ADB Support for Action on Climate Change, 2011–2020

RECOMMENDATIONS

Strategic

1. Asian Development Bank (ADB) should raise its corporate ambitions, clarify the climate objectives of Strategy 2030, and develop a Board-endorsed climate action framework to supplement Operational Priority 3: tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability. This framework should contain specific targets at regional and sectoral levels that clearly articulate ADB’s path for full alignment with the Paris Agreement, including setting ambitious targets for the climate share of ADB’s total investments. The action framework should also include ambitious targets for adaptation, and for nonsovereign operations.

Operational

3. ADB should increase focus on climate outcomes, strengthen the climate relevance of project designs, clarify climate finance and greenhouse gas accounting, improve climate risk and adaptation assessment methodologies, enhance its monitoring of climate actions and outcomes, and take stock of its approach for the use of social cost of carbon.

4. ADB should leverage its financial resources by deploying the full breadth of its available lending and guarantee instruments to scale up climate action in the Asia and Pacific region.

5. ADB should provide enhanced assistance to developing member countries for policy development and capacity building to support delivery of climate outcomes such as their nationally determined contributions and long-term strategies; and provide greater resources to help developing member countries meet their adaptation objectives.

Institutional

6. ADB should develop a “One ADB” approach to deliver the proposed climate action framework and align ADB operations with the Paris Agreement by strengthening the Climate Change and Disaster Risk Management Thematic Group function to actively engage all operations staff who work on climate issues. Both staff and technical assistance resources should be strengthened in operations divisions, including resident missions, while also improving staff capacity. The coordination of delivery on climate objectives must be elevated to senior management.

INTRODUCTION AND EVALUATION SCOPE

This evaluation comes at a pivotal time, with increasing climate impacts in the Asia and Pacific region and globally bringing home the reality of the climate crisis, which has been compounded by the coronavirus disease (COVID-19) pandemic. The forthcoming 26th United Nations Climate Change Conference of the Parties (COP26) in 2021 will aim to raise ambitions and accelerate action toward the Paris Agreement goal of keeping the global temperature increase to less than 2°C. However, immense challenges remain, including how to bridge emissions reduction and financing gaps—the commitment for $100 billion annual climate finance from developed to developing nations has not yet been met. What is clear is that, without the Asia and Pacific region, the goals of Paris Agreement will not be achieved, with dire consequences for the region and the world.

This evaluation covers projects approved during the 10-year period 2011–2020: $40.2 billion of climate financing in 688 projects as reported by ADB’s Independent Evaluation Group and is to enable it to respond to the increasing challenges that the Asia and Pacific region is facing, as well as to the expectations of the international frameworks for contributions from this region to global climate targets.

OVERALL ASSESSMENT

Over the last decade, ADB has strongly supported its developing member countries (DMCs) by doubling its climate finance since 2015. Completed projects have been largely successful and this support has led to significant gains on mitigation. The evaluation finds that ADB’s strategic approach for climate change has strengthened over the evaluation period, it has been relevant in its intent and its ambitions have increased. At the same time, the evaluation finds that ADB is not fully leveraging its potential to play a strong leadership role on climate action in Asia and the Pacific. ADB’s strategic approach, institutional systems, processes, and capacities are not sufficiently well-articulated to enable it to respond to the increasing challenges that the Asia and Pacific region is facing, as well as to the expectations of the international frameworks for contributions from this region to global climate targets.

FINDINGS

Strategic

• ADB’s strategic approach for climate change mitigation and adaptation has followed a long evolution and strengthened over the evaluation period.

• ADB responded well to the climate crisis in 2015 by setting a goal of doubling climate finance from $3 billion to $6 billion by 2020.

• While ADB’s strategic approach for climate change has been relevant in intent and has increased its ambition, it has been weakened by a lack of focus and operational guidance.

• The importance of the private sector was acknowledged in various strategies and tailored funds were established. Still, there was no dedicated strategic guidance for private sector engagement on climate action.

• Several of ADB’s sector policies and operational plans require updating and most did not have specific outcome-level climate targets.

• ADB’s country partnership strategies are placing greater emphasis on climate change, yet they lack the supporting diagnostic assessments and staffing to guide a tailored response.
• ADB has recently raised its climate ambitions by announcing its timeline to fully align its operations with the Paris Agreement and by setting additional climate targets; nevertheless, some key strategic gaps remain.

**Portfolio and Operations**

• ADB’s climate finance totaled $40.2 billion over the evaluation period and has increased steadily by volume and project number.

