

ADB

Urban Operational Plan 2012–2020



Asian Development Bank



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Abbreviations

3E	–	economy, environment, and equity
ADB	–	Asian Development Bank
CDIA	–	Cities Development Initiative for Asia
CoP	–	community of practice
CPS	–	country partnership strategy
DMC	–	developing member country
GACAP II	–	Second Governance and Anticorruption Action Plan
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
MFF	–	multitranche financing facility
NGO	–	nongovernment organization
O&M	–	operations and maintenance
PPP	–	public–private partnership
PPTA	–	project preparatory technical assistance
PRC	–	People’s Republic of China
PSM	–	public sector management
PSOD	–	Private Sector Operations Department
TA	–	technical assistance
UFPP	–	Urban Financing Partnership Facility
UN–HABITAT	–	United Nations Settlement Programme
UOP	–	Urban Operational Plan
USS	–	Urban Sector Strategy

1 Aligning ADB's Urban Operations with Strategy 2020

1.1 This Urban Operational Plan (UOP) sets out the future direction and approach for the urban sector operations of the Asian Development Bank (ADB), one that will proactively respond to current and anticipated future needs by effectively addressing the investment opportunities and programmatic issues hindering the efficient, sustainable, and equitable development of cities and the financially sustainable investments on which this development depends. This approach would take into consideration the stages of development and the strategic priorities in the concerned developing member countries (DMCs). The UOP will provide ADB Management and staff with a framework to formulate specific operational activities to achieve sustainable urban development.¹ The UOP focuses on three innovative approaches to guide such development while seeking to “get ahead of the curve” in terms of supporting the adoption of cutting-edge planning, technology, and financial products. Under ADB's Strategy 2020, cities constitute a key focus—specifically in terms of promoting livable cities that are competitive, socially inclusive, and environmentally attractive—and have a sound fiscal base.

1.2 The overall goals of the Urban Sector Strategy² (USS) remain valid, but Asia has changed significantly since the USS was written and Strategy 2020 has sharpened the focus on livable and sustainable cities. The UOP will thus redefine what ADB wants to accomplish with its urban operations through a new program mission and objectives, business models, performance metrics, and implementation arrangements under the USS framework. It will be important that the UOP is well integrated with other operational plans including the water, sustainable transport, and public–private partnership operational plans.

1.3 Through dialogue with its DMCs, ADB will lay the basis for transformation of the current urban sector portfolio, reorienting operations to a more integrated approach to urban investment that will have both systemic benefits and improve the quality of life in the urban regions with which we engage, particularly for the poor. This will be achieved through a geographically focused involvement with a wider range of public and private partners and by using ADB's resources to leverage a wider range, and increased quantum, of funds.

The Urban Operational Plan will lay the basis for transformation of the current urban sector portfolio, reorienting operations to a more integrated approach to urban investment that will have both systemic benefits and improve the quality of life in Asia's urban regions

¹ The Urban Operational Plan (UOP) has been developed in close coordination with other sector operational plans, such as the water, transport, and public–private partnership plans, which will provide frameworks for specific sector operations.

² ADB. 1999. *Urban Sector Strategy*. Manila. The main goals were to (i) develop comprehensive urban sector policy frameworks, (ii) formulate improved integrated urban development projects, (iii) provide improved subsector programs, (iv) provide policy-based support, (v) support private sector investments, (vi) promote cooperation with nongovernment organizations (NGOs) and community-based organizations, and (vii) catalyze information dissemination.

1.4 The UOP preparation was led by the Urban community of practice (COP) through a process that combined internal consultations across operations departments and their resident missions, inputs from resource persons of stature in their fields, and external consultations with both ADB DMCs and development partners. The UOP was discussed extensively both within ADB and with clients, utilizing a set of background documents prepared describing the 3E (economy, environment, and equity) basics—green, inclusive, and competitive cities.³ The draft was discussed at the Management Committee Meetings in November 2011 and September 2012, and at the Asian Urban Forum in November 2011.

³ ADB. 2011. *Green Cities*. Manila.
ADB. 2011. *Inclusive Cities*. Manila.
ADB. 2011. *Competitive Cities*. Manila

2 Reconceiving Urbanization and Cities in Developing Asia

Asia's Urban Transformation—To Livability or Chaos?

2.1 Economic growth is redefining the shape of urban regions and relationship among cities and between cities and their host nations. Industrial and commercial agglomeration is promoting city competitiveness. As highlighted in ADB's Asia 2050 study, urbanization is one of the defining trends of Asia's transformation. With approximately 75% of gross domestic product (GDP) today coming from the urban areas, the quality and efficiency of Asian cities will determine the region's long-term productivity and overall stability.⁴ The case of India graphically illustrates the centrality of the urban economy—which will provide 70% of all new jobs and 70% of GDP by 2030, with Delhi's economy being bigger than Malaysia's today. Each year until 2030, this will require 900 million square meters of office and residential space, 350–400 kilometers of public transport systems, and up to 25,000 kilometers of road lanes (including lanes for bus-based rapid transit systems) if standards commensurate with per capita income are to be met.⁵ Conversely, inefficient and uncompetitive cities are a drag on economic growth and an impediment to inclusive development, trapping the poor in slums. Again, using India as an example, there is significant unmet demand for urban services and huge financing requirements compared with comparator countries. This has a very significant impact on the national economy. Estimates for India indicate that growth is some 20% lower than potential due to inefficient (mainly urban) infrastructure.⁶

2.2 Asian cities in trade corridors are connected into world economic networks as much as they are to their own economy. They are also magnets for people seeking a better quality of life and economic opportunities. These linkages can be the basis of regional integration. Well-managed cities can be the locus of regional cooperation and at the heart of policies of inclusive growth in economic corridors, in particular, through fostering rural–urban links. In addition, through coordinated policies of responsible industrial development and the development of environmental infrastructure, effective action can be taken to improve the natural environment along these corridors.

Urbanization is one of the defining trends of Asia's transformation. With up to 75% of GDP today coming from the urban areas, the quality and efficiency of Asian cities will determine the region's long-term productivity and overall stability

⁴ ADB. 2011. *Asia 2050: Realizing the Asian Century*. Manila

⁵ McKinsey Global Institute. 2010. *India's Urban Awakening: Building Inclusive Cities, Sustaining Economic Growth*. Mumbai: McKinsey & Company.

⁶ Ibid.

Cities occupy only 2% of the world's land but consume 75% of its resources. They produce a similar percentage of its waste with devastating results on the environment and health of their citizens

2.3 Reflecting this economic dynamism, new spatial patterns are evolving at scales not seen before. While Asia is the locus of new megacity formation, the urbanization phenomenon goes beyond megacities. New cities are being built, but the challenge is in the huge stress being put on existing cities, particularly secondary cities.⁷ Cities are merging, sometimes joining as one city, but now often specializing in tourism, export industry, etc. within an urban region.⁸ Managing these regions is complex. Even mid-sized Asian cities have outgrown their historic jurisdictions and have expanded into surrounding local governments. Their planning systems and the institutional arrangements for inclusive urban service delivery across the adjacent local governments (metro areas) have not kept pace. The urban infrastructure deficit in Asia is estimated to be over \$60 billion per year.⁹ In the Pacific, where urban populations are numerically small, the infrastructure deficit is still significant and short falls in technical and financial capacity to deliver are compounded by issues of land title and lack of urban institutions.

