



# Validation Report

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Reference Number: PCV: MAL 2009-18  
Project Number: 26009  
Loan Number: 1500-MAL  
December 2009

## Malaysia: Klang River Basin Environmental Improvement and Flood Mitigation Project

Independent Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
DID	–	Department of Irrigation and Drainage
DOE	–	Department of Environment
EIRR	–	economic internal rate of return
IED	–	Independent Evaluation Department
IRBM	–	integrated river basin management
MASMA	–	<i>Manual Saliran Mesra Alam Malaysia</i> (Urban Stormwater Management Manual for Malaysia)
PELAWI II	–	Strategic Plan for Klang River Basin
PCR	–	project completion report
RRP	–	report and recommendation of the President

## NOTES

- (i) In this report, “\$” refers to US dollars.
- (ii) For an explanation of rating descriptions used in ADB evaluation reports, see: ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

## Key Words

adb, asian development bank, environmental improvement, flood mitigation, ied, independent evaluation department, integrated river basin management, klang, oed validation, project completion report, river sedimentation, soil erosion, solid waste, water pollution

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## PROJECT COMPLETION REPORT VALIDATION FORM

<b>A. Basic Project Data</b>		<b>PCR Validation Date:</b>	December 2009	
<b>Project and Loan Number:</b>	26009 1500-MAL		<b>Approved</b>	<b>Actual</b>
<b>Project Name:</b>	Klang River Basin Environmental Improvement and Flood Mitigation Project	<b>Total Project Costs (\$ M):</b>	101.80	44.19
<b>Country:</b>	Malaysia	<b>Loan/Grant (\$ M):</b>	26.30	8.38
<b>Sector:</b>	Agriculture and Natural Resources	<b>Total Cofinancing (\$ M):</b>	75.50	35.81
<b>ADB Financing (\$ M):</b>	<b>ADF:</b> 0.0 <b>OCR:</b> 26.3	<b>Borrower (\$ M):</b>	75.50	35.81
		<b>Beneficiaries (\$ M):</b>	0.00	0.00
<b>Cofinanciers:</b>	none	<b>Others (\$ M):</b>	0.00	0.00
<b>Approval Date:</b>	5 Dec1996	<b>Effectiveness Date:</b>	3 Feb 1998	3 Feb1998
<b>Signing Date:</b>	5 Nov 1997	<b>Closing Date:</b>	30 Sep 2003	7 Feb 2006
<b>Project Officers:</b>	<b>Name:</b> H. S. Ko B. Fawcett T. Miyazato M. N. Islam	<b>Location (HQ or RM):</b> HQ HQ HQ HQ	<b>From</b> 1994 1996 1998 2006	<b>To</b> 1996 1998 2006 2007
<b>Validator:</b>	M. A. Quassem, Consultant	<b>Director:</b>	R. B. Adhikari, IED1	
<b>Quality Control Reviewer/Peer Reviewer:</b>	W. Kolkma, Senior Evaluation Specialist, IED1			

ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, IED1 = Independent Evaluation Division 1, MAL = Malaysia, M = million, OCR = ordinary capital resources, PCR = project completion report, RM = resident mission.

### B. Project Description (Summarized from the Report and Recommendation of the President)

- (i) **Rationale.** Serious environmental degradation has occurred in the Klang River Basin's catchment areas and floodplains, hampering flood control. This degradation, including soil erosion, river sedimentation, proliferation of solid waste in the water, and water pollution—in conjunction with flooding and the lack of coordinated and integrated river basin management—inhibited quality of life improvements and was constraining sustainable economic development in the basin. The degradation was also worsening with the rapid changes in land use to meet the needs of population growth, urbanization, and industrialization. In the Seventh Malaysia Plan (1996–2000), the Government of Malaysia accorded high priority to the provision of adequate social and physical infrastructure to support private sector-led expansion of the economy. The Klang River Basin Environmental Improvement and Flood Mitigation Project<sup>1</sup> (the Project) was part of the Government's overall program for environmental improvement and flood mitigation in the basin, which encouraged significant private sector participation in flood mitigation in conjunction with commercial development schemes. The Project had to coordinate the overall program and emphasize integrated river basin management (IRBM), enhance the environment, and mitigate flooding. It was also to play a key role in integrating ongoing private and public sector programs for environmental improvement and flood mitigation in the basin, achieving a comprehensive and coordinated approach to the problems of soil erosion, solid waste disposal sedimentation, water pollution, and flooding.

