

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE AUDIT REPORT  
ON THE INDUSTRIAL ENERGY EFFICIENCY PROJECT IN INDIA  
(Loan 1343-IND)**

On 25 April 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds the PPAR well prepared and makes a candid assessment of the project's performance. While agreeing with the overall rating and the lessons learned, Management would like to make the following comments on several aspects of the lessons proposed by the PPAR.

2. The PPAR argues that the lower-than-expected demand for ADB funds led to the relaxation of subproject selection criteria and the simplification of disbursement procedures, undermining the attainment of the project objectives and goals. Management agrees with the need for rigorous demand analysis during project preparation as suggested in the PPAR. On the other hand, Management would like to point out that applying flexible approaches is also necessary in implementing a project under frequently changing environment. It is understood that the abovementioned relaxation in the selection criteria and the disbursement procedures was made to adapt to the changing environment.

3. The PPAR also suggests that ADB future financing for a similar project is not justified unless specific measures have been put in place to address the issues highlighted in the PPAR. It is noted that such a broad statement may have overstated the issues when we consider that the policy environment for energy efficiency in India has changed. For instance, the Government of India passed the Energy Conservation Act in 2001 (the Act) that gives the central and state governments the requisite statutory powers for promoting and enforcing a progressive regime of energy conservation. The Act also requires these entities and their designated agencies to (i) promote mass awareness for energy conservation, consumer education and consumer guidance; (ii) encourage preferential treatment for energy efficient equipment and appliances; and (iii) establish an Energy Conservation Fund at both the central and state government levels to provide grants or loans for promoting energy conservation. This now provides a more conducive environment for ADB to assist the Government in promoting energy efficiency in India. In addition, given the current high prices for energy in ADB's DMCs, which are expected to continue, there is a role for ADB to assist its DMCs in enhancing energy efficiency.

4. The PPAR suggests that ADB needs to provide innovative financial instruments in response to changing financial markets, wherein the demand for rupee resources are quite large. It should be noted that ADB has already begun to introduce such innovative instruments. ADB has recently issued Indian Rupee bonds and is exploring other innovative modalities to provide rupee-based financial instruments to the Indian private sector, including financing energy efficiency through leveraging local sources of funding in the energy sector.