Report Number : ICRR13737

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted : 08/28/2012		
Country :	China			
Project ID :	P068752		Appraisal	Actual
Project Name :	Inner Mongolia Highway and Trade Corridor	Project Costs (US$M):	262.66	337.37
L/C Number :	L4765	Loan/Credit (US$M):	100.00	100.00
Sector Board :	Transport	Cofinancing (US$M):		
Cofinanciers :		Board Approval Date :		09/27/2004
		Closing Date :	06/30/2010	06/30/2010
Sector(s):	Roads and highways (99%); Sub-national government administration (1%)			
Theme(s):	Trade facilitation and market access (67% - P); Administrative and civil service reform (33% - S)			

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2. Project Objectives and Components:

a. Objectives:

According to the Project Appraisal Document (PAD, page 3) "the main objective of the project is to sustain and promote the development of cross-border trade between China on one hand and Russia and Mongolia on the other by improving transport infrastructure and logistics."

The objective according to the Loan Agreement is "to promote the development of cross-border trade with the eastern part of the Russian Federation and Mongolia by improving the transport infrastructure and logistics in (China's) Inner Mongolia Autonomous Region."

Since this version in the Loan Agreement is more specific regarding the area in which transport and logistic improvements would be realized, it will be used in this review.

These improvements (according to the PAD) were expected to lower transport costs, increase income from external trade, and raise incomes in Inner Mongolia, China's third-largest province, but one of the poorest of the western region.

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

No

c. Components:

There were four original components:

COMPONENT 1–HIGHWAY CAPACITY EXPANSION (Appraisal estimate US$172.69 million; actual on completion US$214.53 million)

Sub-component 1.1 Construction of the Hailar-Manzhouli Highway: (Appraisal estimate US$163.38 million; actual US$210.41 million) Construction of the 177 km Hailar-Manzhouli Highway (HM Highway) is the project's main activity. It does not include the 4 km Jalannuer-Manzhouli section built under a public-private investment scheme, but does include a city road section connecting to the customs area in Manzhouli . Of the 177 km, 110 km were to be reconstructed and widened, and 56 km to be new construction on a new alignment. The last section bypassing Manzhouli was also to be widened to four lanes. The Highway is a divided, four-lane, partially access-controlled highway to be operated as an open toll highway. It makes provision for two interchanges and three toll stations, with service areas, and parking bays, as well as facilities for highway administration and maintenance .

Sub-component 1.2 Equipment: (Appraisal estimate US$3.94 million; actual US$0.09 million) Equipment to be procured for maintaining national and provincial highways (including expressways) and other lower-class roads. The equipment is needed for controlling construction quality and monitoring, and for institutional strengthening to be procured or supplied before civil works begin and to be financed locally .

Sub-component 1.3 Supervision of construction: (Appraisal estimate US$5.37 million; actual US$4.03 million) A supervision team composed of local firms and international consultants and headed by a chief supervision engineer was to supervise the construction of the Highway in accordance with FIDIC provisions .

COMPONENT 2–BORDER ROADS FOR TRADE (Appraisal estimate US$51.30 million; actual US$117.02 million) The Border Roads for Trade component was to be designed to connect with ports and international border crossings to promote trade with Russia and Mongolia and fill in missing links in the critical road network . Inner Mongolia recognized that trade with eastern Russia and Mongolia as well as countries beyond China conceivably could transit Chinese territory for shipments through Chinese seaports . Five sections with a total length of about 413 km were selected for inclusion in the project, of which 71 km were to be Class II highways and 342 km Class III roads.

COMPONENT 3–TRADE FACILITATION COMPONENT (Appraisal estimate US$2.64 million; actual US$4.92 million) The component (to be funded locally) consisted of the development of a cargo transfer terminal and a diagnostic study on measures to promote cross-border trade between China and its neighbors.

Sub-component 3.1 Cargo Transfer Terminal (Appraisal estimate US$2.54 million; actual US$4.90 million) The purpose of the Terminal was to provide the facilities and services necessary for the transfer of cargo from Russian to Chinese trucks as well as for the distribution and consolidation of cargo . It would be developed in phases with the first phase designed for a capacity to handle 850,000 tons of cargo per year. The Terminal, located in the Haidong Industrial Development Zone in Hailar, would have basic facilities and utilities such as warehouses (temperature-controlled for conventional products including fruit and vegetables) cargo handling facilities, office blocks and facilities for truck drivers. Customs officers, stationed in the Haidong Industrial Economic Zone, would clear cargo. A rail siding would provide access to the Binzhou Line (Harbin-Manzouli).

