

## Evaluation Approach Paper

### Topical Paper: ADB's Environmentally Sustainable Growth Agenda: A Strategic Review

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1. Environmentally sustainable growth (ESG) is one of the three strategic agendas of Strategy 2020,<sup>1</sup> along with those on inclusive economic growth and regional integration. The Independent Evaluation Department (IED) has already evaluated Asian Development Bank's (ADB's) support for inclusive growth in 2014,<sup>2</sup> while an evaluation of ADB's regional cooperation and integration agenda has been completed in October of this year.<sup>3</sup> An evaluation of ADB's safeguard experience, which includes experiences with environmental safeguards, is underway.<sup>4</sup> Given that a full evaluation of the ESG agenda and its results would take too long to complete to feed into ADB's new schedule for the preparation of Strategy 2030, IED decided to conduct such an evaluation at a later stage and prepare a more limited paper with more strategic purposes at this time. Such a paper will explore the Asia and the Pacific's evolving environmental challenges and review the relevance of ADB's response. It will focus on ADB's strategic framework and may propose recommendations for sharpening. The paper will be delivered in the first half of 2016 and will inform a chapter on ESG in the 2016 Annual Evaluation Review.

1. Environmental sustainability and climate change are at the top of the post-2015 development agenda. In September, the United Nations approved the Sustainable Development Goals (SDGs), which recognize the interlinkages among economic growth, social equity and environmental protection in achieving poverty reduction and sustainable development.<sup>5</sup> A new climate change accord is expected to be signed in Paris in December. In the next sections, some further background will be provided on these developments and their relevance to ADB, after which the objectives, scope, and methodology of the review is elaborated.

#### A. The Environment and the International Development Agenda

2. The international development community including ADB has increasingly recognized the environment as important to the international development agenda. Protecting the environment emerged as a priority in the 1970s with the development of national environmental policies and regulations. Over time, the conservation focus has broadened as part of the

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<sup>1</sup> ADB. 2008. *Strategy 2020: The Long Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila

<sup>2</sup> IED. 2014. *Thematic Evaluation Study: ADB's Support for Inclusive Growth*. Manila: ADB.

<sup>3</sup> IED. 2015. *Thematic Evaluation Study on ADB's Efforts on Regional Cooperation and Integration*. Manila: ADB. Available at <http://www.adb.org/documents/thematic-evaluation-study-adb-s-efforts-regional-cooperation-and-integration>

<sup>4</sup> Evaluation Approach Paper: Effectiveness of Safeguards Implementation Phase 2 (forthcoming).

<sup>5</sup> The United Nations concluded negotiations on the post-2015 development agenda on 2 August 2015. Member States agreed a framework for 17 universal sustainable development goals, which will be adopted by Heads of State at a summit in September.

sustainable development agenda, in recognition of the links between the environment and economic and social concerns. The concept of *sustainable development* was coined by the Brundtland Report as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>6</sup> Sustainable development includes a range of ideas and meanings, generally consisting of three pillars: economic growth, environmental protection, and social progress.

3. The 21st Century has been called the Asian century. This is clearly demonstrated with the region’s rising share of the world’s output at the same time lifting many millions out of poverty. ADB’s developing member countries (DMCs) are growing and transforming, with nearly all (except two) expected to become middle income countries (MICs) by 2020. While the region has made significant progress in reducing income poverty, gains are threatened by environmental degradation, and climate change. Many countries are facing serious environmental concerns such as natural resources depletion, damaged ecosystems, threatened species, worsening water stress, and natural hazards. As incomes grow and local environmental concerns such as air pollution become higher priorities in country demand for ADB support for green growth (including low carbon and climate resilient development) is likely to increase.

4. One of the striking characteristics of Asia’s growth is that it is predominantly an urban phenomenon—half the world’s urban population now lives in Asia and cities account for 80% of regional’s GDP.<sup>7</sup> However, this urban growth has also resulted in significant pressures on the environment. All of these problems affect public health and human well-being, with the poor being the most vulnerable. Climate change, and weather related disasters, are exacerbating these problems, and threatening the region’s future economic growth as well as its well-being and that of the environment.

