Management Response to IED’s Thematic Evaluation on ADB Support for Action on Climate Change, 2011-2020

On 29 September 2021, the Special Senior Advisor to the President issued the following response on behalf of Management:

1. Management welcomes the thematic evaluation of the Independent Evaluation Department on ADB Support for Action on Climate Change, 2011-2020. The evaluation provides timely and useful inputs to enhance the climate change approach of ADB and the quality and effectiveness of its operations. We commend the IED for the constructive discussions with Management and staff during the evaluation process, and for the comprehensive evaluation report.

I. Comments on the Findings

2. The evaluation is relevant and timely in the lead to the 26th United Nations Climate Change Conference (COP26) in November 2021. It offers useful suggestions in areas that we need to invest more on, and its recommendations are in line with the commitments made by Management. While the climate ambitions of ADB have increased, its strategic approach for climate change has strengthened over the past ten years with ADB doubling its climate finance since 2015, and its completed projects being largely successful, Management welcomes the remarkable opportunity for ADB to expand its leadership role on climate change in the Asia and Pacific region. ADB is committed to stepping up its investments in finance, capacity building and knowledge management, and partnerships, public and private alike, in order to realize the climate ambitions of the region. Management offers the following main observations on the findings of the evaluation.

3. **Alignment of ADB operations with the Paris Agreement.** The evaluation noted that ADB needs to provide clearer guidance on how it plans to deliver on its Paris alignment commitments and to communicate its approach to its clients and staff. Management confirms that ADB is developing an implementation guidance note based on a framework of methodologies developed jointly with other multilateral development banks (MDBs) which will provide clearer direction and guidance. All ADB operations will be screened using this framework to ensure that projects are designed to meet low-carbon and climate-resilient development standards aligned with the goals of the Paris Agreement.

4. **Scaling up climate adaptation finance.** Management confirms that the adaptation target of ADB of $9 billion target is double the annual average performance of ADB on climate adaptation finance from 2015-2018. ADB will increase its support for investments that substantially advance climate adaptation and resilience, including increased upstream analytical work to design projects that fully integrate climate risk considerations into project design, expanded work to foster a more favorable enabling environment to spur private sector investment, increase investments in nature-based solutions and dual-use projects with climate adaptation and mitigation components, and deploy more policy based and sector based loans to catalyze climate resilient development, and thereby accelerate progress towards greener, more resilient, and inclusive recovery pathways.

5. **Target setting.** The evaluation noted that some MDBs lead ADB in terms of targets for the share of climate finance to overall lending, and that ADB has yet to set a corporate target for the share of its climate finance in relation to its total finance. Management confirms that under the Strategy 2030, ADB has set ambitious targets covering both total volume and the percentage...
share of number of climate operations to total operations. The midterm review of Strategy 2030 planned for 2024 presents an opportunity for ADB to reflect on and revisit the corporate targets, and where appropriate, enhance, and reformulate the climate change targets of ADB.

6. **Variation in and access to funds for climate change.** The evaluation found that there is substantial variation in the 27 funds accessed by ADB for climate change activities in relation to their purpose, coverage, design features, and level of funding, and further noted the complexity faced by ADB staff in selecting which funds to access. Management confirms that establishing a trust fund involves an extensive consultation process designed to address donor priorities while responding to DMC needs. To improve coordination and access to these funds, a partnerships portal was launched in 2020 to serve as a single portal for all funds, and features databases on financing partners, trust funds, and knowledge partners.

II. **Response to the Recommendations**

7. **Recommendation 1.** ADB should raise its corporate ambitions, clarify the climate objectives of Strategy 2030 and develop a Board-endorsed climate action framework to supplement OP3. 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.

*Management agrees with qualification.* In July 2021, Management committed to fully align the sovereign operations of ADB with the goals of the Paris Agreement by 1 July 2023, and to align 85% of its nonsovereign operations by 1 July 2023 with full alignment attained by 1 July 2025. Further to the commitments of the Management described in paragraphs 3 to 5 above, ADB is already preparing a new energy policy that further confirms its commitment to clean energy and sectoral strategic frameworks, which complement the high-level guidance and direction to advance climate action provided by the Operational Plan for Operational Priority 3 approved in 2019 and the Climate Change Operational Framework 2017-2030 approved in 2017.

Furthermore, ADB will prepare a Climate Change Action Plan aligned with the seven operational priorities of Strategy 2030, considering the findings of the Strategy 2030 midterm review, and integrating the results of its consultation with its DMCs and other key stakeholders. Management will consult extensively with the Board in the preparation of the Action Plan and will subsequently seek the approval of the President.

ADB will further leverage its financial and technical assistance resources and strengthen and expand its climate expertise to effectively underpin the delivery of its sovereign and non-sovereign commitments. ADB will systematically and closely monitor progress made towards its climate finance commitments, including its adaptation and nonsovereign commitments.

