# The Urban Sector in the People's Republic of China

A review from the 2007 Country Assistance Program Evaluation on the People's Republic of China: *Success Drives Demand for More Innovative and Responsive Services*

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# Abbreviations

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| ADB | Asian Development Bank |
| ADTA | advisory technical assistance |
| CAPE | country assistance program evaluation |
| MOF | Ministry of Finance |
| NDRC | National Development and Reform Commission |
| O&M | operation and maintenance |
| PMO | project management office |
| PPTA | project preparatory technical assistance |
| PRC | People's Republic of China |
| PRCM | PRC Resident Mission |
| TA | technical assistance |
| TCR | technical assistance completion report |
| TPAR | technical assistance performance audit report |

# Note

In this report, "$" refers to US dollars.

# Contents

# I. Introduction

1. The special evaluation study on the urban sector[1] reported that, during the reorganization of the Asian Development Bank (ADB) in 2002, the water supply, urban development, and housing divisions of ADB were abolished, leading to the distribution of urban sector expertise across the new regional departments. Water supply and sanitation projects, along with integrated urban development projects, were isolated from urban environmental projects and urban housing finance projects. In July 2004, ADB revised its sector and theme classifications for projects, which eliminated the macro-sector of social infrastructure (and with it, the urban development and housing sector). Integrated urban development projects were mixed with rural projects under the multisector category. It was not clear how water supply, sanitation, and waste management projects could now be distinguished from multisector projects. Within the new list of seven thematic clusters, there is no "urban development" cluster, and the new classification makes tracking of urban sector work difficult.[2]

2. During the 1998–2005 country assistance program evaluation (CAPE) period[3], ADB approved 10 loans equal to $1.2 billion related to the urban sector[4] in the People's Republic of China (PRC). However, eight of these were under the water supply and wastewater subsector. Although ADB's lending operations in the PRC are still dominated by loans to the transport sector, the amount of loans approved for the water supply and wastewater subsector during this period increased by 220% compared with 1990–1997. This was much higher than the growth recorded in other sectors or subsectors. This strong increasing trend partly reflects a deeper commitment to ADB's country strategy and water policy of reducing water-related infrastructure bottlenecks in selected urban centers. Within the water supply and wastewater subsector, the 1998–2005 lending shifted toward waste management projects (53% of loan amount) and integrated projects (33%), in contrast to earlier lending that invested solely in water supply and sanitation.

3. Table 1 presents the sector issues and strategies behind the trends.

**Table 1: Features of and Strategies for the Urban Sector**

| Sector Characteristics | PRC Government Strategy | ADB Sector Strategy | Lessons Identified in Previous Reports |
|---|---|---|---|
| The PRC has the largest number of urban residents in the world, with an urbanization rate of 43% in 2005. Metropolitan regions are expanding rapidly through undirected | Promote town-based urbanization by (i) allowing rural residents to permanently relocate to towns within their counties; (ii) allowing farmers to sell their farming rights to encourage economies of scale in production; and (iii) promoting industrialization in | Selectively pursue loans to improve water supply, conservation, and sanitation in rapidly expanding urban centers, targeting executing agencies with strong repayment capacity. | |

[1] ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.
[2] The World Bank has an urban cluster among the 11 themes that it pursues.
[3] ADB. 2007. *Country Assistance Program Evaluation for the People's Republic of China: Success Demand for Move Innovative and Responsive Services.* Manila.
[4] Aside from those officially categorized under the water supply, sanitation, and waste management sector, loans and advisory technical assistance from multisector and energy sectors that relate to urban operations had been discussed in review.

| Sector Characteristics | PRC Government Strategy | ADB Sector Strategy | Lessons Identified in Previous Reports |
|---|---|---|---|
| suburbanization, leading to conversion of agricultural land. | towns. | | |
| Variations in urbanization across cities imply a need for adjustments to specific urban policies and investment operations. | | | The commitment of local government to the success of projects is the single most important factor. |
| Some 30% of populations in metropolitan regions are migrants. There is a high degree of seasonal or temporary migration, owing to secure tenure rights to rural land enjoyed by farmers. | | Ensure that rural migrants have access to job opportunities and that urban poverty does not increase substantially by addressing issues such as the supply of clean water, water pollution, air quality, and solid waste management. | |
| Squatter settlements are few and small because of the availability and affordability of urban land for lease. | | | |
| Pressure from rapid industrial growth and increased migration exceeded progress in building urban infrastructure and the local government's capacity to finance and deliver public services. Subsidization still exists in housing, water supply, and sanitation, leading to misallocation of resources, inefficient pricing structures, and crowding out of private sector investment. | | Promote cost recovery through user charges and encouragement of private sector involvement. ADB assistance will focus on (i) water supply and distribution; (ii) sewage and wastewater treatment; (iii) water conservation and resources development; (iv) improvement of degraded water bodies; (v) solid waste reduction, recycling, treatment, and disposal; (vi) clean technologies; and (vii) industrial waste treatment and industrial recycling. | Through policy reform assistance and investment support, ADB was able to demonstrate that investments in healthy urban environments can be financially viable. |
| Urbanization has led to growing traffic congestion and air pollution arising from growth in motorized transport, as well as additional energy demands for electric | | Improve the urban environment (including air pollution abatement). Road projects will include highways complemented by feeder roads to rural communities and improvement of urban | ADB should continue its approach in the environment sector and extend this to green issues,[b] possibly with cofinancing from Global Environment Facility to address cost-recovery |

