

| 1. Project Data: | | Date Posted : 09/13/2007 | | |
|--|-------------------------------|--------------------------|----------------|--|
| PROJ ID : P003619 | | Appraisal | Actual | |
| Project Name : Cn-2nd Inland Waterways | Project Costs (US\$M): | 286.80 | 210.36 | |
| Country: China | Loan/Credit (US\$M): | 123.00 | 79.68 | |
| Sector Board : TR | Cofinancing (US\$M): | | | |
| Sector(s): Ports waterways and shipping (100%) | | | | |
| Theme(s): Water resource management (67% - P) Other financial and private sector development (33% - S) | | | | |
| L/C Number: L4328 | | | | |
| | Board Approval Date : | | 05/29/1998 | |
| Partners involved : | Closing Date : | 06/30/2005 | 12/31/2006 | |
| Evaluator : | Panel Reviewer : | Group Manager : | Group : | |
| Antti P. Talvitie | Ridley Nelson | Alain A. Barbu | IEGSG | |

2. Project Objectives and Components:

a. Objectives:

To increase the efficiency, productivity and competitiveness of inland waterways transport (IWT) in the provinces of Guangdong and Jiangsu through the upgrading of inland waterways infrastructure and the institutional strengthening of the provincial inland waterways agencies.

This is the objective as stated in the LOA and ICR. The PAD defines the objective somewhat differently :
 "The objective of the proposed project is to provide more efficient and productive IWT services which would be more competitive than the current services ." [It continues: "This would be achieved through reduction of unit cost and transit time by: (a) upgrading Inland Waterways infrastructure to allow navigation of larger size vessels, (b) increasing shiplock capacity to reduce waiting time, and (c) increasing financial and organizational capacity of IWT agencies"]. -- Yet another definition of the objective-- but in spirit the same-- is in Annex 4 of the PAD.

The means to the ends, the sentence in the brackets above, which also are the performance indicators, are expressed differently in the ICR, where the reduction of unit cost (per ton-km) is treated as an indicator in its own right, along with the (a) - (c) above.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

Guangdong Province

Al. Renovation of Zhaoqing-Huatiaomen and Lianhuashan-Shawan-Ronggui (L-S-R) Waterways. Cost at appraisal, US\$98.70 million, at completion US\$73.17 million.

- A2. Enhancement of maintenance dredging capacity and operational management. Cost at appraisal US\$15.30 million, at completion US\$17.40 million.
- A3. Technical assistance for institutional development and implementation support and training. Cost at appraisal US\$2.10 million, at completion US\$8.19 million.
- A4. Resettlement, monitoring and maintenance during implementation. Cost at appraisal US\$20.60 million, at completion US\$31.23 million.

Jiangsu Province

- B1. Construction of five shiplocks. Cost at appraisal US\$84.80 million, at completion US\$58.52 million.
- B2. Technical assistance for institutional development and implementation support and training. Cost at appraisal US\$1.70 million, at completion US\$1.01million.
- B3. Resettlement, design and monitoring. Cost at appraisal US\$14.30 million, at completion US\$20.84 million.

The appraisal cost does not include physical contingencies of US\$ 21.50 and price contingencies of US\$27.80. Note, however, that the unallocated costs in the LOA total US\$ 19.5 million, which presumably is part of the contingencies .

In the PAD the total project cost at appraisal is US\$ 289.3, not the ICR figure of US\$286.80. The borrower cost at appraisal is US\$166.30 when the ICR figure is US\$163.80. There also is a discrepancy in project components . The above list follows the PAD, Section C, p.5 (and the ICR table in Annex 1). The ICR text has a different list in Section 1.5, which omits the resettlement component and has a provision for equipment in the Jiangsu component . The LOA has yet a third description of the project components .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The costs for the civil works were overestimated at appraisal, particularly when the rather large price and physical contingencies are taken into the account . This was due to the use of Government "norms" for the cost estimates. This was the first World Bank waterway project in these provinces and there was no experience on costs in a competitive bidding environment. Because of the lower costs of the civil works, the loan was reduced three times at the request of the borrower. At project close there was US\$3.11 million undisbursed, which was cancelled . The borrower contribution, in the PAD and LOA, was 62% for the civil works and 100% for equipment and 75% for other costs procured locally. For the loan as a whole the borrower share was 57% at appraisal and 62% at completion. The Jiangsu component was completed by the original closing date . Several factors caused the closing date for the Guangdong component to require an 18 month extension. Heavy flooding in 1998 and 1999 resulted in scouring and riverbank erosion and required major design changes; a terminal and maintenance station had to be relocated due to construction of a water in-take; there was slow contract progress in channel markers and station buildings due to steel price increases in fixed priced contracts; and there was a specification change to a high -tech telemetry item for channel monitoring.

3. Relevance of Objectives & Design:

The objective of the project was focused, relevant, and consistent with the CAS (1997) then in effect ("reducing infrastructure bottlenecks through modernization ... of inland waterway systems"), and the government's objective of better access to the country's western regions . The objective is still relevant today not only because of transport bottlenecks and access to China's western provinces, but also because water transport, besides being cost -efficient is an environmentally attractive mode. This supported the recent CPS's "strategic pillars". The large increases in transport demand; 96% in Guangdong and 69% in Jiangsu projects, far exceeded the increases in waterway transport overall (14%) and increases in other transport modes (7-9%). Taken together both the project objective and project design, including the training associated with it, were well thought -out.

