



1. Project Data :
OEDID: L3980
Project ID: P003531
Project Name: Henan (Qinbei) Thermal Power
Country: China
Sector: Thermal
L/C Number: Loan 3980-CHA
Partners involved :
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2. Project Objectives, Financing, Costs and Components :

The project, supported by a loan of US\$ 440 million, was approved in February 1996. The loan was signed in January 1997, declared effective in April 1997 and fully cancelled in December 1997 (at the Government's request) due to misprocurement of a major component.

Objectives: (i) reduce acute power shortages in Henan Province; (ii) support power sector restructuring; (iii) support technology transfer; (iv) improve efficiency of electricity use; and (v) rationalize power tariffs. These objectives were fully relevant and consistent with the CAS.

Components: (i) construction of Qinbei coal-fired power plant (2X600MW) and associated transmission lines; (ii) electricity conservation program, incl. loss reduction and industrial energy conservation pilots; and (iii) technical assistance, training and studies in the area of project engineering and supervision, system operation, corporate restructuring, tariffs and financial management.

Estimated Cost: US\$1.2 billion (excl. IDC)

3. Achievement of Relevant Objectives :

Due to loan cancellation, project is not rated. Cancellation resulted from Chinese Government's refusal to abide by Bank's recommendation to disqualify lowest bidder (domestic and publicly-owned Harbin Power Engineering) for boiler island contract, on grounds of misprocurement and non-responsiveness to technical postqualification criteria. The ICR does not indicate whether the Qinbei plant is likely to be completed under alternative arrangements.

4. Significant Achievements :

Notwithstanding cancellation of the Bank loan, progress has been made on the reform front, with the corporatization of EPH (the provincial power utility), the signing by EPH of several joint-venture agreements and improvements in the tariff structure, supported in part by the Canadian Trust Fund.

5. Significant Shortcomings :

Loan cancelled. Probably precludes any further Bank involvement in Henan Province in spite of promising start on institutional and policy fronts

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Not Rated	Not Rated	
Institutional Dev.:	Not Rated	Not Rated	
Sustainability:	Not Rated	Not Rated	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Deficient	Unsatisfactory	
Quality of ICR:		Satisfactory	

7. Lessons of Broad Applicability :

(i) Country knowledge of Bank procurement guidelines should be maintained at highest level at all times, particularly in periods of high Government officials turnover, through training, workshops etc .; (ii) Bank should encourage the use of independant external consultants during bidding process for large and /or controversial contracts (proved critical in this case); and (iii) Bank staff needs to keep apprised on a continuous basis of evolving technical capacity of domestic suppliers of major electric equipment . Also, Bank needs to revisit its position/practices on (i) lack of formal bidder prequalification; and (ii) state of project preparation necessary for loan approval, for future similar projects in China (see below).

8. Audit Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR :

Generally satisfactory . Provides a comprehensive account of the events and factors that led to the cancellation of the loan. However, given the relevance of this experience for future Bank -China relations, it could have elaborated further on several questions, in order to draw possible additional lessons, i .e. : (i) whether the recent occurrence of serious procurement problems is limited to the power sector or should be addressed as a generic country issue; (ii) whether the Bank should insist on formal bidder prequalification in future similar projects; and (iii) whether it should insist on procurement of large components to be more advanced by the time of Board presentation . It could also have indicated whether the project (or part of it) is still going to be implemented, and under what type of contracting and financing arrangements .