| Sector Characteristics | PRC Government Strategy | ADB Sector Strategy | Lessons Identified in Previous Reports |
|---|---|---|---|
| power, heating, and construction. | | transport systems.[a] | and ADF resource unavailability. |
| Air and water pollution continue to be serious problems in cities and are spreading across suburban areas. | Improve the environment in 52 major cities where pollution is most severe, prevent further degradation of natural ecosystems, and integrate environmental protection into national economic and social development planning. | Address urban environmental problems and prevent contamination of drinking water, by reducing bottlenecks in water supply, wastewater treatment, solid waste, and air pollution control. Address air and water pollution and solid waste in urban areas. | The ADB environmental contribution was significant because of a judicious combination of the size and sequencing of TAs and loans, ADB's long-term relationship with SEPA, combined efforts of ADB departments, and the existence of an ADB focal point for overall management of TAs dealing with the environment. |
| Supply constraints (mostly in central and southern PRC) arose because of a lack of quality management, and the unprofitability of water companies owing to insufficient revenue from tariffs. Available water is also too polluted to use. | Government strategy focused on developing and managing water sources, controlling groundwater over extraction, introducing water-efficient technologies, and using pricing mechanisms to encourage conservation and fund generation. Government guidelines for urban water supply emphasized proper planning, mobilizing resources for new construction, full cost recovery from industrial/commercial users, and O&M cost recovery from residential users. | Operational strategy in the water sector would focus on (i) improving efficiency of water supply and distribution system, (ii) promoting improved corporate governance and management for greater private sector involvement, (iii) strengthening tariff systems for raw water and treated water, and (iv) continuing support of legislative and regulatory provisions governing water pollution and natural resources management. | In areas where populations are large and water is scarce, it is possible to price water at its scarcity value through a series of reasonably large tariff increases complementing water management measures. |
| Wastewater and sewerage subsector hampered by insufficient treatment facilities to meet demand, inadequate funding to capital investment, and need for tariff reforms. | Existing sources of water can be protected by controlling industrial, municipal, and non-point pollution, increasing wastewater treatment, and using of recycled water by industries. | | ADB's sewerage and sanitation investments tend to be one-off interventions instead of integrated. |

ADB = Asian Development Bank, ADF = Asian Development Fund, PRC = People's Republic of China, O&M = operation and maintenance, SEPA = State Environmental Protection Administration, TA = technical assistance.

[a] The 2000 country assistance plan did not mention urban transport, urban air pollution, and urban energy conservation.

[b] Green issues focus on the long-term preservation of the natural environment, especially living natural resources, as contrasted from brown issues, which refer to environmental degradation that have immediate health outcomes, particularly in an urban setting, like wastewater and air pollution.

Source: Asian Development Bank.

4. Of the 10 loans approved during the CAPE period, two have been completed: Fuzhou Water Supply and Wastewater Treatment Project[5] and Suzhou Creek Rehabilitation Project.[6] Eight are ongoing and two became effective only in 2006: Fuzhou Environment Improvement Project[7] and Henan Wastewater Management and Water Supply Project.[8] ADB provided 13 project preparatory technical assistance (PPTA)[9] to develop water supply and wastewater projects and five PPTAs for other urban concerns, totaling $11.3 million.

5. ADB has recognized the need to address cross-boundary water pollution at the river basin level through integrated river basin planning and management. Two advisory technical assistance (ADTA) grants were provided to improve environment planning and management for two of seven river basins in the PRC: (i) Hai River Basin[10] in central and northern PRC, and (ii) Songhua River Basin.[11] Their outcomes led ADB to concentrate on these two river basins. Three loans were approved for the Hai River basin: Tianjin Wastewater Treatment and Water Resources,[12] Hebei Province Wastewater Management,[13] and Henan Water Project (footnote 7). Two loans were approved for the Songhua River basin: Harbin Water Supply[14] and Jilin Water Supply and Sewerage Development.[15]

6. The Fuzhou Water Project (footnote 4) approved in 1998 and the Suzhou Creek Project (footnote 5) approved in 1999 represent ADB's classic lending operations in the sector, i.e., they deal with a single city and a small number of subprojects. However, the Hebei Water Project (footnote 12) in 2002 was a multicity pilot test and financed five wastewater treatment plants in four cities. The Henan Water Project (footnote 7) in 2005

[5] ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Fuzhou Water Supply and Wastewater Treatment Project*. Manila (Loan 1636-PRC, for $102 million, approved on 30 September).

[6] ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the People's Republic of China for the Suzhou Creek Rehabilitation Project*. Manila (Loan 1692-PRC, for $300 million, approved on 29 June).

[7] ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Fuzhou Environmental Improvement Project*. Manila (Loan 2176-PRC, for $55.8 million, approved on 29 July).

[8] ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Henan Wastewater Management and Water Supply Sector Project*. Manila (Loan 2207-PRC, for $100 million, approved on 9 December).

[9] Including supplementary PPTA.

[10] ADB. 1998. *Technical Assistance to the People's Republic of China for Hai River Basin Wastewater Management and Pollution Control*. Manila (TA 3095-PRC, for $570,000, approved on 10 November).

[11] ADB. 2002. *Technical Assistance to the People's Republic of China for Songhua River Water Quality and Pollution Control Management*. Manila (TA 4061-PRC, for $1 million, approved on 19 December).

[12] ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Tianjin Wastewater Treatment and Water Resources Protection Project*. Manila (Loan 1797-PRC, for $130 million, approved on 11 December).

[13] ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Hebei Province Wastewater Management Project*. Manila (Loan 1985-PRC, for $82.4 million, approved on 19 December).

[14] ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Harbin Water Supply Project*. Manila (Loan 1995-PRC, for $100 million, approved on 11 March).

[15] ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Jilin Water Supply and Sewerage Development Project*. Manila (Loan 2175-PRC, for $100 million, approved on 18 July).

represented a formal break from the classic model and had 19 subprojects (15 for wastewater management and 4 for water supply) covering 16 counties and 1 urban district.

7. ADB provided $10 million to finance 13 ADTAs from 1998 to 2005, six of which are related to water supply and wastewater ($4 million). These ADTAs performed important reform functions at the national level, and often jumpstarted capacity building of local institutions. These ADTAs were mainly focused on two themes: (i) tariff policy and service delivery guidelines of urban environmental infrastructure, and (ii) urbanization strategy and policies. These technical assistance (TA) grants also supported policy dialogue with core national government agencies, such as the Ministry of Construction, the National Development and Reform Commission (NDRC), and the State Environmental Protection Administration.

8. Four TAs were implemented with the Ministry of Construction during 1997–2001. These were developed under a systematic approach to address priority urban environmental infrastructure issues. The approach of the Water Tariff Study II[16] on the reform of urban water supply tariff policy was soon replicated and expanded to TAs on urban solid waste[17] and wastewater tariffs.[18] Building on these TAs on urban water supply and sanitation, ADB developed a TA in 2003 to address the reform and service delivery of water supply and sanitation in rural areas.[19] Recognizing the significant impact of rapid urbanization on the PRC's socioeconomic development, ADB also provided a couple of TAs on urbanization policy, with a 2004 TA focused on town-based urbanization policies[20] and a 2005 TA on sustainable development of metropolitan regions.[21]

9. This urban sector assessment will be based mainly on these 10 loans and 13 ADTAs.

# II. Assessment of Loans

10. **Relevance.** Overall, the 10 loans are assessed highly relevant to both ADB and PRC strategies. They fully support ADB's water policy and are consistent with ADB's country operational strategy and thematic and sector priorities. Given the procedure of project identification for ADB financing, the loans are naturally in line with the Government's strategy and investment priorities, especially

