

Validation Report
April 2022

People's Republic of China: Forestry and Ecological Restoration Project in Three Northwest Provinces

Reference Number: PVR-843
Project Number: 40684-013
Loan Number: 2744
Grant Number: 0250



Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
CFB	–	county forest bureau
CNY	–	yuan
CPMO	–	county project management office
EIRR	–	economic internal rate of return
FIRR	–	financial internal rate of return
GEF	–	Global Environment Fund
ha	–	hectare
IEM	–	integrated ecosystem management
km ²	–	square kilometer
PCR	–	project completion report
PPMO	–	provincial project management office
PRC	–	People's Republic of China
SFF	–	state forest farm
SFGA	–	State Forest and Grassland Administration

NOTE

In this report, "\$" refers to United States dollars.

Director General	Emmanuel Jimenez, Independent Evaluation Department (IED)
Deputy Director General	Sona Shrestha, IED
Director	Nathan Subramaniam, Sector and Project Division (IESP)
Team Leader	Payton Deeks, Evaluation Specialist, IESP

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PROJECT BASIC DATA

Project number	40684-013	PCR circulation date	Sep 2021	
Loan and grant numbers	2744 and 0250	PCR validation date	Apr 2022	
Project name	Forestry and Ecological Restoration Project in Three Northwest Provinces			
Sector and subsector	Agriculture, natural resources and rural development	Agricultural production - Forestry		
Strategic agenda	Environmentally sustainable growth Inclusive economic growth			
Safeguard categories	Environment	B		
	Involuntary resettlement	C		
	Indigenous peoples	A		
Country	People's Republic of China		Approved (\$ million)	Actual (\$ million)
ADB financing (\$ million)	ADF: 0.00	Total project costs	165.82	138.16
	OCR: 100.00	Loan (L2744)	100.00	87.17
		Borrower	44.99	26.05
		Beneficiaries		
		Households	17.86	20.03
	Others			
	Enterprises	12.74	8.12	
Cofinancier		Total cofinancing GEF (G0250)	5.12	4.30
Approval Date	29 Mar 2011	Effectiveness date		
		L2744	1 Sep 2011	
		G0250	22 Sep 2011	29 Sep 2011
Signing Date	3 Jun 2011	Closing date		
		L2744	31 Mar 2017	29 May 2019
		G0250	30 Sep 2016	30 Sep 2018
		Financial Closing Date		
		L2744		29 May 2019
		G0250		10 Dec 2019
Project Officers		Location	From	To
	R. Renfro	ADB headquarters	Sep 2011	Jan 2012
	F. Radstake	ADB headquarters	Feb 2012	Sep 2016
	S. Tirmizi	ADB headquarters	Oct 2016	Feb 2018
	Y. Kobayashi	ADB headquarters	Mar 2018	Jun 2018
	P. Ramachandran	ADB headquarters	Jul 2018	May 2019
IED review				
Director	N. Subramaniam, IESP			
Team Leader	P. Deeks, Evaluation Specialist, IESP*			

ADB = Asian Development Bank, ADF = Asian Development Fund, GEF = Global Environment Fund, IED = Independent Evaluation Department, IESP = Sector and Project Division, OCR = ordinary capital resources, PCR = project completion report.

*Team members: (H. Hettige) Quality reviewer, F. De Guzman (Senior Evaluation Officer), and T. Breckner (Consultant).

I. PROJECT DESCRIPTION

A. Rationale

1. The People's Republic of China (PRC) has sparse forestry and tree crops, relative to its size and economic and ecological needs. At appraisal, the PRC fell far below the international average of about 0.65 hectares (ha) per capita forest area, with about 0.13 ha per capita. The country's standing stock volume was about 10 cubic meters per capita against the global average of 66 cubic meters. Its forest land accounted for 285 million ha. However, only 169 million ha (60%) was forested. The total land area of degraded and barren forest was about 116 million ha and had been sidelined in rural PRC's modernization that focused on agricultural land. In the project's covered areas—Gansu and Shaanxi provinces, and the Xinjiang Uygur Autonomous Region (Xinjiang)—land degradation was a critical environmental problem. This degradation affected about 274,600 square kilometers (km²) of land in Gansu (about 65% of its total area); about 30,000 km² in Shaanxi (about 14.5% of its province); and about 1.1 million km² of Xinjiang (about 64% of its total area). The estimated economic cost of land degradation was about CNY3.1 billion in Gansu (15.9% of provincial gross domestic product), and about CNY11.6 billion in Shaanxi (3.6% of provincial gross domestic product). This degraded land could only support traditional low-yielding and low-value cropping systems and was identified for intervention.¹

