

## **MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON ENERGY POLICY 2000 REVIEW: ENERGY EFFICIENCY FOR A BETTER FUTURE**

On 22 June 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 Special Evaluation Study (SES) of ADB's 1995 Energy Policy and 2000 Review. The SES is timely and will provide an important input into the development of our new Energy Strategy currently under preparation. We note that through frequent interaction with OED, the draft Energy Strategy has now been circulated for consultation with external stakeholders.

2. We are encouraged to note the SES finding that ADB's operations in the energy sector were successful and ADB's assistance in the sector has achieved positive development impact. We note the SES findings that the ADB's energy operations should continue to focus on sector reform and that there is a need to enhance our efforts to promote energy efficiency, renewable energy, and clean energy programs. These findings are effectively aligned with the main thrusts of the proposed draft Energy Strategy and validate the importance of on-going ADB's work on Clean Energy and Environment Program (CEEP).

### **II. Comments on Recommendations**

3. **Stronger Focus on Private Sector Participation, Mitigation of Environmental Impacts and Regional Cooperation.** We agree with the suggestion that we need stronger client focus on private sector participation, mitigation of environmental impacts, and regional cooperation in energy sector. We note that the proposed new Energy Strategy will emphasize the importance of private sector participation, effective environment management, and regional cooperation.

4. **Energy Efficiency.** We agree with the importance of pursuing energy efficiency as the first priority. However, we note that it may be counterproductive to hold back investment in new energy supply projects until all efficiency improvements are realized in both energy supply and demand. We believe that the need for new investments to maintain the reliability of energy supply is extremely important in many DMCs. As recognized in the SES, it will take time to increase investments in energy efficiency. In the meantime, if we do not support DMCs in building new cleaner energy generation capacity, they may resort to less efficient and more polluting energy sources as DMCs strive to ensure energy security. Further, investing in new and efficient generation capacity (including advanced technologies and renewable energy) is vital to maintain and improve the level of energy efficiency in existing energy supply systems.

5. **Center for Excellence.** We agree with the suggestion that ADB should become known as a center for excellence to improve policy, legal, and regulatory framework and to encourage the use of market based incentives to improve the enabling framework for energy efficiency, renewable energy, and ways to address environmental concerns in the energy sector. We note that to achieve

this, ADB needs to build a stronger knowledge base by recruiting highly skilled technical staff in a timely manner. The Clean Energy Financing Partnership Facility (CEFPF)<sup>1</sup> will also be useful in implementing new and innovative approaches to deploy new cleaner technology and to provide capacity building assistance to DMCs. ADB has also established regional knowledge hubs<sup>2</sup> to act as the think tanks for ADB and the DMCs on clean energy. The knowledge hubs will support and strengthen the region's capacity to generate innovative concepts, science, technology, and management of clean energy.

**6. Environmental Costs and Benefits Analysis.** We agree with the suggestion that, in principle, we should make our best efforts to estimate the environmental costs and benefits and incorporate them in the economic analysis. We note that some of the environmentally sensitive projects supported by ADB, e.g., Nam Theun 2 Hydroelectric Project, have indeed done so. However, we also note that there is no universally agreed methodology in quantifying the environmental costs and benefits for different modes of power generation facilities because the environmental consequences vary significantly from one project to another. Therefore, it would be difficult to ensure consistency in assessing such costs and benefits across different energy sector projects.

**7. Strategic Environment Assessment.** We agree with the importance of country-level strategic environmental assessments. However, we disagree with the suggestion to undertake separate strategic environmental assessments for the energy sector. Country environmental assessments are now an integral part of the preparation of all country partnership strategies (Operations Manual, Section A2/OP), and it should discuss the environmental impacts of energy production and use, along with other development activities in the country including other infrastructure sectors. To mandate a separate strategic environmental assessment for the energy sector, as it is suggested in the SES, will be impractical since other infrastructure sectors may also have equally significant environmental impacts in a country. Our view, therefore, is that environmental assessment of the energy sector should continue to form part of the country environmental assessment, and the depth of the analysis may be varied with the impact that ADB's lending assistance is likely to have on the energy-environment nexus.

**8. Improved Sector Governance.** We agree with the importance of promoting good governance in the energy sector. We note that in this connection, ADB will continue to assist DMCs in the restructuring and reform of the energy sector through technical assistance and project support. In terms of strengthening staff capacity, ADB launched its Governance and Anticorruption Action Plan II in 2006, which provides training program to ADB staff on how to better handle corruption and governance issues.

**9. Implementation Plan for the New Energy Strategy.** We agree with the importance of assessing resource implications of any ADB activities and with the usefulness of results framework effective monitoring of the sector performance. We note that a results framework which will be included as part of the new Energy Strategy is being developed.

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<sup>1</sup> Two donor countries have expressed interest in providing funding to support the CEFPF.

<sup>2</sup> Currently, there are three knowledge hubs: (i) The Energy Research Institute in New Delhi, India for Clean Energy; (ii) Tsinghua University in Beijing, People's Republic of China for Climate Change; and (iii) Asian Institute of Technology in Bangkok, Thailand for 3R (reduce, reuse, and recycle).