<sup>1</sup> Asian Development Bank (ADB). 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Malaysia for the Klang River Basin Environmental Improvement and Flood Mitigation Project*. Manila.

- (ii) **Impact.** The Project was to introduce an integrated approach to (a) mitigate the environmental and flood problems of the Klang River Basin, and (b) foster the development and maintenance of a sound environment while meeting socioeconomic development objectives through comprehensive and coordinated management of river systems and their basins. The Project integrated three ongoing government projects—focused on cleaning up the Klang River, flood mitigation, and private sector initiatives—to provide a stronger focus on environmental improvement of the basin, minimize overlapping, and make development programs more cost effective while improving administrative efficiency (report and recommendation of the President [RRP], para. 57). The higher level of flood protection would improve the health and well being of residents in flood-prone areas and the rivers' aesthetic and recreational values. In tributary rivers, fish life would be increased by 20%, and by 2003, water pollution would be reduced by 50% (RRP, para. 58).
- (iii) **Objectives or expected outcomes.** The objectives were to (a) improve environmental conditions, including those that worsen flooding, through IRBM that addresses environmental and economic development needs; and (b) minimize the adverse economic, social, and environmental impacts of flooding in the basin (RRP, Loan and Project Summary).
- (iv) **Components and/or outputs.** The Project comprised (a) three components that directly addressed IRBM, solid waste management, and sediment trapping; and (b) two flood mitigation components that focused on tributary river corridor improvement and a flood forecasting and warning system (RRP, Loan and Project Summary).

#### C. Evaluation of Design and Implementation (Project Completion Report [PCR] Assessment and Validation)

- (i) **Relevance of design and formulation.** The PCR noted that the Project was *relevant* to the country strategy and program of the Asian Development Bank (ADB), which emphasized holistic management of environmental impacts and needs. It further noted that the Project was a continuation of ADB's support to the Government in the areas of flood protection and environmental improvement and was in line with one of the key strategies of the Third Outline Perspective Plan (2001–2010). The Independent Evaluation Department (IED)<sup>2</sup> agrees with the PCR's assessment.

IED appreciates that the PCR also recognized that the project design did not anticipate rapid population growth and urbanization in the watershed and that the flood control infrastructure identified during the feasibility study was inadequate.

- (ii) **Project outputs.** The PCR described the project outputs well in the main text and appendixes. However, Appendix 1 would have been more useful if it had reflected whether the assumptions and risks proved correct. Appendix 11 compared the project components as formulated in the 1996 RRP, as well as their progress at the time of the Midterm Review in 2001 and project completion in 2007. It would have given a more complete picture if the Targets/Comments column also indicated project components whose funding was absorbed by the Government. IED notes that the funding of many original project components was taken over by the Government due to changes in priority and urgency. However, ADB funds were used to revise the overall program for environmental improvement and flood mitigation in the basin. A new master plan for the Project was formulated in 2003, and the Government implemented the majority of the new civil works for flood control as recommended under this new plan.

<sup>2</sup> IED was called the Operations Evaluation Department until December 2008.

The PCR expressed its concern that the Project's environmental activities, solid waste management, sediment trapping, the flood forecasting and warning system, and increase in fish culture were not implemented as intended within the immediate context of the project, or were not implemented with ADB funds as intended. The project officer elaborated that the Government did not focus on the sediment trapping program due to technical problems (e.g., the sediment trapping areas would not have provided enough detention time to trap the fines and the Department of Irrigation and Drainage [DID] believing that the sediment traps could trap only 30% of sediments). IED notes from the PCR that implementation of this component was found to be not viable as the bulk of sediments were either retained at construction sites or carried out to the estuaries (para. 14). In addition, the Government transferred responsibility for controlling soil erosion to land developers. This proved successful in less hilly areas downstream from the city center, but less successful in upstream hilly areas (para. 38). IED notes that the Government funded 100% of the costs of solid waste management, sediment trapping, and the flood forecasting and warning system from its own budget (para. 11), but several other components were not implemented because the master plan deemed them not essential. IED confirms this upon contacting the former DID director general.

