

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

Summary Assessment Sheet

COUNTRY	China	PROJECT	SHANGHAI WAIGAOQIAO
REGION	EAP	SECTOR	Energy and Mining
TASK TEAM LEADER	Noureddine Berrah	MANAGER	Junhui Wu
COUNTRY DIRECTOR	David R. Dollar		
LN/CR AMOUNT (\$MIL)	400	LN/CR NUMBER	41970
PROJECT ID	P044485	TTL HQ-BASED	Yes
DATE APPROVED	06/24/1997	DATE EFFECTIVE	02/04/1999
PERSON(s) INTERVIEWED	Noureddine Berrah; Weigong Cao; Ivy Cheng; Bernard Baratz		
SECTORAL COVERAGE:	Power (100%)	LICUS (Yes/No)	No
NON DEDICATED MULTI-SECTORS (Yes/No)	No	PREVIOUS QAG ASSESSMENT(s)	QSA2
SPVN BUDGET \$000 (incl. TF)	FY05	FY06	
WPA	65	65	
ACTUAL	69	55	
AT RISK STATUS	<u>END FY04</u>	<u>END FY05</u>	<u>END FY06</u>
ISR:	Low-Risk	Low-Risk	Low-Risk
PANEL:	Low-Risk	Low-Risk	Low-Risk
EA CATEGORY	A		

FIRST STAGE REVIEW:

PANEL MEMBER(S)

Magdalena V. Manzo; Frederick
Swartzendruber

OBSERVER

none

MODERATOR

Eugene D. McCarthy

SPECIALIZED REVIEWERS:

1. Poverty and Social
3. FM

Maria Concepcion J. Cruz
M. Mozammal Hoque

2. Environment
4. Procurement

Colin P. Rees
Henri A. Aka

OVERALL RATING

1

ASSESSMENT DATE

08/04/2006

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

COUNTRY: China

PROJECT TITLE:

SHANGHAI WAIGAOQIAO

A. Overall assessment

1. The quality of supervision of the Shanghai Waigaoqiao Thermal Power Project was judged to be Highly Satisfactory (1) overall and provided an example of very good supervision practice. Two supervision dimensions, Focus on Development Effectiveness and Supervision Inputs and Processes, were also judged to be Highly Satisfactory (1) while Fiduciary Safeguards and Candor and Quality of ISR were judged Satisfactory (2). This assessment takes into account comments received from the region.
2. The quality of supervision throughout this final period of project implementation i.e. the 7th and 8th years since Board approval, was pragmatic, well-focused and solutions-oriented. Almost all the main development objectives have now been achieved—namely, the commissioning of two large, coal-fired thermal plants—despite an extensive delay at start up; the adoption of the "bubble concept" approach to controlling atmospheric pollution for the first time in the developing world, despite initial skepticism by the company and some local authorities; a reform program for the power company that went beyond that envisaged at appraisal; and the successful mobilization of financing for the power sector from international markets.
3. Especially noteworthy were the quality and effectiveness of Borrower relations, in a country (and municipal power utility) that was no longer in need of Bank financing, and attributable to having an experienced, professional and stable task team in all the needed disciplines. Also noteworthy were the high quality of the environmental and social safeguards supervision and the attention given to project management, for what was a complex investment that tended to be understated in the supervision documentation. The only minor shortcomings noted were some inconsistencies in the reporting on performance indicators and disbursement data in the ISRs.

B. Main problems encountered *(when did they occur, and what were the main factors giving rise to them)*

4. Although not very problematic, the main concerns during the supervision period were:
 - (i) The power plant was under trial operation and full commissioning during the period. Teething problems were encountered during the test period particularly with respect to instrumentation and control.
 - (ii) As part of the power sector reform, the implementing utility, SMEPC, was 'unbundled'. Accordingly, SMEPC's financial and physical assets and accounts associated with the Bank-financed generation facility needed to be transferred to a newly-established generation company, WPGC.

- (iii) SMEPC had not been in compliance with the rate of return financial covenant. With the transfer of project assets and liabilities to WPGC, a suitably modified covenant for the new generation company, WPGC, needed to be agreed upon.