2. The project's strategy was to support the implementation of recent collective forest tenure reforms, and assist in converting land and labor resources into higher-value and more sustainable tree crop production systems using integrated ecosystem management (IEM) approaches.² It was to be implemented in Gansu, Shaanxi, and Xinjiang where forest degradation had been reducing economic and ecological tree crops. Degraded forest land was to be converted into more ecologically sustainable land use to generate sufficient profits and incentives for the long-term natural resources management. The project had two major components: (i) economic tree crop development and (ii) ecological forestry development. The first component was to plant 13 varieties of fruit, nut, and timber trees, along with shelterbelt trees, in the three project areas with 38,000 ha. This was to benefit about 207,000 rural households. The second component was to reforest about 130,000 ha of forest land and strengthen 13 state forest farms (SFF) to jointly improve their forest management, with the aim of selling the carbon sequestration in their forests through a carbon market.

B. Expected Impact, Outcome, and Outputs

3. The project's expected impact was improved incomes and sustainable livelihoods from forest land use in Gansu, Shaanxi, and Xinjiang. Its envisaged outcome was increased productivity of forest lands and reduced land degradation in Gansu, Shaanxi, and Xinjiang. There were three planned outputs: (i) mainstreamed IEM approaches for economic tree crop development; (ii) mainstreamed IEM approaches for ecological forestry development; and (iii) strengthened project management support to implement forest sector reforms using IEM approaches in the provinces, autonomous regions, counties, towns, and households.

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant for Forestry and Ecological Restoration Project in Three Northwest Provinces in the People's Republic of China*. Manila.

² The IEM approach emphasizes the links between natural ecosystem capacities and socioeconomic activities (including those of poor rural inhabitants) and seeks to holistically rehabilitate damaged ecosystem services and functions by addressing the major root causes of destructive practices in socially responsible ways.

C. Provision of Inputs

4. The project was approved in March 2011 and became effective in September 2011. It was completed in September 2018, 2 years later than what was planned. The main reasons for this were delays at project start-up and to allow more time for the implementation of loan and grant activities. The original total project cost was estimated at \$180.7 million. Actual amount at completion was \$145.7 million.³ The Asian Development Bank (ADB) provided a \$100 million loan from its ordinary capital resources, of which \$87.1 million was utilized. An additional \$5.1 million grant from the Global Environment Fund (GEF), of which \$4.3 million was disbursed, funded the project. The government's contribution was originally \$31.2 million, of which \$18.8 million was used. Additional contributions came from forestry enterprises at \$7.9 million (originally \$11.6 million) and participating households at \$20.0 million (originally \$17.9 million), primarily by providing tree crops.

5. At appraisal, one consulting package and nine individual consulting services contracts were planned, comprising 7 months of international consulting services and 18 months of national consulting services. During implementation, consulting services inputs were changed to national individual consultant inputs and a total of 31.5 person-months of national consultant inputs were provided at completion.

6. The project was classified as category B for environment, category A for indigenous peoples, and category C for involuntary resettlement. It was also classified as "some gender elements." Environmental concerns would have included the possible effects of the building of infrastructure facilities, such as access roads and irrigation systems. Most of the participating population in Xinjiang were ethnic minorities; hence, the category A classification for indigenous peoples. No land was acquired because the project was undertaken on either state-owned or collectively owned by villagers.