The Project demonstrated flexibility by not implementing the original components, in light of fast developments in the urban area, which reduced the need for solid waste collection from rivers (PCR, para. 13). Toward IRBM, however, the Project (i) adopted and implemented the Strategic Plan for Klang River Basin (PELAWI II), (ii) adopted environmental approaches, (iii) developed the Klang Valley Planning Council working committee for coordinating and overseeing land use planning in the basin, and (iv) established an IRBM committee. IED's communication with the then-DID director general confirmed that DID has adopted IRBM for its basin development programs, and that DID is to pursue this approach in all 169 river basins.

Additionally, a different wetland was developed from that selected at appraisal (the national wetland at Paya Indah) to serve the new townships of Putrajaya and Cyberjaya, which did not benefit the Klang River Basin (PCR, paras. 13 and 39). However, IED notes that the PCR acknowledged that "resettlement of the squatter families resulted in socioeconomic improvement to the lives of relocated people, better aesthetics in the river corridor areas, and general improvement in the quality of life for residents of the river corridor area" (para. 47), helping improve the environment.

IED feels that even if some of the ADB works were, in fact, financed by the Government instead of the loan, this helped achieve the project objectives. Nevertheless, one of the two more important outcomes—improvement of the river water quality—was not achieved.

(iii) **Project cost, disbursements, borrower contribution, and conformance to schedule.**

The PCR reported project costs in paras. 16–17, with further details being reflected in Appendixes 2, 3, and 4. The PCR did not reflect the costs of the components that were initially in the appraisal report, only those that the Government funded during implementation. IED summarizes important statistics from Appendixes 2 and 3 in the following table.

**Appraisal and Actual Contribution to the Project, ADB and the Government**

Item	ADB Contribution			Government of Malaysia Contribution		
	Appraisal (\$ '000)	Actual (\$ '000)	% of Appraisal	Appraisal (\$ '000)	Actual (\$ '000)	% of Appraisal
Total	26,337	8,375	31.8	75,543	35,813	47.4
Of which:						
Civil works	21,625	7,409	34.3	27,615	20,919	75.8
Equipment	3,261	9	0.3	703	4	0.6
Consultancy	1,253	857	68.4	8,039	2,918	36.3
Others	199	100	50.2	39,186	11,972	30.6

Source: ADB. 2007. *Project Completion Report on the Klang River Basin Environmental Improvement and Flood Mitigation Project in Malaysia*. Manila.

The table shows that less than one third of the entire loan was used. A little over one third of funds relegated toward civil works were used, and funds for equipment purchase were barely touched. The funds for consultancy services were mostly used. The project was completed with 81% of its expenditure financed by the Government, and 19% by the ADB loan. The low utilization was a result of a number of factors, including the devaluation of the ringgit, overestimation of the project cost, and deletion of some components or reduction in the scale of some, due in turn to the revision of the Klang River Flood Mitigation program and the implementation of additional flood mitigation projects. Because of project delays due to difficulties in conforming with ADB administrative procedures and changes in government priorities, the Government decided to fund from its own budget 35% of tertiary river corridor improvements and 100% of the costs of solid waste management, sediment trapping, and the flood forecasting and warning system (presumably through different projects). Spending was low on the IRBM subcomponent. Disbursements were slow due to (i) delayed recruitment of consultants for project implementation, (ii) delays in land acquisition and resettlement issues, and (iii) differences between ADB and government procurement guidelines. While the PCR reported the reasons for the low disbursement, it did not discuss opportunities to use more of the loan that could have resulted from a change in scope. ADB should have been more proactive in this respect. If expenditures resulting from the Government taking over some project components had been counted, then the Government's expenditure and the total project cost would have been larger than currently reflected in the cost estimate.