C. Appropriateness and adequacy of actions taken by the Bank to resolve existing or potential problems

- 5.
 - (i) The Bank supervision team was proactive in monitoring the progress of plant commissioning and kept close tab of the remedial actions taken by suppliers/contractors to address problems. The power plant was successfully commissioned and early operating performance met design expectations.
 - (ii) The Bank advised SMEPC on asset transfer arrangements, and through intensive follow-up, ensured that the requisite amendments to the Loan and Project Agreements were completed.
 - (iii) The team paid close attention to the financial aspects of the Project and reviewed the appropriateness of the financial covenants in the light of sector unbundling, prevailing accounting practices, and liquidity of the grid utility and the new generation company. A revised set of financial covenants was agreed in a timely fashion with WPGC and duly incorporated in the amendments to the Project Agreement.

D. Any Systemic Lessons

- 6. Several positive, systemic lessons for Bank supervision more generally emerge from this review. First, the project benefitted from an experienced supervision team that knew the power sector in China very well. Second, continuity in Bank staff (and consultants) working on a project is important in ensuring good supervision. The supervision team was also cohesive; all the members had a deep institutional knowledge of the power sector in China and have been working as a team on other projects. The supervision results demonstrate the team's high professionalism and the good rapport and working relationship established with their project counterparts.

E. Suggestions to the Task Team *(List two or three factors that will require particular attention in the supervision strategy over the short/medium term to improve the prospects for achieving the project's development objectives and long-term sustainability).*

- 7. The Panel did not find any shortcomings in the supervision strategy. On the contrary, the Panel thinks the supervision reports understated the successes made under the Project. We suggest that the coming ICR also report on advances made in various areas, e.g., deepening the dialogue on electricity pricing, attracting innovative financing by having international private commercial banks participate in the absence of a Government guarantee, high quality of project management in the light of the relatively new technology involved--China's first two 900-1000 MW coal-fired, supercritical thermal units--and despite exogenous conditions i.e., a moratorium on the construction of large new thermal power plants, that impeded early project start-up.

Rejoinder from the Region

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

COUNTRY: **China**

PROJECT TITLE: **SHANGHAI WAIGAOQIAO**

Major Issues Identified

Recommendation for Panel Skills

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Development Objectives (Part A to be completed by the Task Team and Part B by the Review Panel)

A. List the primary Development Objectives outlined in the project's document. The Task Team is requested to indicate the importance of the DOs as: **H** = High or **M** = Moderate or **N/A** = Not Applicable.

Development Objectives

i. Poverty Reduction

NA

Outcome:

Interim Benchmark: However, the Bank approached pricing issues in a pragmatic way and supported the government efforts to reduce prices in rural areas and reduce impacts on poor households.

ii. Structural and Sector Policy Reform

H

Outcome: Separation of generation from T&D and progress towards establishment of a competitive market and listing of generation companies.

Interim Benchmark: The structural and sector policy reform did not change in substance but was adapted to meet the national reform program promulgated by the government in 2002 (with Bank assistance) focusing on separation of generation from T&D (creation of five national generation companies that inherited the assets of the former State Power Corporation, some of them previously operated by SMEPC) and focus on regional competitive markets rather than provincial markets. Shanghai is part of the East China competitive market which is now functioning and operated by the East China Grid Corporation.

Some of the generation assets of SMEPC were transferred to already listed generation companies and some divested (or ring fenced) and partially listed on the Shanghai stock market.

A generation company was created to operate the power plant built under the project.

iii. Private Sector Development

M

Outcome: Increased power sector involvement and access of SMEPC to funding through export credit and loans at acceptable terms without guarantee.

Interim Benchmark: While the institutional environment improved significantly, private investment did not increase as expected because of reduced involvement of private sector in the power sector on a global scale for reasons beyond the outcome of this project. However, Shanghai is one of China's regions with sizable private sector involvement. Diversification of financing fully achieved.

iv. Institutional Development/Capacity Building

M

Outcome: Development of modern management and financial systems and preparation of the restructured SMEPC to operate in a restructured power sector in the region.

