

MANAGEMENT RESPONSE TO THE SECTOR ASSISTANCE PROGRAM EVALUATION FOR THE ENERGY SECTOR IN INDIA – BUILDING ON SUCCESS FOR MORE RESULTS

On 18 October 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We welcome OED's Sector Assistance Program Evaluation (SAPE) for the Energy Sector in India. We find it comprehensive and balanced. The SAPE is timely and will provide valuable input in the preparation of our new Country Partnership Strategy for India.

2. We note the overall positive assessment of the SAPE: (i) the performance of ADB assistance to the energy sector in India was successful; (ii) the sector assistance program was aligned with the development goals outlined in the Government's development plans and was consistent with ADB's energy policy and country strategies, and (iii) ADB assistance, particularly at the state level, has been highly effective in the areas of energy supply and sector governance.

3. We note that the India energy sector strategy and assistance program for 2007–2010 (Energy Sector Program) will (i) continue to support state level reforms and investments to improve efficiency in the delivery of power; (ii) support national agencies in capacity (generation and transmission) expansion in an environmentally sustainable manner; and (iii) support clean energy and energy efficiency initiatives at the national and state level. Our assistance will provide the required long-term financing, introduce best practices, improve sector and corporate governance, build capacity and ensure sound environmental and social safeguard practices.

4. We agree with the SAPE recommendations, which are fully consistent and supportive of the Energy Sector Program.

II. Comments on Specific Recommendations

5. **Expand the current focus of operations to balance supply and demand.** We agree with the SAPE suggestion that subject to the Government's agreement, we continue and expand the current focus on state electricity sector restructuring and system expansion to balance supply and demand.

6. We note that the SAPE suggestion is fully consistent with our Energy Sector Program in India. Under the Energy Sector Program, we will (i) continue to support state level reforms and investments to improve efficiency in delivery of power, and (ii) support national agencies in capacity (generation and transmission) expansion in an environmentally sustainable manner. Over the next 3 years, building on our experience in the states of Madhya Pradesh, Assam, Gujarat and Uttaranchal, we plan to expand our assistance to the states of Bihar, Himachal Pradesh, Jammu and Kashmir.

7. **Integrate energy efficiency and renewable energy initiatives into lending programs at both central and state levels.** We support this SAPE suggestion. Under the Energy Sector Program, we plan to support low carbon, clean energy and energy efficiency initiatives at the national and state levels. Our assistance will cover both demand and supply side management with interventions, including (i) renovation and modernization of existing power generation plants, (ii) replacement of inefficient power plants to enhance energy efficiency, (iii) renewable and clean energy development, (iv) loss reduction of transmission and distribution systems, and (v) mainstreaming demand side management.

8. We also note that our Energy Efficiency Initiative and Carbon Market Initiatives should be used to facilitate such interventions allowing promotion of energy efficiency, renewable energy, and other forms of low carbon energy development utilization.

9. **Tailor products and services to meet clients' evolving needs.** We agree with the SAPE suggestion that we tailor our products and services to meet clients' needs. We believe this is being done. We are working closely with the energy sector agencies and states to provide assistance in a timely and relevant manner by utilizing the full range of lending modalities such as multitranche financing facility, public-private partnerships, risk guarantees and other credit enhancement vehicles.

10. **Nonsovereign transactions to expand generation and transmission.** We support the SAPE suggestion that nonsovereign lending can take on a larger role to fund the energy sector and to catalyze private sector funds, particularly into the transmission and generations. We are discussing with national energy sector agencies, including National Thermal Power Corporation, Power Grid Corporation of India Limited and Power Finance Corporation about the prospects for nonsovereign lending.