2.4 At a “macro” level, cities have performed relatively well in terms of poverty reduction and improving the quality of life of the poor, but they are generally by no means very “livable” for most of their citizens, millions of whom still live in poverty.¹⁰ While a sign of economic “success,” the increase in slums in urban regions means that once-rural poverty is now concentrating in cities and towns not prepared to manage their growth. The resulting poverty of people and place impacts the health of its people and the competitiveness of its economy. Poor urban migrants settle on marginal land in slums, often in vulnerable areas with degrading environmental conditions and inadequate/unreliable basic services.¹¹ The United Nations Settlement Programme (UN–HABITAT) in its paper on Pro-Poor Land and Housing suggests that if “preventative policies” that offer the poor a better option to squatting are not implemented, the number of people living in slums will grow to an estimated 1 billion by 2020.

2.5 Cities occupy only 2% of the world's land but consume 75% of its resources. They produce a similar percentage of its waste with devastating results on the environment and the health of their citizens. Asian cities are likely to contribute more than half the rise in greenhouse gases over the next 20 years.¹² Cities, particularly Asian cities, are also highly vulnerable to the consequences of climate change, including flooding, landslides, heat waves, and shortages of water. Other forms of pollution are also common: (i) air pollution, and (ii) ineffective wastewater treatment and solid waste management. Urban transport is inadequate with the result that the rapidly expanding middle class resorts to their own cars and motorcycles. An integrated approach to city region development to address the economic, social and environmental dimensions of sustainability in a balanced manner is needed.¹³

A New Paradigm for Urban Development

2.6 Urban development has long been recognized as a major investment area for ADB and for DMC governments. But only where absolutely necessary. Cities were conceived of as wealthy,

⁷ McKinsey Global Institute. 2011. *Urban world: Mapping the Economic Power of Cities*. Washington, DC.

⁸ Defined for the purposes of this plan as a geographically coherent area containing one or more cities and other urban areas linked by strong economic ties and by comparatively—in relation to areas not in the region—good transport infrastructure.

⁹ ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila.

¹⁰ Edward Glaeser. 2011. *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Healthier, and Happier*. New York: Penguin Press.

¹¹ International Development Research Centre. 2005. *Urban Poverty and Environment Prospectus 2005–2010*. Ottawa.

¹² ADB. 2008. *Managing Asian Cities*. Manila.

¹³ P. Jacquet, R. K. Pachauri, L. Tubiana, eds. 2010. *Cities: Steering Towards Sustainability*. Delhi: TERI Press.

messy places that could get along by themselves. The majority of government assistance went elsewhere. Indeed, these cities have “got along.” In Asia, they are the bulk of the economy but are still relatively neglected. It means that not only are they and their citizens choking on the fruits of success, but that the planet also in danger from that same success. Their economic drive is being throttled by congestion and inequality. Urban regions are thus a core strategic priority and their issues need to be urgently addressed. While the threats are great, the rapid growth and the wealth generated in cities provide an opportunity to usher in an era of inclusive and environmentally sustainable economic growth and improve the quality of life of people in the region, especially of the poor. But only if a new integrated approach is taken to the challenge addressing the environmental (green), equity (inclusiveness), and economic (competitiveness) issues of today.

2.7 This new 3E approach, responding to the extensive analysis of Asian urbanization documented above, is a fundamental departure from business-as-usual for ADB, DMCs, the urban region, and the international community. Catalytic urban investments need to be planned and executed in the context of better analytics and strategic focus. The new approach is flexible and should be viewed as providing general guidance. The actual approaches will be determined by the country partnership strategy (CPS) and the annual country programming exercises in the concerned DMC. The regional departments, as appropriate and needed, may first pilot-test the 3E agenda, and then gradually mainstream it in urban operations.

Strategic Investing Based on Integrated Planning

2.8 To transform the archetypical chaotic, polluted, inequitable city of Asia into a competitive, equitable, and environmentally sustainable urban region—in short, a livable city¹⁴—will require a new approach to city development and to ADB’s support for that development.¹⁵ Core to the transformation is a new emphasis on the need for an integrated planning approach to the provision of infrastructure and services and other public goods, which are provided by improved results-orientated urban management system. Urban operations will approach urban as a system rather than provision of individual specific interventions on ad hoc basis. ADB needs a clear set of operational principles to think about the “big picture” of urban development, and then selectively structure its approach and engagement with its partners within integrated public sector management (PSM) framework. This approach will provide the basis for the development of a livable city, which is a long-term process, only achieved through integrated planning and implementation of investment.

2.9 We have seen that decentralization has often created theoretically empowered, but underplanned, fiscally and/or governance-challenged local governments which find it difficult to undertake the inter-jurisdictional coordination required to build the environmental, social, and economic infrastructure they need. We have also seen that the scale of the needs for even a medium-sized city¹⁶ are such that ADB’s current approach to urban sector projects can rarely have a major impact on the city. It will be necessary to focus both geographically and on integrated programs of investment if this is to change.

ADB will foster a sustainable, integrated, cost-effective, and resilient system of economic and social infrastructure and related public sector management systems in Asia’s urban regions

¹⁴ ADB. 2008. *Strategy 2020: The Long-Term Framework of the Asian Development Bank 2008–2020*. Manila.

¹⁵ See footnote 9.

¹⁶ Generally between approximately 250,000 and 3 million in population, although in a number of smaller countries in South and Southeast Asia and the Pacific, populations of both primary and secondary cities are smaller. The 3E (economy, environment and equity) approach remains applicable to these cities.

2.10 This focus will enable ADB to foster an integrated, cost-effective, and resilient system of economic and social infrastructure and related PSM systems in the urban region. This should be a phased process which would be determined by the particular DMC situation and will build on existing systems. Thus, urban project designs must address current needs of both national and local governments, but the 3E agenda provides a structure to move dialogue at both levels beyond the short term, and an integrated approach to assessment of the environmental, social, and economic development issues. This will enable individual ADB projects, addressing part of the agenda, to be formulated to achieve synergies with other activities and to maximize their impact.

2.11 Implementing these agendas requires strategic assessments of integrated planning, budgeting, implementing, and monitoring systems and of sector investment needs. These assessments will take place at two levels. National urban assessments will address urban governance structure, urbanization trends, infrastructure planning, and financing systems. The city region assessments will address planning gaps and integration of investment, and systematically identify priority projects—public, private, PPP, sovereign, and nonsovereign.

3 ADB's Performance in the Urban Sector

3.1 ADB's urban lending, totaling over \$18 billion to date, has focused primarily on infrastructure. Lending has predominantly been to projects involving water supply and sanitation and "multisector" interventions covering water supply, sanitation, solid waste, and slum upgrading, and urban transport. The quality of ADB's investments in the urban sector has been rated as good¹⁷ but recent indications are that they are becoming less effective in some sectors.¹⁸ Independent Evaluation Department (IED) ratings of urban projects have been at the ADB average—successful.¹⁹

3.2 Urban projects have reached, in one way or another, cities with an estimated 12% of ADB DMCs' urban population.²⁰ Investment in urban infrastructure started with the Penang Water Supply project in Malaysia at \$7.2 million in 1968 and has seen a number of highly successful projects such as the \$300.0 million Suzhou Creek Rehabilitation Project that rehabilitated a key waterway in the PRC and has become a model for such projects. Numerous projects have had significant structural impact.²¹ Recent projects such as the Neighborhood Upgrading and Shelter Sector Project in Indonesia, approved in 2003, have established good practice in slum upgrading, land tenure provision, and shelter microfinance.

3.3 Lessons learned are identified in a number of IED studies. In respect of sustainability of impacts, one IED study²² emphasized the need to rigorously address risks to sustainability

ADB's urban projects have reached, in one way or another, cities with an estimated 12% of its DMCs' urban population

¹⁷ ADB. 2006. *Special Evaluation Study on Urban Sector Strategy and Operations*. Manila. Good urban projects defined as those rated as "satisfactory" or above. The study rated the Urban Sector Strategy (USS) as relevant and effective, but only partly efficient and less sustainable due mainly to staffing and lending modality constraints on ADB urban operations.