Interim Benchmark: SMEPC developed with the assistance of international consultants an ERP system which goes beyond the objectives sought during preparation. The training program helped both SMEPC and the newly created generation company to improve the skills of their staff.

v. **Human Development**

NA

Outcome:

Interim Benchmark:

vi. **Environmental Sustainability**

H

Outcome:

Interim Benchmark: The “bubble concept” has been implemented successfully. The use of lower sulfur coal and the addition of two FGDs to an existing more polluting plant (with lower cost!) more than offset the emissions of the units built under the project.

The successful demonstration has not however changed the way the State Environment Protection Agency regulates reduction of sulfur dioxide emissions.

vii. **Infrastructure Development**

H

Outcome:

Interim Benchmark: The commissioning of the two units was a little bit delayed because of late government approval of the commencement of the project. The units are now functioning satisfactorily and meeting all performance indicators. They were valuable in mitigating the negative impact of the power shortages that plagued the East China region during the last three years.

viii. **Macroeconomic Management**

NA

Outcome:

Interim Benchmark:

ix. **Other (specify)**

NA

Outcome:

Interim Benchmark:

Comments (Please explain any material changes in DOs since project start):

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B. Likelihood of the operation achieving the DO¹ (Use a scale of: 1 = Highly Likely, 2 = Likely, 3 = Moderately Likely, 4 = Moderately Unlikely, 5= Unlikely, 6 = Highly Unlikely, or NA = Not Applicable).

i. Poverty Reduction	<u>NA</u>
ii. Structural and Sector Policy Reform	<u>1</u>
iii. Private Sector Development	<u>2</u>
iv. Institutional Development/Capacity Building	<u>2</u>
v. Human Development	<u>NA</u>
vi. Environmental Sustainability	<u>2</u>
vii. Infrastructure Development	<u>1</u>
viii. Macroeconomic Management	<u>NA</u>
ix. Other (specify)	<u>NA</u>

Comments: (Panelists are requested to identify the factors that affect the rating of likelihood of meeting the DO, comment on whether the key indicators identified by the task team provide direct measures of the expected outcomes, and indicate whether the stated DOs are consistent with the CAS and the legal agreement.)

In addition to alleviating power shortages, the successful commissioning of two large supercritical coal-fired thermal units served as a platform to demonstrate, among others, the client's capacity to manage large-scale power infrastructure projects, the sector's financial credibility to attract competitive commercial financing, the viability of the sector reforms and diversification of ownership structure, and upgrading of the social and environmental conditions.

C. Sustainability: Panel's judgment of the likelihood that the operation's results will be sustainable in the longer- term (Panelists should choose one of the following categories: 1 = Highly Likely, 2 = Likely, 3 = Moderately Likely, 4 = Moderately Unlikely, 5 = Unlikely, 6 = Highly Unlikely, or NA = Not Applicable). 1

Comments: Almost all the priority development objectives are an operating reality: the supercritical thermal plants are in operation, SO2 emissions have been reduced, the project successfully was able to access commercial financing without a government guarantee, and there has been solid progress in capacity building. In addition, there is strong interest in replicating this technology in China, with as many as 12 plants reportedly in planning stages. With the phasing-out of smaller thermal generating plants on environmental grounds, this technology should play an important role in meeting growing demand for electricity at lower environmental cost—a substantial achievement.

¹ Either as originally stated, or as revised if there has been Board-approved restructuring for exogenous reasons.

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Summary Assessment Sheet

Assessment Rating
1 = Highly Satisfactory
2 = Satisfactory
3 = Moderately Satisfactory
4 = Moderately Unsatisfactory
5 = Unsatisfactory
6 = Highly Unsatisfactory
NA = Not Applicable

1. Focus on Development Effectiveness	<u>1</u>
2. Supervision of Fiduciary/Safeguard Aspects	<u>2</u>
3. Adequacy of Supervision Inputs and Processes	<u>1</u>
4. Candor and Quality of ISR	<u>2</u>
OVERALL ASSESSMENT	<u>1</u>

The overall assessment is *not* an average of the assessments of the constituent elements of supervision. Instead, the panel should use its judgment in weighing the relative importance of each given the country and the project context. In making the assessment, the panel should consider the importance of each category, and within each category, the various questions, to supervision quality.

