

## **MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON URBAN SECTOR STRATEGY AND OPERATIONS**

On 18 July 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### **A. Overall Comments**

1. Management supports the Operations Evaluation Department (OED) special evaluation study (SES) that raises some important issues for urban sector operations in a timely manner and recommends measures for achieving better results in the sector. The SES finds that ADB's urban sector strategy (USS) has been partly successful, because, although being highly relevant, it was not sufficiently oriented toward operationalization and the organizational structure and resources did not support efficient implementation. Urban sector operations were rated as successful, being effective but with their sustainability in question because of the same organizational and resource constraints. As urban infrastructure is a Priority I sector in the Medium-Term Strategy II, this performance needs to improve to scale up ADB's assistance to urban development in DMCs. The SES also makes a number of specific recommendations as to how to increase the effectiveness of the urban sector and proposes several suggestions for urban strategy. In dialogue with OED regarding recommendations and suggestions, ADB has initiated an Urban Services Initiative (USI) to address them. An interdepartmental task force was formed in April 2006 to formulate the USI.

### **B. Comments on Recommendations (para. 176)**

#### **a. Preparation of a Second Urban Sector Strategy**

2. Management supports the SES recommendation that ADB should explore new approaches to assisting DMCs in addressing urban economic development and urban poverty. Such an initiative is needed to respond to ADB's new Innovation and Efficiency Initiative (IEI) measures that have changed significantly the options and modalities open to projects and programs in the sector. The USI task force will prepare a Board Information Paper for the sector in the context of the OED findings, the middle-income country (MIC) consultations and the IEI. It will also take into account lessons identified in the draft report on the Review of the Implementation of the USS.<sup>1</sup> The paper will set out the proposed directions for development, targets, and indicators for the sector, and a business plan to support such development. Management will then decide whether a subsequent, formal, Second Urban Strategy, will be required.

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<sup>1</sup> RSDD has finalized the draft board information paper on the Review of the Implementation of the Urban Sector Strategy, and it would be submitted to Management in the 3<sup>rd</sup> quarter 2006.

**b. The Strategy Should Include a Business Plan for Implementation**

3. Management agrees with the study's observation that the difficulties experienced in urban development reflect insufficient organizational commitment to the sector in the past and the practical issues of implementation, particularly staffing and knowledge resources, and product relevance. We agree that any new strategy should explicitly deal with these issues. In this regard, an initial scoping of required organizational and resource requirements will be addressed by the USI Board Paper, in consultation with Management. The business plan contained in the paper will put into place a process of prioritizing changes and investments required to support the USI. Given that the sector is highly diverse across countries and investments are 'lumpy', it may be difficult to project demand in a detailed business plan. Such a plan should be prepared on a country basis.

**c. The Strategy Should Be Results-based**

4. The USI paper will put forward indicators and a framework for implementation. However, such tools need to be supported by a results or monitoring matrix which can help formulate and guide remedial action, and actions to take advantage of opportunities and build on successes. Additional resources will be required for this purpose, and will be taken into consideration by Management, along with other MTS-II priorities.

**d. The Strategy Should Be Grounded in a Division of RSDD**

5. Management agrees with the recommendation. But, we would like to emphasize the central role of ADB's regional departments (RDs) in implementing the strategy and the Regional and Sustainable Development Department (RSDD) can only support and assist in knowledge dissemination and mobilizing resources. Crucial to this effort will be energizing the Urban Community of Practice (CoP) for which RSDD will act as the facilitator. Significant progress has been made in this regard, with initiatives coming from RDs, but much more needs to be done. The Water Sector CoP provides a model for such an effort. Potential organizational impacts for recruitment, redeployment, and learning and development are noted, and will be actioned as necessary to support the agreed direction.

**e. ADB should Guide Staff on Anticorruption Initiatives in the Urban Sector**

6. Management agrees with the recommendation. RSDD will assist RDs, with advice from the Office of the Auditor General, to develop country level measures, where needed.

**C. Comments on Suggestions for a New Urban Strategy (paras. 170 to 175)**

7. The SES suggests a number of changes in ADB's strategy and operations in the urban sector. These suggestions are valid, but Management

wishes to emphasize some key issues not covered above.

8. In respect of the Nature of the Strategy (para. 170), the SES emphasizes the need for (i) more effective strategic engagement with clients; (ii) more focus on capacity development; and (iii) building stronger partnerships with a wider range of partners. These three thrusts will be central to the USI. The IEI modalities, particularly the multi-tranche financing facility (MFF), require more strategic engagement with clients to prepare roadmaps. Drawing on the conclusions of the MIC consultation, ADB's technical assistance and lending modalities need to be more flexible and responsive to the needs of clients, and this will require support of bilateral partners. ADB intends to focus on engaging such partners in the USI. Office of Cofinancing (OCO) is assessing new ways of increasing the flexibility in, and reducing the transactions cost of, cofinancing support, including assisting in the pooling of grant funds as it has done for the education and health sectors through sector-wide approaches (SWAPs), and exploring blending concessional financing with the Asian Development Fund (ADF) and the Ordinary Capital Resources (OCR) loans and guarantees to help improve financing terms (reduce cost and extend tenors).

9. In respect of the Substance of the New Strategy (para. 171), suggestions for increased focus on transport, urban finance, and housing are appropriate, as are the suggestions in respect of operationalizing sub-sovereign lending. Finance, including sub-sovereign options and linking to/strengthening local financial systems, will be the core of the USI—providing flexibility to respond to the priorities of city regions and their national oversight agencies. As to focus sectors, they need to be determined according to the needs of city regions in a particular country together with a clear assessment of ADB's 'value added' in particular circumstances. This being said, such sectors as urban transport, urban renewal, water and waste water are areas where ADB can add significant value. It is not possible to argue with the suggestions for more attention to risk mitigation, harmonization, fostering ownership, and disaster preparedness. However, incorporating such considerations into urban strategies needs to be achieved in the national administrative, budgetary, and political contexts and standard provisions should not apply to all cases. Such issues are best handled, in detail, in a national urban roadmap. The suggestion of a need for Complimentary Country-Specific Urban Sector Strategies (para. 175) is thus welcome.

#### **D. Conclusions and Follow-up Actions**

10. Management strongly supports the substance of the SES recommendations for achieving better results in the urban sector, a sector of central importance to ADB's DMCs. Management, through the USI, is exploring alternative approaches to assisting DMCs in addressing urban economic development and urban poverty. Management will also address key organizational constraints to development of business in the sector, and, as a priority, will formally establish the Urban CoP. The need for additional resources will be considered, along with resource requirements for other MTS-II priorities.