- (iv) **Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance.** The PCR described the implementation arrangements well. Paragraph 21 stated that the arrangements were not effective due to the lack of active involvement of other related agencies—the Department of Environment (DOE) and local governments—in project planning and implementation. Although the PCR posited that DOE should have been coordinating the Project, the RRP did not assign this role to DOE. IED further notes that the Project followed the RRP recommendations in relation to setting the implementation arrangements and forming several multidisciplinary and multisector committees such as the program steering committee; program execution committee; program monitoring unit; and working committees on IRBM, tributary river corridor improvement, and the flood forecasting and warning system (Appendix 6, Figure A6.1).

The status of loan covenants was reported in paragraph 22 and described in more detail in Appendix 7 of the PCR. IED notes that out of 19 loan covenants, 13 were complied with, 4 partly complied with, and 2 not complied with. IED feels that the two noncomplied covenants were very important, concerning (a) the final 2005 audited financial statement, and (b) benefit monitoring and evaluation. The implications of noncompliance with these two covenants could have been highlighted in the PCR.

The PCR adequately reported related technical assistance, procurement, and consultant performance in detail. It described clearly and sufficiently technical assistance; the conflict between ADB guidelines and Malaysian practice, which delayed the recruitment of consultants; conflict between ADB guidelines and government procedures in the bid evaluation; lapse in the feasibility study to anticipate the rapid development in the catchment area; adaptation to the Government's changing priorities in the study; low use of consultant input; and the reasons for this. The PCR rated the technical inputs provided by the consultants as generally *satisfactory*; construction quality, supervision, and design updating were assessed as *satisfactory*; and overall performance of the consultants during project implementation was rated *satisfactory* as well. The performance of contractors and suppliers was also *satisfactory*, despite some bids being much lower than the estimates, severe cash flow problems, and delays in project completion. IED has no issues with the assessments made.

- (v) **Performance of the Borrower and Executing Agency.** The PCR rated the performance of the Borrower as generally *satisfactory*. It rated the performance of the Executing Agency, the

Ministry of Agriculture through DID, as generally *satisfactory* in paragraph 29, but as *partly satisfactory* in paragraph 31, which is inconsistent. The PCR also indicated DID as the Executing Agency; according to the RRP, the Ministry of Agriculture was the Executing Agency. The PCR indicated that DID successfully undertook its role as Executing Agency and fulfilled its responsibility for project implementation, coordination, and supervision. However, in paragraph 30, the PCR stated that it was less effective in implementing measures not under its direct control.

In addition, it would have been useful if the PCR had brought up the performance of the various committees. If these committees did not work properly, the PCR could have indicated the reasons, yielding useful lessons for future projects.

- (vi) **Performance of the Asian Development Bank.** The PCR rated ADB's performance as *partly satisfactory* during project implementation, as the project review missions failed to alert the Government of the lack of attention given to environmental activities under the Project, and because environmental specialists were not included in ADB review missions even though it was an environmental project (para. 32). However, scrutinizing the relevant documents, IED assesses ADB's performance as *partly satisfactory* because ADB paid little attention to benefit monitoring and evaluation and was not proactive in using more of the unspent loan through a change in scope. In paragraph 28, the PCR mentioned a change in scope, but it did not elaborate. ADB records do not show the approval of a scope change.

