

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION REPORT
FOR THE ANHUI ENVIRONMENTAL IMPROVEMENT PROJECT FOR MUNICIPAL
WASTEWATER TREATMENT AND INDUSTRIAL POLLUTION ABATEMENT
IN THE PEOPLE'S REPUBLIC OF CHINA
(Loan 1490/1491-PRC)**

On 9 February 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management has reviewed the Project Performance Evaluation Report (PPER) and finds the overall project rating of successful consistent with the ratings in the respective project completion reports.
2. We appreciate the report's comments on the need for ADB to review how to support state-owned enterprise (SOEs) to achieve environmental improvement as well as sound financial and economic returns. It is important to note that the projects being reviewed were appraised in 1996 and implemented in 1997–2003. More recently, with the adoption of the Innovation and Efficiency Initiative (IEI), ADB's regional departments (RDs) are strengthening the skills in financial analysis to partner with ADB's Private Sector Operations Department (PSOD) for undertaking non-sovereign lending to SOEs. Consequently, the RDs should continue to prepare SOE projects, taking PSOD's support in risk analysis. It is also important to recognize that public sector lending provides a vehicle for ADB to undertake broad sector and environmental analysis and related policy dialogues, which are essential to provide the sector and policy context for successful support to SOEs.
3. We welcome the report's recommendation for ADB to adopt a more client-oriented and demand-driven approach to its financing of projects, particularly in the area of environmental improvement, through its private sector operations. Private sector enterprises should be encouraged to adopt environmentally friendly practices, including technological upgrade. Since a large number of industrial SOEs also continue to operate, it will be equally important that these upgrade the technologies to reduce emissions and improve energy efficiency. We will endeavor to bring together suitable in-house resources and use external consulting services to prepare robust proposals to help the People's Republic of China (PRC) address environmental issues in industry. Other recommendations made by the report will also be followed up through ADB's future operations.
4. Those lessons identified by the report are duly noted and will be considered in the preparation of future projects.