

FOREIGN-FUNDED WATER SUPPLY PROJECTS

LUOYANG MUNICIPAL GOVERNMENT

Our country's economic reforms and open-door policy have eased the construction of basic municipal facilities, promoted the municipal economy, and speeded up the use of foreign funds and importation of advanced equipment and technology. In the last several years, Luoyang has efficiently used foreign government loans, remedied the lack of funds for construction, and improved its water supply.

GENERAL SITUATION

The historical city of Luoyang lies in western Henan province, on the south shore of the middle reaches of the Huang River. Its urban area is 544 km²; its population, 1.3 million. Its main industries are machinery, electronics, petrochemicals, metallurgy, construction materials, foodstuff, and light textiles. It is the home of many entrepreneurial groups such as the company that set up the country's first truck factory. Its Xiaolangdi project and large chemical fiber project are evidence that its economy is healthy. Its gross domestic product was Y36.17 billion in 1998.



Luoyang, however, suffers a shortage of water. It has tapped underground water for decades. As the city expands in size and its economy advances, its water supply is stretched to the limit. In summer, its shortfall is 65,000 m³/day. In order to meet its water needs during the ninth five-year plan, the city used a Belgium Government loan of \$8 million to import advanced water production equipment. It invested Y430 million in water diversion and a water supply project. Its water supply capacity was 240,000 m³/day in 1995. With the completion of the first stage of the project, water capacity was increased by 120,000 m³/day. After completion of the second stage, capacity will be 900,000 m³/day (including the Jili and Dongjiao water plants). The city will thus meet its residents' water requirements before 2010.

UTILIZATION OF FOREIGN FUNDS

The Need For Clear Guidelines

Lack of funds has long been a major constraint on economic development generally, and on water supply construction specifically. Increasing international cooperation, however, makes it possible to remedy the lack by using foreign funds. However, proper guidelines are needed to define policy direction and to motivate project holders to use foreign funds effectively. The city's goal is to import advanced equipment and technology and to modernize water plants.

Selecting Donors

Although many foreign loans are available, their conditions vary. The following are points to consider when selecting a donor:

- The repayment period should be compatible with the construction cycle and the project holder's ability to pay.
- Interest rates should be reasonable.
- The currency should be resistant to foreign exchange risk.

- The donor's technology should contribute value-added to the project.
- The stipulated percentage of inputs that can be purchased from a third country should be sufficient to meet the project's requirements.

The concerned policymaking department should submit to the Foreign Trade Department's planning committee the tentative list of donor countries it has selected. Only when both agencies agree can foreign funds be used. Since donor countries also have a strong say in the selection of the countries and projects they support, agencies should develop a list of possible fallback donors in case funding from a specific donor does not materialize. In doing so, the agency can ensure that the project will be funded and completed on time.

Inspection of and Research on Equipment

Importing advanced technology is important. But imported technology must be compatible with local conditions. It should be inspected and researched well, preferably by seeing it in action in actual water supply projects. The project holder should canvass prices in different countries in order to lay the foundation for negotiation.

Maintaining Full Control of the Use of Foreign Funds

The process of utilizing foreign funds is complex, so the project sponsor should eliminate any interference in, and fully control, the use of foreign funds from beginning to end. As the formulation and operation of the contract will involve a foreign partner, the project holder must select a foreign company that is earnest, conscientious, and experienced, and that charges a reasonable fee as external representative.

The project holder must then draw up detailed specifications of the technology needed and ask for bids from foreign companies. It must require a written guarantee of the equipment and check

the contract word for word, to ensure that it is lawful, easy to execute, and not injurious to the project holder's interests.

Finally, the project sponsor must insist on selecting the foreign company that will shoulder the responsibility and risks of the foreign loans. The project sponsor must ensure that through inspection and negotiation it will grasp the details of each foreign company's objectives and pronouncements. It must resist foreign pressure in the selection, which must be based only on the company's actual ability, level of technology, price, and after-sales service.

IMPORTANT POINTS IN NEGOTIATION

- The negotiation team should be well organized and disciplined. It should possess the proper perspective, superior technical knowledge, decision-making ability, and foreign-language fluency. Strict discipline in negotiation forbids the following: (i) unauthorized examination of the foreign company's price lists, to which only certain people may have access; (ii) meeting with representatives of the foreign company alone, as three or more people must be present during all talks with them; (iii) taking independent action; and (iv) allowing unconcerned parties to attend the negotiation meetings, to avoid leakage of information.
- The bidding rules should be public, fair, strictly followed, and mutually beneficial. Imported equipment should be supplied by 3-4 companies. Too many companies will dissipate the project holder's energy and increase its work load; too few will not foster healthy competition. The project holder must treat all bidders equally and turn down all gifts from them. It should think not only of its own benefit, but also of the foreign company's.
- The negotiation team should work out a detailed strategy and be flexible in applying its tactics. It should define its target and methods at each stage of the negotiation. It should have a good grasp of the situation, including the foreign company's intentions, qualifications, credit condition, level

of technology, management ability, and marketing capabilities. Only then will the team be in a position of strength. The team should act with restraint and avoid rushing headlong, unprepared, into action.

By keeping the above points in mind, the Luoyang authorities have managed to import more equipment and technology at terms to their advantage, and to increase and improve the water supply.

OTHER MEANS OF ENSURING HIGH-QUALITY WATER SUPPLY

While using foreign funds, the authorities should also raise funds locally through the following ways:

- Impose fees on the development and use of water resources, and earmark the funds raised only for water resource development.
- Augment funds for water supply development by imposing fees on city construction, among other fees.
- Apply for funding from the Government. Report the project's progress to concerned central and provincial departments so that the project can qualify for a construction loan. This is particularly timely as the Government's policy is to "increase internal demand, advance the economy." In 1998, for example, the Government increased its budget for basic facility construction. In the same year, Luoyang applied for and received Y350 million in the form of a special fund for basic facility construction.

page 92, blank