[16] ADB. 1999. *Technical Assistance to the People's Republic of China for the Water Tariff Study II*. Manila (TA 3250-PRC, for $950,000, approved on 3 September).
[17] ADB. 2000. *Technical Assistance to the People's Republic of China for Strengthening Urban Solid Waste Management*. Manila (TA 3447-PRC, for $600,000, approved on 25 May).
[18] ADB. 2001. *Technical Assistance to the People's Republic of China for Preparing the National Guidelines for Urban Wastewater Tariffs and Management Study*. Manila (TA 3749-PRC, for $700,000, approved on 25 October).
[19] ADB. 2003. *Technical Assistance to the People's Republic of China for Safe Drinking Water and Sanitation for the Rural Poor*. Manila (TA 4215-PRC, for $400,000, approved on 12 November).
[20] ADB. 2004. *Technical Assistance to the People's Republic of China for the Town-Based Urbanization Strategy Study*. Manila (TA 4335-PRC, for $750,000, approved on 6 May).
[21] ADB. 2005. *Technical Assistance to the People's Republic of China for the Study on Sustainable Urbanization in Metropolitan Regions*. Manila (TA 4702-PRC, for $500,000, approved on 28 November).

those on environment control and improvement programs of river basins. Henan Water Project (footnote 7) was one of the first water supply and wastewater projects to involve mostly county-level governments in the PRC. As a result, the physical size and cost of its subprojects are far smaller than those in previous water supply and wastewater.[22] The majority of participating counties have also limited or no previous involvement with foreign-financed infrastructure projects. ADB recognized the challenges halfway through project preparation and decided to restructure this as a sector loan. The Henan provincial management office has been very satisfied with the sector loan approach and has encouraged lower-tier government and agencies to participate in the project. The project completed start up requirements and became active 5 months after approval, compared with the 11-month average for other ADB water supply and wastewater projects in the PRC.

11. **Effectiveness.** Based on their potential outcomes as described below, the urban sector projects are assessed effective. Only two of the 10 projects had been closed at the time of evaluation. The Fuzhou Water Project (footnote 4) achieved its immediate objective of improving the quantity and quality of water supply and reducing environmental contamination of the Min River and the inland creeks in Fuzhou city. The new water supply system diverted cleaner water from the Ao River to replace part of the raw water supply (120,000 cubic meter [$m^3$]/day) from the Min River, and has increased the water supply to Fuzhou City from 740,000 $m^3$/day at appraisal to 800,000 $m^3$/day at project completion. The project's construction of the Yang Li wastewater treatment facilities has reduced pollution of the Min River and creeks in Fuzhou urban area by improving the quality of the water intake from the Min River from class IV to class III, and by gradually improving water quality from urban creeks from lower than class V to between class IV and V. About 50% of the wastewater generated in Fuzhou is now being treated as anticipated during appraisal, compared with 15% when the project began. All physical project facilities were completed before loan closing and are in operation.

12. The Suzhou Creek Project (footnote 5) may also be considered effective, having achieved most of its envisaged objectives. The immediate objectives of removing discolored and foul-smelling water, closing down night soil and solid waste collection wharves along the creek banks, and removing floating debris were achieved as scheduled. The short-term objectives of restoring class V and IV water quality standards in the lower and upper reaches of Suzhou Creek were achieved ahead of schedule. The long-term objectives are expected to be achieved by 2010.[23]

13. With regard to the substantially completed[24] water supply and wastewater projects, their executing agencies consider them to be effective in achieving their

[22] For example, the average size of ADB subloans for the 19 subprojects is about $5 million, which is about 10% of the average scale of ADB lending per subcomponent in a regular water supply and wastewater project.

[23] These involve restoring class IV water quality standards in the lower Suzhou Creek, restoring aquatic life to the creek, and extending the green space and parks along the creek banks.

[24] Tianjin Wastewater (footnote 11), Hebei Water Project (footnote 12), and Harbin Water Project (footnote 13), and ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Wuhan Wastewater Management Project*. Manila (Loan 1996-PRC, for $83 million, approved on 25 April).

physical performance objectives. While the newly-built water supply facilities under Harbin Water Project (footnote 13) are being operated at fully installed capacity, the wastewater treatment plants may not achieve full capacity within the first 2 years of operation as expected. However, the executing agencies are satisfied with the immediate outcomes, especially the improvement of the water environment at project locations. They have expressed confidence that these projects will also achieve their long-term objectives.

14. With the Acid Rain Control and Environmental Improvement Project,[25] the relatively low cost of technological renovation offered through the project encouraged enterprises to shift to more environmentally-friendly systems. Half of the project enterprises have been privatized and the new owners have either opted to utilize the loan proceeds to implement the subprojects or to finance the environmental improvements themselves. As of October 2005, one of the (nonprivatized) subprojects still emitted pollutants, because of the enterprise's decision not to replace furnaces.

15. **Efficiency.** Overall, the projects in the sector are assessed efficient. ADB's strong comparative advantage in financing water supply and wastewater facilities has been widely recognized. The good performance of the nine loans confirmed that ADB-financed water supply and wastewater projects are efficiently supervised and implemented, owing in part to generally well-prepared PPTAs. However, project implementation issues were still observed in these projects.[26]

(i) **Start-up delay.** The projects incurred an average delay of 10.2 months before loan effectiveness, owing to difficulties in obtaining approvals for onlending agreements[27] and project feasibility study reports, borrowers' continual modifications of project components or financing plans, executing agencies' and implementing agencies' lack of familiarity with ADB procedures, counterpart staffing delays, and general mismatches between ADB and the PRC project approval procedures.

(ii) **Delays in procurement.** These have been caused by both ADB and PRC internal review and approval procedures (especially for bid documents), poor translation into English of nonstandard documents, and the inexperience of ADB staff compared with staff at some PRC international tendering companies.[28]

(iii) **Loan savings and cancellations.** The two closed projects (footnotes 4 and 5) recorded significant loan savings, totaling 41% of the $402 million loans approved. These arose from actual contract awards being lower than the original estimates,[29] overestimation of costs, inflation[30] concerns,

[25] ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of China for the Acid Rain Control and Environmental Improvement Project*. Manila (Loan 1890-PRC, for $147 million, approved on 19 December).

[26] ADB and PRC agencies have been continuously working on measures to address these issues. Recently, an action plan had been drafted by the PRCM in consultation with the Ministry of Finance (MOF) and NDRC to improve portfolio performance.

