



Political economy of international climate finance

Navigating decisions in PPCR and SREP

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The work of the Climate Change Group focuses on achieving the following objectives:

- Supporting public planning processes in delivering climate resilient development outcomes for the poorest.
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- Building capacity to act on the implications of changing ecology and economics for equitable and climate resilient development in the drylands.

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This working paper explores how countries can enhance their ‘climate finance readiness’ by understanding their internal political economy. Studies in three countries reveal how actors’ various ideas and incentives influence their choices and decisions on climate finance projects. Understanding how these factors interact – understanding the political economy – can help policymakers manage expectations and stakeholder risks early on, prioritise equitable climate finance investments and fashion a consensus from divergent ideas.

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Executive summary

This working paper explores how countries can build their own 'climate finance readiness' by understanding their internal political economy and use that understanding to steer consensus-based decisions on climate finance investments. For climate finance to be effective, national leaders must build shared commitments. This involves considering the arguments, incentives and power dynamics at play to ensure priorities are more equitable and representative of a broader group of stakeholders. Doing so will also help to reduce the risk of implementation delays.

This paper uses case studies from Bangladesh, Ethiopia and Nepal to explore how narratives and incentives within the political economy drive climate investment outcomes under the Pilot Programme for Climate Resilience (PPCR) and the Scaling up Renewable Energy Programme (SREP). It draws from broader analysis of the discourses around these investments, including 80 interviews with government; multilateral development banks (MDBs) and other stakeholders. Interview questions aimed to understand actors' narratives and their interpretations of the core objectives of climate funds, such as how the funds will:

- Bring transformational change
- Engage the private sector
- Ensure development impacts
- Build country ownership, and
- Scale up investments.

The cases featured in this paper examine interactions between narratives and decision outcomes on how they have institutionalised the programmes, how they have prioritised investment decisions, and how they have selected funding instruments. These cases highlight common patterns of ideas and point to some pitfalls that decision makers should avoid when navigating the climate finance process.

Three key findings

1. Actors with shared ideas, narratives and resources form coalitions in support of investment decisions

Stakeholders involved in planning the PPCR and SREP investments coalesced into groups that shared a vision towards 'transformational change' and bringing 'development benefits'. These coalitions had the power to direct investment decisions.

For example, our discourse analysis in Bangladesh showed that government implementing entities and MDBs shared the narrative that PPCR would bring 'transformation' by investing in capacities for climate resilient infrastructure, and that 'development benefits' would be achieved through economic growth. This coalition steered decisions to invest PPCR finance into large-scale coastal engineering projects.

In Ethiopia, there was strong agreement between the government and MDBs that diversifying energy technologies would be a transformative move that would lead to and drive economic growth. This led decision makers to prioritise grid-based geothermal and wind energy projects.

2. Incentives can strengthen the coalitions that support decisions

Incentives, which can include policy, economic (resources) and knowledge-based factors, can strengthen coalitions and shape national decisions on climate finance.

In Bangladesh (under the PPCR), there were clear resources and economic incentives to support large-scale infrastructure investments. The MDBs and the line departments that would plan and manage the projects had previously worked together on other infrastructure initiatives, and this track record encouraged the government to use PPCR money for similar purposes. Co-finance was available for existing coastal

infrastructure projects already in the pipeline that required top up funding. Bangladesh's climate change strategy and National Adaptation Programme of Action (NAPA) supported taking these initiatives forward. There was also a strong knowledge incentive: climate change vulnerability assessments, including evaluations of loss and damage from Cyclone Sidr in 2007, call for US\$1.2 billion to rehabilitate coastal embankments.

The contrasting investment decisions made in Ethiopia and Nepal (under SREP) were guided by the different economic incentives they faced, as well as the policy goals and knowledge available to each. Ethiopia's grid-based approach aligned well with available co-finance for renewable energy and its national development plans that promote a fast-growing grid and extra energy for export. Ethiopia's Growth and Transformation Plan 2009 provides a clear policy incentive to scale up energy production for export. Further, policymakers know that climate variability is already affecting existing energy sources (such as hydropower), giving them a knowledge incentive to diversify technologies. These incentives have jointly steered Ethiopia to invest in large-scale grid-based electricity.

