

MANAGEMENT RESPONSE TO IED'S SECTOR-WIDE EVALUATION OF ADB ENERGY POLICY AND PROGRAM, 2009-2019

On 20 August 2020, the Director General, Independent Evaluation Department, received the following response from the Special Senior Advisor to the President on behalf of Management:

A. General Comments

1. Management appreciates IED's comprehensive and thoughtful evaluation report on ADB Energy Policy and Program, 2009-2019. This evaluation is timely and is valuable in shaping ADB's future energy sector operations and further advancing energy security, equity, sustainability, and resilience across its developing member countries (DMCs). We thank IED for its constructive engagement with staff and Management in the preparation of the report.
2. Management notes the report's positive assessment of energy sector operations during the evaluation period that showed significantly higher success rates than the ADB average, along with the report's confirmation that the Energy Policy 2009 has been relevant with its objectives aligning well with the needs of energy sectors within DMCs, Strategy 2020, policies of other multilateral development banks, and climate priorities.
3. Management acknowledges the issues highlighted in the evaluation report and agrees that the current policy is no longer adequately aligned with the global consensus on climate change, ongoing global transformation of the energy sector, and operational priorities of ADB's new Strategy 2030. In general, the evaluation findings are in line with Management's understandings.
4. Management confirms that energy consumption has grown rapidly in Asia and the Pacific over the past decade driven by fast economic growth, population increase, rising urbanization, and higher living standards. The region's high dependence on fossil fuels is the leading cause of global climate change and creates major environmental challenges. ADB needs to address these challenges by shifting towards a lower carbon energy pathway, with energy demand increasingly being met by cleaner energy sources and energy consumed more efficiently. At the same time, we need to consider how to help our DMCs achieve universal energy access through our sustained support for increased affordable and reliable energy supply, so vital in helping them maintain economic growth and advance towards the Sustainable Development Goals (SDGs).
5. The following findings merit further clarification.
 - a. **One ADB Approach.** The report highlighted that "Internal collaboration and the One ADB approach have not yet been fully operationalized in the energy sector, although there have been recent improvements". We note that this statement is based on limited perception survey data, which do not reflect fully the major strides made in recent years to operationalize a One ADB culture, including the increased collaboration between the energy divisions and PSOD. In particular, the Energy Sector Group convenes a strategic planning session in January of each year since 2016 to discuss the sector's operational priorities and develop a One ADB work plan in the energy sector, in consultation with other sector and thematic groups and knowledge departments. In addition, the Energy Committee comprising energy directors across all operations departments meets regularly to ensure the smooth implementation of the work plan while deepening close collaboration across the community of energy

practitioners. Management affirms that moving towards operationalizing One ADB is a continuous process, and is firmly committed to further advancing on this front.

- b. Approval Culture. The report points out that "ADB's 'approval culture' incentivizes staff to rush projects by the end of the fiscal year". In this regard, the report noted that "recent changes in project accounting (from approvals to commitments) may improve the situation". More crucial than the shift in project accounting, incentives are in place urging staff to increase their focus on project readiness and quality at entry, portfolio performance, innovation, and knowledge solutions, elements emphasized in the Planning Directions for 2020.

B. Management Response to the Recommendations

6. Recommendation 1: Revisit and update the Energy Policy by emphasizing climate change mitigation and adaptation as a core priority; formally withdrawing from financing new added capacity of coal-fired power and heat generation plants, while helping DMCs to phase out coal-based energy and mitigate the environmental and health impacts of the existing coal fleet; introducing sound screening criteria for other fossil-fuels, and aligning the policy with Strategy 2030 and the ongoing sector transformation, complemented with a detailed Implementation Guidance document.

Management agrees to revisit and update the Energy Policy, aligning the policy with Strategy 2030, which will require conducting stakeholder consultation on the role of fossil fuels in our region's energy mix, including on whether to formally withdraw from financing new coal-fired power and heat generation capacity, among others. Management supports the recommendation for the Energy Policy to reflect the global commitment to the Paris Agreement with heightened focus on climate change mitigation and adaptation, the SDGs 2030 Agenda, DMC needs for energy security, the ongoing transformation of global energy systems with innovative technologies for enhanced environmental sustainability, social inclusion, and business models, the operational priorities of Strategy 2030, and the policies of other multilateral development banks.

The Asia and Pacific region faces huge challenges in balancing the demand for a secure, affordable, and stable energy supply with commitments to rapidly reduce greenhouse gas emissions. The future of coal-fired power and heat generation plants lies at the center of competing expectations on energy security, affordability, and climate change. Considerable new investments are needed to replace existing and planned coal-based energy supply systems, essential to meeting commitments on climate change. ADB will continue to support its DMCs reduce their dependence on coal and eventually phase out coal by setting standards and requirements such as emission intensities, minimum efficiency levels, while introducing low carbon and climate resilient technologies such as renewable energy with storage, demand side management, smart grids, as well as carbon capture, utilization, and storage.

Management will carefully consider these issues in updating the Energy Policy in close consultation with all stakeholders. The updated Energy Policy will consider the needs of DMCs, align with the operational priorities of Strategy 2030, and guide the formulation of country partnership strategies. Detailed implementation guidance documents will be prepared, which will clarify the use of coal and other fossil fuels (including defining the screening criteria for other fossil fuel generation projects, particularly natural gas), among

others, to ensure consistency with the international goals subscribed by ADB and its DMCs.