[27] From MOF through provincial and municipal finance bureaus down to the agency responsible for loan repayment.

[28] ADB. 2005. *PRC Water Supply, Sanitation and Waste Management Portfolio Performance Review*. Manila (page 10).

[29] Common throughout ADB-financed projects in the PRC.

[30] Prices in the PRC were relatively constant or even declined in some years over the CAPE review period.

availability of additional low-cost funds,[31] and discontinuation of project components, e.g., in the Suzhou Creek Project (footnote 5).

16. Although the Acid Rain Control Project (footnote 24) had a slow start because of reforms affecting the project companies and shortages of funds, it had recovered time by the beginning of the third year of implementation. Equipment for monitoring the environmental effects of the subprojects had mostly been installed,[32] and provincial and county personnel had been trained on environmental monitoring. Environmental awareness activities had been held in cooperation with local communities and schools.

17. **Sustainability.** Based on the completed projects and potential of the ongoing projects, the urban sector projects are considered sustainable. The newly constructed assets under Fuzhou Water Project (footnote 4) and the Suzhou Creek Project (footnote 5) are considered to be financially sustainable because of the following factors:

(i) ADB's extensive experience of and strong expertise in preparing and managing capital investments for water supply and wastewater facilities, as evidenced by the technically and commercially sound technology adopted for these project facilities;
(ii) transfer of the newly-constructed facilities to existing water and sewage companies that have operated similar facilities for many decades and have extensive experience of operation and maintenance (O&M);
(iii) measures taken by executing agencies to ensure smooth transition from construction to operation;
(iv) project-financed training for more efficient operation of these new facilities;[33]
(v) setting water and wastewater tariffs based on market prices and regular increases aimed at full recovery of O&M costs, depreciation, and debt service of project facilities;[34] and
(vi) NDRC's insistence on the loan repayment capability of executing agencies required that the financed facilities be made financially viable, thus guaranteeing revenue streams to finance their O&M.

18. To the extent that the seven ongoing water supply and wastewater projects reflected similar arrangements for tariff reform and training, the sustainability of facilities operation beyond project completion will also be most likely. However, in the case of the Acid Rain Control Project (footnote 24), most of the industrial enterprises that assisted in the project opted to use only a small part of the loan funds for international training of

[31] In the form of ad hoc grants or state bond funds.
[32] Unfortunately, while the loan built water treatment plants for key enterprises, the poor connection between plant drainage and transformer stations meant that wastewater and solid waste treatment ratios were comparatively low, requiring additional resources to construct the drainage and transformer station.
[33] Under the Suzhou Creek Project, guidelines and manuals were produced, and a monitoring system was established to ensure proper O&M of the sewage facilities. Training programs were conducted to help improve technical and managerial skills of personnel. Training was provided under the Fuzhou Water Project for the establishment of maintenance policies and procedures for project facilities.
[34] For the Fuzhou Water Project, the municipal government has assured ADB that community awareness campaigns and public consultations on tariff increases will continue and that tariffs will remain transparent, adequate, and affordable.

O&M staff. They failed to see the need to adopt modern management techniques and were reluctant to spend money on foreign training. This lack of exposure to modern management techniques and limited amount of research and development could adversely affect prospects for sustaining project benefits.

19. **Impact of Loans.** Impact is evaluated by looking at actual and expected contributions to the sector's long-term development, institutional capacity building, and better use of resources. The assessment is, therefore, based largely on available information on trends in achieving immediate outcomes and improvement in institutional capability. During the CAPE period, ADB assistance contributed to knowledge transfer and capacity building in the sector through the introduction of modern information systems and technology, service and O&M standards, cost recovery and pricing, corporate governance, and regulations. Combined with the executing agencies' own contributions, these are expected to ensure long-term benefits to urban sector development. The two completed projects (the Fuzhou Water Project and Suzhou Creek Project, see paras. 11–12) have been making progress in achieving their immediate outcomes, e.g., additional water supply, pollution control through wastewater treatment, and successful completion of the physical facilities. The rest of the projects are likely to follow the same positive trend, given strong ownership and commitments from their respective executing agencies. Thus, the long-term impacts are modest.

*ADB assistance contributed to knowledge transfer and capacity building in the urban sector through the introduction of modern information systems and technology, service and operation and maintenance standards, cost recovery and pricing, corporate governance, and regulations. Combined with the executing agencies' own contributions, these are expected to ensure long-term benefits to urban sector development.*

# III. Assessment of Advisory Technical Assistance

20. **Relevance.** The ADTAs were usually provided by ADB at the request of government agencies. The TAs mostly concerned Government priorities and executing agencies had substantial involvement in TA design. The cluster TAs on water, wastewater, and solid waste tariff issues provided to the Ministry of Construction are a good example, as the relevant divisions of Ministry provided background information, reviewed the terms of reference, and commented on various aspects that improved the TA designs. NDRC also provided substantial input to the design of two urban policy TAs, helping to focus on issues of high priority to the Government. The ADTA on Town-Based Urbanization Strategy (footnote 19) was provided in 2004 to address NDRC's request for a review of policies that can strengthen towns' absorption of rural-urban migration by establishing sound town development strategies in Shanxi and Liaoning as case studies. This was followed by a TA on sustainable development of metropolitan regions (footnote 20), which was ADB's response to government interest in promoting urbanization in metropolitan regions in order to generate a wide range of employment opportunities for rural migrants. However, local governments had less involvement in

urban TA design, as in the case of the small-scale TA provided to a suburban district government.[35]

21. The 10 ADTAs are assessed as relevant to ADB strategies at the time. The TA on Strengthening Urban Solid Waste Management (footnote 16) was part of ADB's thematic activities focusing on policy dialogue with the Ministry of Construction. It was designed to establish and improve national guidelines for water, wastewater, and solid waste services, which are core environmental issues. The TA on National Guidelines for Urban Wastewater Tariffs and Management (footnote 17) conforms to ADB's water sector policy and country assistance strategies in the PRC. Modeled on the successes of three previous TAs (two on water tariffs[36] and one on solid waste [footnote 16]), it sought to expand ADB's involvement in the urban service tariff policy dialogue, from water supply and solid waste subsectors to wastewater. The TA on Safe Drinking Water and Sanitation for the Rural Poor (footnote 18) was approved in 2003 under ADB's pro-poor strategy. Recognizing the need to expand ADB's lending operations on water supply from the urban centers to gradually cover the rural area, this TA tried to explore the potential policy impact that ADB could have on rural water supply and sanitation in the lead up to country strategy and program formulation.