¹⁸ ADB. 2011. *Development Effectiveness Review*. Manila. Out of nine urban project completion reports (PCRs) included in the review, four were successful and effective, three were partially successful and less effective, and two were unsuccessful and ineffective.

¹⁹ OED SES found that during 1968–2004, ADB's urban sector lending averaged 10% of its total lending, which was similar to the World Bank. Multisector projects accounted for the largest share at 44% of lending, followed by water supply, sanitation, and waste management projects at 43%. Based on the 51 project completion reports issued from mid-1998 to mid-2005, OED considers the majority of the urban sector projects successful.

²⁰ Ibid.

²¹ A key success factor for these strategic technical assistance (TA) projects was their strong ownership by the government. Another key success factor was that these TAs responded very well to pressing needs in the sector. Such strategic, high impact TAs produce strong and sustainable results. Examples include Institutional Strengthening of the Water Board in Papua New Guinea (\$400,000 approved in December 1992), and Capacity Building for the Municipal Service Delivery in Kerala, India (\$750,000 approved in December 2004). In Mongolia, ADB assisted in the preparation and enactment of the housing policy law, national housing strategy, housing privatization law and, most recently, the legal framework for mortgage lending.

²² ADB. 2010. *Special Evaluation Study: Post-Completion Sustainability of Asian Development Bank-Assisted Projects*. Manila.

While individual investments are generally successful, the overall impact of ADB's urban projects often fell short of having a transformative impact on the broader systems of urban development and urban governance

at both national and project levels in CPS sector assessments and in the process of project formulation, respectively. In particular, the financial sustainability of projects was routinely threatened by weak PSM leading to lack of revenue generation at the local government level, including an inability to raise tariffs constraining O&M expenditures, low tariff collection rates, institutional inefficiency, lack of business-led corporate practice, and high nonrevenue water levels and other delivery constraints. In respect of maximizing the impact of projects, the IED review of ADB's water policy and related operations²³ has identified several issues which have constrained impacts. In particular, the need for commitment and capacity at the local (enterprise) level was important for ADB's project design. In the same study, lack of cost recovery was one of the most frequently cited issues in project completion reports for water supply and sanitation projects completed between 1995 and 2009. The lessons refer to the difficulty of tariff reform, affordability, and cultural and political sensitivity. The policy and regulatory framework for water tariffs is an area where ADB needs to place more emphasis to ensure sustainability of the projects.

3.4 ADB's urban operations continue to pursue anticorruption and good local governance, under its second Governance and Anticorruption Action Plan (GACAP II).²⁴ But more proactively ADB needs to address the lack of a clearly and publicly articulated vision of city development translated through transparent, efficient, and equitable PSM systems. Capacity development initiatives must look holistically at the PSM cycle that includes the components of planning, including participatory development, budgeting, financing, implementation, monitoring, and evaluation. The systems supporting these functions need to be results oriented so that they focus on a common set of results, the interdependency of the components needs to be strengthened, and the challenges of integration between national and sector agencies and national and subnational governments need to be addressed.

3.5 While individual investments are generally successful, the overall impact of ADB's urban projects often fell short of having a positive and transformative impact on the broader systems of urban development and urban governance. Encouraged by national governments seeking to "spread benefits around," sector projects tended to target multiple urban areas in multiple sectors with the result being a few, uncoordinated interventions in widely spaced towns or cities. In summary, the systemic impact was smaller than desirable in view of the importance of urban systems in the economies of DMCs due to the reactive nature of ADB's involvement, weak coordination across sectors, and lack of focus on geographically coherent areas.

3.6 The scale, scope, and duration limitations of project and sector modalities have become increasingly inadequate for addressing the dynamic challenges of Asian urbanization. This being said, urban projects are sometimes criticized as being "too complex"—presumably in relation to a big, single-component piece of infrastructure such as a power plant. Multisector projects have been found to perform worse than single-sector projects in some countries.²⁵ On the other hand, such integrated projects have been found to be more economical and efficient in the People's Republic of China. The complexity of sector needs and urban region governance structures need to be faced squarely and the required due diligence on the commitment, readiness, and capacity of implementing agencies has to be done. New instruments appropriate for urban development, such as the multitranche financing facility (MFF) and subsovereign lending modalities, are now available and have not yet been used to their full potential.

²³ ADB. 2010. *Special Evaluation Study: Water Policy and Related Operations*. Manila.

²⁴ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

²⁵ ADB. 2010. *Special Evaluation Study: Indonesia: Has the Multi-Subsector Approach Been Effective for Urban Services Assistance?* Manila.

3.7 In this context, in order to respond to the scope and scale of urban infrastructure investment and service needs, given its limited resources, ADB must (i) foster a policy environment conducive to addressing the current and future challenges in the sector; (ii) focus its resources on selected urban regions, particularly in secondary cities, providing an integrated set of investments that will have a tangible impact; (iii) leverage those resources to multiply their direct impact and to catalyze changes in the local infrastructure finance market so that sustainable systems of local finance can be established; and (iv) strengthen local capacity building on existing systems to undertake integrated urban development. This is the message of experience embodied in the UOP and in the 3E agenda.

4 Planning and Investing in Infrastructure and Services for Sustainable Urban Systems

National Urban Assessments

4.1 Informing the CPS, national urban assessments, using similar levels of resources as required by current urban sector investments, would analyze the urbanization process in the context of country development; and identify the main environmental, social, and economic development issues relating to the urban sector, ADB's value added in the sector, and the proposed areas of focus. Responding to the need to maximize the impact of ADB's limited resources and the differing circumstances of Asia's cities, it will be necessary to strategically select geographical areas where ADB will focus, in close consultation with the government and development partners. The assessments will effectively provide a standardized approach and format for existing urban sector assessments. They will ensure that the information needed to implement an integrated 3E approach for the country is available for the CPS process.

4.2 Such assessments will provide a context for and benefit to ADB operations beyond urban sector divisions. Some 65% of current physical investment lending is urban related,²⁶ but only 27% of lending is pipelined by urban divisions. From these assessments, the core urban policy and institutional (including PSM) reforms, together with investment needs, should be identified. These reforms will often include changed intergovernmental fiscal relations to provide required resources to local governments and incentives for efficient use of those resources; capital market reforms to foster long-term national finance for urban infrastructure and mechanisms for subsovereign access to local capital markets; institutional structures for local government providing incentives for improved environmental, economic, social, financial, and governance performance; and improved planning and finance systems and rationalization of titling, property tax, and eminent domain mechanisms in support of efficient land use and infrastructure provision. Crucially, to encourage private sector investment in urban projects, the financial servicing and sustainability of investments is paramount and requires dedicated, reliable and realistic revenue sources, and a well-governed viable operating entity. Even if government owned, utilities need to be managed on a "business" model. A tool kit setting out the proposed format of urban sustainability assessments will be provided to guide CPS inputs.²⁶

²⁶ Regional and Sustainable Development Department (RSDD) analysis of physical investment in 2011 lending pipeline.