D. Implementation Arrangements

7. The executing agency at appraisal was the State Forestry and Grassland Administration (SFGA) through its ADB loan project management office. The forestry departments of the participating project areas and the county forestry bureaus (CFB) were the implementing agencies. A provincial project management office (PPMO) was established as a unit within each provincial forestry department. The PPMO was to coordinate and liaise with municipality and county project management offices (CPMO) within the CFBs. The CPMOs were to work with the CFBs to prepare work plans and undertake project activities. The PPMO staff were deemed technically qualified. However, it became apparent during implementation that PPMO and CPMO staff lacked experience in implementing and reporting foreign-funded projects. This resulted in start-up and implementation delays. Support for the PPMO is usually provided through the procurement of a consulting services package. However, the project completion report (PCR) noted that no project management consultants were planned for the project using the loan proceeds⁴. Consultants were provided from the project's GEF grant training budget. Although consultants were hired to implement the project, the PCR indicated that the lack of project

³ According to the PCR, the reduced project costs were due to (i) low contract prices from competitive bidding, (ii) appreciation of the Chinese yuan during project implementation, and (iii) contract cancellations. The cancellations were, presumably from enterprises that decided not to participate due to implantation delays; ADB. 2021. *Completion Report: Forestry and Ecological Restoration Project in Three Northwest Provinces in the People's Republic of China*. Manila.

⁴ ADB. 2021. *Completion Report: Forestry and Ecological Restoration Project in Three Northwest Provinces in the People's Republic of China*. Manila.

management consultant support resulted in low quality monitoring and reporting and slow financial withdrawals with some project implementation units. The PCR also noted that the change from international to national consultants under grant financing weakened capacity development. The consultants focused on technical and procurement aspects and had inadequate experience on safeguards. They did not contribute to the ethnic minority development plan and community consultation and disclosure strategy.

8. Out of 55 loan covenants, 49 were fully complied, 5 were partially complied with, and 1 was not complied with. The covenant not complied with was the implementing agencies' requirement for environmental monitoring. Despite ADB's repeated follow-ups, it was not complied throughout the project period. The partially complied covenants pertained to safeguards monitoring. Progress reports from the provincial governments were either not regularly submitted or environment safeguard data were insufficient.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

9. The PCR rated the project relevant. It conformed with national policies, particularly the Eleventh Five-Year Plan⁵ and the five-year plans of Gansu, Shaanxi, and Xinjiang. The PCR indicated that the project had a new model for ecological management and forestry reform and improved government forest management and administration. It was also consistent with ADB's country partnership strategy.⁶ There were minor changes in scope during implementation. These concerned clarification of project funding percentages; revision of the number of cold storage facilities and expansion of the area planted to economic tree crops; and reallocation of funds originally meant for carbon trading education to establish two exhibition and three forest and health experience centers. Changes in design and monitoring framework targets and indicators primarily adjusted the target year from 2016 to 2018.

10. This validation finds the project strategically aligned with the country's development priorities and ADB's country partnership strategy. It notes that the project design was overly ambitious in the number of enterprises to be involved in such downstream activities as cold storage and processing. The design was also overly optimistic regarding carbon market development.⁷ The water requirements for tree crop production in Xinjiang should have been carefully assessed. Timely changes in the project's design helped maintain the project's relevance. The project was credited for the piloting of innovative approaches and filling in ADB financing where traditional government resources might not have been applied. It was designed to utilize ADB and GEF funds to promote new models of economic tree crop expansion, management, and forestry conservation, as well as addressing a larger global climate change issue. The validation assesses the project relevant.

B. Effectiveness in Achieving Project Outcomes and Outputs

11. The PCR rated the project effective in achieving its intended outcome of increasing productivity of forest lands and reducing land degradation in Gansu, Shaanxi, and Xinjiang. The project helped reduce degraded forest lands in the project counties by 233,500 ha⁸ and

⁵ Government of the People's Republic of China, National Development and Reform Commission. 2006. *The Outline of the Eleventh Five-Year Plan*. Beijing.

⁶ ADB. 2008. *Country Partnership Strategy: People's Republic of China, 2008–2010*. Manila.

⁷ The risks of carbon marketing and pricing should have been assessed as part of the project risks.

⁸ A substantial achievement of a 6.67% reduction in degraded forest compared to a target of 10%.

increased forest cover and tree density on 43,915 ha (target: 41,000 ha), leading to carbon sequestration of 642,500 tons.