22. Some of these conventional ADTAs were perceived to be one-off interventions, thus possibly leaving significant gaps in terms of policies and investments to which ADB can still contribute. In the case of the TA on strengthening solid waste management and (footnote 16), ADB's impact and involvement in policy dialogue with government could be scaled up after the TAs' completion through follow-on TAs or PPTAs for potential loans.

23. The consultants' terms of reference were mostly clear, comprehensive, and appropriate for attaining TA objectives. Their activities follow a logical sequence. However, in some cases, TA objectives were too ambitious, and potential constraints were not fully examined during design preparation. In the case of the TA improving environmental management in Suzhou Creek,[37] the design of the dynamic water quality and pollution monitoring model incorrectly assumed that data would be available. These data deficiencies adversely affected the accuracy and value of the resulting water quality model.

24. **Effectiveness.** ADTAs during the second half of the CAPE review period were more selective and focused on key themes prioritized in both ADB's country strategy and the Government's policy initiatives. They also reflected the finding of the 2001

[35] ADB. 2000. *Technical Assistance to the People's Republic of China for the Assessment of Small and Medium Cities Urban Infrastructure Development*. Manila (TA 3521-PRC, for $150,000, approved on 25 October).
[36] ADB. 1997. *Technical Assistance to the People's Republic of China for the Water Supply Tariff Study*. Manila (TA 2773-PRC, for $600,000, approved on 24 March), which was approved prior to this CAPE period and the TA identified in footnote 15.
[37] ADB. 1999. *Technical Assistance to the People's Republic of China for Improving Environmental Management in Suzhou Creek*. Manila (TA 3211-PRC, for $840,000, approved on 29 June).

technical assistance performance audit report (TPAR)[38] that urban development ADTAs were more successful if they focused on water supply and sanitation, where ADB has a comparative advantage. Given the small number of TAs in the urban sector,[39] spreading assistance widely may have diluted their impact. Since ADB has provided limited assistance to the urban sector, it does not have a strong track record of responding to complex urban issues and the Government has tended to approach other multilateral development banks for policy advice on such matters.

25. The ADTA on Improving Environmental Management in Suzhou Creek (footnote 36) was provided in association with the related loan to assist the executing agency in exploring market-based instruments for water quality management, particularly wastewater trading systems.[40] This TA reflected one of the recommendations in the first CAPE "to focus ADB's TA program to link directly with the lending program in PRC." The TA prepared basic procedures and guidelines to implement the wastewater permit trading system, but the executing agency has not been able to set up such a trading system. The TA completion report explained that this is a multistage process and that adequate time should have been allowed to develop the capacity and readiness of local environment managers before establishing such a permit trading system. The TCR also hinted at technical difficulties[41] in implementing such a program. The ADTA on Shanxi Air Quality Improvement[42] was more successful in establishing an emissions trading system for sulfur dioxide in Taiyuan City. As a result of the TA, the Taiyuan Municipal Government passed a regulation for emission trading and designated a vice mayor to enforce the total sulfur dioxide emissions quota monitoring and trading program, which involved 26 enterprises. At least two emission trades had been reported at the time of TCR preparation, clouded only by the passage of a national law on good governance that cast doubts on the local government authority for emissions trading. Despite this, the success of the TA proves that emissions trading is feasible in the PRC.

26. The ADTA on Water Tariff Study II (footnote 15) was a continuation of the policy dialogue on national water tariff guidelines initiated by ADB under a previous ADTA (footnote 35) in 1997. The study was a logical next step in the PRC's water tariff reform. It was requested by government in 1999 to continue the momentum from the successful formulation of national guidelines on water tariffs. Water Tariff Study II outputs included

[38] ADB. 2001. *Technical Assistance Performance Audit Report on Urban Development Advisory Technical Assistance to the People's Republic of China*. Manila. This TPAR has been criticized as an unfair assessment because it did not take account of the historical context and priorities at the time.

[39] Only 10 water supply and wastewater management ADTAs have been approved out of the total 148 ADTAs from 1998 to 2005.

[40] A wastewater trading system is a mechanism for regional environmental pollution control adopted in many developed countries. Since water suppliers can face very different costs to control the same pollutant, trading programs allow facilities facing higher pollution control costs to meet their regulatory obligations by purchasing environmentally equivalent or superior pollution reductions from another source at lower cost, thus achieving the same water quality improvement at lower overall cost. Available: http://www.epa.gov/OWOW/watershed/trading.htm.

[41] For instance, since Shanghai is situated in a relatively flat plain, it was difficult to define the watershed and the basin's assimilative capacity. Source: ADB. 2003. *Technical Assistance Completion Report on Improving Environmental Management in Suzhou Creek*. Manila.

[42] ADB. 1999. *Technical Assistance to the People's Republic of China for the Shanxi Air Quality Improvement*. Manila (TA 3325-PRC, for $700,000, approved on 7 December).

preparations to implement the national guidelines in Zhangjiakou, issue NDRC orders promoting urban water tariff reforms in all PRC cities based on the lessons learned in Zhangjiakou, and develop new policies on tariff reform using feedback from the TA workshops and outputs. The water tariff reforms were so successful in Zhangjiakou that they were soon replicated in other cities, such as Chengdu and Fuzhou, and the PRC Premier directly acknowledged the TA's contributions. Completion of the project marked 4 years of successful ADB support for water tariff reforms in the PRC, establishing ADB's reputation in the PRC's water sector, and laying out a successful model for promoting policy dialogue with the Government through TA activities. The TA-proposed water tariff reforms were fully addressed in ADB's follow-up loans on the water supply. ADB's TA for water tariff reforms has been highly effective, and its achievements have been recognized within ADB and by the PRC. Similar approaches were followed in two ADTAs on wastewater and solid waste policies.

27. The major output of the ADTA on Strengthening Urban Solid Waste Management (footnote 16) was a detailed national strategy for strengthening urban solid waste management in PRC cities, which included tariff charges for and gradual marketing of waste services. National and municipal staff also gained extensive knowledge on solid waste management from the TA, while additional outputs from a supplementary study developed implementation guidelines on public-private partnerships for solid waste management. The Ministry of Construction was satisfied with the TA outputs and indicated that the Government is fully committed to the strategy's implementation.