4.3 Based on findings of national urban assessments, ADB should focus on longer-term engagement with strategically selected secondary cities and engage in megacities only where ADB is addressing a closely defined problem for which it has the requisite resources and experience. It will adapt the thrust of the urban program according to the needs of the country. For example, in lower-income countries, the approach adopted for strengthening urban finance will likely be less focused on developing capital markets for long-term finance and more on developing a viable municipal credit system through purpose-designed institutions or local development finance institutions. The approach adopted for small Pacific states with their small urban populations and unique tenure system will be very different to most other cities in Asia. In megacities, ADB will focus on a defined set of investments designed to address a specific sector problem in an established urban area, for example, disaster risk management, the urban transport and related investments, or in support to sustainable development of new areas such as satellite cities. Such activities will be conducted in the context of an integrated assessment of existing planning and implementation mechanisms and designed to strengthen these mechanisms.

4.4 In secondary cities, ADB support will, where possible, be based on a comprehensive assessment of the urban area, integrating planning for environmental, social, and economic development over 10–15 years. ADB-funded investment will be designed in this context and, where possible, engagement will be maintained with the city over the medium term to minimize “re-learning” on both sides. ADB assistance in secondary cities will be as comprehensive as possible to maximize impact with such assistance prioritized by the urban assessment. Assistance, where possible, should cover both “retrofitting” the 3E approach on existing urban areas and developing new areas providing the infrastructure for a competitive, green, and inclusive city. Appendix 1 sets out how such approaches can be applied in practice and gives examples.

Integrated Urban Planning

4.5 It is envisaged that the spectrum of the 3E approach will not necessarily be fully covered in one single project. Thus, while each project should be sustainable in its own right, there is a preference for longer-term engagement in focus urban regions in the context of an integrated plan based on assessments of the environmental, social, and economic priorities for the regions. It is important that the planning process encompasses all of the 3E dimensions, and that process should identify required investments in each dimension, but this list of investments will not necessarily result in ADB funding any or all investments. Other funders may be more appropriate than ADB and/or ADB may phase its investments over a number of projects. The following describes the approach to assessments under the 3E agenda.

Competitiveness

4.6 The planning process will identify investments to overcome constraints to, or building capacity for, inclusive growth by bolstering the efficiency and competitiveness of Asian cities. Operationally, ADB will support the provision of priority infrastructure and services contributing most effectively to sustainable, inclusive growth in urban regions selected in consultation with the appropriate agencies. Investments in competitive cities will focus on economic infrastructure agreed with appropriate agencies, including the strengthening of PSM systems, and fostering employment opportunities, particularly in respect of logistics, and major infrastructure for industry (specialized water, wastewater, and waste management in particular). Opportunities for targeted investments in education and skills development and for technical assistance on institutional and systems development by both ADB and other partners may also arise.

The envisaged approach will prefer longer-term engagement in focus urban regions in the context of an integrated plan based on assessments of the environmental, social, and economic investment priorities

Environmental Sustainability

4.7 The process will identify the key environmental issues of a city and prioritize investments to address them in an integrated way across infrastructure sectors to achieve a green city. Operationally, ADB, together with public and/or private partners, will be involved in investments in water supply, wastewater, solid waste, district heating/cooling, urban transport (including roads), and energy efficiency. It will consider means of maximizing the climate change mitigation and resilience outcomes as appropriate for the country concerned. Support for improved planning, governance, PSM systems, and utility management will also be required from ADB and its development partners.

Inclusiveness

4.8 The plan will identify key social issues of the city and prioritize investments to address them in a comprehensive manner. Operationally, ADB and cofinancing partners will focus support on basic infrastructure at the community level, and the effective connection of such infrastructure to city mains systems. However, such investments will be made cognizant of the broader needs of communities and may include components for shelter upgrading, urban environmental improvement, livelihood, and basic services (health and education) delivery. ADB will coordinate with other development partners and government in addressing these needs. Assistance for building the capacity of neighborhood organizations, civil society, and governments to develop their communities will also be required.

4.9 The results of these assessments will inform investment design across all urban sectors—for example, climate vulnerability determined under an environmental sustainability assessment will inform the design of a slum upgrading project, which is primarily an inclusive city intervention.

Building Effective Governance and Financing Systems

Governance

4.10 ADB recognizes that there have been serious governance issues in Asian cities. Through a comprehensive assessment of governance, structures, and systems incorporated in national and urban region assessments, ADB will identify key areas for governance and PSM reform and the needed capacity development activities required to address shortfalls and ensure these activities are addressed in project designs. In particular, there is a need to address issues of promoting sustainable mechanisms of devolution²⁷ and metropolitan governance. Political term limits are often at odds with long-term development. Further, the implementation of 3E investments requires the governance systems within each sector and across sectors to have the necessary capacity for effective planning, coordination, design, financing, and construction and for sustained operation. These systems need to be efficient, transparent, and accountable. ADB will continue to pursue anticorruption and good local governance, and PSM under GACAP II,²⁸ through policy dialogue, advisory activities, and through structuring projects for transparency and efficiency.

²⁷ Including the formation of formal local governments in countries where they do not exist, e.g., in some Pacific countries.

²⁸ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

4.11 ADB will plan and implement its investments in focus regions in an integrated manner, in projects that have clear development and reform objectives and defined scope for which outcomes can be monitored, and through agencies with demonstrated ownership, mandate, and capacity. Both on its national and urban region level assessments and subsequent investments, ADB will focus on building transparent, accountable, and sustainable governance and PSM structures for urban investments and, in particular, on the fiscal basis for that investment. From this base, ADB will provide the project development and capacity building support, together with its development assistance partners, to implement sustainable programs and projects in line with Strategy 2020—in particular, projects involving tapping efficiencies and innovation from the private sector.

Innovative Financing

4.12 Strategy 2020 emphasizes the need to develop new modalities for the provision of infrastructure engaging other development partners and the private sector. Given that cities present many, if not most, of the opportunities for cost recoverable provision of infrastructure, PPP options should be routinely considered. Through such mechanisms as the Urban Financing Partnership Facility (UFPF), ADB will provide resources for targeted subsidies²⁹ and credit enhancement mechanisms, and leverage other funding sources, both local and international. In the context of decentralization and the need to tap local financial markets, ADB's primary assistance modality, the sovereign loan, will need to be used strategically and combined with other instruments to achieve the above objectives. Especially in regard to implementing PPP programs, ADB will assess the potential to support the development of local capital markets so they may provide long-term finance for city infrastructure. In these efforts, ADB will need to utilize, and further strengthen, the full range of its sovereign, subsovereign,³⁰ and nonsovereign lending; guarantees; and financing partnership facilities.

4.13 As a basis for financing and to address the lessons learned from past evaluations, ADB support must include building capacity of municipal and utility finances that are key to sustaining operation, maintenance, and capital replacement of basic infrastructure (water supply, sewerage, solid waste management, drainage, etc.). In several DMCs, the absence of a vision of cities as viable businesses, with consequent inadequate financial capacity, impedes the ability of municipalities and urban utilities to cope with the increased demands of urbanization. As a result, O&M of assets is not prioritized, balance sheets are unable to sustain debt needed to improve service delivery, and capital cannot be raised for infrastructure investments. Therefore, work on financial governance will become very important before significant investments in the urban sector can be made. Continued policy dialogue is needed on public finance mechanisms, utility corporatization, urban development funds, local bonds and credit risk assessment and rating, tariff policies, and regulatory frameworks that would contribute toward establishing a sound enabling environment for urban development in the DMCs, in addition to creation of the asset inventories, condition assessment, and performance benchmarking of existing assets. Recognizing potential new revenue sources and timely measures for improving the municipal and utility finances would be a key to the sustainability of the proposed urban investments and to provide a basis for mobilizing private sector finance.

Through such mechanisms as the Urban Financing Partnership Facility, ADB will provide resources for targeted subsidies and credit enhancement mechanisms, and leverage other funding sources, both local and international

²⁹ Such funding can be applied in a variety of ways—to capital expenditures, to operational expenditures, or both—depending on the context of the project in terms of the capital market, legal framework, city finances, national government funding structures, and the characteristics of the infrastructure sector in question.