Sub-component 3.2 Study on measures to promote trade (Appraisal estimate US$0.10 million; actual on completion US$0.03 million) A diagnostic study was to identify measures that would help develop the full potential for cross border trade between China, Russia, and Mongolia. These measures would include the development of infrastructure facilities and the transportation network necessary to handle the movement of cargo between the two countries as well as trade facilitation measures to promote the conduct and development of trade .

COMPONENT 4–INSTITUTIONAL STRENGTHENING AND TRAINING (US$1.17 MILLION)
This component was designed to improve the efficiency and sustainability of road sector management in Inner Mongolia and strengthen institutional and policy development, focusing on logistical arrangements with neighboring countries. A training program under previous projects had already started to strengthen the capacity of the Inner Mongolia Communications Department and related agencies. The new program would build on training begun under these projects without duplication. New courses would take into consideration the activities of the ongoing Inner Mongolia Highway Project while relating directly to the implementation of project components .
The training program would include overseas study tours (36 person-months), formal training courses abroad (40 person-months) and domestic courses (294 person-months). It would be updated periodically during project implementation.

The above costs excluded interest during construction and a front end fee amounting in total to US$ 8.68 million.

Revised Components
Component 1 - Highway Capacity Expansion. Maintenance equipment to be procured for national and provincial highways (including expressways) and other lower-class roads was cancelled, the client favoring the addition of another road improvement in the Border Roads for Trade program .

Component 2 - Border Roads for Trade. The program was further modified by a loan amendment on June 5, 2007, to allow for the "Upgrading and rehabilitation of about 700 km of road sections identified either as key links for international trade facilitation at smaller border crossings with the Russian Federation and Mongolia, or as critical missing links in the highway network in Inner-Mongolia." This allowed for the financing under the loan of the proposed Genhe-Mangui road (263 km). The increase in the total road km improved was rendered possible by lower than anticipated initial contract cost for civil works components which were respectively 26 percent and 19 percent lower than PAD estimates for the HM Highway and the Border Roads for Trade. These savings together with the unallocated portion (US$ 10.05 million) of the loan were to be used to finance this additional work as requested in 2006 by the Ministry of Finance and the National Development Reform Commission (NDRC).

The Borrower requested additionally in 2005 that the substandard Yimin-Handagai road (Border Roads for Trade) be upgraded from class III to class II to be in continuity with adjacent road segments which were already class II. This change, to which the Bank acceded, resulted in a final construction cost of 230.43 RMB million which represented an increase of 161 percent over the PAD estimate.

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

Project cost: The final cost was US$337.37 million, US$74.71 million (28 percent) more than originally anticipated, mainly due to the expansion of the Border Roads for Trade component.
Financing: The Bank loan remained at US$100 million and was fully utilized. A request by the Inner Mongolia Communications Department supported by the Ministry of Finance for the additional Border Roads for Trade allocation coupled with the decision not to apply the increase for any variations above 15 percent for the HM Highway civil works costs persuaded the Bank to agree to a reallocation of savings and the use of an unallocated amount of US$ 10.05 million of the loan between various categories. Reallocated amounts included an adjustment of (i) HM Highway civil works from US$63.5 million to US$61.5 million and Border Roads for Trade civil works from US$18 million to US$30 million.
Borrower contribution: The Borrower covered the remaining balance of US$237.37 million.
Dates: The project closed as planned on June 30, 2010.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

At the time of preparation, the Bank's strategic objective, in line with the 2002 Country Assistance Strategy (CAS), was to support China's social and economic development by providing assistance in four key areas: (i) improving the investment climate; (ii) accelerating the transition to a market economy; (iii) addressing the needs of disadvantaged groups and underdeveloped regions; and (iv) facilitating a more sustainable development process. Transport infrastructure development was identified as a key area to reach these strategic objectives. The government's transportation policy emphasized improving access for inland provinces and fostering the development of trade through lower transport costs and improved logistics services.

