

## MANAGEMENT RESPONSE TO TOPICAL PAPER ON ENVIRONMENTALLY SUSTAINABLE GROWTH: A STRATEGIC REVIEW

On 17 May 2016, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. We welcome the findings of the topical paper which confirm that ADB (i) has provided a meaningful corporate response to the environmentally sustainable growth (ESG) agenda through key strategy and policy documents including, among others, the Energy Policy, the Safeguard Policy Statement, and the Environment Operational Directions 2013–2020, as well as through various partnerships with other organizations to support ESG related programs; and (ii) made significant progress in promoting ESG through both country partnership strategies and lending and Technical Assistance (TA) operations. In this response, Management focuses mainly on the two recommendations made in the IED paper.

2. We appreciate the revisions made to the final version of the paper in response to our extensive comments. We still believe that a serious discussion of ESG requires a review of partnerships, technical assistance, policy dialogue and capacity development initiatives and, while we note that some text on these aspects has now been included, a more substantive assessment would have been useful. It is also a pity that the role of the private sector has not received appropriate attention in view of growing importance of PSOD operations supporting ESG, and the widespread recognition that the private sector will play a key role in delivering the Sustainable Development Goals (SDGs) and the climate agenda. It would also have been helpful to look at staffing and budgetary implications of increased attention to the ESG agenda.

3. **Recommendation 1. Future ADB strategies and policies, in particular Strategy 2030, should further elaborate what ESG means and what its pursuit implies for ADB.** *Management agrees.* While Strategy 2020—as ADB’s strategic framework document at the highest level—outlines ESG in broad terms, the Midterm Review and the Environment Operational Directions 2013–2020 provide guidance on ESG priorities and identify what kind of ADB interventions contribute to them. ESG is also well reflected in the other sector and thematic operational plans. However, moving forward, we agree that Strategy 2030 will need to appropriately reflect the adoption of the SDGs and the Paris Climate Agreement. At the operational level, once Strategy 2030 is in place, additional guidance may also be provided, as appropriate, through new strategy and policy documents (such as the new climate change strategic framework currently under preparation) or updated sector and thematic operational plans which would include further articulation of the operational content of ESG—both in its environment and climate change related aspects—and what this means for future operations.

4. **Recommendation 2. Better categorization and targets for ESG operations are needed as ADB’s environment agenda expands and is further integrated into its operations.** *Management agrees.* However, on ESG

project categorization, we note that the 2014 Project Classification System (PCS), based on the Environment Operational Directions, provides ESG definitions and eligibility criteria. While the PCS provides guidance on identifying projects that contribute to ESG, it was not intended to reflect an assessment of the extent of this contribution. Looking ahead, the IED paper suggests refining the ESG categorization to differentiate and classify ADB operations according to the degree they support ESG. To this end, it offers a proposed ESG categorization in three pillars. While we recognize the intent of the proposed approach, it can only be considered as one option among many possibilities. We believe it is premature at this stage—before Strategy 2030 is in place—to make any specific commitment on a new categorization system. More analysis and discussion both internally and externally—with a range of stakeholders—will be required after Strategy 2030 is approved. Similarly, where new targets are adopted, perhaps as part of the new corporate results framework that would follow Strategy 2030, these will need to be few and well selected to be implementable at the operational level.