#### **D. Evaluation of Performance (PCR Assessment and Validation)**

- (i) **Relevance.** The Project provided increased awareness among all stakeholders of IRBM in managing land, water, and other natural resources, including optimizing the use of those resources in a sustainable and productive manner. The Project spurred DID to promote the adoption of the Urban Stormwater Management Manual for Malaysia (MASMA) model for all river basins in Malaysia to ensure that future land use planning and river basin management incorporate ecological and social requirements. The goals and objectives set forth in the project framework were in line with, and relevant to, the Government's plans and programs. However, the design of several components of the project was insufficiently detailed at loan approval, and improved program design at a later stage resulted in a number of project components being dropped or implemented under a different umbrella. IED agrees with the PCR rating that the Project was *relevant*.
- (ii) **Effectiveness in achieving outcome.** The PCR rated the Project as *less effective*. However, the Project achieved most of its targeted outputs for tertiary river corridor improvements (PCR, para. 11) and "fully achieved its objective of minimizing the adverse economic, social, and environmental impacts of flooding" (PCR, para. 35). On the other hand, it achieved only part of its objective of improving environmental conditions and implementing IRBM. The main shortcoming was the failure to improve the Klang River's water quality (PCR, para. 35) and to implement solid waste management, sediment trapping, and a flood forecasting and warning system (although these activities were implemented by the Government under its own funding). Based mainly on the failure to improve the water quality, IED endorses the PCR rating of *less effective*.
- (iii) **Efficiency in achieving outcome and outputs.** The PCR assessed the Project as *less efficient*. In the PCR, the discussions under this heading should have been placed under the effectiveness criterion as these deal mainly with project benefits.

IED examined efficiency from two sides—efficiency of process and efficiency of investment. There was a 1-year delay between loan approval and loan signing. The project management unit was formed very late, which also contributed to slow implementation of the Project. Many intended project activities did not take place, and a new plan was developed that replaced the one on which the Project was based. Misunderstanding surrounding consultant selection cost

the Project 3 years. Having gone through various documents, and taking into account the observations made earlier in Section C (IV and V), IED evaluates the efficiency of process as *less satisfactory*. However, the effects are mitigated by the fact that much money was saved.

Furthermore, IED assesses the efficiency of investment as *satisfactory*. The delay in implementation, change in program priorities, and exclusion of some implementation works under ADB financing did not affect the economic internal rate of return (EIRR) to such a degree that it failed the threshold of 12.0%. IED acknowledges that a different calculation of EIRR in the PCR from that in the RRP is partly the reason for this. The flood protection component, which was the main component with more than two thirds of the project cost, was successful due to unforeseen high increases in property value as a result of rapid urban development in the basin. The PCR estimated the EIRR at 15.1%, 3.1 percentage points over the ADB benchmark of 12.0% for a viable investment. Based on the 15.1% EIRR, IED considers that an upgrading of the efficiency rating from *less efficient* to *efficient* is justified.

- (iv) **Preliminary assessment of sustainability.** The PCR rated project sustainability as *likely*. However, the PCR also stated its concern about funding operation and maintenance for some less-developed districts that must rely on government funding. IED agrees with the PCR rating since the Government gave high priority to the overall flood control and environmental mitigation program, Strategic Plan for the Klang River Basin (PELAWI II), and Stormwater Management Plan (PCR, para. 43). The PELAWI II has been circulated to relevant agencies and authorities for implementation and adoption. Flood mitigation projects are now adopting such environmental approaches as pollution control at source and water quality consideration. The Klang Valley Planning Council working committee currently coordinates and oversees land use planning in the basin. Flooding and environmental issues are being addressed for all new development projects (PCR, para. 12). Several local councils have, in principle, adopted recommendations from the MASMA, expanded coverage of solid waste management, and improved services to “hot spot” areas (PCR, para. 13). The commitment of local governments to the implementation of the MASMA is not in doubt.
- (v) **Impact.** The PCR did not make an overall impact assessment, although it assessed the Project’s impact on the environment as *marginally positive* and the squatter relocation program as *successful*. While IED concurs with the various critical arguments employed in the impact section of the PCR, it notes that the project impact on flood control in target areas was successful with a reported reduction in flooding surrounding the target areas. Some environmental improvements resulted from the widening of tributary river corridors, relocation of squatters, and reduction in solid waste and sewage flowing directly into the waterways. The PCR noted that the success of the Project’s squatter relocation program resulted in socioeconomic improvement to the lives of relocated people, better aesthetics in the river corridor areas, and general improvement of the environment and in the quality of life for residents of the river corridor area (para. 47). Overall, IED assesses the impact of the Project as *positive*.