5. Climate change has emerged as a core environment and development concern internationally, cutting across sectors and countries. The 2014 Intergovernmental Panel on Climate Change (IPCC) concluded that the warming of the global climate is unequivocal.<sup>8</sup> Inaction on climate change could lead to a continued rise in global temperatures by 2100 ranging from 2.5°C to 7.5°C above pre-industrial levels. This is also expected to increase the severity – and the frequency – of extreme weather events, with potentially catastrophic consequences for economic development, human life, and prosperity. Developing countries stand to be disproportionately affected by climate change, eroding development gains made to date.<sup>9</sup> The Asia and Pacific region is particularly vulnerable to the impacts of climate change. Half of the region’s urban population lives in low-lying coastal zones and flood plains, which are the areas particularly at risk from climate change impacts, including sea-level rise, storm surges, and typhoons.<sup>10</sup> Extreme climate events, water scarcity, impacts on food security, and impacts on terrestrial and coastal ecosystems are among the major challenges. Stresses due to

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<sup>6</sup> United Nations, World Commission on Environment and Development. 1987. *Our Common Future*.

<sup>7</sup> UN HABITAT (2013) State of the world’s cities 2012/2013. United Nations Human Settlements Programme (UN-HABITAT). Nairobi.

<sup>8</sup> Intergovernmental Panel on Climate Change (IPCC). 2013. *Summary for Policymakers In: Climate Change 2013: The Physical Science, Basis, Contribution of Working Group 1 to the Fifth Assessment Report of the IPCC*. Cambridge, United Kingdom and New York, USA.

<sup>9</sup> IPCC. 2014. *Summary for Policymakers In: Climate Change 2014: Impacts, Adaptation and Vulnerability, Contribution of Working Group II to the Fifth Assessment Report of the IPCC*. Cambridge, United Kingdom and New York, USA.

<sup>10</sup> Y. Hijioka, et al. 2014. *Asia: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Barros, V.R. et al. (eds.)]. Cambridge University Press, Cambridge, United Kingdom.

urbanization, industrialization, and economic development will be compounded by climate change.

6. Finally, global and regional aid architecture is changing rapidly. In light of the entry of new players such as the Asian Infrastructure Investment Bank, New Development Bank, and the Green Climate Fund, ADB will have to position itself to address key ESG challenges of DMCs.

## **B. ADB's Approach to the Environmentally Sustainable Growth**

7. Consideration for the environment has been an integral part of ADB operations since the early 1970s. Within ADB, the environment gained prominence with ADB's signing of the Declaration of Environmental Policies and Procedures relating to Economic Development, the appointment of the first environmental specialist in 1981 and establishment of an environment unit in 1987. On the recommendation of the 1989 Okita Panel report,<sup>11</sup> ADB adopted protection of environment as a new priority. Environment and natural resources was recognized as a strategic development objective under the first Medium Term Strategic Framework for 1992–1995.<sup>12</sup> ADB adopted environmental safeguards in its operations since the 1980s, and approved its Environment Policy in 2002.<sup>13</sup> In 2009, the safeguard policy elements of the latter umbrella Policy were expanded with more attention for natural habitat preservation and climate change effect calculations of projects, as part of their consolidation into the Safeguard Policy Statement (SPS).<sup>14</sup>

8. The ESG agenda for ADB, as set out in Strategy 2020, explicitly highlights climate change, livable cities, and complementary actions (e.g., mainstreaming environmental considerations into national policies and building necessary capacity) as priority areas. In terms of the core areas of Bank operations, environmentally sustainable growth actions may well be most prominent in infrastructure operations (i.e., energy, water, transport) and regional cooperation and integration operations (e.g., transboundary, and regional public goods). Environmental concerns are however also important for Strategy 2020's noncore areas, namely health, agriculture, and disaster and emergency assistance, and their continuing importance has recently been reconfirmed (para. 12). In terms of mainstreaming environmental considerations into national policies and building necessary capacity, these aspects are included under one of Strategy 2020's drivers of change: governance and capacity building.