12. The PCR also indicated that the project mostly achieved its planned output targets. Of the major indicators, output 1 achieved 39,084 ha (target: 39,500) of 12 varieties of economic tree crops planted, and benefited 215,250 rural households (target: 207,000).⁹ Output 2 resulted in total of 2,984 ha (target: 3,000) of degraded forest land in Gansu being restored and improved; tree cover and density on about 119,880 ha (target: 126,000) in Shaanxi being developed; and 1,106 ha (target: 1,000) of degraded forest land being secured in Xinjiang.¹⁰ Under output 3, about 150,981 persons (target: 200,000) received training in IEM.¹¹ Some minor targets were not achieved. For example, only 4 of the 21 of downstream enterprises originally planned for support were achieved.

13. Regarding safeguards, the PCR noted that the PPMOs confirmed that domestic environmental approvals were issued to all completed subprojects and that subprojects were established with no major deviation from the agreed designs or the environmental safeguards measures. However, there were no environmental safeguard monitoring reports available to verify the results. There was no involuntary resettlement, and all land transfers were on a voluntary basis. Ethnic minority activities were undertaken in Xinjiang where 57% of farmers were from indigenous groups. No issues were identified, except for insufficient reporting. On gender equity about 398,950 women farmers (50.2% of the total) were consulted for economic tree planting and development; 67,036 women (46.5% of the total) participated in the project training activities; and (iii) 40,178 jobs (40.8% of the total) created were for women, slightly exceeding the only 40% gender-disaggregated target.

14. This validation finds that outcomes 1 and 3 were substantially met and outcome 2 was fully met. With these accomplishments, the validation assesses the project effective.

C. Efficiency of Resource Use

15. The PCR rated the project efficient, although the process was less than efficient because the economic internal rate of return (EIRR) did not include the processing delays. The economic reevaluation showed that the project remained economically viable at completion, despite uneven performance across the three project areas. The EIRR was 18.8% at completion, marginally lower than 19.5% at appraisal. The EIRR was reestimated based on the same methodology used at appraisal with updated costs and revised projected benefits based on actual areas developed. The revised EIRR was estimated at 19.8% for Gansu, 22.4% for Shaanxi, and only 5.6% for Xinjiang, where the trees had lower survival rates and low yields because of harsh environmental conditions, higher maintenance costs, and lower economic values.

16. The project incurred a 2-year delay in completion, creating an inefficient process, partly due to issues with the loan documents that were attributable to ADB, and partly due to some inexperienced provincial project management offices. Despite this delay, the validation assesses the project efficient.

⁹ Mainstream IEM approaches applied to economic tree crop development.

¹⁰ Mainstream IEM approaches applied to ecological forestry development.

¹¹ Project management support strengthened to implement forest sector reforms using IEM approaches in the provinces, autonomous regions, counties, towns, and households.

D. Preliminary Assessment of Sustainability

17. The PCR rated the project likely sustainable. Regarding economic tree crops, it noted that most tree crop plantations had financial internal rates of return (FIRRs) that were higher than the weighted average cost of capital. The two major crops were apples and walnuts, with FIRRs at 23.2% and 21.7% respectively. Thus, participating farmers will likely maintain and grow these crops under the project. For ecological forest plantations, the PCR indicated that the extensive training and outreach activities laid a good foundation for post-project care, management, and protection of the planted trees and other forests in the three project areas. The IEM method was widely accepted and successfully established as a standard approach. The SFGA recognized the project's demonstrative effects and included these in its 2018 annual report. Although the PCR did not indicate the extent of IEM adoption in the PRC, it noted that the PRC has a good record in reforestation and place a high priority upon it. Thus, it is likely that efforts will be made to continue to maintain forests improved under the project. This validation notes the financial incentives for the economic tree crops component's sustainability. It also notes the likely continued use of IEM for the ecological forestry component. The validation assesses the project likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

