

Experiences on Use of Procurement Agents in China's Foreign Financed Railways Projects

Good afternoon, distinguished guests, ladies and gentlemen,

It's my honour to be invited by Asian Development Bank to represent Foreign Capital and Technical Import Center, Ministry of Railway, to attend the Regional Conference on Use of Procurement Agents in Public Procurement. I will speak on experiences on Use of Procurement Agents in China's Foreign Financed Railways Projects.

The railway sector is one of the earliest sectors to use foreign financing in China. Since 1979, the Ministry of Railways has utilized foreign loans in railway construction, as well as the import of equipment and technology. We have used funds mainly from: international financial organizations such as the Overseas Economic Cooperation Fund of Japan, the World Bank, the Asian Development Bank, and the Nordic Investment Bank, as well as foreign government loans such as the Export-Import Bank of the United States, and from governments of the UK, Germany, France, Canada, Spain, Austria, Norway, and Australia. As of now, the accumulated loan amount from international financial organizations and foreign governments is up to over 10 billion USD. The Ministry of Railways utilized these funds to finance a number of national key projects. While importing advanced equipment, we have strived to promote technology exchanging and introduce advanced experiences from other countries. Such that we are not only importing advanced equipment, but also placed great emphasis on introducing technologies and concepts.

In the process of procurement using the above-mentioned 10 billion USD, procurement agents played a very important role. I will now share with you, in four aspects, experiences on procurement agent's participation.

I. Review on utilization of foreign funds in Chinese Railway

Since 1979, the major areas in Chinese Railways that used foreign funds are:

- Newly built railway lines (including new construction and modification of electrification systems, freight carriage lines for coal, and high speed passenger dedicated lines.) Such as: freight line for coal between Datong and Qinhuangdao, and passenger dedicated line from Zhengzhou to Xian at 350 km/h have used loans from Japan's OECF and ADB, respectively.
- Import of equipment: Electrification systems, communication and signal equipment, computers, dispatch command systems, environmental equipment, rescue equipment, container transportation and yard equipment, locomotive manufacturing and processing equipment, construction machinery, education, medicine, and exploration and design equipment.
- Civil works projects: the Yichang to Wanzhou railway, with the most complex and difficult hydrogeology in the world, used 500 million in loans from ADB.
- Technical Assistance projects: We have used grants and loans in more than 40 studies in areas involving policy reform, energy savings, emergency rescue, training, and innovation.

The utilization of these funds has played an active role in quickening railway development, promoting railway reform, enhancing railway technical level, and improving transportation management.

1. Strategy of using foreign funds is consistent with railway development strategy

In the early stages of reform and opening in China, the country was in dire need of resources; foreign funds became a timely way to meet the need for funds, and paved the way for future railway development.

Between the seventh and ninth Five Year Plan, the Chinese economy took off rapidly, however, the railway capacity could not meet the high demands, and the utilization of foreign funds effectively relieved the

bottleneck railway capacity posed to economic development. The infrastructure 23 railways, including yanshi line, daqin line, jingjiu line, and xikang line were financed by foreign funds, where as high as 8.2% of the total funds were foreign loans.

Since the tenth five year plan, foreign funds have played an important role in the construction of passenger dedicated lines such as Zhengzhou-Xian, Wenzhou-Fuzhou, Shijiazhuang-Taiyuan, Hefei-Wuhan, Xiamen-Shenzhen, and railway lines in the Midwest region such as Taiyuan-Zhongwei-Yinchuan, Yichang-Wanzhou, Lanzhou-Chongqing, Chongqing-Lichuan, Kunming-Nanning, as well as the import of advanced equipment and technology, such as electrification equipment rescue equipment and permanent-way equipment.

2. The procurement content has moved from raw material to high tech equipment and soft power

Looking back at over 30 years of using foreign funds in the history of the Chinese railway industry, it is evident that, in the beginning of reforms and opening where funds were scarce, most foreign loans were used in the procurement commodities such as steel, wood, and concrete.

Between the ninth and tenth Five Year Plan, the use of foreign loans has gradually moved towards procuring equipment such as communication, signal, and electrification systems on existing and new railways.