³⁰ Potentials for subsovereign finance were explored in *Market Survey of Subnational Finance in Asia and the Pacific*, published by ADB in 2007.

4.14 Operationally, this will mean that ADB will need to build financial management capacity and strengthen financial management systems through its projects as a basis for more innovative and efficient finance. This will include the introduction of double-entry accounting, systems to track customer base and for physical asset management, and information technology capacity to integrate these activities. In respect of financing investments in infrastructure and shelter, the full range of ADB public and private sector financial investments should be considered. Through Cities Development Initiative for Asia (CDIA) and other project development mechanisms, ADB will also consider what opportunities exist to structure an investment project for PPP, or to utilize sector, sector development project, or MFF modalities to bolster local financial institutions, including urban or municipal funds at national or provincial/state level, and capital markets to better provide sustainable, long-term finance for urban infrastructure. With the agreement of national governments, a more comprehensive approach incorporating a “results-based lending”³¹ type modality may be used to provide a more significant quantum of resources to project sponsors having the required enabling environment for effective and sustainable investments in the 3E agenda.

Knowledge and Capacity Development

ADB needs to build its knowledge systems, better align staff’s skill mix with UOP direction, and strengthen its knowledge partnership network with other professionals and institutions

4.15 There has been lack of operationally relevant sector knowledge available to both DMCs and ADB staff. There has been too little “thought leadership.” More effort needs to be spent on both tapping the Organisation for Economic Co-operation and Development (OECD) and DMC experience and best practice in both public and private sectors, and disseminating it. The 3E approach provides a way of structuring the knowledge and gives the partners with an incentive to disseminate and use it as it relates directly to investment. Through indexes designed to measure performance in these areas, ADB will be able to benchmark, and monitor progress against, 3E objectives. In collaboration with Corporacion Andina de Fomento, competitive city indicators are being developed. Indicators for green cities exist³² and indicators for inclusive cities will be developed.

4.16 Capacity development for improved urban management should be done both through projects and through networks for peer-to-peer learning supported by ADB—sharing good practice among cities. The Urban CoP has fostered such activities, but this needs to be done more systematically and proactively. The UrbInfo knowledge system needs to be upgraded with summary country data and best practice experience readily available. Such data should be available to DMCs. Operationally, ADB’s urban investment will be packaged together with the knowledge and innovation. This implies that ADB needs to build its knowledge systems, better align staff’s skill mix with UOP direction, and strengthen its knowledge partnership network with other professionals and institutions which can provide services or resources relevant to urban planning, project design, structuring, financing, and implementation. Resident missions will be integrated into these systems. In fostering innovation, ADB will use this knowledge in a proactive way in its projects, fostered through the peer review process. Such an integrated approach may involve more risks of underperformance. Learning systems, analyzing and feeding back results of project/program completion reports (PCRs) and other assessments, need to be bolstered to incorporate the lessons learned into project design.

³¹ ADB. 2012. *Piloting a Results-Based Financing for Programs Modality*. Manila.

³² Economic Intelligence Unit. 2011. *Asian Green City Index: Assessing the Environmental Performance of Asia’s Major Cities*. Munich: Siemens AG.

5 The UOP Framework for Planning Programs/Projects and Achieving Results

Mission and Outcome

5.1 The guiding purpose of ADB's UOP is to catalyze a new form of climate-friendly and resilient, inclusive, competitive, and environmentally sustainable urban development in Asia and the Pacific. The approach to its urban development will be focused on improving urban systems, making them financially sustainable and maximizing the urban contribution to such development. The outcome will be increased levels of inclusive urban economic growth and poverty reduction with less global and local environmental impacts.

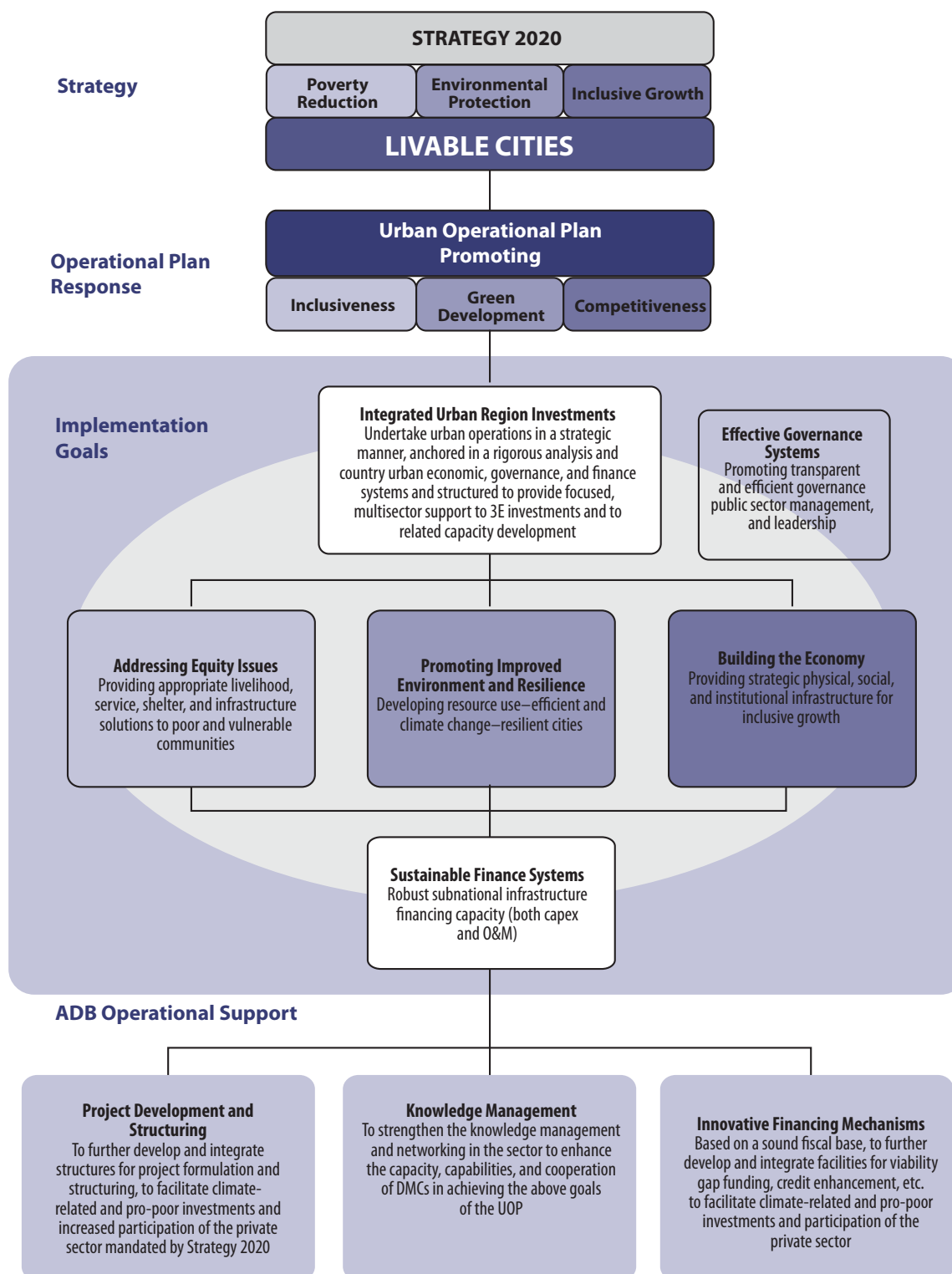
UOP Activities

5.2 The key actions for the progressive implementation of the plan described in the foregoing sections can be broken down into two main groups. The first contains actions associated with implementing the core activities under the 3E agenda—integrated urban sustainability assessments and investments in green, competitive, and inclusive cities supported by governance reforms and systems improvements. The second group contains those actions concerned with operational support—specifically project development, knowledge management, and financing mechanisms. The key activities for the implementation of the UOP are set out in the diagram on p. 16.

