

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION  
REPORT FOR THE CHANGCHUN-HARBIN EXPRESSWAY PROJECT IN  
THE PEOPLE'S REPUBLIC OF CHINA (Loans 1641/1642-PRC)**

On 9 February 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

**A. Overall Assessment**

1. Management appreciates OED's thorough evaluation of Loans 1641/1642-PRC for the Changchun-Harbin Expressway Project in the People's Republic of China. Implementation of the project commenced in September 1999 and was completed in September 2002. The component in Heilongjiang Province (the Hashuang Expressway) was opened to traffic in September 2001 while the component in Jilin Province (the Changyu Expressway) opened a year later. It is noted that the Project Performance Evaluation Report (PPER) rates the overall project as highly successful and that the project is rated as highly relevant, highly effective, efficient, and highly likely to be sustainable. Individually, the Changyu Expressway component is rated as highly successful while the Hashuang Expressway component is rated successful.

**B. Issues, Lessons, and Follow-Up Actions**

2. The PPER confirms a number of lessons that were identified in the Project Completion Reports relating to the implementation of resettlement activities. These lessons are similar to those confirmed in the recent PPER for Loan 1638-PRC Chengdu-Nanchong Expressway and have been addressed in the Management Response to that PPER.

3. We note the observations made in the PPER about the implementation schedules adopted for this, and other, expressway projects in PRC. We believe experience shows that the implementation schedules for such expressway projects are generally appropriate, and consistent with the principles of economy and efficiency in the use of the proceeds of ADB loans. This is evidenced by the timely, or early, completion of most expressway projects in PRC, even when located in areas with harsh conditions or difficult terrain. The dispute over bidding issues and the associated concern about the timely implementation of the Changyu Expressway component, which resulted in the cancellation of part of the ADB loan, was primarily the result of Jilin Provincial Expressway Corporation's initial failure to follow agreed procurement procedures, although this was exacerbated by the short construction season available in the north-eastern provinces of PRC. While there is always some risk of this sort, we are confident that such risks can be minimized through careful planning, appropriate mitigating measures and continued training on procurement procedures for staff in executing agencies and procurement agencies.

4. The PPER questions the usefulness of including financial targets in loan agreements as such targets relate to ratios that evolve over time in response to various financial and operational factors. It suggests that this matter is too

complex to require adherence of Executing Agencies (EAs) to fixed ratios and for the monitoring of such by ADB. It also suggests that fixed ratios fail to take into account the dynamics of financial performance of a project during its economic life. The PPER proposes that, with respect to the working ratio, a better practice would be to state a minimum reduction to be achieved by a specified date. We believe that, in proposing this, the PPER overlooks the basic principals that underlie the setting of targets for financial ratios as part of performance monitoring. Common accounting practice is that when the financial performance of an entity is, or is expected to be, generally satisfactory but needs monitoring then a fixed ratio is an appropriate performance indicator, as this will help to ensure that financial performance does not fall below its target level and will be maintained at a steady level. The use of flexible ratios is more appropriate for entities whose financial performance is in need of continuing improvement. Given the financial projections for the EAs at the time of loan negotiations, we believe that the use of fixed ratios to monitor financial performance was appropriate and that setting flexible ratios would not have helped the two EAs as suggested in the PPER.

5. We fully support the recommendation for follow-up action with respect to truck overloading, namely that the operation of the weigh stations should be resumed and that legislation should be enforced more rigorously. We will advise Heilongjiang Hashuang Expressway Corporation, Jilin Provincial Expressway Corporation and the provincial security bureaus of this recommendation and will request that it be implemented by the end of 2007.