18. The PCR rated development impact satisfactory on the use of forest land improved incomes and sustained livelihoods in Gansu, Shaanxi, and Xinjiang. The project exceeded all three impact indicators. The average net income of beneficiary households increased by 190%, much higher than the 30% target at appraisal. Rural employment increased by 99,800 jobs by 2018, more than doubling the performance target of 48,000 jobs. The hectareage of ecologically sensitive areas under protection increased by 141,450 ha between 2010 and 2018, exceeding the performance target of 130,000 ha. This validation notes that these two indicators—increases in beneficiary household net income and increase in rural employment—cannot be entirely attributed to the project given the PRC's impressive economic growth generally over the past decade or so. However, at least some of the increased rural employment can be attributed to the project itself and the achievement of increased protection of ecologically sensitive areas is a positive project impact. The PCR further noted that rural households owned 81% of economic tree crops, including 158,003 individual rural households and 4,165 farmer cooperatives or associations, benefiting 790,015 persons, of which 50.2% were women, 2.8% ethnic minorities, and 26.2% poor. The project also helped increase protection of ecologically sensitive areas by 141,450 ha, reduced forest land degradation by 233,500 ha, and contributed to carbon sequestration of more than 645,200 tons. With this information, the validation assesses the project impact satisfactory.

B. Performance of the Borrower and Executing Agency

19. The PCR rated the overall performance of the borrower and the executing agency less than satisfactory. This was in view of the start-up difficulties due to the implementing agencies' capacity. While the executing agency's capacity improved during project implementation, there were remaining performance gaps and loan covenant compliance issues—notably with respect to fulfilling ADB's environmental safeguards and ethnic minority development reporting requirements. Counterpart financing was also low throughout implementation, partly due to the government's inadequate provision, and partly due to inexperience in financial processes. Nonetheless, the borrower and the executing agency fulfilled most obligations during project

implementation. The national project management office provided overall project management, communication, consolidation of progress reports once every 6 months, supervision and monitoring, and training and other technical support. This validation notes that this was the first SFGA-managed ADB project and that, despite implementation delays due to ADB procedures and revisions of loan documents, the project was successfully implemented. Some weaknesses and delays can be expected in such circumstances, especially at the provincial level. However, lapses in reporting and the noncompliance with covenants, especially after repeated follow-up and requests from the main financier, were not acceptable. Thus, this validation assesses the performance of the borrower and executing agency to be less than satisfactory.

C. Performance of the Asian Development Bank

20. The PCR rated the performance of ADB less than satisfactory. It noted that ADB fielded seven review missions during implementation, including the midterm review mission in June 2015. ADB promptly worked with the executing agency to overcome initial implementation constraints and challenges and supported timely changes of some project activities that were no longer preferred because of the rapid changes in the PRC since the project's initial approval. The changes in scope from training in carbon marketing to ecotourism helped implementing agencies capture market opportunities and diversify SFF revenues. ADB supplemented the project implementation with knowledge support, including publishing IEM approaches and promoting the project through various avenues. Nonetheless, there were errors in the loan allocation table that delayed project start-up. There were also errors in defining and calculating carbon-related indicators in the project's framework that resulted in difficulty comparing achievements with targets. There was a lack of follow up for environmental monitoring data. Lastly, the mission leader was changed three times between 2016 and 2018 that caused delays and confusion in the executing agency. The validation notes these shortcomings and even though the project was successfully implemented, it assesses the performance of ADB as less than satisfactory.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

21. The PCR rated the project successful with ratings of relevant, effective, efficient, and likely sustainable. This validation assesses the project relevant as it was within the strategic policies and priorities of ADB, the national government, and the governments of the three project areas. It also tackled critical environmental and ecological problems and was designed as a demonstration effort to improve overall management practices in the tree crop and forestry sector. The project was also effective, meeting or substantially meeting its outcome targets and most output targets, as revised during implementation. It was also efficient with the overall EIRR above 12%, and likely sustainable with FIRR for the economic tree crops component well above the weighted average cost of capital. New improved forestry management modalities were implemented for the ecological forestry. This validation assesses the project successful.

Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Effective	
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Likely sustainable	
Overall Assessment	Successful	Successful	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Less than Satisfactory	Less than Satisfactory	
Performance of ADB	Less than Satisfactory	Less than Satisfactory	
Quality of PCR		Satisfactory	Para. 27.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Source: ADB (IED).

