NEWS ROUND UP

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Indecision over power purchase leaves bidders in limbo

Government indecision on supplementary power purchases to meet the projected shortfall in electricity supply during the upcoming dry season has left bidders in the dark on the progress procurement.

The Ceylon Electricity Board has estimated a requirement to procure 170MW to ensure uninterrupted power supply during the coming dry months, as capacity in the hydroelectricity plants have dropped to an average of 45%, with water levels of Maussakele and Castlereagh reservoir dropping to less than 35, while Victoria Kotmale reservoir levels are at 45%.

Only Randenigala reservoir, which is reserved for agriculture irrigation activities, remain at 86%.

Both Independent Power Producers (IPP) and bidders for supplementary power producers have not been informed about a final decision by the Power, Energy, and Business Development Ministry on procurement.

The Ministry is yet to formally inform the three suppliers who bid for the supplementary power tender that the tender is to be cancelled, despite Power, Energy, and Business Development Minister Ravi Karunanayake announcing through media that the tender is to be cancelled, Daily FT learned.

“We have not been officially informed of any decision regard emergency power, we have only read what was in the media,” AlTaaqa Energy Services CEO James Shepherd, one of the three bidders who bid for supplementary power tender to provide 100MW of electricity, told Daily FT.

While appreciating the Ministry’s handling of the tender procedure, noting that early action taken allowed competitive bidding, Shepherd expected the Government to notify them of the decision soon.

“We expect them to inform us of the decision soon, as we will need time to set up the plants for generation. If the tender is going to be cancelled as reported, then we should have our bid bonds released as well,” he said.

Another bidder, who won the tender to supply electricity in two locations out of six tendered, expressed concern over not having enough time to set up for generation.

“If this happens, then the Ministry will have to purchase from an existing emergency power producer who already has plants here,” he said.

There is only one producer with such capacity in the country at present, Daily FT learnt.

The Minister claimed that the prices quoted were higher than expected, leading to the decision to cancel the tender. Karunanayake also spoke of plans to commission two IPPs, which already received the green-light for a three-year contract during the tenure of the previous Minister. The Cabinet last year gave approval for three already-retired IPPs to be commissioned for three more years to meet the shortfall in electricity supply. However, only the Ace Power Embilipitiya plant has been commissioned so far.

The CEB projection to purchase 170MW included 100MW of supplementary power and another 70MW from the two IPPs, Director of Development and media spokesman Sulakshana Jayawardena told Daily FT.

“There are two power plants which were retired, but got cabinet approval in 2018 for an extension for three years. We are negotiating to purchase 70MW from these power plants.”

“We have to negotiate with the Sapugaskanda and Matara IPPs again, as there was a lot of criticism against CEB commissioning those plants again. We have to negotiate on the capacity cost,” he said, but however acknowledged that a capacity cost will be charged if the plants have to undergo rehabilitation work to bring them up to running condition.

Karunanayake on an earlier occasion said that the Ministry will procure from the IPPs only if they are willing to match the unit price to the sales price of the Ace Power Embilipitiya plant, which was the lowest of the three IPPs. However, the IPPs have not been willing to negotiate the price down, Daily FT learnt.

The CEB is also planning to connect another 50 1MW generators set up by the CEB to the grid, to meet the shortfall in the absence of the supplementary power.

However, test runs need to be conducted on these generators, Jayawardena said.

“We will then be able to meet the demand, unless there is a breakdown in any of the large-scale plants,” Jayawardena said.
(Daily ft)

Mangala to keynote and head top panel at FT-Colombo Uni. MBAA Budget Forum on 6 March

Finance Minister Mangala Samaraweera will keynote the first public post-Budget Forum, organised by the Daily FT and the Colombo University MBA Alumni Association, on Wednesday 6 March from 9.30 a.m. to 12 noon at Kings Court, Cinnamon Lakeside.

The most sought-after post-Budget forum, held for the seventh consecutive year, is backed by Standard Chartered Bank as strategic partner.

The forum this year features the best mix of private sector leaders and professionals providing a comprehensive view point on the Budget, which many expect to be progressive, though 2019 is an election year.