9. Strategy 2020 committed ADB to expand support for environmentally sustainable growth and envisaged at least 25% of ADB operations supporting this strategic agenda by 2012 (compared to baseline of about 14% in 2006). The target was surpassed in 2010 and was revised to 50% of ADB operations (40% of ADF operations) by 2016 in the Results Framework for 2013–2016.<sup>15</sup> ADB also set an overall target of 60% of ADB operations supporting measures to address climate change by 2016 (against 2012 baseline of 39%), which was recently adjusted to 45% for ADB operations (35% for ADF operations). In terms of volume of resources, ADB recently announced that it will double its annual climate financing to \$6 billion by 2020, up

<sup>11</sup> S. Okita. 1989. *The Asian Development Bank in the 1990s*, report of a panel led by Soburo Okita.

<sup>12</sup> IED. 2002. *Special Evaluation Study: ADF VI-VII Operations*. Manila: ADB citing ADB. 1995. *Medium Term Strategic Framework 1992–1995*. Manila. The other strategic development objectives were economic growth, human development, poverty reduction and women in development.

<sup>13</sup> ADB. 2002. *Environment Policy*. Manila.

<sup>14</sup> ADB. 2009. *Safeguard Policy Statement*. Manila.

<sup>15</sup> ADB. 2012. *Review of the Results Framework*. Manila

from the current \$3 billion.<sup>16</sup> ADB's spending on tackling climate change is to rise to around 30% of its overall financing by the end of this decade. The main question for this topical paper is how ADB arrived at these figures, in other words, what does and what should ADB consider as supportive of environmentally sustainable growth.

10. Under the Midterm Review of Strategy 2020<sup>17</sup> (MTR) and its Action Plan, ADB reiterated the importance of ESG. It reaffirmed its commitment to: (i) scale up support for climate change adaptation; (ii) maintain assistance for mitigation through clean energy and energy efficiency projects and sustainable transport; (iii) mainstream adaptation and climate resilience in development planning, as well as in project design and implementation; (iv) strengthen integrated disaster risk management; (v) promote natural resource management; and (vi) and support DMCs to access to global and regional funds for environment and climate change.

11. ADB guiding strategies and policies interpret environmental sustainability broadly, covering a wider set of environmental issues, including climate change and natural hazards. The 2002 Environmental Policy has been archived and environmental guidance is now found in Strategy 2020, the Environment Operations Directions 2013–2020,<sup>18</sup> as well as the relevant sector operational plans. These include the 2009 Energy Policy, the 2015 Sustainable Food Security Plan, the 2010 Sustainable Transport Initiative Operational Plan, the 2010 Climate Change Strategic Priorities, the 2011 Water Operational Plan, and the 2012 Urban Operational Plan.

### C. Objectives, Scope, and Methodology

12. **Goal and objectives of the Topical Paper.** The goal of the paper is to assess ADB's strategic response to the ESG agenda over the past decade and define, from ADB's and IED's perspective, what types of operations can and should be seen as supportive of ESG. The specific objectives are to assess the: (i) current and evolving environmental challenges across the Asia and Pacific region; (ii) strategic responsiveness of ADB's strategies and policies to the ESG agenda objectives (in terms of Strategy 2020, relevant policies; country partnership strategies, sector strategies, operational plans and guidelines and the portfolio), (iii) ways in which various ESG operations are supportive of the environment, notably operations supporting climate change mitigation and adaptation, and (iv) evaluability of growth oriented operations in terms of their environmental sustainability (in other words, how can it be evaluated whether such operations make the cut). The paper will also generate a series of lessons and recommendations on the ADB strategic framework for ESG, inform the 2016 Annual Evaluation Review, and be a basis for a fuller ESG thematic evaluation tentatively planned for 2018, that will look into results on the ground.