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

Context:

A. Quality at Entry

(a) Assessment of project design at entry

1

Comments:

(b) Quality of PAD's results framework (including intermediate performance indicators) and readiness of implementation arrangements for M&E

2

i) Extent to which the planned outcomes and key indicators in the results framework are precise and relevant to the activities undertaken by the project. 2

ii) Extent to which the planned outcomes in the results framework are linked with the outcomes/objectives in the CAS. 2

iii) Extent to which there are adequate arrangements linking project results framework to the borrower's monitoring and evaluation system. 2

iv) Quality of baseline data 2

Comments: (Please indicate whether actions were taken or should have been taken to improve the results framework. Please assess the quality of the baseline data to support performance or results monitoring, especially Tier II indicators for IDA countries.)

This project was prepared in 1997 under the old SAR format which didn't require a Logframe or results framework. Nevertheless, the monitoring framework does a good job of tracking the most important intermediate outcomes and linking these with the PDO's.

(c) Borrower commitment to the Project

1

Comments: The Borrower has shown strong commitment, both at national and municipal levels. Meeting power demand is clearly a high priority for policy-makers.

(d) Readiness of implementation at approval 2

Comments: For reasons beyond the scope of the project, a three year moratorium on new thermal power plants caused serious delays, but most of this was later regained due to vigorous implementation efforts and strong management.

(e) Overall implementation performance prior to FY05 2

Comments: As noted in (d) above, the Borrower made impressive progress in overcoming the initial launch delays, as well as resolving the inevitable technical "teething problems" associated with the very sophisticated supercritical boilers and turbine units. Progress was somewhat slower on the institutional and policy front, though some progress was also being made here.

(f) Extent to which the problems encountered during implementation have been identified at entry 2

Comments: (Please evaluate the quality of the risk assessments and mitigation measures.)

The initial moratorium on the construction of new thermal plants—which resulted in a 3-year delay at start up—probably could not have been anticipated.

(g) Extent to which the panel agrees with previous QAG assessment(s). 1

Comments: There was full concurrence with the earlier supervision assessment undertaken in 1999. The Overall rating of '1' was identical and there was only a marginal difference in rating of one of the supervision dimensions.

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

Context:

B. Compliance with safeguard policies

Please mark below the applicability of and compliance with safeguard policies: *(Yes, if applicable and fully complied with)*

<i>Policy</i>	<i>Applicability</i>	<i>Compliance (Prior to FY05)</i>
i. Environmental Assessment (OP 4.01)	Yes	Yes
ii. Natural Habitats (OP 4.04)	No	NA
iii. Forestry (OP 4.36)	No	NA
iv. Pest Management (OP 4.09)	No	NA
v. Cultural Property (OPN 11.03)	No	NA
vi. Indigenous Peoples (OP 4.10)	No	NA
vii. Involuntary Resettlement (OP 4.12)	Yes	Yes
viii. Safety of Dams (OP 4.37)	No	NA
ix. Projects on International Waterways (OP 7.50)	No	NA
x. Projects in Disputed Areas (OP 7.60)	No	NA

Comments:

C. In light of answers to questions under A and B, what should have been the supervision strategy/focus during FY05-06?

Comments: Urgent attention was needed to address implementation delays, as well as the legal amendments needed to provide for the asset transfer for the new companies, and to address a rate-of-return covenant which did not recognize the realities of the power sector's accounting rules. All of these were done by the task team during the period under review.

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2 = Satisfactory
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4 = Moderately Unsatisfactory
5 = Unsatisfactory
6 = Highly Unsatisfactory
NA = Not Applicable

1. Focus on Development Effectiveness	<u>1</u>
1.1 Identification and Assessment of Problems	<u>1</u>
a) Timely identification and assessment of implementation problems?	<u>1</u>
b) Timely identification and assessment of possible threats to DO?	<u>1</u>
<i>Comments: (please identify the implementation problems and threats to DO.)</i>	
The task team closely followed a wide range of technical issues related to testing and commissioning of generating equipment, policy and institutional issues related to unbundling of the utility, tariff reforms, sourcing and pricing of coal, delays in implementing agreed air quality monitoring procedures, and national accounting procedures for depreciation which tend to distort the true financial performance of the utility.	
1.2 Focus on Sustainability (extent to which the supervision mission paid attention to this aspect)	<u>1</u>
a) Borrower and Stakeholder Ownership	<u>1</u>
b) Technical Assistance, Training and Capacity Building	<u>2</u>
c) Evidence that project supervision showed:	
i) appropriate approach to building state institutions (capacity and accountability)	<u>2</u>
ii) effectiveness of multi-donor approaches	<u>NA</u>

Comments: Borrower commitment to the project was judged to be very strong throughout the period under review- and the project as a whole. This was a key factor in the successful implementation of a large and complex investment. Commitment was also judged to be strong for the environmental, cofinancing, and restructuring objectives.