Experts include: John Keells Holdings Chairman Krishan Balendra, speaking at a public forum for the first time since assuming duties as the head of Sri Lanka’s premier blue chip; former Central Bank Deputy Governor and popular Daily FT columnist W.A. Wijewardena; Chevron Lubricants Lanka PLC Managing Director and CEO Patrick McCloud who will share insights from a multinational corporate perspective; and National Chamber of Exporters first woman President Ramya Weerakoon, who will comment from an exporter and SME and women entrepreneur perspective. Technical partner PwC Director Tax Advisory Charmaine Tillekeratne will analyse the 2019 Budget’s fiscal and tax proposals among others, whilst Standard Chartered Bank CEO Bingumal Thewarathanthri will be another panellist providing key perspectives from a global bank with over a century of presence in Sri Lanka. (Daily ft)

Rohan Karr to lead Dhammika Perera’s leisure business

Veteran and successful hotelier Rohan Karr is leaving the Cinnamon brand he built and joining business leader Dhammika Perera to lead the latter’s leisure sector.

Rohan’s exit was announced yesterday and he will be joining the Board of diversified blue chip Hayleys Plc as an Executive Director as well as the Managing Director of leisure, hotels, travels and tours, from 1

June. He is expected to oversee the Hayleys aviation business as well later on. Hayleys Group's flagship leisure brand is Amaya and has the city five star The Kingsbury.

Rohan is the Sector Head of the Cinnamon City Hotels sector of John Keells Holdings and General Manager, Cinnamon Grand, and overlooked the management of Cinnamon Grand, Cinnamon Lakeside and Cinnamon Red, and heads the Brand Development team for the Cinnamon brand.

A career hotelier counting over 30 years both in the local and international hospitality industry, he has held the position of General Manager in several hotels in the United Kingdom, his last position being the Marriott Marble Arch, London. He is also a Director of Trans Asia Hotels PLC.

He read for his Masters in Hospitality and Business Studies from the Thames Valley University, London. (Daily ft)

Higher exports for job growth

An uptick in exports can lead to higher wages, draw workers into the formal sector and improve inclusivity, according to a new report, which calls on governments to focus on skills empowerment and competitiveness. The new report, "Exports to Jobs: Boosting the Gains from Trade in South Asia", shows that increasing exports would boost average wages. The report, jointly produced by the World Bank and the International Labour Organisation (ILO), breaks new ground in examining the impact of exports on local labour markets in South Asia.

The report says South Asian countries stand to make greater gains from greater export orientation, as it allows labour to seep into the formal sector, where they are likely to get better salaries and social protection, as well as focus on sectors that make them more competitive to boost economic growth. This shift would be more important for a country such as Sri Lanka that has an aging population, which would necessitate higher levels of skills than other lower middle income countries.

"As in other South Asian countries, Sri Lanka's labour market is characterised by the high degree of informality, 60% to be specific. The important challenge is therefore to facilitate transition from informal to formal employment, and to raise the quality of jobs. Promoting a more inclusive growth path, such as including more women in the workforce and encouraging a reduction in the wage gap, is also important. Sri Lanka's workforce should have access to high level skills training to give them access to good jobs," said ILO Country Director Simrin Singh.

She also pointed out that Sri Lanka's high youth unemployment of about 21% is a significant anomaly, given that the national average is just 4.1% and the global youth unemployment rate is about 13%. Sri Lanka has seen some structural changes in the economy, with the largest employment being in the services sector. But to continue this expansion and add better jobs in the future, policies that allow the labour market to grow into higher value products and diversify are essential for Sri Lanka.

"What kind of benefits could more globalisation bring for a country like Sri Lanka? Understanding the impact of globalisation on labour markets continue to be an important issue for Sri Lanka and especially important to ensure the right policies are in place to ensure everyone benefits," Singh added.

"Our research shows that exports can improve the performance of local labour markets, and that policies need to be put in place to increase exports in South Asia, while ensuring that the benefits of higher exports are shared more broadly," said one of the report's authors, World Bank Lead Economist Gladys Lopez-Acevedo. "Addressing constraints that prevent people from moving and from switching to new jobs is important."

The report provides options on how to expand and widely share the benefits of higher exports. Improving workers' skills, getting women and youth into more jobs, and addressing distortions that make labour mobility costly are some of the recommended policy actions.

Sri Lanka grew at an average rate of 5.8% between 2010 and 2017, and the number of people living in poverty also fell. However, many Sri Lankans still don't have regular jobs in the formal economy and there are large differences in wages across regions and worker characteristics. Sri Lanka's exports have fallen from a high of 39% of Gross Domestic Product (GDP) in 2000 to only 21.4% of GDP in 2016, with export growth limited to a few industries such as textiles, apparel and agriculture. (Daily ft)

Govt. asks IMF for 1-year loan extension, relax tight spending targets

Sri Lanka has asked the International Monetary Fund (IMF) to extend a $1.5 billion loan by another year and relax its tight spending targets ahead of key elections, two Government sources close to the negotiations told Reuters on Tuesday.

