MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION REPORT FOR THE FANGCHENG PORT PROJECT IN THE PEOPLE'S REPUBLIC OF CHINA (Loan 1427-PRC)

On 8 June 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds OED's Project Performance Evaluation Report (PPER) well prepared, with comprehensive analysis of the project and its implementation. The lessons learned provide valuable guidance for designing future loan projects in the PRC and elsewhere. Management response focuses on the overall assessment and the lessons learned.

A. Overall Assessment and Key Issues

2. We note that the PPER has addressed key achievements of the Project including (i) significant policy reform, with greater autonomy for port operators and enhanced commercialization and competition in the sector; (ii) advance commencement of the highway operations; (iii) significant increase of the port capacity; and (iv) an economic internal rate of return (EIRR) of 20% for overall project, compared with the Project Completion Report (PCR) figure of 17.9%. The PPER has mentioned that the contribution of the expressway to the expansion of the port's capacity and improvement of the port's efficiency is lesser than expected due to the large capacity of the highway relative to actual traffic and inappropriate traffic forecasts. Accordingly, the PPER has considered the overall project rating successful compared with the highly successful rating of the PCR due to the Project highway design issues.

3. The PPER has stressed that the Project is not unique in having incorrect traffic forecasts, as demonstrated by a number of recent PCRs for other projects in the PRC. The PPER also highlighted the problem of road safety.

4. Traffic forecast is a common issue for all ADB-financed projects, which commenced in the 1990s in the PRC. Regarding the Project highway, the main reason is that the highway is part of the National Trunk Highway System (NTHS), and the Government started its NTHS implementation in the 1990s, subject to the availability of funds. The implementation of the Project highway was advanced due to the availability of funds for the port, while all key provincial expressways of the NTHS were either under preparation or construction. And this, like other projects in the PRC, had significant impact on the full operation of the highway in 2002 and 2003. With the current completion of several expressways, which have linked the whole project area with the western region provinces and internationally, together with future completion of the existing projects, it is anticipated that the traffic volume of the highway will witness a significant increase. The PPER's 2004 figure of over 9,000 vehicles per day, which are using the Project highway of the small poor town of Fangcheng, is evidence of the traffic growth and validates the need for the appropriate highway capacity.

5. We believe the expressway design was appropriate. Designing of lower class Project highway would have great disadvantages at efficiency and safety levels. This is why the highway was designed with two-lane access to accommodate future demand, maintain consistency with NTHS standards of the NTHS, and ensure efficiency. This is also the most cost-effective approach as it is cheaper than building a new highway, or widening the Project highway, in future, to accommodate travel demand. Building a high-standard highway has significant impact on road safety improvement, and the number of accidents has gone down with the opening of the new expressway. Further, road safety is not as much a project-related issue as an issue that needs to be addressed with a holistic approach at the national level. ADB is providing TA support for the Government's efforts in this area, and is working closely with different executing agencies to adopt safety–conscious approach for road planning, design, and operation.

6. While we agree with the PPER observations, we believe that many of the issues raised in the PPER are not project-specific, but are larger issues that ADB is engaging through policy dialogue and TA interventions at the national level.

B. Lessons Learned and Follow-up Action

7. We agree with the lessons identified in the PPER. The mix of vehicle type is an important issue in forecasting traffic, and we have taken note of this issue in processing current projects. We also agree with the observation on the importance of baseline information and records that can be used for project reviews at a later date, and have taken action for ensuring this in our ongoing and future projects.

8. We also note the suggested follow up action on the toll rates. We wish to inform that a "Toll Diversion Model-Applications Manual" was developed through a technical assistance grant jointly with the Ministry of Communication in September 2000, and is currently being used for our operations. The issue of appropriate levels for tolls, and their effect on traffic diversion, will be discussed with Guangxi Communications Department in policy dialogue during the development of the proposed Guangxi Longlin-Baise expressway project, for which the PPTA was recently approved.

C. Conclusions

9. Management agrees with the report's conclusion that the relevance of the Project to development needs and to the Government and ADB strategies is good, and the outputs were generated and the Project achieved its intended outcomes. We also agree that the investment was economically efficient and the probability of sustainability is high. We also take note of the issue of inaccurate traffic demand estimation and the road safety, and wish to advise that actions have been and are still being taken to address these two issues in our current and future operations.