The project objective was also in line with the 2006 Country Partnership Strategy (CPS), which reflects the Bank's current strategic objective to foster growth, reduce poverty, encourage good governance, and improve the environment, as well as to support China's development agenda through infrastructure improvements. The project objective conformed with the Chinese Government strategy, which includes poverty and regulatory reforms with special attention to financing issues while ensuring efficient fund utilization. This strategy also encompassed development of all-weather roads to remote/low income areas; and the rapid development of the highway network including provincial roads feeding into the system.

However, the unforeseen global recession and a deterioration in trade relations between Russia and China diminished the relevance of the objectives. Rating: **Substantial.**

b. Relevance of Design:

The project objective was logical and linked to both intermediate and final outcomes. The causal chain between the funds, outputs and intended outcomes should, however, have been given more thought and made tighter since there were issues of attribution affecting the outcome. Several exogenous factors impacting trade and poverty affected the results framework making it difficult to measure the outcomes. Rating **modest.**

4. Achievement of Objectives (Efficacy):

Enhanced trade between Inner Mongolia, Russia and Mongolia through improved transportation capacity and improved trade facilities in Hulunbeier.

Achievement of the project's development objective to promote the development of cross -border trade with the eastern part of the Russian Federation and Mongolia by improving the transport infrastructure and logistics in (China's) Inner Mongolia Autonomous Region is assessed as **Modest.**

The Hailar-Manzhouli Highway civil works enhanced the overall transport capacity (cargo and people) and mobility between Hailar and Manzhouli, a major land port with Russia in the northern part of China, linking hub cities within this region to neighboring Russia. Travel time was reduced by 30 percent (or 60 minutes) while vehicle operating and transport costs were also reduced.

The Highway did not succeed, however, in promoting additional trade with Russia, which actually shows an overall decrease of 16 percent for imported/exported cargo volume by road between 2003 and 2009. Several exogenous events contributed to this lack of trade benefits from improved access to Manzhouli. During the implementation of the project there was a worsening of trade relations between China and Russia, including factors such as a clamping down on informal trade, the general economic climate, and the lack of availability of the Cargo Transfer Terminal in Hailar. These events also resulted in significantly less than anticipated traffic volume 86 percent below expectations for which initial estimate were also too optimistic (over 200 percent). It is also believed that travel delays during the construction of civil works on the Highway and the increased fuel prices may also have contributed to a shift from trucks to rail cargo transport as shown by the 56 percent increase in cargo volume by rail between 2003 and 2009.

The capacity of the highway sector entity—the Inner Mongolia Communications Department—likely improved during the implementation of the project (though no evidence is cited) through domestic and overseas training, study tours, and execution experience which gave the Department's staff exposure to new concepts and opportunities to learn new practices and technical approaches. The training covered a wide range of subjects including inter alia highway construction and supervision; maintenance, financial, toll and project management; trade facilitation; environmental monitoring and resettlement.

A trade facilitation study followed by an international trade workshop in Russia were also conducted, although it is unclear how the findings from these outputs were integrated in daily practices or ended up in changes to trade policies. The report was well organized, but fell short of addressing major trade issues such as intermodalism, trade programs, and Cargo Transfer Terminal operations, as well as infrastructure compatibility and regulations between trade partners. To better understand some of these trade issues, a study tour to Russia was completed in August 2009.

5. Efficiency:

The combined external rate of return (ERR) for the entire project is estimated to be 3.8 percent at completion, compared to an ERR at appraisal of 17.0 percent. The decrease in the ERR was mainly because of the much lower than estimated traffic volumes on all sections of the HM Highway as well as on the Border Roads for Trade and the higher than estimated (at appraisal) project costs. Traffic volumes in 2009 on the Highway are around 86 percent lower than estimated at appraisal and on the Border Roads for Trade are around 48 percent lower. The actual project costs of the Highway were around 17 percent higher than the appraisal estimates, while the actual costs of the Border Roads for Trade were around 47 percent higher. A further ERR calculation was undertaken, for this review two years after completion, which showed that increased traffic volumes had yielded an ERR of 9.5 percent. Toll revenue for the Highway has been insufficient according to the ICR (page 9) to meet loan payments as originally intended. No financial rate of return is cited, but the ICR recommends that a new assessment of toll rates versus predicted traffic volumes be undertaken in order to maximize both toll revenues and the operations of the Hailar Cargo Transfer Terminal. According to the Task Team Leader, the Government did not believe the low ERR and lower traffic volumes were sufficient reason to delay the project since the provision of an integrated infrastructure network would push economic development as has been evident in other western regions of China. The Government likened the network expansion to the building of the interstate network in the US. There is little doubt that had the Bank pulled out because the timing was premature, the project would have continued without Bank finance.

