

# Urban Sector Strategy and Operations

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- Does urbanization in Asia need special attention by ADB?
- How much would need to be invested in urban development in Asia?
- What is the nature of ADB's **urban sector strategy**, the context of its issuance in 1999, and what affected it afterward?
- Are the ambitions of the ADB's urban sector strategy being achieved?
- How does ADB's urban sector strategy rate in terms of relevance and efficiency, and how do urban sector operations rate in terms of their effectiveness and sustainability?
- What are clients' perceptions of ADB's value-added in the urban sector and transaction costs?
- What could be suggestions for a revised urban sector strategy, emerging from an evaluation of past and current operations?

## Background

The urban sector strategy of the Asian Development Bank (ADB) was formulated in 1999 to bring more coherence to ADB's work in the urban sector. In 2006, the Operations Evaluation Department undertook a **Special Evaluation Study on Urban Sector Strategy and Operations** to provide analyses in advance of its review and revision.<sup>1</sup> Urbanization is a mega-trend in Asia and ADB's **Long-Term Strategic Framework, 2001–2015** marked it as one of its main challenges.

Given that the strategy has been in effect for only 6–7 years, and most projects approved after it was adopted were at various stages of implementation, the study paid limited attention to on-the-ground impacts. Rather, it analyzed ADB's ratings of completed projects and technical assistance grants, examined whether the strategy's targets were being addressed, and assessed ongoing urban operations. Questions raised related to: (i) why is ADB's **urban sector program** not much larger given rapid urbanization in Asia and the Pacific, (ii) what is the value-added of ADB involvement in urban sector projects in light of transaction costs, as perceived by ADB clients, and (iii) is a strategy needed and under what conditions would it be most effective?

The study was underpinned by an extensive desk review including a questionnaire survey of all 52

ongoing urban sector projects (with an 85% response rate). Case studies were carried out for the People's Republic of China, India, and the Philippines.

## Urban Financing Requirements in Asia

The study estimated that financing requirements for just water supply, sanitation, and waste management and slum upgrading in urban areas may be \$25 billion per annum for ADB's developing member countries. This would double to \$50 billion per year if urban roads were included. Using a conservative assumption that 100 kilometers of rail mass transit system were constructed in Asia's large cities only, a further \$10 billion per annum would have to be added to urban funding requirements. The requirements in housing were viewed as exceeding all of these amounts by far. Investment programs of governments, external agencies, and the private sector fund no more than half of the demand for water supply, sanitation, and transport.

## Summary of Findings

A major finding of the study was that, although urbanization is increasingly driving economic development in Asia, ADB's institutional focus on the urban sector has been lost. One and a half years after the strategy was adopted, ADB underwent reorganization and introduced new business processes.

ADB's professional expertise in the urban sector was dissipated. From an operational perspective, the link between urban development, health, and education is tenuous and projects in these subsectors were overshadowed by a growing focus on country strategies.

Notwithstanding, the urban sector portfolio grew modestly after the issuance of the strategy. Before the strategy, urban sector lending constituted 9% of total loans approved between 1993 and 1999 (11% if large loans approved during the Asian crisis of 1997 are excluded). After the strategy, it accounted for 11.5% of total lending over the period 1999–2005.

Project completion reports show that urban multisector projects have generally performed well, with 81% rated successful or highly successful between 1995 and 2005. The performance of water and sanitation projects has been somewhat weaker (67% were rated successful). Urban sector projects were generally rated as relevant, effective, and efficient. Because of their complexity and the often lower capacity at local government level, urban sector projects require more technical assistance support than some other sectors. However, increased technical assistance was not forthcoming after the strategy.

The study assessed the strategy as partly successful given lower efficiency in influencing operations, in spite of good relevance to Asia and the Pacific. Its ambition to go beyond what ADB was already providing up to that time was not realized.

The study assessed ADB's urban sector operations as broadly successful, mainly on account of the effectiveness of projects and technical assistance, and in spite of their higher-than-average sustainability risks. Overall, ADB did not seize the opportunity to significantly increase the size and quality of its urban portfolio.

There appears to be a potentially strong demand from cities for ADB financing in the **People's Republic of China** and **India**. However, total borrowing from ADB must be consistent with overall macroeconomic and public debt considerations. The transaction costs associated with doing business with ADB sometimes limits the demand for loans for urban projects.

## Recommendations

**Medium-Term Strategy II, 2006-2008** highlighted urban infrastructure as one of the core sectors in which ADB needs to expand its program.

- ADB should formulate an Urban Sector Strategy II. A greater focus on Asia's urban sector is appropriate, given the trends in urbanization in the region, the size and complexity of the sector's needs, its potential for significant investment, and ADB's role as a premier development institution funding physical infrastructure and providing needed technical expertise and capacity development.
- The Urban Sector Strategy II should include a road map or business plan for implementation to translate the broad goals and objectives of the strategy into reality, given various constraints.
- The Urban Sector Strategy II should include a results-based framework with clear, monitorable indicators that are consistent with assumptions made about resources, so that Management can monitor progress on its implementation and take corrective action as may be required.
- The new strategy needs to be grounded in a custodian division in the Regional and Sustainable Development Department to coordinate across departments, monitor targets, and elaborate common themes.
- ADB should guide staff on how to engage in anticorruption initiatives in the urban sector.

## Feedback

**ADB Management's Response** supported the recommendations of the study. As urban infrastructure is a Priority I sector in ADB's Medium-Term Strategy II, 2006-2008, this performance needs to improve to scale up ADB's assistance to urban development. The **Chair's Summary of the Development Effectiveness Committee Discussions** generally agreed that an effective urban sector strategy was necessary for effectiveness of ADB's Medium-Term Strategy II, 2006–2008 which recognizes that demographic pressure and growth are driving urbanization in Asia and the Pacific. The updated strategy should pay close attention to the specific diagnoses in the study and to the documented views and suggestions to ADB from stakeholders in the developing member countries surveyed.

<sup>1</sup> ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila. Available: <http://www.adb.org/Documents/SES/REG/sst-reg-2006-03/ses-usso.pdf>