B. Lessons

22. The PCR's issues and lessons focused more on issues than on lessons. Topics covered were (i) optimistic project targets, (ii) implementation arrangements, (iii) monitoring and reporting, (iv) environmental and social safeguards, (v) carbon indicators design, (vi) market participation, and (vii) the carbon market. There are some project-level lessons that can be inferred from discussions of these issues with which this validation agrees. Project targets should be ambitious although realistically achievable. A large complex project, involving agencies inexperienced in internationally funded projects, requires implementation support, and this support should include training in monitoring and reporting. When including innovative design parameters, such as carbon targets, it would be useful to bring in technical expertise at the design stage to confirm that indicators are measurable and related to the project intervention. Project delays can affect downstream private or public sector enterprise participation. Furthermore, it would have been useful to discuss coordination with GEF. There are other instances in ADB's PRC portfolio where projects have struggled to integrate or align with GEF funding, however, this did not seem to be a challenge in this instance. It could have been helpful for the PCR to reflect on what went right in terms of GEF funding.

23. This validation provides two additional lessons, both at the project level. First, support to improve the agencies' institutional capacity involved in the preparatory work and implementation is necessary to ensure smooth execution of project activities and progress will remain on track. For example, project experience highlighted the required managerial support for agencies in view of the challenges encountered in implementing the social and environmental mitigation measures and related delays. During design stage and preparation, an in-depth assessment of the capabilities of executing and implementing agencies is an essential process to examine and address their weaknesses and constraints. In the PRC, several agencies have past experiences in managing ADB-funded projects and engaging the same agencies with prior sector, technical, and local expertise can provide an advantage for future projects.

24. Second, flexible implementation arrangements helps in enhancing a project's relevance and results. In some cases, project relevance may change during implementation due to lower demand or unexpected government policy that subsequently may require a change in project scope and targets. This provides an opportunity to modify or correct the project design to

strengthen its intended outcome at appraisal. For instance, the project was aimed to improve the carbon market development and preparedness for carbon market participation. However, carbon prices remained low and unprofitable due to the withdrawal of many enterprises. These, in turn, could diminish the project's development results. Thus, it had to reallocate the GEF funds from carbon trading efforts to promote education and ecotourism centers that could help in building the tourism activities in the PRC. A flexible arrangement allowed these changes to enhance project relevance and increase SFFs' resilience.

C. Recommendations for Follow-Up

25. The current country partnership strategy for the PRC has the overarching goal of supporting government efforts to achieve high-quality, green development through investments and knowledge solutions focused on, among others, the strategic priorities of environmentally sustainable development and climate change adaptation and mitigation.¹² This type of project would fit directly into this type of investment and, thus, further such projects would be expected to meet both ADB's and the PRC's priorities.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

26. The PCR reported that a project performance management system was established, however, the reporting quality was less than satisfactory. This was especially so with safeguard monitoring, an issue that was not resolved. The capacity constraints in the national project management office, PPMOs, and CPMOs were recognized during project preparation and a capacity development program was designed, however, there were no provisions for project management consultant support and the project management office lacked resources for day-to-day monitoring. The reporting quality gradually improved toward completion, although data quality remained inconsistent. No concrete measures were taken to enforce safeguard monitoring covenants.

B. Comments on Project Completion Report Quality

27. This validation assesses the PCR's quality satisfactory. The PCR is generally well-prepared in clear and direct language. It is candid and meets the requirements of the guidelines and has no obvious flaws. Some additional justification of the ratings of the four core criteria, especially on relevance and effectiveness, would have been welcomed. This validation also notes that there are unclear lessons in the issues, lessons, and recommendation sections.

C. Data Sources for Validation

28. Data sources used for validation were the report and recommendations of the President, the PCR, national development plans, country partnership strategies, and various memos on minor change of scope.

¹² ADB. 2021. *Country Partnership Strategy: People's Republic of China, 2021–2025 —Toward High-Quality, Green Development*. Manila.

D. Recommendation for Independent Evaluation Department Follow-Up

29. This project was important in promoting, testing, and demonstrating the IEM concept and initially upon completion has been rated as successful. However, tree crop projects typically have a long-term gestation period, and it will take time before the project reaches both its full productive potential and full ecological protection potential. Since it is possible that there will be future such projects (in view of its success and the country partnership strategy priorities), a full review of the project through the preparation of project performance evaluation in 2023 or later, looking particularly at institutional issues, would be a valuable guide to future design of forestry projects.