There is reason to believe that the traffic forecasts would have benefitted from an external audit supported by independent traffic counts. The traffic forecasts were also overly optimistic and resulted in designs with higher standards than were appropriate for the traffic volumes.

The training aspects were completed, but the overseas training program had to be reduced because of delays in getting travel visas. However the domestic training program was significantly sized-up to compensate for this. The trade facilitation study failed to address several major trade issues.

Overall efficiency was **modest.**

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	17%	99.7%
ICR estimate	Yes	9.5%	99.9%

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

6. Outcome:

Taking into account the substantial relevance of objectives, but modest relevance of design, modest efficacy, and modest efficiency the outcome was moderately unsatisfactory overall . To a considerable extent this was due to exogenous factors resulting from the global economic recession and a hardening of the trade relations between Russia and China that occurred during implementation, but unrealistic traffic forecasts played an important role . While demand may eventually rebound with improved economic conditions, the timing of the project was premature in relation to demand.

a. Outcome Rating : Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

Traffic in the corridors, although significantly lower than anticipated, is expected to grow once there has been an improvement in the overall economic environment. There is a risk of continued difficult trade relations between the countries involved, but given the incentive of unlocking opportunities in the region, this aspect should in due course be resolved. The Border Roads for Trade have shown a positive impact on per capita income for the various regions served and this increase is expected to be sustained . Considering the overall quality of civil works for the HM Highway and the Border Roads for Trade and the lower traffic volumes, routine and periodic maintenance budget will in the short term be reduced. Maintenance budgets and resources are considered to be sustainable since they represent less than two percent of the Inner Mongolia Communications Department's total revenues (less than two percent) and the Department's track record in maintenance is satisfactory . While toll charges are significantly lower than anticipated, as traffic picks up more revenue will be generated . General road user charges also include a maintenance fee.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The project objectives were consistent with the Government of China's and the Bank 's strategies; the project components addressed the major issues identified in the CAS and the Government's five year plan at the time of preparation and appraisal. The Bank team was led by an experienced highway engineer and included appropriate specialists covering environment, social /resettlement, economics, rural roads, highway engineering, institutional strengthening, and international trade regulations . The Bank's safeguards policies and rules were followed rigorously, and many project affected persons were better off than before the resettlement .

However, the project design had shortcomings (see Section 3b above) and some potential risks to the project outcomes were not identified such as a severe economic downturn and changes in the trade relations between Russia and China. In addition, baseline values, traffic forecasts, and geological surveys were insufficiently scrutinized. The outcome indicators were unrealistic because they were affected by exogenous factors that were beyond the control of the project, such as trade relations between China and Russia and the general economic climate. The results framework was thus set up to fail due to attributional and exogenous issues .

The Bank's Quality Assurance Group did not review the project for quality at entry .

Quality-at-Entry Rating : Moderately Unsatisfactory

b. Quality of supervision:

The supervision team paid adequate attention to compliance with the Bank's policies on environment and resettlement. Mission frequency and timing were satisfactory and comments from Inner Mongolia Communications Department staff indicated a good working relationship and a flexible approach by the Bank . Project communications and documents were well prepared and expeditiously handled .

The appropriateness of proceeding with the project, however, should have been considered by the project team and by Bank management in the light of the realization, during implementation, that the traffic forecasts were greatly overestimated leading to likely under-utilization of the completed facilities for several years .

Quality of Supervision Rating :	Moderately Satisfactory
Overall Bank Performance Rating :	Moderately Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government (both central and local) showed strong commitment to the project throughout, despite the deteriorating trade relations for which it is unclear who is to blame . The enabling environment in terms of appropriate legislation, policies, and reforms was in place and there was adequate provision for consultation and involvement regarding beneficiaries and stakeholders . Counterpart funding availability was slightly affected by the delays in processing variation orders and reporting the status of cost overruns, (see 9b below), but the project still finished as planned. The establishment of multi agency coordination teams would also likely have better integrated national planning with local implementation in respect of trade issues .