The loan is crucial for Sri Lanka, which plans to sell up to $3 billion of bonds as early as next week and needs the IMF program to continue to ensure more attractive borrowing terms.

The global lender delayed discussions on the sixth tranche of a three-year loan in November after a political crisis that has led to a slump in economic growth on the island.

At the time, the IMF said it had suspended the program until it had more clarity on the political situation, after President Maithripala Sirisena abruptly sacked his Prime Minister in a move that was later ruled unconstitutional.

The Government has requested the IMF push back its deficit target of 3.5% of gross domestic product (GDP) agreed under the loan program to 2021 from 2020, a senior Government official familiar with the discussions told Reuters.

"The discussions were focused on budget deficit and expenditure numbers," the source said. "We will not deviate from the fiscal consolidation path. But expenditure cannot be drastically curtailed this year, given it is an election year. We hope there could be a compromise."

A second official said Colombo had told the lender that an IMF-backed revenue act, which was a condition for granting the loan, also needs amendments.

Officials from the IMF were not immediately available for comment. The talks will end on Thursday.

The IMF has disbursed over $1 billion of the $1.5 billion loan agreed in 2016. It was designed to avert a financial crisis and support the economic reform agenda of President Maithripala Sirisena's coalition government.

Sri Lanka is due to hold a Presidential Election this year and parliamentary polls in 2020.

Junior Finance Minister Eran Wickramaratne told Reuters that the Government will move ahead with a plan to sell sovereign bonds after the IMF discussions conclude.

Sri Lanka is struggling to repay its foreign loans, with a record $5.9 billion due this year, including $2.6 billion in the first three months. It used its reserves to repay a $1 billion sovereign bond loan in January.

The South Asian island nation failed to finalise financing it had planned in the first quarter, including a $300 million loan from Bank of China and a $400 million swap from Reserve Bank of India.

Sirisena's abrupt change of Prime Minister and decision to dissolve Parliament created panic and uncertainty among investors, who dumped Sri Lankan Government bonds and other assets, sending the rupee currency to record lows.

The move was later ruled unconstitutional and Ranil Wickremesinghe was reinstated as Prime Minister after 51 days. .(Daily ft)

Bourse, rupee ease ahead of Budget, IMF talks' outcome

Sri Lankan shares and the rupee closed weaker on Tuesday, with investors waiting for directions from next week's Budget and the outcome of talks between Government authorities and the International Monetary Fund (IMF), market sources said. Sri Lanka has asked the IMF to extend a $1.5 billion loan by another year and relax its tight spending targets ahead of key elections, two Government sources close to the negotiations told Reuters on Tuesday.

The rupee ended at 179.80/90 per dollar, compared with Monday's close of 179.70/80.

The Colombo Stock Exchange index closed lower for a seventh straight session on Tuesday, shedding 0.07% to 5,822.27 - its lowest close since 25 October 2018.

The benchmark index dropped 1.2% last week, recording its third straight weekly fall. It declined about 1% in January.

Turnover was Rs. 261.96 million ($1.46 million), well below last year's daily average of Rs. 834 million.

Finance Minister Mangala Samaraweera will present the 2019 Budget on 5 March.

Traders and investors are waiting to see how the market would react to the Central Bank's surprise announcement on Friday of reducing commercial banks' statutory reserve ratio (SRR) by 100 basis points after the effective date 1 March, the sources said.

The Central Bank reduced the SRR to increase liquidity and spur credit growth as policymakers struggle to boost a faltering economic growth following a political crisis and a recent rate increase.

Foreign investors exited from Government securities for the first time in five weeks in the week ended 20 February, with net sales of Rs. 1.5 billion, the Central Bank's latest data showed.

The rupee has climbed 1.6% so far this year as exporters converted dollars and foreign investors purchased Government securities amid stabilising investor confidence after the country repaid a $1 billion sovereign bond in mid-January.

Worries over heavy debt repayment after the 51-day political crisis that resulted in a series of credit rating downgrades dented investor sentiment as the country struggled to repay its foreign loans.

The rupee dropped 16% in 2018, and was one of the worst-performing currencies in Asia due to heavy foreign outflows.(Daily ft)