28. Two early TAs (Suzhou Creek [footnote 36] and Small City Urban Infrastructure [footnote 34]) had well designed and effectively implemented training and capacity building components. For instance, training received by staff and local engineers under the Suzhou Creek TA proved very useful in updating and recalibrating the water quality model after TA completion. Although there was no formal training component for the remaining eight ADTAs, some executing agencies mentioned that they benefited from staff capacity building through the TAs' implementation, particularly the TA on a Town-Based Urbanization Strategy (footnote 19) regarding the preparation of development plans and investment programs, and the TA (footnote 9) on Hai River Basin involving planning capabilities in wastewater management and pollution control.

29. The cluster approach used under the TA on the Promotion of Clean Technology[43] was rated largely successful in sequentially implementing its six subprojects and managing the tasks under different agencies. After laying out the policy for clean production, the TA undertook an advocacy program to influence legislation that would enable the clean technology to be developed. Assistance to enterprises was postponed until late in the project period, after the environment had been set for township and village enterprises to adopt clean production techniques on their own. The TCR proposed that further integration of clean production technologies into government policy would require continued ADB engagement with NDRC, Ministry of Science and Technology, Environment and Resource Protection Committee of the National People's Congress, State Economic and Trade

[43] ADB. 1998. *Technical Assistance to the People's Republic of China for the Promotion of Clean Technology*. Manila (TA 3079-PRC, for $3.5 million, approved on 29 September).

Commission, State Environment Protection Administration, and the Ministry of Agriculture over the long term.

30. ADB has provided valuable training and assistance on environmental impact assessment in the PRC, paving the way for the operation of 200 class A and 800 class B environmental impact assessment-licensed organizations, which play a role in managing industrial pollution and non-point pollution.

31. **Efficiency.** The TCRs available at the time of evaluation for four water supply and wastewater TAs recorded average delays of 15 months in terms of TA completion, which prevented the timely delivery and dissemination of TA outputs. For instance, one of the key objectives of the TA on Safe Drinking Water for the Rural Poor (footnote 18) was to prepare a medium-term rural water supply and sanitation sector plan and investment strategy for 2006–2010. The TA was originally scheduled for completion by March 2005 to support the preparation of the 11th Five-Year Plan by the end of 2005. However, the TA was not completed until March 2006 and the 1-year delay undermined the value of the TA outputs.[44]

32. Executing agencies are not involved in the selection of TA consultants (although they are informed of the consultant shortlist and ADB inquires whether an executing agency has had prior unsuccessful working experience with any of the shortlisted companies). While the executing agencies expressed general satisfaction with the engagement of consultants, one common complaint was that ADB international consultants often do not have previous experience of working in the PRC and thus have limited knowledge and understanding of the topics they are supposed to work on. This imposes an additional burden on the executing agencies in terms of time[45] and effort[46] required to educate them, and in many cases, the consultants' unfamiliarity with the PRC situation led to TA outcomes and recommendations that were not relevant to the PRC. In such cases, the core research work and major outputs of the study may depend more on the contributions of national consultants hired by foreign consultant firms.

33. Although the TA on improving the Suzhou Creek environment (footnote 36) was completed within schedule and budget, the water quality modeling it developed could not be used because of data deficiencies. The model required a large amount of data that often did not exist or were restricted, prompting the TCR to note that, for future projects, the client should provide assurance that required data will be provided. The training component provided off-shore training to six officials from the municipal environmental protection bureau and was recognized as an excellent opportunity for knowledge transfer in water quality modeling.

34. The executing agencies expressed satisfaction with the supervision by ADB project officers, particularly during the early stages of the TA. Typically, ADB conducted

[44] Although initial findings and draft reports were presented earlier to the Government for incorporation in the 11th Five-Year Plan.
[45] About 3 to 4 months in the case of Ministry of Construction TAs.
[46] In fact, on average, the learning and orientation stage accounted for one-third of the international consultants' time. International consultants would start report writing only after an extended period of doing research, effectively crowding out TA resources for more productive work.

three to four supervision missions for a TA during its implementation period, and most executing agencies considered this to be adequate.

# IV. Key Issues

35. Overall, ADB has not been able to seize the opportunities offered by the extensive urbanization in the PRC during the CAPE review period to increase the size and quality of its urban operations significantly:

(i) ADB does not appear to have a clear urban strategy for the PRC, except for the 1999 ADB-wide urban sector strategy and water sector policy. This contributes to the perception among the PRC clients that ADB is not an urban sector lender and it therefore gets a shorter "shopping list" from the NDRC (limited to urban water supply and wastewater projects).

(ii) There is no natural home for urban issues at ADB, with urban operations being spread across ADB's various divisions. According to executing agencies, this slows down project preparation in contrast with the World Bank, which has an integrated urban sector unit in its country office. This absence of a focal point has limited ADB's urban lending to water supply and wastewater projects.

(iii) ADB has very limited staff for the urban sector within the PRC Resident Mission (PRCM), with only one project officer assigned to "water supply and urban development." Given the magnitude and significance of the PRC's urbanization, ADB's urban team is insufficient and the urban operations appear weak and opportunistic except for those concerned with water supply and wastewater.

(iv) The first CAPE for PRC (footnote 40) concluded that the "long-term relationship with a niche agency" contributed to satisfactory outcomes from ADB's highway and railway operations. While ADB's strong relations with SEPA and the Ministry of Construction enabled ADB to maintain policy dialogue on the urban environment at the national level, such links weakened during the second half of the CAPE period.

36. **Added Value.** Since funds are available from domestic capital markets and private investors, the real attraction in ADB loan financing will have to come from significant added value that domestic sources cannot provide. Additional knowledge transfer and capacity building through ADB PPTAs and information systems and technology are becoming less important for clients, because of the substantial reforms in the water supply and wastewater sector over the last decade. These reforms have covered technology, services and operations and maintenance standards, pricing, corporate governance, and regulations. ADB has to demonstrate that it can add value to the PRC's already quite developed water supply and wastewater sector.

37. **PPTAs.** Feedback on the PPTAs for the Fuzhou Water Project,[47] Jilin Water Project,[48] and Henan Water Project[49] was mixed. As a newly-established project management office (PMO) with no previous experience of multilateral development bank projects, the Jilin PMO found the PPTA very helpful in transferring knowledge about preparing a proposal for ADB financing, the technical, institutional, social, financial, and administrative aspects of ADB requirements, and synchronizing ADB and domestic approval procedures. On the other hand, the Fuzhou and Henan PMOs, which had already implemented ADB projects, stated that the PPTAs for their second ADB projects no longer provided any additional value, as they had built sufficient staff capacity and were already familiar with ADB operations. Since the PPTAs introduced very few notable changes to technical designs, economic and financial costings, social and environmental impact assessments, or solutions prepared by executing agencies or local design institutes, the PPTA reports become largely translations of work prepared by the Government. Moreover, executing agencies generally have low ownership of PPTAs, given that TA consultants are directly selected by ADB, are often unfamiliar with local conditions, and rely on counterpart agencies for information and insights. The only areas where executing agencies consider that PPTAs added value involve ADB's resettlement safeguards and bid packaging. ADB's approach to resettlement and compensation is regarded as more stringent than locally prepared resettlement plans and therefore an improvement. However, ADB needs to guard against causing delays because of resettlement issues because some PMOs consider the PPTA as one of the key factors prolonging the period of project preparation.

