

borrowings required for project completion. As illustrated in all cases (except Case A and Case B1.02) all foreign borrowings could be retired within the implementation period leaving only a debt service requirement to retire domestic borrowings and equity after Year 17. In contrast, the case studies for Gehe Yan indicate there would be significant levels of foreign and domestic borrowings outstanding in addition to the foreign equity retirement obligation accumulated upon project completion. Debt service requirements indicate the need for a significant increase in the basic tariff to make the project viable under these circumstances.

The foregoing suggests that the model for Three Gorges provides a more attractive basis for project financing. If Gehe Yan were to be considered as a component of a utility enterprise with an existing revenue and asset base, the outcome of the financial analysis might be significantly improved.

It may be observed that financing of both projects has been modelled at a cost of borrowing in line with current international commercial rates. As the projects appear financially viable at such rates, subject to assumptions regarding tariff adjustments which are not inconsistent with current schedules, the case for application of scarce concessional finance to major power sector developments might be questioned. This issue is raised here simply to note that, assuming a change in internal policies under which power rates will be raised to reflect the actual cost of services, a significant part of China's needs for new generating capacity might well be met without recourse to concessional finance.

China's consideration of the utility of adapting policies to facilitate foreign equity participation in the development of a few selected power projects must take into account a number of potential benefits which at this stage of examination have been identified but cannot be quantified. A major benefit could accrue through the demonstrative effect of applying modern management practices to project implementation. However, even if successful in delivering a project