8. **Recommendation 2.** ADB country partnership strategies (CPSs) and associated programming should be informed by and reflect country-specific climate change diagnostic assessments and should clearly specify the path of engagement and results through both public and private sector operations.
Management agrees. Without question, the CPSs will be informed by robust climate change diagnostic assessments, building on the climate risk country profiles jointly developed by ADB and the World Bank, to ensure an integrated and collaborative approach to guide public and private sector operations at the country level. These diagnostic assessments will inform the policy reforms required to enhance the enabling environment for increased private sector low carbon and resilient investment, among others. These diagnostic assessments will also inform climate change indicators in the CPS results framework. At the same time, the upstream dialogue of ADB with its DMCs will mainstream climate risk considerations in country programming and outline the path of engagement for attaining climate outcomes.

9. **Recommendation 3. ADB should increase focus on climate outcomes, strengthen the climate relevance of project designs, clarify climate finance and GHG 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.**

Management agrees. ADB is committed to strengthening the robustness of its climate change diagnostic assessments, which in turn will contribute to enhancing the climate relevance of project designs for improved climate outcomes. ADB will further sharpen its upstream climate risk and adaptation assessments to increase its pipeline of projects and sharpen climate resilience outcomes, especially in climate-sensitive sectors of our DMCs. A guidance note to refine the upstream identification, preparation and design, and downstream implementation and monitoring of adaptation projects is under preparation. ADB will also closely track evolving new evidence on the social cost of carbon and emerging methodologies for greenhouse gas (GHG) emissions accounting to further enhance the economic appraisal of low carbon and climate resilient projects in ADB operations.

10. **Recommendation 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.**

Management agrees. ADB will further scale up the utilization of its full range of available instruments including grants, loans (including policy-based lending, results-based lending, and blended finance), guarantees and credit enhancement products, and equity investments, considering the relevant country- and sector- context and climate outcomes that need to be achieved.

ADB will increase its support for new financial products, including green and blue bonds, and other sustainability bonds and instruments. ADB will build on successful initiatives, such as ASEAN Catalytic Green Financing Facility, Climate Action Catalyst Fund, and innovative financing instruments such as the clean technology focused venture capital facility which crowds in private co-investments into early stage climate focused companies, and the proposed Energy Transition Mechanism, a blended finance platform to decarbonize the energy mix by leveraging and deploying financing at scale to meet the climate investment needs of our DMCs.

11. **Recommendation 5. ADB should provide enhanced assistance to DMCs for policy development and capacity building to support delivery of climate outcomes such as their**
NDCs and long-term strategies; and provide greater resources to help DMCs meet their adaptation objectives.

Management agrees. ADB will integrate solutions that coherently respond to the COVID-19 pandemic needs of our DMCs while reorienting our operational support towards a greener, more resilient, and inclusive recovery. This includes helping our DMCs to prepare COVID-19 recovery plans that support a just transition to low-carbon development pathways while addressing underlying vulnerabilities, improving climate and disaster resilience, protecting the environment, and ensuring that no one is left behind.

ADB will scale up its technical assistance to support policy development and reform and low carbon and climate resilient oriented project/program and capacity/knowledge development to strengthen the capacity of its DMCs to integrate climate considerations into their development programs and pathways. Among others, the Climate Change Fund and the ADF ’13 Thematic Pool will help our DMCs: (i) identify and prioritize transformational mitigation and adaptation investment opportunities; (ii) prepare and implement their Nationally Determined Contributions and long-term strategies that feed into the CPS and upstream pipeline development; (iii) plan a just transition and strengthen efforts to mitigate associated negative socioeconomic impacts while enhancing access to sustainable, inclusive, and resilient livelihoods for all; (iv) facilitate the use of technology-based solutions; and (v) enhance regional cooperation and integration programs.

Through its Carbon Market Program, ADB will continue to provide technical and capacity building support to enhance the ability of its DMCs to access domestic, bilateral, and international carbon markets under Article 6 of the Paris Agreement; and where applicable, integrated carbon markets to facilitate the achievement of their Nationally Determined Contributions while raising ambition over time.

12. Recommendation 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 TA 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.

Management agrees. The ongoing One ADB organization review will increase staff resources and deepen staff capacity on climate issues. Management agrees to further strengthen the engagement of the Climate Change and Disaster Risk Management Thematic Group with its operations sector and thematic staff, including staff in the resident missions. ADB aims to further strengthen its technical assistance and staff resources in operations divisions. ADB will also expand specialized training to expand the climate change capacity and knowledge of its staff.

Furthermore, Management confirms that coordination on the delivery of climate objectives is under senior management. Systematic stock taking on the performance of ADB on its Planning Directions targets, which include climate finance, currently takes place semi-annually during the Operations Review Meeting, which is led by the President with the participation of all heads of departments and offices. This is complemented by an annual reporting on the Corporate Results Framework targets of ADB, including on Climate finance, in the Development Effectiveness Report. Moreover, the Director General of
Strategy, Policy and Partnerships Department, with direct oversight over the Corporate results framework, which tracks the progress of ADB on its climate finance targets, is a member of the Management Committee, which meets on a bi-monthly basis.