13. **Scope of the paper.** As the knowledge, understanding, and importance of ESG issues is evolving rapidly, the paper will capture the latest thinking on ESG, within the context of the global priority setting of the SDGs and proposed climate financing facilities. It will also discuss issues specific to the Asia and Pacific region including ADB five subregions (e.g., biodiversity in Southeast Asia). The paper will consider the evolution of the ESG agenda as defined by the 2002 Environment Policy, Strategy 2020, and the Environmental Operations Directions priorities (livable cities, sustainable infrastructure, natural capital, environmental governance, and climate

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<sup>16</sup> ADB 2015. *ADB to Double Annual Climate Financing to \$6 Billion for Asia-Pacific by 2020*. News Release. 25 September.

<sup>17</sup> ADB. 2014. *Midterm Review of Strategy 2020, Meeting the Challenges of a Transforming Asia and the Pacific*. Manila.

<sup>18</sup> ADB. 2013 *Environment Operational Directions 2013–2020*. Manila.

change), and the Strategy 2020 Medium Term Review Action Plan. At the sector level, it will primarily focus on four ADB sector programs (those for agriculture and natural resources, energy, transport, water supply and sanitation) that support ESG. However, the paper will also look at environmental challenges in the areas of pollution and/or contamination (air, water and soil), depletion of natural resources, biodiversity loss, and degradation of ecosystem services in the context of ADB support. In recognizing the multidimensional nature of ESG, the paper will briefly consider other related sector programs and thematic operations (e.g., health, natural disasters, public sector management and/or governance). Finally, in preparation for the 2018 thematic evaluation of ESG, the paper will consider the evaluability of the ESG strategies and operations, particularly the degree to which they provide a coherent framework.

14. **Key questions.** The paper aims to address the following key questions:

- (i) What are the major ESG challenges facing the Asia and Pacific region and how do these challenges vary across subregions and which challenges are cross cutting?
- (ii) How do other multilateral development banks pursue environmentally sustainable growth, what do they see as appropriate operations for this, what are the latest trends?
- (iii) Do ADB strategies, sector policies, operational plans and directions provide coherent and sufficient guidance for ADB to support the right types of growth operations and reject those that do not support the environment?
- (iv) What are the trends in the ADB ESG portfolio and are these signaling a real and appropriate shift? Are the ESG tagging guidelines clear and justifiable, and do operations follow this guidance well and consistently in their tagging?
- (v) In preparation of a more extensive evaluation on ESG in a few years, which will consider into results on the ground, is the current policy and strategy framework sufficient for assessing ADB's ESG agenda and how should ADB's ESG operations be evaluated?

15. The framework for developing the paper, including the list of questions to be examined, is presented in Appendix 1. While the paper intends to cover 4 areas (ESG challenges, MB responses, ADB's strategic responsiveness, evaluability), the main emphasis will be on strategic responsiveness of guiding documents and operations for ESG.

16. **Methodology.** The paper will be prepared using a mixed methods approach largely based on desk review, portfolio analysis, and qualitative evaluation methods. The paper will be informed by the following activities:

17. **Literature Review.** The topical paper will review the latest literature on ESG operations from a global and regional perspective. It will also examine the ongoing developments related to the SDGs and climate finance, and the potential implications for the region.

18. **Comparison of other Multilateral Development Banks' Environmentally Sustainable Growth policies.** The paper will conduct desk review of two other MDBs' (e.g., World Bank, and Inter-American Development Bank) guiding documents and policies on their approaches to supporting ESG.

19. **Desk review.** The paper will undertake a desk review of ADB Policies and strategies (e.g., Environment Policy of 2002, Strategy 2020, Strategy 2020 Medium Term Review, and country strategies), corporate plans (e.g., operational plans in core ESG sectors of agriculture

and natural resources, energy, urban, and water) and operational directions (e.g., Environmental Directions and the 2014 Project Classification System). Based on the reviews of the context and the ADB strategic guiding documents, the paper will assess the relevance of ADB's strategies to the ESG agenda.

