



17<sup>th</sup> November 2012

Mr. Ayub Qazi,  
Principal Secretary to the Prime Minister,  
Prime Minister House,  
Islamabad.

**Subject: Allegation loss to Exchequer of Rs 7 Billion in award of Contract by WAPDA of 2 TMB for Neelum-Jhelum Project and increase in the project cost from Rs15.23 billion to Rs 274.8 billion ( 1800%) in ten years.**

Dear Sir,

Transparency International Pakistan refers to the complaint sent to the Prime Minister on 5<sup>th</sup> November 2012 regarding allegation of corruption and loss to Exchequer of Rs 7 Billion in award of Contract by WAPDA of 2 TMB for Neelum-Jhelum Project. Since two weeks, government has not taken any action against this one case of mega corruption, which is only tip of the iceberg of Corruption alleged in Neelum-Jhelum Project.

The Prime Minister attention is drawn to the following facts being reported in news media regarding this project;

1. That the irregularity surfaced after the Ministry of Water and Power submitted a revised draft of the project's PC-1, approved on December 12, 1989, at a total cost of Rs15.23 billion, revised on February 28, 2002 to Rs 84.5 billion, to Rs274.8 billion in 2012.
2. That the contract had been awarded on December 19, 2007 to a joint venture of Chinese firms China Gezhouba Group of Companies (CGGC) and the China Machinery Engineering Company (CMEC), at a cost of Rs90.94 billion – in contravention to the approved Rs84.5 billion cost for the project.
3. That due to the delays, the cost of the project has ballooned from Rs84.5 billion to a staggering Rs274.8 billion. **The hefty costs associated with the project may result in an exorbitant power generation cost of over Rs10 per unit, against the existing hydroelectric generation cost of 16 paise per unit.**
4. That the burden of the costs arising out of delays and inefficiency is also expected to be transferred to consumers, as the government has decided to arrange 40% of the required funds through a levy on consumed energy imposed by the Government of Pakistan. At present, consumers are paying 10 paise per unit surcharge, which amounts to Rs6 billion per year.
5. That international consultant never recommended the use of the tunnel boring machines for the Neelum Jhelum hydropower project at any stage.
6. That the Chinese company has refused to operate the high tech tunnel boring machines (TBM) unless the insurance cover of \$ 15 million is arranged by WAPDA, as they have refused to accept the responsibility of performance of the TBMs .
7. That no insurance company is ready to Insurance the 2 TBMs as these were not procured in accordance with PPRA Rules.
8. That due to the corruption and incompetency of WAPDA cost of project has now increased by four times from Rs.84.0 billion (as per first PC-I) to Rs.321.0 billion in 2012.
9. That WAPDA in connivance with M/s NESPAK who are official consultants of the Project, ( WAPDA Chairman is a Director of NESPAK) , awarded the negotiated contract to M/S Herrenknecht Germany at a cost of US\$ 184 Million.



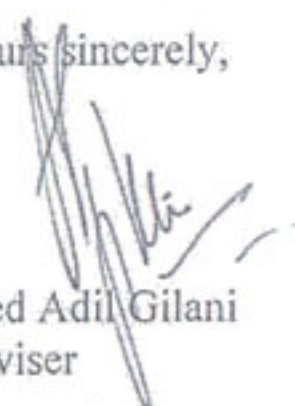


10. That the cost of the Boring Machines is not more than US \$110 million, and US \$74 millions have been taken as kickback.

As has been reported in the press that the mega corruption occurred in the Neelum Jehlam Project is going to cost nation power generation at over Rs10 per unit, against the existing hydroelectric generation cost of 16 paisa per unit, TI-Pakistan therefore requests the Prime Minister to order immediate inquiry on the alleged illegal purchase of 2 TBMs causing alleged loss of Rs 7 billion in one procurement only. And also to fix the responsibility and accountability of those who are found guilty, which has caused increase of the project cost from Rs15.23 billion in December 2002 to Rs274.8 billion in 2012, i.e. eighteen times (1800%). The devaluation of rupee since 2012 is only 62%, as US \$ in 2002 was Rs 59/\$, and in 2012 it is Rs 96/\$.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

Yours sincerely,

  
Syed Adil Gilani  
Adviser

Copies forward for the information of and necessary action under the Law:

1. Chairman, Public Accounts Committee, Islamabad.
2. Chairman, NAB, Islamabad.
3. Secretary, Water & Power, Islamabad.
4. Registrar, Supreme Court of Pakistan, Islamabad.
5. Chairman, WAPDA, Islamabad.
6. M.D., PPRA, Islamabad.