Since the eleventh Five Year Plan, the passenger dedicated lines, high speed railways, rescue equipment, and permanent-way equipment have been the main items procured using foreign loans. At the same time, with the help from foreign technical assistance projects, the Ministry of Railways has organized over 40 studies, covering areas including transportation management, financial management, institutional reform, emergency rescue and environmental protection.

3. Improvements in managing foreign funds utilization

Over the past 30 years, as China's reform and opening step forward, the

utilization of foreign funds in the Chinese railway sector has gradually moved away from purchase of materials and equipment, onto import of technology, promotion of the domestic manufacturing capability, and to independent innovation.

Especially in the past ten years, as the amount and scope of foreign funds increased, and as advanced international technology and project management experience combines with the reality in Chinese railway, traditional development concepts were able to evolve, resulting project management standards that are commensurate to international standards, assisted a number of manufacturers that have internationally advanced technologies, and mentored a number of management and technology staff that are familiar with international rules and conventions. These advances in technology and concepts have played a crucial role in promoting the development of Chinese railway industry.

II. Advantage of procurement agent's participation

Procurement agents participate in each foreign-fund sourced project managed by Foreign Capital and Technical Import Center, Ministry of Railways. They are committed to providing services during project implementation, and playing the significant role of “protecting State interests, public benefits and legal rights and interests of participants involved in bid invitation and bidding activities, enhancing economic efficiency and ensuring project quality”, which is described in Law of the People's Republic of China on Bid Invitation and Bidding.

1. Participation of procurement agent guarantees the eligibility of bid invitation and bidding activities

As a professional entity, procurement agent will give full play to the role of intermediary, ensuring the bid invitation and bidding activities in accordance with provisions of relevant laws and regulations, to maximum extent avoiding the bid invitation and bidding process against laws and regulations, maintaining legitimate rights and interests of each party, and securing the eligibility of bid invitation and bidding process and results.

2. Participation of procurement agent contributes to formalize the bid invitation and bidding activities

Compared with domestic funded projects, it is more complicated for foreign financed railway projects to abide by not only domestic relevant laws and regulations but also the guidelines of foreign loan providers. After completing domestic reviewing procedures, it still needs to be approved by foreign loan providers. There are mutual causation relations between two steps. The bidding procedures must be in accordance with relevant laws and regulations, otherwise the project could not be normally implemented. In a word, the bidding and procurement of foreign financed railway projects follow the formal and legal procedures, and require strict management of the process. It is necessary for professional procurement agent to participate in the whole process, and assist the purchaser make use of the loan more efficiently and strictly.

3. Participation of procurement agent could maintain the fairness and competitiveness of bid invitation and bidding activities

The procurement agent does not have affiliated relationship with purchaser and bidders, so during the preparation of bidding document, bid opening, evaluation and contract negotiation of project, the procurement agent treats all bidders without discrimination, and makes no exception to any bidder. The successful bidder shall be recommended in the principle of "fairness, openness, justice and selecting best". In addition, the procurement agent can give guides to bidders, instructing the bidders to orderly participate in market competition.

4. Participation of procurement agent could improve the work quality of bid invitation and bidding

The procurement agent of foreign financed railway projects has the talents of international trades, foreign languages, laws, financial affairs, engineering and consultation, who are familiar with relevant laws and regulations of Ministry of Railways and State, and the guidelines of foreign loan providers. The procurement agent is equipped with sound internal quality management system, and has rich operating experience of

foreign financed railway projects. It is familiar with market status of relevant railway products, and keeps long-term and good relationship with domestic ministries and foreign loan providers. In addition, the procurement agent can prepare the bidding document, bid evaluation report and commercial contract with high quality.

While staffs of Railways take their advantage of professional knowledge and abilities on railway, staffs of procurement agents have more knowledge on law, foreign trade and market information. Both parties supplement each other and lay a sound foundation for raising the quality of bid invitation and bidding.

5. Participation of procurement agent could provide comprehensive extended services.

For the long-term cooperation, the procurement agent keeps good and close relationship with Ministry of Railways, and the business covers all aspects of foreign financed railway projects. The procurement agent participates in the whole process of project implementation from project initiation to final acceptance of project, involved in site appraisal and justification, preparation of bidding document, bid opening, evaluation, signing contract, import, tax-exemption, tax-deduction, commodity inspection, reviewing payment documents, contract equipment delivery and claim procedures. In addition, the procurement agent also participates in the project auditing, preparation of quarterly report and project completion report. The procurement agent undertakes a lot of work and provides comprehensive extended services to guarantee the smooth implementation of project.