20. **Review of evaluation findings and lessons.** The paper will also consider relevant findings and recommendations from recent ESG-related IED evaluations, such as access to climate finance,<sup>19</sup> private sector operations contributions to inclusive and environmentally sustainable growth,<sup>20</sup> and ADF X and XI operations.<sup>21</sup> It will also consider lessons from relevant sector assessments and country evaluations.

21. **Classification analysis.** Using existing database of approved ESG-themed loans, grants and technical assistance projects, the study will analyze the tagging of a sample of ESG operations over 2004–2014, to find out consistencies and inconsistencies, and also to check the reasons and any evolution in the reasons for tagging operations as ESG.

22. **Trend review.** The paper will look at ADB's portfolio to assess trends, and this will also cover ESG-themed cofinanced projects. The 10-year period was chosen as it allows for a review of 5 years before and after the approval of Strategy 2020, with greater emphasis given to the recent period. The portfolio review will show how ADB is seeking to support ESG in various sectors and countries. Primary focus will be given to the main ESG sectors mentioned above (e.g., agriculture and natural resources, energy, transport, water supply and sanitation). Urban development and climate change adaptation and mitigation will be considered as a cross cutting issue. The paper will also attempt to identify gaps and other potentially useful areas of intervention to promote ESG.

23. **Key informant interviews and questionnaire.** The paper will draw on semi-structured interviews and consultations with a cross-section of staff and consultants within ADB. Focus group discussions with staff of relevant sector and thematic groups will also be undertaken. The paper will also consider the merit of a short questionnaire for ADB staff.

24. **Review of complementary activities.** The paper will consider relevant ADB knowledge products, and relevant reports of financing partnership facilities and trust funds.

#### D. Topical Paper Schedule

25. The timetable for the topical paper is shown below:

<b>Activity</b>	<b>Approximate Timing</b>
Desk review and data collection	October–December 2015
Approval of Approach Paper	November 2015
Document review and portfolio analysis	October–December 2015
HQ visit by Consultant	November 2015
Draft for external Peer review and IED internal review	January 2016
Interdepartmental circulation	February 2016
Revise draft and editing	March–April 2016
Approval by DG, Independent Evaluation	April 2016
DEC discussion	May 2016

<sup>19</sup> IED. 2014; *Real Time Evaluation of ADB's Initiatives to Support Access to Climate Finance*. Manila.

<sup>20</sup> IED. 2013. *Thematic Evaluation Study: Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth*. Manila.

<sup>21</sup> IED. 2015. *Thematic Evaluation Study: Asian Development Fund X and XI Operations*. Manila.

## **E. Study Team and Peer Reviewers**

26. The topical paper will be prepared by an evaluation team comprising Andrew Brubaker (team leader), Garrett Kilroy (Evaluation Specialist), Patricia Lim (Evaluation Officer), and Myrna Fortu (Associate Evaluation Analyst). Internal peer reviewers are Toshiyuki Yokota (Senior Evaluation Specialist), and Kapil Thukral (Principal Evaluation Specialist). Up to two external peer reviewers will be identified to comment on the draft topical paper.

## **F. Budget and Resources**

27. The budget for this evaluation will be sourced from TA proceeds and administrative budget. The evaluation requires the input of 3 international consultants comprising an Environment Expert (up to 50 working days), an Energy Expert (up to 30 working days), an Technical Advisor (up to 20 working days), 2 external peer reviewers (up to 10 days each) and one national consultant (ADB HQ-based for up to 110 working days). The consultants will be recruited individually in accordance with *ADB's Guidelines on the Use of Consultants*. The Consultants terms of reference and cost estimates are presented in Supplementary Appendix A and B (not public).