5.3 The UOP provides the urban context for catalyzing, expanding the implementation, and increasing the impact of ADB's other operational plans under Strategy 2020. Through its support of energy-efficient, higher-density development on urban corridors and more coherent urban region planning, the UOP will support the implementation of the Energy Policy, Sustainable Transport Initiative, and the Water Operational Plan. The UOP will provide the integrated planning context to improve the efficiency of water use and wastewater systems, and of wastewater recycling/reuse under the Water Operational Plan. Through its advocacy of a broader range of financing and delivery systems, in particular of subsovereign modalities, the UOP will facilitate, as appropriate, the adoption of PPP modalities under the PPP Operational Plan, providing both information for CPS filtering. This role is reflected in the Results Framework (Appendix 2).

The UOP will catalyze a new form of climate-friendly and resilient, inclusive, competitive, and environmentally sustainable urban development in Asia and the Pacific

Implementation of the Urban Operational Plan



Key Results Areas and Indicators

5.4 The UOP will have two direct impacts: (i) it will guide ADB institutional activities focused on the operational support and knowledge activities of the UOP; and (ii) it will change the approach to urban sector operations. These two impacts will, in turn, determine the quality, focus, and structure of urban sector investments, specifically impacting their integration, technical innovation, financial sustainability and leverage, and governance/reform dimensions. These investments will directly improve the livability of Asian cities as defined above. Specific indicators and targets, which will guide activities over the period 2012–2020 and provide the basis for monitoring performance and quality, are reflected in the Results Framework (Appendix 2). The indicators provide for a phased implementation—piloting to 2017 and mainstreaming thereafter with targets accordingly set progressively. The indicators will be monitored on a yearly basis starting 2013 (yearly reporting from 2014) by the Urban CoP and included in UrblInfo. As urbanization trends are changing rapidly in Asia, the Results Framework will need to be reviewed in the light of regional and country specific circumstances as they evolve.

6 UOP Dissemination and Implementation Arrangements

The CPS dialogue will provide a framework for building 3E approaches into suitable sector projects and programs where appropriate for country and sector priorities

Implementation

6.1 ADB's existing urban operations, focusing mainly on basic infrastructure, will remain relevant in most DMCs during the next decade. Having an established competence in these areas, as well as close working relationships with executing agencies, ADB is well placed to continue to provide support. At the same time, the imperatives under Strategy 2020 will require departments and urban staff to review their approach to the existing areas of operations. National urban sustainability assessments should build on the previous urban sector assessments to inform the CPS process. Staff will need to question how well past approaches have addressed the multiple dimensions of sustainable cities, and draw upon new sources of ideas and expertise to strengthen sustainability in future. The 3E approach to livable and sustainable cities, based on strengthened governance and financing systems, will need to be mainstreamed into the sector road maps in future CPSs, and in the approach to formulating and implementing urban projects.

6.2 In respect of lending operations, the CPS dialogue will provide a framework for building 3E approaches into suitable sector projects and programs where appropriate for country and sector priorities. The approach should, with the agreement of government, be piloted in appropriate urban areas as identified through national assessments and in dialogue with government. In this way, the main elements relevant to particular countries may be identified and the approaches modified to national and local circumstances. A more comprehensive approach could be structured through a program incorporating a results-based,³³ lending-type modality. This change process will require strategic leadership from the operations department management, staff training and capacity development, effective use of knowledge and collaboration with knowledge partners, and greater selectivity to focus ADB's role on aspects of sustainable urban development where it can offer greatest value addition.

6.3 A particular challenge will be buy-in of DMCs and the cross-divisional nature of projects potentially identified in assessments (for example, vocational education under competitiveness assessment). This can be addressed through cross-sector and cross-divisional coordination fostered in the CPS process informed by various sector road maps. This process can, and does, accommodate both the multisector nature of 3Es investments and geographic focus. It will also encourage proactive exploration of interfaces between environmental and economic infrastructure and social development, education, and health services. To strengthen ADB urban sector orientation toward private sector participation, urban projects identified through

³³ Where results are framed in terms of achievements of structural reforms and institutional capacity.

integrated urban plans will be screened for PPP potential. As part of the structuring process, potential involvement of the Private Sector Operations Department (PSOD) will be considered in liaison with PSOD and an appropriate financing and credit enhancement package for both public and private stakeholders, determined. The Urban CoP will also develop programs to augment staff capacity for facilitating links between regional departments and PSOD, and foster financing models capable of attracting private sector participation on a much larger scale.

6.4 The Urban CoP's peer review role within ADB's streamlined business processes will provide an important entry point for mainstreaming the UOP approach within investment operations. Beginning at the concept stage, the Urban CoP will use its peer reviews of sector road maps and individual project proposals to strengthen the "sustainable cities" focus of future urban operations. It will establish a new UrblInfo component of the urban intranet, containing a section on best practices in sustainable development of cities and link to relevant sections of other CoP sites. This will provide staff with web-based access to international and ADB best practices. The Urban CoP will strengthen its liaison with other CoPs, particularly the PPP CoP, in order to achieve better integration of activities in urban areas and to foster private sector participation in urban investments. It will also work in collaboration and partnership with DMCs, development partners, and centers of excellence to create new and improved mechanisms for knowledge sharing on sustainable urban development, including through websites, exchange visits, and workshops and seminars.

Urban projects entail complexities that increase risk if not well managed

Risks

6.5 ADB, being a development bank, cannot afford to avoid engaging in the urban sector. The risks of not investing in livable and sustainable cities in Asia and the Pacific may be too high for the region and the world to bear. However, urban projects entail complexities that increase risk if not well managed. Urban infrastructure and development may entail relocation. This issue should be squarely faced. ADB will take an integrated approach, minimizing disruption, favoring in-situ development and in-city relocation, and maximizing opportunity from relocation. Environmental projects are often complex, multijurisdictional, and multisectoral. Such projects require more intensive coordination systems and resources. Further, without a sound fiscal base, 3E investments will not be sustainable. PSM and financial reviews will thus be built into the proposed assessments at both national and city region levels. Other risks to be addressed in project design are the capacity and retention of staff and the quality of the consultation process to ensure the effective commitment and buy-in of all relevant stakeholders. Learning systems will help feed back lessons from underperforming projects to avoid repeating mistakes. Partnerships with the private sector also entail risk. Quality up-front work and due diligence can mitigate this, but the financial risk always will be higher than with sovereign lending.

ADB will take an integrated approach to urban project design minimizing disruption, favoring in-situ development and in-city relocation, and maximizing opportunity from relocation

Time Frame

6.6 Implementation of the UOP will be undertaken in three phases.

6.7 Phase 1 will be implemented in the period 2013–2014 to address the need to define the concepts and activities of the UOP initiatives, to build the capacity of ADB to implement inclusive urban programs, and to identify and commence implementation of additional pilots in selected cities demonstrating an integrated approach to green, competitive, and inclusive city development. Knowledge activities will be integrated into piloting activities and the results shared through the Urban CoP network.

6.8 Phase 2, to be implemented in the period 2015–2017, will (i) build on the understanding and consolidate experiences gained in Phase 1, including evaluation of pilot projects, to mainstream 3E initiatives, concepts, and activities into ongoing projects and new investments; (ii) prepare project development and implementation manuals for urban initiatives; and (iii) develop partnerships for UOP support and implementation and integrate knowledge generated into peer review processes.

