



12<sup>th</sup> May 2010

Khadimud, Akhtar, Lashari,  
Federal Secretary,  
Ministry of Health,  
Government of Pakistan,  
Block C, Pak Secretariat,  
Islamabad

Fax 051-9205481

Sub: Violation of Public Procurement Rules 2004 by PIMS, MOH  
Tender for Procurement of Angiography Machine

Dear Sir,

Transparency International Pakistan has received a copy of the complaint from M/s MEDEQUIPS (Pvt.) Ltd. against PIMS for serious violation of Public Procurement Rules 2004 in procurement of Angiography Machine.

According to the PPRA Rules & Regulations, PIMS has to conduct inquiry through the Grievance Committee which PIM was supposed to inform PPRA in June 2009. The report of the Committee then will be sent to Secretary MOH, for final action on the findings.

The real complaint is quoted below, which may be examined.

*"An Angiography system consists of an Angiography machine plus a large number of accessories like Injector, UPS, Radiation Protection devices, Ceiling Suspended Light, Additional computers and Haemodynamic Monitor and a few such items. All these items are accessories and not manufactured by the manufacturer of Angiography machine in most cases. For example, in a car the Battery or Tyres are not manufactured by the manufacturer of the car. This is a standard international practice. PIMS decided to accept that items like Injector, UPS, Radiation Protection devices, Ceiling Suspended Light etc. will be supplied from vendors other than the manufacturer of Angiography machine however one such item namely Haemodynamic Monitor must be supplied by the manufacturer of Angiography machine. The question is why this exception? This exception is made simply because the favored manufacturer Siemens happen to make this monitor itself. It is clear from this argument that when PIMS could not find any real technical drawback in Toshiba system as Toshiba system is clearly better than all other systems, it found this frivolous item to throw Toshiba out of competition. This allows the manipulators to finish competition and pay twice the market price for the machine they want to buy. We take this opportunity to bring your kind attention to a similar tender with similar specifications wherein PLC Lahore was offered two Angiography systems by Siemens in rupees 9 crore whereas PIMS intends to pay rupees 9 crore for only one".*

TIP quote Rule No 32 which is alleged by the complainant to be violated by PIMS, by discriminating between GE and Toshiba.



## Exchequer may suffer Rs40 billion loss

By Zahoor Mahmood Siddiqui  
Thursday, 06 May, 2010

LAHORE: For the first time, the Railways Ministry is set to finalise a deal for the procurement of 150 locomotives within three months or so by putting on the back burner all rules of the Public Procurement Regulatory Authority (PPRA), norms of International Competitive Bidding (ICB) besides the fact that the transaction may cause a loss of at least Rs40 billion to the national exchequer.

An American company in February this year offered to supply 150 locomotives at the price that was 235 per cent more than the latest purchases made by Pakistan Railways from a Chinese firm in December last year, a senior officer of the Railways Ministry told Dawn on Wednesday.

The Railways Ministry on May 2 invited bids for procurement of 150 locomotives and the specifications given in the tender documents made it clear the whole process had been one-company specific, said the officer who sought anonymity.

Furthermore, only 35 days were given for bid submission, while the cost of tender documents was increased by 100 per cent, compared to the last tender for locomotives' procurement.

Quoting documents, the officer said that General Electric of the USA submitted an offer on Feb 12 for supply of 150 locomotives for freight on board (FOB) price of \$3,325 million for 3000HP locomotive per piece and \$2,975 million for 2000HP per piece. All locomotives - 75 of 3000HP and 75 of 2000HP capacity - would be Completely Built Units i.e. no local assembling or manufacturing at Pakistan Railways Locomotive Factory at Risalpur.

The transaction would be around \$475 million, more than Rs40 billion, and the Railways Ministry has finalised a commercial loan agreement of \$438 million with EXIM Bank of the US.

Only five months ago, the Pakistan Railways finalised a loan agreement for procurement of 75 locomotives of the same capacity from a Chinese firm through ICB with FOB unit prices of \$1,410,115 million for 3000HP and \$1,361,814 million for 2000HP locomotives - showing that American locomotives would be costlier by 235 per cent and 228 per cent than the latest purchase rate made in December 2009 from the Chinese firm.