38. **One-Off Interventions.** ADB's water supply and wastewater loans tend to be implemented as a series of one-off interventions.[50] Sewage treatment facilities have been provided without adequate attention to sludge treatment or disposal. Water supply facilities have been provided without an adequate assessment of future raw water demands. Repeated one-off water supply and wastewater interventions reduce the efficiency of the project facilities and often demonstrate little differentiation from locally-funded projects.

39. **Sector Loan Approach.** During the CAPE period, ADB's urban lending focused mainly on provincial capitals where water-related environmental problems are most severe and improvements are most needed. With facilities in operation or under construction, most of these cities are ready to meet national targets for wastewater treatment before 2010. Therefore, the demand for water supply and wastewater infrastructure development will soon shift to secondary and tertiary cities, counties, and rural towns in the suburbs of large cities. This will result in higher total investment demand but much smaller investments. ADB's recent loans approved or under preparation for the provinces of Henan and Shandong confirm this trend.

[47] ADB. 1997. *Technical Assistance to the People's Republic of China for Preparing the Fuzhou Water Supply and Wastewater Treatment*. Manila (TA 2770-PRC, for $598,000, approved on 14 March).
[48] ADB. 2003. *Technical Assistance to the People's Republic of China for Preparing the Jilin Water Supply and Sewerage Development Project*. Manila (TA 4227-PRC, for $650,000, approved on 26 November).
[49] ADB. 2003. *Technical Assistance to the People's Republic of China for Preparing the Henan Wastewater Management Project*. Manila (TA 4233-PRC, for $800,000, approved on 3 December).
[50] ADB. 2006. *Completion Report: Country Strategy and Program (PRC 2004–2006)*. Manila (draft, para 65).

40. In response to this emerging demand and the potential challenges associated with a new group of clients, ADB used a sector loan approach in the Henan Water Project (footnote 7). In this project, ADB loaned $100 million to support 19 subprojects in 15 counties. Given the large number of subprojects and the small size of each, ADB's decision to apply the sector loan approach[51] was appreciated by the executing agency, but other central government agencies are not yet comfortable with this approach. However, ADB's sector loan approach seems to offer the best way of financing large numbers of small components that have high transaction costs and risks.

41. **PRCM.** A stronger and broader role for the PRCM would save time and money, and improve the effectiveness of lending and nonlending operations, especially in urban development and water supply and wastewater. In particular, ADB should delegate responsibility for procurement and payment control to Chinese-speaking officers within PRCM in order to minimize delays associated with translation and transmission.

42. **ADB Staff Turnover.** A frequent turnover of ADB project officers was observed in several projects reviewed. For instance, ADB appointed four project officers for the Fuzhou Water Project[52] (footnote 4) and four project officers for the Suzhou Creek Project (footnote 5). The Fuzhou Environment Project (footnote 6) had already gone through three project officers, while the Henan Water Project (footnote 7) was assigned to four different project officers within a period of 6 months from April to October 2006. Although the professionalism and commitment shown by ADB staff to the projects continue to be appreciated by executing agencies, these frequent changes undermined the stability and responsiveness of ADB administrative support to executing agencies. To some extent, it also affected the momentum of "high-level discussions" with local government leaders and, therefore, any expansion of ADB's involvement.

43. **Loan Savings.** There were substantial cancellations of loan amounts in the Fuzhou Water Project ($30.5 million, or 30% of the approved loan amount) and the Suzhou Creek Project ($135 million, or 45%). Reallocation of these loan savings was not considered, given a cumbersome process that required approval from top ADB management. Instead of tapping loan savings, Fuzhou Water Project used other sources for project-related expenses.[53] While interest rates on ADB loans are low, its transaction costs tend to be high, especially during preparation, and the executing agencies felt that it was important to fully utilize loan proceeds in order to minimize the effective transaction costs from an ADB loan. The executing agencies said they would prefer more flexible loan reallocation procedures. In this regard, ADB is said to compare poorly with the World Bank, which authorizes its task team leaders to approve reallocations across project components.

44. Other recommendations that would improve utilization of ADB loan proceeds include the following:

[51] This approach will allow the decentralization of subproject identification and appraisal, flexibility in subproject addition or replacement, and adjustment in subproject funding.
[52] One prepared the project, another started implementation, a third took over implementation some time through the project life, and a fourth oversaw completion.
[53] Purchase of additional sewage treatment equipment needed by the project-financed plant to meet new national standards.

(i) Allow the reallocation of loan funds among major expenditures (civil works, equipment, training, etc.) or set a maximum amount that can be borrowed for these expenditures instead of fixed percentages.

(ii) Finance more upfront and local costs, such as those related to resettlement. ADB's restrictions on covering land acquisition and resettlement costs constrains its expansion into urban roads development and solid waste disposal facilities where such costs account for most of the total project cost.[54]

45. **Safeguard Policies and Requirements.** ADB's requirements are not fully aligned with the PRC's, and enforcing parallel safeguard policies imposes an additional cost to both parties. The PRC's policies on land acquisition and resettlement were revised in 2004, which narrowed the gap, but problems regarding the calculation of compensation remain. In addition, ADB requires resettlement costs to be assessed during the PPTA stage, i.e., before actual resettlement requirements are known (by contrast PRC policies usually require these to be determined after the loan and the preliminary design are approved). Most of the projects reviewed here were delayed by resettlement issues, and, although it is true that resettlement problems also occur in ADB projects in other sectors, they are more challenging for urban projects because sites are more heavily populated and land values are much higher. ADB's resettlement policy of negotiating compensation directly with households has been criticized as unworkable in the PRC, where land is collectively owned and, therefore, the government system provides for negotiation and payment to village and town governments. ADB needs to continue working with government in further narrowing the gaps between both sides' resettlement policies so that resources spent on enforcing the parallel policies can be minimized, making ADB lending more competitive.