4. Achievement of Objectives (Efficacy):

The project objective having the dimensions of *efficiency*, *productivity* and *competitiveness* was achieved. The four indicators to gauge the achievement of the project objective : the transport costs in the project channels, indicating *efficiency*, declined 13-33% (for which no benchmark was established at appraisal) and the waiting time at the locks was eliminated; the size of the vessels, a sign of *productivity* increase, using the project's waterways more than doubled. This increase was much greater than the target established at appraisal; and for *competitiveness*, the project waterways are generating a healthy cash flow in a competitive transport environment, which meets all the implementing entities' financial obligations, in spite of government restrictions on pricing and fees, instituted after the project start, which made the original financial targets largely irrelevant .

5. Efficiency (not applicable to DPLs):

The PAD gives both ERRs and FRRs. ERRs are reported in 5a. below. They include assumptions about future traffic--for example that in Jiangsu the future traffic annual growth is 4% (5% in the PAD; 11.3% actual in 2005), and in Guangdong 5.7% (4% in the PAD; 10.1% actual in 2005). The more than satisfactory ERR is likely to be

conservative because of what would appear to be quite conservative traffic predictions .

The financial rate of return of the project was 8.3% at appraisal and 8.4% at completion, in spite of regulatory changes for reduced pricing freedom for revenue generation that were instituted after project start .

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

| | Rate Available? | Point Value | Coverage/Scope* |
|--------------|-----------------|-------------|-----------------|
| Appraisal | Yes | 21% | 64% |
| ICR estimate | Yes | 21% | 63% |

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The project achieved its objectives with no shortcomings in efficiency or relevance with some achievements beyond targets. Vessel size, cost and waiting time indicators were met or exceeded . The sector outcomes to date and projections for the future related to the project interventions are very positive . There have been progressive institutional changes--greater decision-making autonomy, market based improvements, attention to management training--and also market based adjustments to Government's regulations . The ERR and even the FRR are fully satisfactory or better, the latter notwithstanding the government price control . The project observed the Bank's safeguard policies, had a number of positive environmental impacts, and is fully consistent with the CAS at appraisal and with the current CPS

a. Outcome Rating : Highly Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The project is financially viable and well-managed. Traffic has increased at a greater pace than anticipated, there are no significant foreseeable risks that would endanger the project .

a. Risk to Development Outcome Rating : Negligible to Low

8. Assessment of Bank Performance:

The Bank prepared a technically sound project . There were minor flaws: lack of baseline for transport costs (but created after the fact); inconsistencies between the PAD and the LOA; and, how the project would address --and deal with-- freight traffic regulations . Supervision was generally good and resolved the issues that arose, responded to changes in the project environment, and organized additional training and study tours to meet the needs at the time. The ICR notes that the task team missed an opportunity to amend the loan agreement and revise indicators in response to changes in policy regarding the autonomy of provincial waterway bureaus, rendering some indicators partially irrelevant.

a. Ensuring Quality -at-Entry:Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

The borrower was committed to the project, and supported the implementing agencies with workshops and participation in missions when appropriate . The implementing agencies discharged their responsibilities, both fiduciary and technical, well. Cooperation with the Bank was excellent and issues were resolved promptly .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

M&E *design* was appropriate, although it did not establish baseline value for efficiency; the indicator for it was constructed after the fact. Government restrictions on pricing and fees, instituted after project start, made the financial targets meaningless. Nonetheless, the data collected enabled assessment of competitiveness. On *implementing* the M&E system, institutional assistance was provided for data base development. Channel monitoring received modern telemetry equipment. The M&E system was *utilized* effectively. There was an extensive environmental and resettlement monitoring program, periodically reported to the Bank, outsourced to entities not connected with the implementing agencies. The environmental monitoring program will continue three years beyond project completion. Financial indicators, which included traffic, were monitored and will continue to be part of the waterways management.

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The safeguards and fiduciary responsibilities were carried out responsibly and well. There were no unintended negative impacts. The evolution of the new shiplock areas into public parks as a result of their landscaping could be counted as positive unintended impacts.

| 12. Ratings : | ICR | IEG Review | Reason for Disagreement /Comments |
|-------------------------------------|-------------------|---------------------|---|
| Outcome: | Satisfactory | Highly Satisfactory | The project fully achieved its relevant objectives without significant shortcomings and did so efficiently. It fully complied with the safeguards, was consistent with the CAS and the recent CPS, faces little risk to outcome, and progressed well institutionally. (For More details in sections 4, 5, and 6.) |
| Risk to Development Outcome: | Negligible to Low | Negligible to Low | |
| Bank Performance : | Satisfactory | Satisfactory | |
| Borrower Performance : | Satisfactory | Satisfactory | |
| Quality of ICR : | | Satisfactory | |

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

1. Policies or conditionalities that are beyond the control of the project owner should be avoided. This project aimed at an institutional mandate that would have included not only freedom to manage, but also to set tariffs in view of cost coverage, funding of prospective investments, and intermodal competition. This aim was in conflict with national policy and, therefore, unrealistic at the time.
2. Timely, consistent, and well-resourced supervision is necessary for effective project implementation, and for client relationship and to understand and resolve issues that always emerge in a project. This was a largely positive example of this.
3. In a known environment of uncertain costs, both on the upside and the downside, it may be advisable to hold in readiness for implementation some additional subprojects consistent with the agreed objectives to be ready for the possibility of savings. This may also contribute to the incentives for efficiency.

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

Overall, the ICR gives a sound description of project implementation . The evidence on accomplishments is accompanied by thorough economic and financial analyses . The results were clearly identified and the annexes, particularly the discussions on indicators, were valuable, as also were the sections on the government approach to pricing the use of the waterways and the economic evaluation . However, the design and implementation connections to the different project objectives could have been somewhat better traced . In particular, the ICR should have discussed the discrepancies in project description, costs and other matters between the PAD, the LOA and the ICR itself, which make the project intentions, its implementation, and policy changes a little difficult to follow . There were some inconsistent cost categorizations .

a. Quality of ICR Rating : Satisfactory