Appendix: 1. Evaluation Framework

## EVALUATION MATRIX: KEY EVALUATION QUESTIONS

Subject to be reviewed	Questions	Methods of Collection	Data Sources
A. ESG challenges	<ul style="list-style-type: none"> <li>(i) Explain the evolving development landscape around ESG including the SDGs and climate change and the UNFCCC COP 21 discussions in Paris.</li> <li>(ii) What is ESG/Green growth? Briefly establish a working definition for the paper.</li> <li>(iii) What are the main challenges, and opportunities for ESG in Asia and the Pacific?</li> <li>(iv) What are the main challenges and opportunities within each of the subregions (as defined by the ADB Regional Departments)?</li> <li>(v) To what extent are the ESG challenges and opportunities (e.g., climate change, transboundary issues, and environmental governance) in Asia and Pacific cross cutting and applicable to different subregions.</li> <li>(vi) What are the implications of an ESG approach for different sectors? What sectors can best support ESG?</li> </ul>	Review of relevant literature Review of ADB documents	Global ESG Literature ADB corporate strategies and policies, sector operational plans
B. Strategic Response	<ul style="list-style-type: none"> <li>(i) Given the global and regional context, to what extent do ADB strategies, policies, and operational plans and directions in the four focus areas provide coherent and sufficient guidance to promote environmentally sustainable growth in ADB operations?</li> <li>(ii) How is this response reflected in ADB's corporate guidance in strategies, policies and sector operational plans? Is this ESG response reflected in operations from the 4 sectors? Does the sector focus lead to any gaps in</li> </ul>	Review of ADB documents Key informant interviews with ADB staff	ADB corporate strategies and policies, sector operational plans Country Partnership Strategies ADB/IED databases interview summaries

Subject to be reviewed	Questions	Methods of Collection	Data Sources
	<p>ADB's ESG support (e.g. local air pollution, degraded ecosystems)?</p> <p>(iii) Is there any indication of changes in ADB approaches and staffing for ESG?</p> <p>(iv) How and to what extent are cross-cutting ADB ESG priorities, especially climate change, reflected within country strategies and projects? Do country strategies capture and reflect subregional and country variations in ESG challenges?</p> <p>(v) What are the portfolio trends by ESG themes, sectors, subsectors and evaluation ratings? This will include relevant Private Sector projects.</p> <p>(vi) How sufficient is the project classification and tagging to capture and differentiate both direct environment and growth projects that have been made sustainable (e.g. climate proofing)</p> <p>(vii) Has ADB developed new partnerships and financing agreements to support ESG? To date, what are the outputs or outcomes?</p> <p>(viii) What has been accomplished in delivering ESG related knowledge products and publications.</p>		
<p>C. MDB comparison/ lessons</p>	<p>(i) How do other institutions define ESG?</p> <p>(ii) Are ADB ESG strategies consistent with international good practice as reflected in other MDBs' policies/strategies? What can ADB learn from the experience of other agencies?</p> <p>(iii) What are the trends in international best practice that can improve ADB's ESG guiding documents?</p> <p>(iv) What are the relevant ESG evaluative lessons from IED</p>	<p>Document review Comparator study of MDB ESG documents Review of IED and other evaluation reports</p> <p>Key informant interviews with ADB staff</p>	<p>MDB Policies and strategies, evaluation reports interview summaries</p>

Subject to be reviewed	Questions	Methods of Collection	Data Sources
D. Evaluability	<p>and WB and IDB?</p> <p>(v) Does the ADB ESG approach have clear and consistent objectives?</p> <p>(vi) Are various results frameworks supporting ESG realistic and consistent? Are there gaps between the results frameworks?</p> <p>(vii) Are operations being implemented consistent with strategies?</p> <p>(viii) Are ESG projects sufficiently advanced to be evaluated? Are intended results explicit and verifiable as in do DMFs include environmental parameters?</p> <p>(ix) What are recommendationd for the future evaluation?</p>		

ADB = Asian Development Bank, COP = Conferences of the Parties , DMF = design and monitoring framework, ESG = environmentally sustainable growth, IDB = Inter-American Development Bank, IED = Independent Evaluation Department, MDB = multilateral development bank, WB = World Bank, SDG = sustainable development goal, UNFCCC = United Nations Framework Convention on Climate Change.

Source: Asian Development Bank: Independent Evaluation Department.