*If ADB is to maintain its position as Asia's premier development institution, there needs to be a greater focus on urban development in the People's Republic of China, which would also address many poverty reduction and environment-related issues.*

# VI. Key Lessons and Recommendations

46. The PRC is ADB's largest urban client, and contained 42% of the urban population of all ADB developing member countries in 2005. Over the next 10 years, it will need to absorb an additional urban population of 160 million people, as the PRC becomes a predominantly urban nation. ADB has so far lent $1.2 billion since it started urban operations in the PRC in 1991, amounting to 2% of the PRC's annual urban investment requirement. The Government has expressed a need for innovation and knowledge transfer from ADB, not just low-cost financing.

47. **Increasing Importance of the Urban Sector to ADB's PRC Operation.** The PRC's top leadership has encouraged ADB to play a greater role in rural development,

[54] However, new instruments such as local currency financing under ADB's Innovation and Efficiency Initiative now enable ADB to finance land acquisition and resettlement costs, thus addressing a constraint to expanding its urban infrastructure portfolio.

environmental conservation, and urban development.[55] ADB has recently announced that, over the next 4 years (2007–2010), it will gradually reduce its lending for transport projects from 80% of its total PRC loan portfolio to 50%, and provide more lending to agriculture and rural development, energy, environment, and urbanization. However, given ADB's limited in-country expertise in urban infrastructure outside of water and sanitation and potential challenges for introducing hard loans in social sectors, promoting ADB lending in the full range of urban services might not be practical in the short term. If ADB is to maintain its position as Asia's premier development institution, there needs to be a greater focus on urban development in the PRC, which would also address many poverty reduction and environment-related issues.

48. **ADB Needs an Urban Strategy for the PRC.** ADB needs to develop a PRC-specific urban strategy that closely reflects changing conditions and evolving demands. Unlike in the water sector, where many basic conditions and principles are universal, urban development reflects unique social, cultural, institutional, and economic conditions. Thus, an updated Asia-wide urban sector strategy may not be useful in guiding policy or operational support to the PRC.

49. **ADB Needs Better "Branding" of Its Urban Capacity.** A senior PRC official has observed that "ADB is relatively new to urban lending in China," whereas in fact ADB has been providing urban loans to the PRC for as long as the World Bank has. Since government representatives do not perceive ADB to be particularly strong on urban issues, the Government has tended to propose single-sector projects for ADB financing. These projects comprise a relatively small portion of the PRC's annual borrowing for urban issues. The PRCM recently attempted to clarify ADB's branding by issuing an information document entitled "Partnership in Urban Development." This initial effort needs to be expanded significantly—depending on which strategic position ADB decides to take on urban issues in the PRC, and the degree of commitment it attaches to that position.

50. **PPTA Improvements.** The current PPTA template should be replaced by a more project- or client-responsive model designed to address different project needs and situations. Instead of awarding all PPTA resources to a consulting company, there should be the option of releasing the PPTA budget in two tranches. The first would be used to hire consultants to review the preparation work and documents prepared by local counterparts, with a view to identifying weak or missing areas. The second would be used to hire consultants who can help the local counterpart to strengthen the studies or change the design if necessary. ADB should involve executing agencies and PMOs in PPTA design and selection of consultants to strengthen their ownership of the PPTA. ADB should also consider hiring more national consultants that meet ADB standards,

[55] When President Hu Jintao met with ADB President Haruhiko Kuroda during his state visit to the Philippines, he suggested that ADB expand its operations in the PRC from traditional infrastructure sectors to the PRC's new development priorities. The same opinion was also expressed by Premier Wen Jiabao during his meeting with the ADB President at the Greater Mekong Subregion Summit held in Kunming, PRC in July 2005.

since such consultants have demonstrated they can deliver more cost-effective services.[56]

51. **Multisector Project.** There is strong demand from cities for multisector projects, and there is growing support for more sector loans and multisector projects within the MOF and the NDRC. The trend, therefore, is toward more complex projects that are responsive to each city's needs. There is considerable scope for policy reform and associated capacity and institution building.[57]

52. Table 2 presents these issues in a SWOT analysis.

**Table 2: SWOT Analysis: Urban Development or Water Supply and Sanitation**

| Strengths | Weaknesses |
|---|---|
| 1. The Government has highlighted urbanization as a key initiative in its national strategies.<br>2. Strong commitment of PRC clients, ensuring full ownership.<br>3. Cities are experienced in planning and implementing urban infrastructure projects.<br>4. Highly satisfactory loan portfolio performance of ADB in the PRC urban sector, much better than in other DMCs.<br>5. ADB has broad knowledge of PRC urban issues through TAs in a range of areas (urban governance, municipal financing, urban infrastructure development, urban renewal, urban transport, urban poverty, and urbanization policy). | 1. No urban sector strategy (except for a very general, Asia-wide, and outdated strategy), with no specific strategy on PRC urbanization. No urban sector roadmap.<br>2. The ADB project preparation and administration model is not appropriate for complicated urban projects.<br>3. ADB urban lending has been focused on water supply and wastewater, with very little involvement or lending experience in other urban subsectors.<br>4. ADB organizational setup does not have a clear urban focus, with no dedicated urban division or urban sector classification to track and assess urban operations. |
| **Opportunities** | **Threats** |
| 1. Potentially strong demand from cities for ADB loan financing in the urban sector.<br>2. Formulation of Urban Sector Strategy II may provide directions for ADB urban operations in the PRC.<br>3. Rapid pace of change may require updating of environmental requirements.<br>4. Increasing delegation of project administration mandates to PRCM.<br>5. ADB's strong performance in water supply and wastewater projects may be a building block for expanding to other urban subsectors.<br>6. ADB can facilitate exchanges of urban experience between DMCs, and with member countries such as Japan, Republic of Korea, and Singapore toward supporting PRC urbanization initiatives with relevant Asian urban experience. | 1. PRC partners do not perceive ADB to be an urban lender and often approach ADB only for water and wastewater projects. This may constrain ADB from playing a more significant role in a broader urban context.<br>2. There are a limited number of experienced and well qualified urban specialists and professionals in ADB. There is only one urban officer in PRCM.<br>3. ADB may not have enough time and resources to identify large urban programs or to develop leadership in the complex urban sector. |

ADB = Asian Development Bank, PRC = People's Republic of China, DMC = developing member country, PRCM = PRC Resident Mission, TA = technical assistance.
Source: Country assistance program evaluation team.

[56] Domestic consultants can be engaged at much lower rate and entail a lower travel budget, and present no language barrier nor require orientation to local conditions.
[57] For instance, the Shanghai model of auctioning long-term leases of land to companies may be a good case for replication.