7. Recommendation 2: Place more emphasis on promoting a more active high-level engagement with DMCs in their energy sectors to help countries prepare their long-term sector plans, support DMC climate commitments and priorities especially in the aftermath of the COVID-19 pandemic crisis, promote the establishment of adequate institutional arrangements to build financially viable energy systems and expand regional integration.

Management agrees. Operations Departments have been conducting high-level policy dialogues with DMCs on key energy issues such as sector reforms and regulation, cost recovery pricing, and regional integration. Such high-level engagement on policy and institutional reform will be further enhanced in the aftermath of COVID-19 to ensure that national stimulus packages will be consistent with and supportive of low carbon recovery paths in our DMCs. In particular, ADB will advise its DMCs to reorient their economies and investment plans and pursue structural reform to progress further towards a low-carbon development trajectory, while simultaneously addressing underlying vulnerabilities and strengthening resilience through policy dialogue, technical assistance and project operations.

Operations departments will support integrated long-term energy sector planning and help establish enabling environments that will further leverage private sector investment and improve sector governance through technical assistance and the implementation of policy-based loans, result-based loans, and project loans. ADB will continue promoting regional approaches in supporting energy planning and development, including through policy dialogue and technical assistance. Regional integration in the energy sector will be further enhanced through ongoing sub-regional platforms and initiatives such as the Greater Mekong Subregion (GMS) Economic Cooperation Program, the Central Asia Regional Economic Cooperation (CAREC) Program, and the South Asia Subregional Economic Cooperation (SASEC), among others. ADB will also enable more resilient energy trade and interconnection by deploying digital technologies that will help the region "build back better" from COVID-19 through high quality energy connectivity.

8. Recommendation 3: Increase support to address gaps in ADB energy operations in key areas, including sector reforms, demand-side energy efficiency projects, distribution network enhancement, and renewable energy integration to improve the long-term sustainability of DMC energy systems.

Management agrees. Sector reform represents a key pillar under the Energy Policy 2009, with ADB support for sector reform yielding positive results across our DMCs and showing much improved operational and financial performance across energy sector entities. As such, there are a number of successful projects in demand-side energy efficiency, power network enhancement, and renewable energy integration in our DMCs. In particular, the experience of energy service companies in People's Republic of China and India are good reference points for demand-side energy efficiency projects, which can be replicated in other DMCs.

Building on this progress, ADB will continue to engage in policy dialogue with its DMC governments alongside providing increased financing and technical support to further advance sector reforms, including reforms to accelerate the expansion and integration of renewable energy into power systems and address the policy and pricing barriers in

demand-side energy efficiency, among others. Management will carefully assess the gaps in energy operations and expand operations in these areas in accordance with DMCs needs and priorities. ADB will ensure that critical energy issues and gaps are assessed in the Country Partnership Strategy.

9. Recommendation 4: Expand energy operations beyond the power sector into cross-sectoral applications to meet new energy needs in DMCs and incentivize staff to work across sectors and divisions.

Management agrees. While operations departments have begun implementing several cross-sectoral projects, including air quality improvement initiatives and solar pumps for irrigation, opportunities for cross-sectoral investments involving renewable energy systems for clinics and schools, electric vehicles, energy efficient water supply systems, among others, have been identified for development. Management will further encourage staff to expand cross-sectoral work in these areas through increased incentives for integrated cross-sector work to motivate staff to work across sectors, divisions, and departments through short-term assignments and strategic placements (with corresponding adjustments in reporting lines and performance evaluations), further deepening the One ADB approach. Moreover, ADB will implement the Culture Transformation Initiative which aims to refresh ADB's corporate values and foster an environment that promotes synergy across teams bank-wide and cultivates an integrated approach in the design and delivery of holistic cross-sector-thematic solutions, as called for by Strategy 2030.

10. Recommendation 5: Increase the attention paid to knowledge creation and dissemination, innovation, cross-sectoral work, and quality at entry, by revisiting incentive structures of staff, and by strengthening internal and external collaboration channels.

Management agrees. Knowledge work is an integral part of staff work plans and performance reviews. The Energy Sector Group, in close coordination with other sector groups and departments, has been instrumental in ensuring quality at entry and disseminating high quality and pioneering knowledge work, through the flagship Asia Clean Energy Forum, the innovative technology handbook series (energy storage, micro-grid, smart grids) and op-eds/blogs, among others. Building on this, Management will further enhance knowledge creation and dissemination by applying a thematic approach as motivated by Strategy 2030's operational priorities, while employing a differentiated country approach in sharing knowledge and best practices among its DMCs.

Management will further boost cutting edge knowledge creation and dissemination in the energy sector by fostering closer collaboration between Operations and Knowledge Departments, among others. This will be considered in the development of the Knowledge Management Action Plan, which will be consulted with multi-stakeholders, including the Board. In addition, ADB has entered into knowledge partnership agreements with leading centers of excellence, including the International Energy Agency, in its drive to strengthen knowledge collaboration with key partners in the vital areas of energy resilience, innovative technologies, and systematic capture of evolving best practices.