Government Performance Rating	Satisfactory

b. Implementing Agency Performance:

All the civil works and institutional components were completed within the planned closing date . There were, however, delays in preparing and approving variation orders and reporting the status of cost overruns . This affected counterpart funding availability and resulted in some delays in contractor payments . Financial management including procurement as well as environmental and social safeguard activities were carried out under the project in compliance with Bank policies and procedures . Communication between the Inner Mongolia Communications Department, the Bank and other government departments was, according to the ICR (page 15), excellent.

Implementing Agency Performance Rating :	Moderately Satisfactory
Overall Borrower Performance Rating :	Moderately Satisfactory

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

a. M&E Design:

The project design adopted a series of physical targets for measuring progress . The outcome indicators were selected, taking into account whether the data were available and /or could reasonably be collected and would be considered reliable. Baseline value estimates for traffic on the Hailar-Manzhouli Highway were made on the basis of routine traffic counts and comprehensive origin and destination surveys that took place between June 2001 and December 2003 (which as it turned out were unreliable). Those forecasts were further reviewed and confirmed by an independent transport institute in Beijing to review expected changes in regional transport demand and traffic . The selected M&E indicators were appropriate, but both the baseline and target values for the indicators proved to be either incorrect or overly optimistic. As shown in the borrower's ICR other indicators such as per capita income growth and passenger increases were also monitored to evaluate the benefits of the Border Roads for Trade on poverty reduction.

b. M&E Implementation:

The project was monitored through monthly progress reports for civil works of the Highway and quarterly progress reports for all other components. An annual monitoring report was developed which covered all components and assessed the extent to which the various implementation and development objectives were achieved. Traffic forecasts would have benefited from an external audit (preferably during appraisal) by an international expert supported by independent traffic counts. This may have altered standards of construction for some Border Roads for Trade and a different construction approach for the Highway.

c. M&E Utilization:

In retrospect, and considering external influences on the economy, trade relations, cargo volumes and ratios between the various transport modes, the indicators proved inconclusive for evaluating the project contribution of its transport investments to poverty reduction. The data, however, did help to measure implementation progress.

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

This was an environmental category A project. According to the PAD, safeguards triggered that could be triggered were environmental assessment (operational policy OP 4.01), natural habitats (OP 4.04), involuntary resettlement (OP 4.12), and indigenous peoples (OP 4.20):

Environment: The ICR (page 7) reports that the policy and administrative requirements for environmental assessments of development projects in China were followed, in accordance with the Bank 's OP 4.01 on Environmental Assessment. During preparation, the Environmental Impact Assessment (EIA) and Environmental Management Plan (EMP) were reviewed and found satisfactory. The potential environmental impacts anticipated in the Impact Assessment included noise and air pollution during the construction and operation phases, water flow disruption, and, during the construction phase, water pollution and soil erosion. A framework including environmental management and supervision was established to ensure smooth implementation and quality performance. The ICR reports that considerable efforts were made to follow the Environmental Management Plan, and to mitigate and monitor the project's adverse impacts. The mitigation measures taken included appropriate alignment selection, road crossing, bridges and culverts, drainage, slope protection, and restoration of disturbed areas. The Hulunbeier Municipal Environmental Monitoring Center (HMEMC) was entrusted to conduct environmental monitoring for the project during the construction and operation phase. According to the ICR, environmental monitoring was carried out regularly, in compliance with the EMP recommendations. The Center conducted a detailed survey of the areas disturbed by construction, including borrow pits, spoil disposal and quarry sites as well as temporarily occupied sites, and side slopes. All the disturbed areas were satisfactorily restored after the construction activities were completed, according to the Center. Public consultations and information disclosures were continuous during the entire project cycle. Total expenditure on environment protection and water and soil conservation was estimated to be about 1.6 percent of the total project cost. No unforeseen environmental problems arose during project implementation. The ICR (page 8) states that environmental performance was concluded as "Highly Satisfactory."

Natural habitats. A particular emphasis was given to the Erka Wetlands, an internationally renowned nesting area for several bird species. The ICR (page 8) says that there were concerns that "building a freeway could carve a bird free corridor through rich marshland." To address these concerns, a Bank Environmental Specialist and a bird expert attached to the project team agreed that the Environmental Management Plan should include a special six year ecological monitoring. "in the spring of 2010, the same expert visited the site and noted the following: 'found a rich wetland with good numbers of water birds, including some that were pretty much right next to the highway' " (ICR, page 8). Concerns about a disruption of the water flow through the Erka Wetlands led to recommendations for a widening of bridges and culverts, including the main bridge over the Hailar River. "These recommendations were followed by [the Inner Mongolia Communications Department], and during the latest 2010 visit, no such disruption was apparent, nor does it appear the highway had affected the water flow based on recent Landsat images " (ICR, page 8).