6.9 Phase 3, from 2017–2020, will produce knowledge products and outreach materials that will further enhance understanding and support project development through an integrated approach to planning green, competitive, and inclusive cities; and upscale investments through to the completion of the implementation time frame in 2020.

7 Resources and Partnerships

Staff and Technical Assistance

7.1 ADB will need to upgrade its skills in the sector to support the UOP, with a focus on improving urban planning and municipal financing. ADB also needs a stronger skills base and a better resource pool of urban experts, especially those with sector knowledge in the three focus areas of the 3E agenda, in policy reform, and in project and structured finance. Additional technical assistance for new types of projects will also be sought through external partnerships. The approach proposed to resource this task will be to establish specialist funds under the UPPF, focused on key elements of the 3E agenda.

Financial Resources

7.2 ADB's urban sector lending has increased since the 1960s, but enormous funding gaps remain. Assessments have indicated that there is scope to increase and leverage³⁴ ADB lending in the transport and water and sanitation sectors, and in energy efficiency. However, significantly increased operation levels in the urban sector would greatly depend not only on headroom and available ADB resources but also on ADB's efforts to crowd in other financing resources including sovereign wealth funds, pension funds, local financing resources, private sector investments, and cofinancing.

7.3 Targeted at Strategy 2020 goals and driven by the fact that the need for urban infrastructure investment is many times what ADB can supply, we are faced with the fact that, if we are to be relevant to an increasingly sophisticated region with significant resources of its own, ADB's urban financing must leverage funding for and deliver:

- Through the Urban CoP, in collaboration with operations departments, build capacity in regional institutions to foster the needed governance and finance reforms underlying sustainable investment;
- New project development mechanisms such as CDIA, which will provide the pipeline of appropriate projects;
- New types of products such as new credit enhancement mechanisms, which will enable leverage of ADB's resources, in particular with private sector institutions such as pension funds which will provide the "leveraged resources."

ADB will need to upgrade its skills in the sector to support the Urban Operational Plan, with a focus on improving planning and financing capacity

³⁴ Including parallel and ADB-administered loan cofinancing, syndicated financing, guaranteed financing, parallel and ADB-administered investment grants, ADB-catalyzed funds, and equity participation in ADB-supported special purpose vehicles.

The UOP is designed to align with coalitions of national development partners focused on a main theme of its agenda

Partnerships

7.4 Strategy 2020 mandates ADB to establish partner relationships with public, private, and civil society organizations. The UOP's 3E approach is designed to align with coalitions of partners focused on a specific element of the agenda. To implement the ADB approach to competitive cities, ADB should seek to partner more strongly with the economic development agencies of the recipient countries and with the local and international private sector, as these stakeholders have a strong interest in developing the local economy. At the national level, potential partners are not necessarily only our traditional national urban agencies. To implement its inclusiveness agenda, ADB should seek to partner more strongly with the local governments, with civil society organizations, and with the local private sector, including financial institutions, as these stakeholders have a strong interest in developing their communities. In this agenda, diversity of donor interest increases the scope for sector wide approaches where different donor partners focus on specific tasks or geographic areas. Partners for Green Cities will include national ministries of environment, local governments, transport agencies, environmental NGOs, engineering and builder associations, and local financial institutions focusing on green investments and/or Clean Development Mechanism. International partners will include the GEF, UN entities—including UN-HABITAT, United Nations Environmental Programme (UNEP), and the United Nations Framework Convention on Climate Change (UNFCCC)—bilateral aid agencies, and private sector "green funds."

Appendix 1

Operational Process and Content

Process

1. Operations departments, supported by the Regional Sustainable Development Department (RSDD), will undertake national urban assessments progressively based on and updating available assessments for the sector. These assessments were prototyped in Armenia, Pakistan, and Uzbekistan, and further developed in the Philippines, Sri Lanka, and Viet Nam. RSDD will support the Urban CoP to document best practice in such assessments and develop a format for them. Operations departments will progressively apply this format to their urban sector assessments as country partnership strategies (CPS) processes and resources permit.
2. Operations departments, supported by RSDD, will undertake integrated urban region plan of pilot urban regions covering environmental, social, and economic development issues. Pilot urban areas have been selected in all regional departments. Such assessments should build on existing available plans. They should be rapid assessments focused on investment context and prioritization of key sector investments. RSDD will support the Urban CoP to document best practice in such assessments and develop a comprehensive process for them—to be applied flexibly by project preparatory technical assistance (PPTA) consultants as determined by project and country context, and by available resources. Operations departments will progressively mainstream such assessments into PPTAs in focus urban regions, thus saving resources previously used in ad hoc sector assessments in many cities, on the one hand, and enabling the use of more resources for a more thorough assessment to be done in focus cities, on the other hand.
3. At the program/project level, operations departments, supported by RSDD and the Urban CoP through the peer review process and UrblInfo, will formulate projects explicitly addressing the following sustainability criteria:
 - (i) implementation arrangements for improved governance and efficiency;
 - (ii) potential design features for increasing climate resilience (mitigation/adaptation);
 - (iii) potential design features that will increase the inclusiveness of projects—in terms of the potential role of the poor and vulnerable groups in project construction and/or operation and/or as beneficiaries;
 - (iv) potential design features which will support the development of key industry clusters within the urban region; and
 - (v) potential for private sector involvement/PPP modalities in implementation and for leveraging of finance from the private sector and/or other development agencies.

4. Not all of the design features need be presented in any one project, but project consultants should explicitly document consideration of all of the above. RSDD will support Operations departments in the formulation of innovative projects, incorporating these characteristics through the Cities Development Initiative for Asia (CDIA) and UFPF resources. Operations departments will progressively mainstream this approach as country dialogue and resources permit.

Content

National Urban Assessments

5. The assessments should outline the key constraints to investment in the urban sector and overall estimate of investment needs for physical and social infrastructure and supporting public sector management (PSM) systems for the next 20–30 years. Integrating existing sector and other reviews, such assessments should clearly differentiate the issues for mega-cities, secondary urban regions and other levels of the urban hierarchy, and for both newly developing areas and established areas. These issues should include an integrated assessment of sector needs due to growth and consider disaster and climate change risk. A summary of current and likely available resources, including the revenue base of local governments and their service performance and affordability, funds sourced from subnational (state/province) governments, external assistance and private sector participation in the sector, and of the means to coordinate such resources, should also be included. The assessment should seek to set out the government's vision or mission for the urban sector in the country and ADB's place within it. Such a vision will show the geographic focus of urban growth in cities, clusters, and corridors linked to economic, social, and environmental objectives. Issues of inter-regional equity, rural–urban linkages, and land management should be explicitly addressed. For small, isolated island states and landlocked countries, linkages to bigger neighbors and, within a country, to remote islands or areas, will be important.

Integrated Urban Region Planning

6. Urban region (city) plans are designed to be rapid planning exercises to respond to the need for more results-focused planning. They will be undertaken in selected regions and will follow a similar format to the national assessment. Such assessments will also provide the basis for project screening and prioritization to determine the most appropriate implementation modality—public, private, PPP, sovereign, or nonsovereign. Prioritized projects with high potential impact and/or demonstration value may be further detailed and structured by project development facilities such as the CDIA. Resources for such planning studies are currently included in PPTAs and it is envisaged that the resources for an urban region assessment will be of the same order as for a traditional planning study, but the assessment will be structured so as to focus on identifying the main constraints to competitive, inclusive, and environmentally sustainable development, the potential financing envelope available, and the priority investments needed to address these constraints within this envelope.³⁵

³⁵ India's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has pioneered such a process with its matching grants for investment requiring governance reforms and the identification of investments in a City Development Plan that prioritizes investments within a defined budget.