"Ironically, this exorbitant and unsolicited single offer was eagerly taken up by both the Railways Ministry and the Board of Investment (BOI), though there was not a single dollar of investment - the whole offer was based on a loan from the EXIM Bank. The MOU signed by General Electric Company with BOI has no relevance to a project that has no investment," said the officer.

Quoting minutes of the Railways Board Executive Committee meeting of March 2, the officer said an all-out effort was made to bypass the Planning Commission and procure these 150 locomotives directly from General Electric without any proper PC-I and confining the International Competitive Bidding (ICB) only to the US bidder.

The concluding paragraph of the minutes reads: "An urgent case may be processed to acquire the locomotives on replacement basis, as that will not require the preparation of PC-I. The Ministry of Finance should be requested to arrange finance on a loan basis for the replacement of up to 320 Broad Gauge locomotives..." and "It was decided to consider the offer of M/s General Electric in consultation with the Ministry of Finance."

But the Finance Ministry observed last month: "The rate of interest indicated at non-OECD compliant financing would mean the commercial market rate. We may negotiate with EXIM Bank for OECD consensus rate which is based on CIRR and is fixed on the date of signing of the loans agreement."

The Finance Ministry warned the railway authorities that the rate of exposure fee indicated at 8.2 per cent had been higher. "The Railways may negotiate with the EXIM Bank for exposure fee at the rate of 7 per cent as was agreed upon B777 aircraft loan agreement by PIA," advised the Finance Ministry, directing that Railways should give their comments regarding prices of the equipment being offered by the General Electric and whether ICB was conducted on the bid offers from various companies.

In order to comply with the Finance Ministry, the Railways Ministry on May 2 invited bids for procurement of 150 locomotives from the D.E. Locomotive Manufacturers in the US only to be financed through Export Credit Loan.

"The (railways) ministry high-up instructed the Railways Procurement Directorate that the tender specifications should be framed in a manner that only one company i.e. General Electric USA could succeed. General Electric is the only locomotive manufacturer currently working in the US as others like ALCO or General Motors have closed down their units," the officer said.

The bid submission date was fixed at June 7, 2010, only 35 days given while the cost of the tender documents was increased to Rs500,000. The cost of the last tender for similar locomotives was only Rs5,000.

"This is in gross violation of the Public Procurement Rules-2004 of the Public Procurement Regulatory Authority (PPRA), especially Rule No. 4, 10, 20, 23(5), 24, 32, relating to ensuring transparency, wide competition, not restricting specifications to favour any particular bidder, providing bidding documents at a price not more than the printing cost of the same.

In order to expedite the deal, another extraordinary meeting was held on April 13 which was presided over by the Railways Minister Ghulam Ahmad Bilour and attended by the chairman of BOI and the Railways Board chairman.

"The meeting decided that Ministry of Railways will enquire from the US Embassy in Pakistan till April 25 if there is any need to issue tender notice in the USA press to invite international competitive bidding; a quick round of negotiation will be started by Ministry of Railways with General Electric by April 26 to proceed further with G.E. proposal; a request would be made by Ministry of Railways to Economic Affairs Division of the Finance Ministry by April 25 for raising the entire cost of 150 locomotives or if that was not possible the amount of \$100-150 million representing the 15 per cent balance cost from the Kerry Lugar Bill of POCOP funding with request for a response to Ministry of Railways by April 30, 2010 (d) Ministry of Railways will submit a summary immediately to the ECC for seeking exemption from taxes and duties.

"The Railway high-ups misgaided the BOI that financing was only available from US Export-Import (EXIM) Bank that will only provide credit to American manufacturers. The fact is that in case Railways is to invite truly International Competitive Bidding, many non-American financial institutions and EXIM Banks from other countries will step forward to promote their domestic companies as well, with far better prices of locomotives and better credit terms.

"At present, the technical staff at the Railways headquarters in Lahore has been busy in making new tender technical specifications which are tailored to exclusively suit the locomotives made by General Electric," the officer said.