Involuntary resettlement and land acquisition The PAD indicates that the project would require the acquisition of 16,984 mu of land (1 Mu = 1.6 acres), including 546 mu of cultivated land and 14, 287 mu of grassland, affecting 2,129 people in 590 households in 39 villages. The cost was estimated at US$8.43 million. Comparative figures at completion are not stated in the ICR which simply says that the project resettlement was fully implemented in accordance with the RAP and all the affected people (including ethnic minority groups) were informed and consulted concerning relevant resettlement decisions and activities. All the affected households benefited from new housing, but with better quality than before relocation. All the land taken was fully compensated for and the livelihood of affected people was restored. Any affected infrastructure and public facilities were replaced. Based on the evaluation by the monitor and the reporting from site visits and mission observations, the ICR concludes that the RAP and related resettlement implementation of the project were satisfactorily implemented, and that the resettlement goal of improving the livelihood of the project affected people after resettlement implementation was fully met.

Indigenous peoples. An indigenous peoples plan was not, in the event, required.

b. Fiduciary Compliance:

The procurement carried out under the project was in compliance with Bank policies and procedures. There were, nonetheless, delays in preparing and approving variation orders and reporting the status of cost overruns. Counterpart funding availability was also affected by the overruns resulting in delays in contractor payments. Project financial statements were prepared in the format agreed with the Bank. The audited project financial statements, as required by the legal agreements, were submitted to the Bank on time. Annual accounts for the project for each fiscal year were unqualified, and audited by independent auditors before final review by the Bank's task team.

c. Unintended Impacts (positive or negative):

None

d. Other:

Although not classified as a "poverty reduction project", there was a poverty alleviation dimension through the Border Road for Trade program component as follows: i) accessibility to poor counties and townships and other villages, have been increased by improving about 690 km of local roads (60 percent more than the original program); ii) the reliability, vehicle operating costs and the travel time were significantly improved for all in the Border Roads for Trade, hence allowing easier access for the local population to markets, health and education facilities; iii) growth in economic activity and per capita income as shown in the Borrower ICR were positive.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Unsatisfactory	Taking into account substantial relevance of objectives, but modest relevance of design, modest efficacy and modest efficiency the outcome was moderately unsatisfactory overall. To a large extent this was due to exogenous factors resulting from the global economic recession and a hardening of the trade relations between Russia and China which occurred during implementation, but also unrealistic traffic forecasts played an important role.
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance:	Satisfactory	Moderately Unsatisfactory	Baseline assumptions, geological surveys and traffic forecasts were flawed leading to project over design and under utilization.
Borrower Performance:	Satisfactory	Moderately	

		Satisfactory	There were delays in preparing and approving variation orders and reporting cost overruns leading to disruptions in counterpart funding and delays in contractor payments.
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. Based on the unreliability of the data provided, it is recommended that new projects in low population density areas in the northern provinces of China, would benefit from an independent international audit of actual and forecasted traffic, supported by an independent traffic count .
2. When the relevance and viability of a project changes during implementation consideration should be given to scaling down or cancelation before continuing with a project unlikely to meet its targets .
3. The establishment of multi agency coordination teams would likely better integrate national planning with local implementation in respect of trade issues.
4. A simplified yet efficient internal clearance procedure in Inner Mongolia is needed to streamline the approvals process between agencies to avoid long delays.

14. Assessment Recommended? ● Yes ○ No

Why? Since the project was affected by a worsening of the conditions of trade and doubtful traffic forecasts it would be useful to reassess the situation when economic conditions have improved .

15. Comments on Quality of ICR:

In general the ICR was concise, candid and well written with plenty of evidence put forward, but the outcome rating was overly favorable and inconsistent with the narrative . Some lesser issues are that the ICR did not address the relevance of design under the appropriate section - it is clear from later comments that there were some design shortcomings. Comparative figures for environmental and social activities at appraisal and completion were not given and no financial rate of return was presented in respect of the HM Highway The section on Borrower performance (especially government) could have been usefully amplified.

a.Quality of ICR Rating : Satisfactory