

MANAGEMENT'S RESPONSE TO THE THEMATIC EVALUATION STUDY ON REAL-TIME EVALUATION OF ADB'S INITIATIVES TO SUPPORT ACCESS TO CLIMATE FINANCE

On 21 May 2014, the Director General, Independent Evaluation Department, received the following response from the Officer-in-Charge, Managing Director General on behalf of the Management:

I. General Comments

1. We welcome IED's Thematic Evaluation Study (TES) on ADB's Initiatives to Support Access to Climate Finance. Overall, the TES captures ADB's preparedness and positioning for the emerging global financial architecture for action against climate change well.

2. However, we would like to point out the much broader coverage of the report than what its title implies by discussing planning and implementation issues of our climate change interventions in a variety of sectors. Furthermore, while making critical observations of ADB's track record on important issues such as climate finance tracking support to adaptation, and constructing baselines for estimating greenhouse gas (GHG) emissions, the TES does not adequately recognize that the discourse and methodologies on these issues are still under discussion in the international policy arena, and are evolving rapidly.

3. Such incomplete recognition of the international context could be misleading. For instance, there is no universal agreement on what constitutes climate finance yet. Since 2012, ADB and other multilateral development banks are jointly developing and refining a methodology to broadly define climate finance and track its implementation, which is expected to significantly increase transparency in reporting of our climate finance record in the future.

4. Moreover, it is widely acknowledged that climate finance is an area where the private sector needs to play a critical role, while market failures and lack of an enabling environment through adequate government policies and regulations are quite often sizeable impediments. It is for this reason that the design of the Green Climate Fund, which is expected to channel sources of climate finance at scale, includes a Private Sector Facility. In this regard, the TES does not capture the complex nexus of the public and private sector engagement in the area, and its assessments of ADB's private sector operations in climate change fail to properly appreciate these complexities.

II. Comments on Key Findings

A. Strategy, Policy and Plans

5. We appreciate that the TES recognizes the strategic nature of the Mid-Term Review of Strategy 2020 (MTR) and the key role of operational plans in setting sector level objectives and means to achieve these objectives. We also recognize the need to adopt and scale up cross-sectoral approaches. Such efforts are already underway, as evidenced by the Urban Climate Change Resilience Trust Fund to build climate resilience in secondary cities, and the Secondary Cities Development Program, which incorporates tenets on environment, economics and competitiveness.

B. Experience with Climate Funds

6. The TES alerts that accessing internally managed funds does not enhance internal capacity for accessing climate finance from externally managed funds. This comparison is not relevant given the different nature and purpose of the funds, and different approaches that we have to take accordingly. We also would like to point out that ADB has mobilized significant amount of funds from the Climate Investment Funds (\$825.5 million to date) and the Global Environment Facility (\$221 million to date).

7. At the same time, however, we recognize that the process of accessing external funds is often more tedious and time-consuming. To ensure greater access of external climate finance, it is important to systematize and provide directions and incentives for incorporating climate considerations into projects in a way that allows these to qualify for external climate finance support. At present, the operations departments are allocated the administrative fees that external funds provide for project management through the overall budget allocations. In line with the MTR, ADB is now developing guidelines to explicitly allocate part of administrative fees to operational departments to better support project administration.

C. Climate Change Adaptation and Mitigation

8. The TES notes that the project documentation for adaptation projects needs to be improved by providing information on the three criteria for reporting on adaptation finance. Steps are already being taken in this direction, with systematic training on the climate section of the revised project classification system.

9. We note that there is still no clear distinction in the TES between risk screening tools and the risk screening process. ADB has introduced a process for screening projects at early stages of concept development to identify and assess potential risks resulting from climate change. The TES does not accurately describe this process nor the tools developed by ADB to support the process.