#### **E. Overall Assessment, Lessons, and Recommendations (Validation of PCR Assessment)**

- (i) **Overall assessment.** The PCR rated the Project as *partly successful*. With the PCR’s assessment of the project EIRR at 15.1%; a marginally positive impact on the environment; a successful resettlement program; partial achievement of improving environmental conditions; and full achievement of minimizing adverse economic, social, and environmental impacts of flooding, IED regards this rating as not fully justified. In verbal communications, the project officer responsible for the rating agreed that it had been a difficult assessment. In rating the Project, the PCR put a lot of weight on the Project’s limited focus on IRBM (i.e., lack of lead role played by DOE) and environmental protection (e.g., environmental pollution control, solid waste management, sediment trapping), resulting in the Project being rated as *partly successful*. IED takes a more positive view of several of the Project’s limitations. The main argument in favor of a higher rating is that the Project’s EIRR is 15.1%—well above the



benchmark. The upgrading of the efficiency rating from *less efficient* to *efficient* raises the PCR's weighted rating of the Project from 1.5 to 1.7. This is above the 1.6 switching value between *partly successful* and *successful*.

(ii) **Lessons.** The PCR lessons are fully endorsed by IED. IED has no further lessons to offer.

(iii) **Recommendations.** The PCR recommendations flowed well from the main text. IED has nothing to add.

**F. Monitoring and Evaluation Design, Implementation, and Utilization (PCR Assessment and Validation)**

The Loan Agreement contained a covenant that DID, through the project management unit, was to carry out benefit monitoring and evaluation of the Project's environmental, economic, and socioeconomic impacts. However, as the PCR indicated, this was not complied with. According to available documentation, DID had its own monitoring system for all activities, although no data were submitted to ADB on the project impact as was required by the project RRP and the project administration memorandum.

**G. Other (e.g., Safeguards, Including Governance and Anticorruption; Fiduciary Aspects; Government Assessment of the Project, as Applicable) (PCR Assessment and Validation)**

Land acquisition and the resettlement plan progressed very slowly in the Project's initial years. ADB repeatedly urged the Government to settle the issue; eventually, the situation improved. The PCR reported that the Project's squatter relocation program was successful. Neither the PCR nor any other documentation has reported any safeguard violation or violation of any other nature.

H. Ratings	Project Completion Report	Independent Evaluation Department Review	Reason for Disagreement/Comments
<b>Relevance:</b>	Relevant	Relevant	
<b>Effectiveness in Achieving Outcome:</b>	Less effective	Less Effective	
<b>Efficiency in Achieving Outcome and Outputs:</b>	Less efficient	Efficient	IED regards the EIRR of 15.1% positively.
<b>Preliminary Assessment of Sustainability:</b>	Likely	Likely	
<b>Borrower and EA:</b>	<b>Borrower:</b> Generally satisfactory; <b>EA:</b> Partly satisfactory	<b>Borrower:</b> Generally satisfactory; <b>EA:</b> Partly satisfactory	
<b>Performance of ADB:</b>	Partly satisfactory	Partly Satisfactory	
<b>Impact:</b>	Marginally positive on environment; resettlement program successful	Positive	
<b>Overall Assessment:</b>	Partly successful	Successful	The positive EIRR led to a higher rating on efficiency, thereby lifting the overall rating to above the switching

			value between <i>partly successful</i> and <i>successful</i> .
<b>Quality of Project Completion Report:</b>		Satisfactory	Refer to section I.

#### **I. Comments on Project Completion Report Quality**

The PCR was interesting and detailed, but inconsistencies exist. For instance, it is unclear whether sediment trapping was done by the Project or the Government—partly a consequence of difficulties in determining the Project's boundaries—although IED regards the Government's more independent work as a part of the Project. The PCR did discuss the Project's relevant issues in different chapters, but some discussions tended to focus too much on the Project's environmental management aspect at the expense of the flood management component. Moreover, the PCR was too critical of project outputs, and evaluation of the Executing Agency's performance was inconsistent. The PCR did not address the issue of the needed participatory approach, the application of which was emphasized in the RRP. Lessons and recommendations are consistent with the narrative, however. Overall, the quality of the PCR is *satisfactory*, but IED regards its rating as too low.