• The majority of ADB climate finance support went to South Asia ($15.7 billion, 39%), while the Pacific received the least ($942 million, 2%). At the country level, India (24%) and the People’s Republic of China (18%) accounted for 42% of climate finance.

• ADB achieved its overall lending target of doubling its annual climate finance from $2 billion to $6 billion. While the target of achieving $4 billion of annual mitigation finance was met, the target of $2 billion in annual adaptation finance has never been met.

• Sovereign operations, mainly project investments, comprised the majority (79%) of ADB’s climate finance portfolio and almost doubled over the evaluation period.

• ADB support for climate-tagged nonsovereign operations, mostly project loans, also grew over the evaluation period and was concentrated in the energy sector.

• Support for climate action through technical assistance decreased over the evaluation period. The value of climate financing in climate-tagged technical assistance projects amounted to $678 million, of which 57% supported climate change mitigation and 43% supported climate change adaptation.

• The evaluation found that the relevance of ADB projects’ climate components had improved but project designs lacked ambition and results frameworks were weak.

• The use of ADB’s social cost of carbon at appraisal has increased since it was included in the 2017 guidelines, mainly used in the energy and transport sectors only.

• There was a trend toward larger mitigation projects in the transport sector that attributed their entire project cost to climate finance, yet such projects are associated only with modest reductions in greenhouse gas emissions.

• Results have generally been strongest for mitigation, effective but more limited for adaptation, and weaker for knowledge and innovation.

• Based on available evidence from closed projects, greenhouse gas emissions reductions are being achieved and co-benefits are accruing.

• For the 10 case study countries (Bangladesh, the People’s Republic of China, Fiji, India, Indonesia, Maldives, Mongolia, Pakistan, Uzbekistan, and Viet Nam), mitigation results were strongest in sovereign operations for transmission and distribution, and in nonsovereign operations for renewables.

• Positive results on supporting carbon markets through technical assistance capacity building are emerging.

• Climate adaptation results observed in the country cases focused on climate-proofing against flood risks, mainly through structural measures. While these are proving effective, they are not well monitored.

• While the number of projects that incorporated capacity development in project designs was low, it was partly compensated by technical assistance support.

• Policy- and results-based lending and support to develop green bonds and other non-lending instruments have been rare in the climate portfolio, yet the few cases to date suggest the rewards from these interventions can be transformational.

• ADB processes and systems to support the delivery of its climate change objectives have significantly improved since 2015.

• The establishment of the Climate Change and Disaster Risk Management Division of ADB’s Sustainable Development and Climate Change Department in 2015, supported by an ADB-wide thematic group, was a significant milestone.

• ADB’s climate risk management framework has been instrumental in mainstreaming climate change into ADB operations.

• The quality of climate risk and adaptation assessments was variable and lacked consistent oversight and uniform standards.

• Climate finance accounting at ADB is an ex ante exercise that favors tracking financing targets over climate outcomes.

• ADB is not consistent across ADB departments in where it places its climate expertise and attention.

• Most ADB staff and DMC clients viewed ADB support for climate change operations in DMCs in a positive way.

• Climate expertise at ADB is highly centralized in the Climate Change and Disaster Risk Management Division of Sustainable Development and Climate Change Department, unlike for other mainstreamed thematic areas such as gender and the environment.

**KEY ISSUES**

**External**

• The ongoing COVID–19 pandemic limits DMCs’ choices for robust climate development trajectories.

• For many of ADB’s DMCs, and the Pacific nations in particular, changes in climate and climate variability pose an existential threat.

• Few MDBs or DMCs have incorporated the implications of the Paris Agreement into their business processes and systems.

• Many of ADB’s DMCs are unable to coordinate, mobilize, and plan climate action in pursuit of their nationally determined contributions and long-term strategies.

• Carbon markets are still not sufficiently mature to drive a sustained shift toward low carbon development.

**Internal**

• ADB’s operational priority 3 does not provide sufficient guidance and has become overtaken by recent institutional developments on climate and energy.

• Climate change issues have not been systematically integrated into the country partnership strategy process.

• Private sector operations lacked clear strategic guidance on climate-related issues.

• The limited use of certain lending instruments and approaches is a barrier to greater mobilization of capital for climate action.

• Climate accounting is driven by financial objectives rather than by climate outcomes.

• ADB climate risk assessments are of a variable quality and have not always led to clear changes in project design.

• ADB does not have enough climate specialists to achieve its climate objectives and the existing specialists are not optimally deployed.

• ADB’s approach to carbon pricing in the economic appraisal of climate projects differs from other MDBs and occurs only in a few sectors.