10. The TES states that mainstreaming of mitigation interventions has been limited to clean energy projects. This overlooks our significant efforts already initiated and being made for sustainable transport and other areas. The Sustainable Transport Initiative (STI) Operational Plan, approved in 2010, aims to increase the share of low-carbon and environmentally sound modes of transport in ADB's transport portfolio to 30% for urban transport (including public transport and non-motorized transport) and 25% for railways by 2020—up from the average levels in 2000–2009 of 2% for urban transport and 17% for railways. Supported by these efforts among others, we expect our interventions will significantly increase for a broader coverage of climate change mitigation matters in the years to come. In Southeast Asia, where mitigation options in forestry and agriculture are the most cost-effective, projects focusing on reducing emissions from deforestation and forest degradation are being prepared for Lao PDR, Indonesia, and the Philippines. We also believe these efforts are indicative of the diversification of ADB's efforts across various fronts.

D. Results Framework

11. We note the TES recognizes that the results framework (RF) has a package of indicators, as well as standard explanatory data (SED) indicators. The RF is still evolving and will be updated to align with the MTR recommendations. Any changes will be introduced through a consultative process, guided by the MTR recommendations, and the findings from the TES will be taken into consideration in this process.

12. As a broad corporate framework, however, we believe the RF needs to be supported by other appropriate documents, such as operational plans, which include detailed and specific indicators, instead of trying to incorporate too many indicators.

III. Comments on Recommendations

13. **Recommendation 1: Create and broker new knowledge to better support developing countries as they transform their economies.** We agree in principle. We recognize the need to focus on projects that are more strategic and innovative. On the other hand, we also need to recognize what our DMCs demand and expect from ADB in the short term. To strengthen capacity at strategic levels in our DMCs, it is important to create new partnerships with institutions which have expertise and knowledge on climate change and development issues, and to build a network of Centers of Excellence. We will keep pursuing this agenda more closely under the framework of the Knowledge Management Action Plan.

14. **Recommendation 2: Introduce innovative financial products and leverage sources of public and private finance.** We agree. In fact, ADB is already employing innovative financing approaches to leverage public and private finance, such as the issuances of clean energy and water bonds, which the TES has also cited. Another example is the \$81.5 million Canadian Climate Fund for the Private Sector in Asia, which uses concessional financing to leverage private finance.

15. ADB is also tapping non-traditional sources such as pension funds, sovereign wealth funds, and other institutional investors as exemplified in the case of the Climate Public Private Partnership Fund (CP3), a \$1 billion+ investment vehicle co-managed by ADB and another global financial institution. Our Treasury Department is also assessing the possibility of issuance of green bonds. We have reiterated the role of innovative financing in the MTR, and will examine ways to further expand this frontier.

16. **Recommendation 3: Take several organizational measures to enable developing countries to shift to low-carbon and climate-resilient development paths.** We appreciate these recommendations, however, at the same time we need to take into account surrounding factors and constraints in contemplating their feasibility. ADB is already implementing several ideas suggested by the TES, including creation of opportunities to share knowledge and experience across knowledge and operations departments, including on the assessment of climate risks and vulnerabilities of projects, among others. The current arrangement of a centralized climate change focal team in RSDD-CD for bank-wide activities and coordination, and a network of designated climate

change focal points in regional departments with technical expertise in sectors and themes, allows for a flexible approach towards achieving operational outcomes within a limited resource envelope, while much of the substantive coordination around individual themes is centered on dedicated working groups, such as the Agriculture and Land Use Working Group, and the committee of Climate Investment Funds focal points. We will keep examining the effectiveness of the current mechanism and explore ways for enhancement as necessary.

17. Meanwhile, the recommendation for the consideration of establishing a Community of Practice (COP) dedicated to climate change may not be an option to adopt at this stage. Given that climate change is a cross-cutting theme/issue, the existing COPs should be encouraged to further integrate climate considerations into their work. A good example is the Transport COP, which has established a committee to deal with climate and environment issues in deliberating transport projects.

18. On the issue of staffing priorities, we would like to emphasize potential budgetary implications of the recommendation and reiterate the point that such needs should be carefully assessed against other competing demands in implementing strategic priorities under Strategy 2020.