1.3 Actions Taken and Follow-Up 1

- a) Appropriateness of Advice and Proposed Solutions to the Borrower 2
- b) Appropriateness and Speed of Bank follow-up action 1
- c) Impact and effectiveness of Bank actions 1
- d) Quality and timeliness of Mid-Term-Review (if it took place during FY05-06)? NA
- e) Quality and timeliness of Restructuring Plan (if it took place during FY05-06)? NA
- f) Extent to which the project team implemented previous QAG recommendations 1

Comments: (Please discuss the effectiveness of project restructuring, if applicable, as a supervision tool.)

The task team was proactive in preparing an amendment to cover the asset transfer, and in persuading Bank Management that the original financial rate of return covenant -which had become obsolete with the the restructuring of SMEPC-should be removed from the loan agreement. The team was also effective in persuading the Borrower of the importance of carrying out the air quality monitoring program provided in the EMP. The earlier QAG recommendations were closely followed by the supervision team which has given priority to implementation of the coal-fired thermal units and to sector reform measures.

1.4 Performance Monitoring 2

- a) Extent to which the task team made use of the PDO and intermediate outcome indicators to assess the project’s implementation? 2
- b) Extent to which the indicators (both quantitative and qualitative) have been used to identify and address potential obstacles to the achievement of the DO (attention to outcomes)? 2

Comments: Performance monitoring uses the (well-selected) indicators to illustrate the project's performance in a satisfactory way, particularly with respect to power plant performance. Indicators on sector reforms, pricing and financial performance were less consistently tracked in the supervision reports, but developments were nevertheless monitored through broader Bank policy dialogue.

1.5 Effective use of the CPPR or other venues for portfolio review with the borrower to resolve problems affecting the project, 1

including cross-sectoral issues (e.g. governance, transparency)?

Comments: Though CPPR did not play a major role, the task team held regular coordination meetings with the CMU which were very helpful in raising some policy issues to country management level and in turn, with the Ministry of Finance. Some policy issues which could not really be addressed at the municipal level were then addressed through this broader policy dialogue as well as through the sub-regional East China Power Grid project.

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- 2. Supervision of Fiduciary/Safeguard Aspects** 2
- 2.1 Procurement** *e.g., In the context of the project's procurement risk profile: appropriate level and adequacy of procurement inputs; timeliness of advice and follow-up; adequacy of support to borrower.* 2
- Comments:** Project seemed to have been well prepared. All the preparative procurement activities under the project took place prior to the period under review and there were no procurement issues during this supervision period.
- 2.2 Financial Management** *e.g., In the context of the project's FM risk profile: appropriate level and adequacy of FM inputs; timeliness of advice and follow-up; adequacy of support to borrower.* 2
- Comments:** Bank missions have identified the main financial management issues and was diligent in following up on them. Although, during the last mission in March 2006, the Financial Management Specialist (FMS) was not part of the team, the Project Financial Analyst reviewed the financial management compliance issues, discussed with the FMS and reflected those in the aide memoire. The task team should endeavor to include the FMS in every supervision mission though the panel recognizes, as the task team pointed out, that this may not always be possible, given the the heavy work load of the FMS. The audit reports for the last three years were received in time and were unqualified.
- 2.3 Legal Aspects** *e.g., Legal compliance; clarity/timeliness of advice* 2
- Comments:** Satisfactory work was done on legal amendments needed to provide for the asset transfer as well as to remove the financial performance covenant, which could not realistically be met under China's existing depreciation practices in the sector.
- 2.4 Environmental Aspects** *e.g., Environmental impact, safeguard compliance* 1
- Comments:** The team adopted the "bubble concept' approach to controlling atmospheric pollution—a first in the developing world. They overcame initial skepticism by the company and some local authorities, using the Shanghai Mayor as a champion. Throughout the review period there is strong evidence that institutional arrangements were functioning and monitoring of air quality at the site level was rigorous and findings reported to the environment agency. The team had also developed a "green" approach to reducing pollutant loading across the energy sector in China.
- 2.5 Social Aspect** *e.g., Social impact, safeguard compliance* 1

