never allowed, and is also termed as "corrupt and fraudulent practices under Rule 2 (f), and is specifically defined in this rule as collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition.

Therefore it is a clear case of mis-procurement under rule 50.

PIA has awarded the contract for two years to PC at all stations, including Sialkot where tender has been awarded to PC's sister concern, Hotel One. This award of contract amounts to Rs. 293 Million for two years for cockpit crew and Rs. 1.105 Billion for the cabin crew. Had this contract been awarded to the lowest evaluated bidders at each station, as per the evaluation criteria given in the bidding documents, the amount for the contract awarded for Cockpit Crew would have been Rs. 262 Million and Rs. 715 Million for the Cabin Crew. The contract award to the lowest evaluated bidders for cabin and cockpit crew would have valued at Rs. 978 Million whereas PIA has awarded the contract at Rs. 1.399 Billion. Even if the negotiated savings of Rs. 53 million annually, as stated by MD PIA, is considered, the exchequer is bound to suffer a loss of Rs. 315 Million through this procurement by PIA, which is 32% above the lowest responsive evaluated bids.

According to Rule 2(f) and Rule 7 "Integrity pact", following actions are required to be taken by the Principal Accounting Officer, i.e. the Secretary, Ministry of Defence (under PPRA's notification No. 3(5)/DD-II/PPRA/2009 dated 10th February 2010).

1. Impose 10 times fine on Rs. 315 Million, i.e. Rs 3.15 Billion on Contractors.
2. Terminate the Contract.
3. Recover from the Contractor any loss or damage to the Employer as a result of such termination or of any other corrupt business practices of the Contractor or any of his Subcontractors, agents or servants.
4. Proceed action on blacklisting the Contractors under PP Rule No 19.
5. Report to NAB for criminal action against Contractors under NAO 1999 Section 9.

Transparency International Pakistan is for across the board application of the PPRA Ordinance 2002 and the Public Procurement Rules 2004.

Regards,

Syed Adil Gilani
Adviser

Copies forwarded for the information of:

1. Chairman, Public Accounts Committee, Islamabad.
2. Minister of Defence, Govt. of Pakistan, Islamabad.
3. Chairman, NAB, Islamabad.
4. Registrar, Supreme Court of Pakistan, Islamabad.
5. Auditor General, Islamabad
6. M.D, PIA, Karachi Airport, Karachi.
7. MD, PPRA, Islamabad.

Evaluation According to Tendered Evaluation Criteria

(All Amounts in Pak Rupee)

Stations	Approximate number of Rooms Required Per Month		Lowest Quoted Rates		Name of Hotel with Lowest Quoted Rates		Total (One Year)	
	Cockpit Crew	Cabin Crew	Cockpit Crew	Cabin Crew	Cockpit Crew	Cabin Crew	Cockpit	Cabin
Karachi	550	1394	4410	2500	Sheraton	Mehran	29106000	41820000
Lahore	587	1551	5000	4200	Park Plaza	Hospitality Inn	35220000	78170400
Islamabad	525	2111	5500	3500	PC	Shalimar	34650000	88662000
Peshawar	165	1045	3000	3000	Shelton Greens	Shelton Greens	5940000	37620000
Sialkot	27	908	4000	4000	Defence Hotel	Defence Hotel	1296000	43584000
Sub-Total	1854	7009					106212000	289856400
Bed Tax (7.5%)							7965900	21739230
GST (16%)							16993920	46377024
Total							131171820	357972654

Amount for Two Years

262343640 715945308

Total for Two Years

978288948

Evaluation According to PIA Evaluation Criteria (Ammended)

(All Amounts in Pak Rupee)

Stations	Approximate number of Rooms		Quoted Rates on which		Name of Hotel to which Contract		Total One year	
	Cockpit Crew	Cabin Crew	Cockpit Crew	Cabin Crew	Cockpit Crew	Cabin Crew	Cockpit	Cabin
Karachi	550	1394	5000	5000	PC	PC	33000000	83640000
Lahore	587	1551	5500	5500	PC	PC	38742000	102366000
Islamabad	525	2111	5500	5500	PC	PC	34650000	139326000
Peshawar	165	1045	5500	5500	PC	PC	10890000	68970000
Sialkot	27	908	4900	4900	Hotel One	Hotel One	1587600	53390400
Sub-Total	1854	7009	26400	26400			118869600	447692400
Bed Tax (7.5%)							8915220	33576930
GST (16%)							19019136	71630784
Total							146803956	552900114

Amount for Two Years

293607912 1,105,800,228

Total for Two Years

1,399,408,140

(All Amounts in Pak Rupee)

Total for Two Years (I28-I14)	1399408140 - 978288948	421119192
Negotiated Discount by Hashoo Group	(53Million *2)	106000000
Estimated Loss to Exchequer		315119192