#### **J. Recommendation for Independent Evaluation Department Follow-Up**

IED does not recommend the preparation of a project performance evaluation report at a later stage.

#### **K. Data Sources for Validation**

TA 1876 (TA paper),<sup>3</sup> RRP, PCR, Government's PCR, back-to-office reports of missions, PAI 6.07A,<sup>4</sup> amended and restated loan agreements, minutes of the Management review and staff review committee meetings, Board discussions, and project administration memorandum.

<sup>3</sup> ADB. 1993. *Technical Assistance (Japan Special Fund–Financed) to Malaysia for the Klang River Basin Integrated Flood Mitigation Project*. Manila (TA 1876-MAL, approved on 28 April 1993, for \$800,000).

<sup>4</sup> ADB. 2009. Project Administration Instructions. *Project Completion Report*. PAI No. 6.07A. Manila.

## REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 25 March 2009, the Independent Evaluation Department (IED) circulated the draft validation report for interdepartmental comments. IED received the following comments from the Agriculture, Environment and Natural Resources Division, Southeast Asia Regional Department on 3 April 2009.

The validation [report] upgraded the project completion report (PCR) overall assessment rating from *partly successful* to *successful*, which was based on the upgrade in the rating for efficiency in achieving outcomes and outputs from *less efficient* to *efficient*. This rating in the validation report is based on the Project's calculated economic internal rate of return (EIRR) of 15.1% at completion, which is higher than the opportunity cost of capital at 12% (the Asian Development Bank threshold criteria for economic efficiency). While we do not oppose the validation report's *efficient* rating for achieving outcomes and outputs; based on the calculated EIRR, which upgraded the overall rating to *successful*, however, the *less efficient* rating in the PCR (resulting in overall *partly satisfactory* rating) was due to the significant delays (3 years) in project implementation contributed by several process-related factors (significant delays in consultant mobilization, delayed response in changing the feasibility study design, etc.). This *inefficient* rating in the PCR [reflected] the Project's inability to fully achieve integrated river basin management approach, as well as implementation of solid waste management outputs and outcomes during its implementation period.

With regards to comments to PCR quality, the following are our responses:

- (i) The validation report states that it was not clear whether sediment trapping was done by the Project or the Government. Paragraph 14 of the PCR stated that the sediment trapping was not implemented during the Project. While these traps were designed, they were not implemented. (The same is true for the solid waste traps [see PCR map]).
- (ii) The validation report states that IED, in its evaluation, has given credit to independent work of the Government as part of the Project. In this regard, the PCR considered and gave credit to only the independent government work that was completed during the project implementation period and not after its completion. However, the sustainability evaluation of the PCR was based on the Government's activities following the project completion.
- (iii) The validation report states that the PCR discussion focused too much on environmental management compared to [the] flood management aspect. The Project's objective was to mitigate impacts of both environmental and flood management issues in the Klang River Basin (as specified in the title as well in the output, outcome, and impact sections of the design and monitoring framework in the report and recommendation of the President). However, the Government's focus was primarily on reducing flooding impacts in Kuala Lumpur's central business district area. As a result, one of the weaknesses of the Project's implementation was its limited focus on environmental and integrated river basin management aspects. These weaknesses were considered in the PCR for evaluating efficiency of outputs and outcomes. The overemphasis of the Project on

flood management aspects resulted in increased channel erosion, downstream flooding, and pollution due to channelization of drainage systems in the upstream areas.

- (iv) The validation report specifies that the PCR was too critical on outputs. The PCR evaluation viewed outputs as the principal activities of the Project that would eventually reap outcomes and impacts. Since many of the original outputs were not implemented during the project duration, the PCR had to identify this shortcoming.

Overall, we have found the validation report to be of good quality and a useful analysis that will help improve the quality of this and other future PCRs.