Comments: Although the project did not have an explicit poverty reduction DO, and its focus was mainly to increase electricity supply, the TT is commended for including poverty and social impacts in three ways. First, given the high and growing demand for electricity in Shanghai and surrounding areas, which is already at close to full coverage, the TT effectively followed up measures to reduce the incremental costs to consumers that are attributed to environmental protection. Multiplier effects in the form of human health benefits from reduced pollution levels add to consumer satisfaction. Second, while ensuring financial viability of the commissioned power firms, the TT facilitated work in improving household energy-efficient consumption, which over the long-term resulted in lower electricity prices. Lastly, attention to impacts from siting and construction were sufficiently addressed in the RAP, including consultations with affected people. Follow up surveys were used to track progress in employment and livelihood options.

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3.	Adequacy of Supervision Inputs and Processes		<u>1</u>
3.1	Staffing		<u>1</u>
	a) Staff Continuity	<u>1</u>	
	b) Supervision Skill Mix (with special attention to fragile states and multi-sectoral projects)	<u>1</u>	
	c) Impact of decentralization on supervision quality	<u>2</u>	
	i) TTL or sector staff	<u>NA</u>	
	ii) Procurement	<u>2</u>	
	iii) Financial Management	<u>2</u>	
	<i>Comments:(please comment on impact of decentralization of sector and fiduciary staff on supervision quality and discuss adequacy of staff attention to various components of multi-sectoral operations.)</i>		
	<p>The panel was struck by the strong continuity and breadth of experience in this supervision team, which includes two recently-retired staff (now consulting) who participated in the preparation and appraisal in 1996-97. Supervision is based at HQ, with procurement and FMS inputs based in the field. Thematic assessments were used for safeguards work, combining several projects per mission to economize on the travel budget while ensuring continued attention to social and environmental aspects.</p>		
3.2	Supervision Activities		<u>1</u>
	a) If TTL is HQ-based, quality of mission preparation and effectiveness of time spent in the field	<u>1</u>	
	b) If TTL is field-based, quality of coordination with and support from HQ	<u>NA</u>	
	c) If there was joint supervision with co-financiers, quality of coordination and other supervision activities.	<u>NA</u>	
	d) Adequacy of overall supervision mix from HQ, in-country, and neighboring country.	<u>1</u>	
	e) Effectiveness of Budget Use (<i>including use of TFs</i>)	<u>1</u>	

Comments: The panel considered the HQ-based supervision of this large and technically challenging project to be exemplary with regard to the quality of preparation and effectiveness of time in the field. Supervision missions maintained a close eye on a wide range of complex issues without losing sight of the larger objective.

For such a large and challenging operation, the panel felt the supervision budget had been used very cost-effectively.

3.3 Quality of supervision documentation including aide-memoire & management letters and follow-up 1

Comments: Throughout the period under review, the aide-memoires provide excellent coverage of important issues and action items without becoming lost in details, and follow-up letters focus Borrower attention on critical issues needing high-level attention.

3.4 Effectiveness of Relationships 1

a) With the Borrower 1

b) With donors and other stakeholders 2

Comments: The task team appears to have been able to develop and maintain a very effective and results-oriented relationship with the project partners. This was no doubt considerably aided by the very strong Borrower commitment to the operation noted in part A(c) of this assessment. Certain policy issues i.e. (load dispatch practices) which could not effectively be addressed through this project were then "handed-off" to more appropriate channels (the East China Power Grid project), while the team worked with the municipality to pursue the project's larger environmental objective through a new opportunity (the "Green Electricity" initiative).