Potential Project Interventions

Competitiveness

7. Based on urban assessments, ADB will, in consultation with DMC governments, prioritize its interventions so as to build strategic infrastructure for development. ADB's value added in this field is to provide the tools for analysis of city competitiveness—both opportunities and vulnerabilities—and to provide funding for core strategic infrastructure enabling “crowding in” of private sector investment. At the urban region level, understanding roles and contributions of economic clusters in the national and global context is fundamental to designing a value-adding approach to inclusive economic development. Urban regions should effectively lead a country's sustainable development and poverty reduction agenda by providing economic opportunities, jobs, and social services. The implication is that governments need to target resources at the key supports of a successful cluster—infrastructure, shelter, skills development, research and development (R&D), specialized finance, and regional cooperation structures. We term such an approach City Cluster Economic Development or “Competitive Cities” for short.

Environmental Sustainability

8. The “Green Cities” approach focuses on concrete measures to bolster urban regions' central role in improving quality of life and in mitigating and adapting to climate change.³⁶ ADB's value added in this area is its ability to plan in an integrated way across environmental infrastructure sectors and to provide the convening power required for an integrated approach to implementation by responsible agencies. Cities themselves must be planned to become more efficient and low carbon, using fewer natural resources including land and water, and less energy for buildings, urban transport and industry, while improving the quality of life for their citizens. In particular, important focus areas will be on transport/land use synergies and the 3R—reduce, reuse, recycle—approach to service provision which can be used to increase energy and materials efficiencies. Cities' infrastructure also needs to become “smarter” to foster such efficiencies and become more resilient.

Inclusiveness

9. ADB support to inclusive livable cities will include support to (i) the urban shelter sector programs of slum upgrading, housing, land tenure and development, and housing finance; (ii) infrastructure, particularly local infrastructure, in the four core areas of water supply, sanitation, waste management and urban transport; and (iii) supporting community services, employment opportunities, and livelihood development. In the rapidly changing Asian urban context, enormous socioeconomic changes are occurring, and governments will need to respond to growing demands for the provision of basic services for the urban poor and poor communities in city hinterlands. There is also a growing awareness that the poor are most vulnerable to climate change impacts and disasters, and that support is needed to improve urban management to deal with these issues in an integrated manner. ADB's value added in this area is to make governments aware of the range of inclusive urban renewal options available, tapping the resources of communities to augment formal sector funding. ADB can provide lines of credit to agencies specialized in developing poor communities, and ensure its large-scale investments are inclusive. To achieve these aims, a more consultative approach to project preparation needs to be instigated and ADB will tap the significant base of nongovernment and community-based organizations that understand the approach and have the capacity to work with ADB.

³⁶ ADB. 2012. *Key Indicators for Asia and the Pacific 2012: Green Urbanization in Asia*, special chapter. Manila.

Appendix 2

Results Framework

Outcomes and Key Result Areas	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Responsible
Level 1 Outcome Increased levels of inclusive urban economic growth and poverty reduction with less global and local environmental impacts	Urban economic growth increases above national trend in focus location: Urban economic growth in Asia as percentage increase over national growth. Urban per capita income in Asia (key cities) as percentage of national average. Urban poverty reduces faster than national trend in focus locations: Urban population living in slum areas in Asia—number and percentage of urban population. Asia's urban environment improves: Carbon dioxide emissions in key cities with measurements-tons per year per capita.	DMC reports and ADB's country partnership strategies (CPSs). CPSs and DMC feedback received through various formal and informal channels. National Statistics UN-HABITAT Global Reports on Human Settlements Special Evaluation Studies (SES)	RSDD
Level 2 Investments	Set out in Energy Policy and the sector operational plans of education, health, PPP, and water.		
	Urban projects to be monitored and should meet bankwide target of 80% successful by 2016.	PCRs IED Reviews	RSDD, Urban CoP

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Table continued

Outcomes and Key Result Areas	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Responsible
Level 3 ADB Operations 1. Integrated urban plans providing a sustainable basis for urban projects	Key indicators: National Urban Assessments (NUAs) used as basis for DMC urban investment operations Targets: 2014: 1 NUA complete per region 2017: 35% of CPS informed of NUAs 2020: 50% of CPS informed of NUAs Integrated urban plans (IUPs) prepared (focusing on middle-sized cities) used as basis for project design Targets: 2015: 1 IUP completed per region 2017: 25% of urban projects based on IUPs 2020: 40% of urban projects based on IUPs	CPS Review TCRs and evaluation studies	RSDD, Operations Departments RSDD, Operations Departments Operations Departments, IED, RSDD
2. Improved financing mechanisms for sustained provision of urban infrastructure	Increased resources mobilized in parallel and ADB-administered cofinancing (including PPP)—percentage of ADB urban projects leveraging funds Targets: 2014: 1 “leveraging” project per region 2017: 15% of urban projects leveraging finance 2020: 30% of urban projects leveraging finance	ADB CPS Reviews OCO Reports ADB PCRs PCRs	RSDD, Operations Departments Operations Departments, IED, RSDD
3. Improved integration of sustainability dimensions in project design	Projects meeting sustainability criteria. Targets: 2014: all urban projects peer reviewed against sustainability criteria (see Appendix 1) 2017: 25% of urban projects meet 3 criteria 2020: 50% of urban projects meet 3 criteria	Urban CoP Reports	

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Table continued

Outcomes and Key Result Areas	Performance Indicators/Targets	Data Sources/Reporting Mechanisms	Responsible
Level 4 ADB Institutional Capacity 1. Improved urban region economic, social, and environmental knowledge.	Implement Competitive, Inclusive, and Green Cities benchmarking Targets: 2015: Pilot benchmarking in one city per region 2017: 25% of cities engaged in urban operations benchmarked 2020: 50% of cities engaged in urban operations benchmarked	Urban CoP Reports PPTA Reports	RSDD, Urban CoP
2. A strengthened Urban CoP developing operationally useful knowledge covering strategic issues of engagement in the sector, improvement of PSM systems for this task, and strengthened project and program preparation incorporating such good practices, innovative approaches, etc.	Workplan for Urban CoP setting out key knowledge products, including documentation of lessons learned by 2013. Implementation of an urban development intraweb and expanded network for ADB with related experts and institutions, particularly in the region by 2014. Yearly progress report on implementation of the urban operational plan and its results framework from 2014.	The established website and operational UrbInfo system.	RSDD, Operations Departments

CoP = community of practice, DMC = developing member countries, IED = Independent Evaluation Department, OCO = Office Cofinancing Operations, PCR = project completion report, PPP = public-private partnership, PPTA = project preparatory technical assistance, PSM = public sector management, RSDD = Regional and Sustainable Development Department, SES = special evaluation studies, TCR = technical assistance completion report.

Urban Operational Plan 2012–2020

Asian cities are central to economic development but are perceived to be wealthy yet chaotic places. Burdened by congestion, inequality, and fragmented interventions, these urban systems remain relatively weak. However, their rapid growth and wealth provide an opportunity to usher in inclusive and environmentally sustainable economic growth. Transforming the archetypically chaotic, polluted, inequitable Asian city into a “livable city” requires a new approach to city development. The Urban Operational Plan addresses the environmental (green), equity (inclusiveness), and economic (competitiveness) issues, and sets out future direction toward efficient, sustainable, and equitable development of cities.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.7 billion people who live on less than \$2 a day, with 828 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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