III. Close cooperation between procurement agent and Ministry of Railways

At present, a number of procurement agents are engaged by Ministry of Railways for dealing with procurement matters in foreign financed railway projects. Among them, CMC International Tendering Corporation, China International Tendering Company and Sinochem International Tendering Corporation are most influential. The common distinguished

features of these agents are the following: Grade A Certificate in international Tendering, with many years' experiences in foreign financed railway projects, being subsidiaries of enterprises under direct administration by State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Based on strict enterprise management standard and conscientious employees, these procurement agents carry out the work of tendering and procurement smoothly; meet the requirement of Ministry of Railways.

I'll take ADB loan rescue and restoration equipment project as an example. With global leading technology, the equipment integrates the electromechanical and hydraulic systems, forms a very complex mechanical structure. Since the equipment has never been procured in China, the procurement agent, CMC International Tendering Corporation (hereinafter referred to as CITC) has to input lots of energy into the project. At the very beginning, they assisted Ministry of Railways to apply loan utilization scheme from related Ministries and commissions.

During the stage of compiling bidding documents, CITC not only compiled a perfect commercial section, which meets the requirement of full competition and actual needs of Ministry of Railways, achieves the aim of promoting domestic manufactural ability and technology import, but also provides many valuable suggestions to make the technical section comply with laws and regulations.

At the stage of contract negotiation, CITC assists Ministry of Railways to confirm every technical and commercial article with successful bidder, to assure the zero defect of the contract and secure the smooth execution of the contract.

During the implementation of the contract, CITC constructs a coordinating scheme with Ministry of Railways, compiles a manual named Operation and Management Approach on Contract Implementation When Purchasing Material and Equipment Using Foreign Funds to instruct the implementation.

During the supervision stage of equipment manufacturing, CITC

provides all-round services; including interpretation, manufacturing supervision, and urging the supplier perform the contract seriously.

In general, CITC shows its outstanding value in this project.

IV. Several experiences

1. The procurement agent shall be selected through bidding

The quality of the project implementation of foreign loan project depends on the qualification and ability of the staff of the procurement agent. For all foreign loan projects in railways, procurement agents are selected through bidding. First of all, we prepare the bidding documents according to the relevant regulations of Ministry of Finance, incorporating the characters of each project. Then we invite procurement agents to bid, who submit their proposals within a certain period of time as requested. After receiving the proposals, Ministry of Railways set up an evaluation committee to evaluate all the bids, by comprehensively reviewing the factors such as: previous experiences of projects that have been finished, performance of the project team and service charge standard etc. After careful review, a procurement agent will be awarded according to its final score. At last, the result of the selection will be reported to Ministry of Finance for a record.

2. The selection of the procurement agent shall be made in consideration of the characters of the project

Railway projects cover a wide range, with various procurement components for each project, involving many technical fields and special subjects of sciences. Therefore, during selecting procedure for procurement agent, we pay much attention to the capacity and structure of the project team to be set up by the procurement agent as well as the qualification of each member of the project team such as foreign language level, working capacity, work experience and project experience. Details are a key to success. All these points are our crucial concerns.

3. The procurement agent shall be selected by taking the working load and the stability of the staff of the procurement agent into account

Since the amount of foreign loan for railway project is very large, project period (normally 3-5 years) being long, we will, during selection procedure, investigate the implementation status of projects that the procurement agent has been entrusted by other clients in other fields. Thus, the shortage of staff or the conflict due to the over-loaded workload can be avoided. We will not choose those companies who are in shortage of personnel, having been entrusted for many projects under implementation, with project period being relatively concentrated, even though the capacity is very strong.

In addition, due to the differences of the technical aspects, we assign different project managers for different railway projects. Therefore, in order to ensure the quality, efficiency and the linking-up of the work, we will require the procurement agent to fix at least 3 personnel of the project team during project period. These persons cannot be transferred without prior approval by us. Proved by practices, this turns out to be of good effect, by stabilizing the project team as well as improving the completeness of project implementation.

Hope you can get some benefits from these experiences.

Thank you very much!