3.5 Management Inputs 1

a) Adequacy and speed of management attention and actions 1

Comments: Management was clearly supportive and responsive when a decision or policy dialogue was needed.

b) Adequacy of supervision budget

i) Overall budget
About Enough

Comments: (Please assess whether budgetary resources are appropriately distributed for multi-sectoral projects).

QUALITY OF SUPERVISION ASSESSMENT (QSA7)

4. Candor and Quality of ISR (FY05-06) 2

4.1 Extent to which ratings for DO and IP reflect actual conditions? 2

Comments: The panel felt that the rating for the large, sub-component on Power Plant procurement might have been upgraded to HS in light of the Borrower's very strong performance in making up lost time. While there is a small disbursement lag as compared with the revised forecast, due in part to cost underruns, disbursements stood at \$343 million in April 2006 and will reach an estimated \$375 million (compared with an original Loan amount of \$400 million) by Loan closing. In all other respects, the panel agreed with the ratings and risk assessment throughout the period under review.

4.2 Adequate explanation of DO and IP and of any change in ratings? 1

Comments: Ratings were very well justified and explained as were the few changes in ratings. Project reporting as a whole reflects both realism and candor, and provides a very good snapshot of project performance and issues at a given point in time.

4.3 Accuracy of ratings of project components and discretionary flags? 2

Comments: The panel noticed no inconsistencies in subratings.

4.4 Quality and timeliness of data (including the intermediate outcome indicators) to support the key performance indicators. 2

Comments: In part due to the nature of a power generation project, there is a solid project baseline and a clear methodology for tracking plant related performance over time. However, tracking of other indicators was not as consistently maintained (e.g., on electricity pricing, state's equity share, rate of return, training provided), but it was clear to the panel that it was being monitored through broader Bank policy dialogue.

4.5 ISR focus on issues and actions. 2

a) TTL Inputs 2

b) Management Comments 1

Comments: PSRs and ISRs were satisfactory, though the panel noted some inconsistencies in reporting on KPIs, disbursement forecasts, and project cost breakdowns. The transition from PSR to ISR, and the absence of a logframe in the SAR, may have

contributed in this regard.

The panel noted useful management comments in PSR/ISRs which reflected careful attention to aide-memoires.

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Risk Flags and DO/IP Status

COUNTRY

China

PROJECT ID

P044485

PROJECT TITLE

SHANGHAI WAIGAOQIAO

DO/IP/Risk Factor	FY04		FY05		FY06	
	PSR	Panel	ISR	Panel	ISR	Panel
DO/GO	S	S	S	S	S	S
IP	S	S	S	S	S	S
Project Components						
Procurement Power Plant	S	S	S	HS	S	HS
Trans. and Substations	S	S	S	S	S	S
FGD Facilities	S	S	S	S	S	S
Tax and Training Institutional	S	S	S	S	S	S
Discretionary Flags						
Financial Performance ¹	No	No	NA	NA	NA	NA
Counterpart Funds ²	NA	NA	No	No	No	No
Financial Management	No	No	No	No	No	No
Legal Covenants	No	Yes	Yes	Yes	No	No
Monitoring and Evaluation*	No	No	No	No	No	No
Project Management*	No	No	No	No	No	No
Procurement	No	No	No	No	No	No
Safeguards	No	No	No	No	No	No
Critical Risk ¹	No	No	NA	NA	NA	NA
Sub-Total	0	1	1	1	0	0

Exogenous Flags						
Disbursements Delays*	No	No	No	No	Yes	Yes
Effectiveness Delays*	No	No	No	No	No	No
Country Environment*	No	No	No	No	No	No
Country Record*	No	No	No	No	No	No
Long-term Risk ² *	NA	NA	No	No	No	No
Sub-Total	0	0	0	0	1	1
Total Flags	0	1	1	1	1	1
Golden Flag	No	No	No	No	No	No
Overall Risk Rating	Low-Risk	Low-Risk	Low-Risk	Low-Risk	Low-Risk	Low-Risk

Comments:

¹ Old flags that were dropped in Jan '05.

² New Flags introduced in Jan '05. "Counterpart Funds" was formerly "Financial Performance Flag" and "Long-term Risk" was formerly "Critical Risk Flag."

* Represents risk-flags applicable to Development Policy Lending operations as well.