Nepal's government stakeholders saw the economic benefits in funding proven, commercially viable technologies and providing power for the rural economy. Nepal's high-level plans aim at expanding rural energy access, predominantly through building on existing national arrangements that focus on hydropower, at least in the earlier versions of the plan. Very recently, however, funding partners have sought to encourage the private sector to move into novel technologies, particularly solar. Supplementing this are projects co-financed by multilaterals that invest in piloting waste-to-energy and hybrid solar-wind technologies in Nepal.

3. Dispersed narratives and resources have less influence on decisions, but can undermine implementation

Despite the accord at high levels, there were also less mainstream views. Stakeholders on the margins of the consensus argued for alternative ways of achieving objectives but these ideas failed to translate into investments.

For example, in Bangladesh a wide range of actors were sceptical about whether the PPCR investments would bring about transformational change. Some saw more coastal engineering as just 'business as usual'. Others believed development benefits would be better achieved by investing in community-based adaptation or social innovations.

In Bangladesh stakeholders who championed social innovation never gained a firm foothold. Even though these champions came from a wide range of departments and institutions, they were not well linked through existing relationships and resources, and the lack of a coalition diluted their influence. Similarly, the widely scattered scepticism about whether PPCR could truly bring about a transformation in Bangladesh had little effect on decision making. Similarly in Nepal, stakeholders on the fringe who called for more attention to infrastructure development, growth and employment remained there.

But even if they do not sway the policy consensus, dissenters are often in a position to deter the implementation of projects they disagree with. In both Bangladesh and Nepal, delays arose when the views of the agricultural ministries and the International Finance Corporation (IFC)¹ differed over the appropriate role of the private sector. The PPCR asks governments to fund the removal of barriers to private-sector investment in adaptation-related activities, but agriculture officials have been reluctant to spend public funds to incentivise profit-oriented businesses. The governments argue that the private sector has few capabilities beyond the marketing of inputs like seeds, fertilisers and pesticides and that government department have better outreach. In Ethiopia divergent views and incentives have also delayed implementation of investment decisions, at times threatening effective project delivery.

Conclusions and recommendations:

Below we share specific lessons from national experiences of governing CIFs as well as the wider learnings gained through the political economy analysis.

Lessons from national experiences:

From national institutionalisation and governance of CIFs

- **Seeking investment proposals** from those at the fringe of decision making could help steer countries towards transformational change. Achieving this may require new incentives and avenues for engagement as well as increasing capacities in developing project pipelines.
- **Extending 'country ownership'** beyond a few lead national actors, perhaps by replacing information dissemination with true dialogue, could help build understanding, integrate divergent views and foster a broader consensus on how to use international climate finance.

¹The IFC is the MDB that implements the private sector investment projects of both PPCR and SREP

- **Institutional coordination and consensus** is the core of effective implementation. Leaving dissenting views unacknowledged and unaddressed can allow conflict and competition to persist beyond investment planning therefore hindering implementation.

From investment planning under CIFs

- **Some preparatory element** is vital to define roles and responsibilities and to manage expectations, remove information asymmetries and establish an extended dialogue that will ensure stakeholder engagement. However, the extent of planning (whether detailed or basic) should be a country's own decision.
- **Investment plans** should actively seek opportunities for transformational projects, and in particular, guard against perverse incentives that support short-termism or only engender business as usual approaches.
- **Countries should prepare** thoroughly in order to address the challenges frequently observed when attempting to engage the private sector in climate finance investments. Clarity about who is expected to invest, and how, would help overcome barriers. International financial intermediaries should be encouraged to work in coordination with governments, rather than alongside them, especially in 'developmental state'² economies where the private sector is deeply regulated by government.

Lessons from understanding the political economy

Our political economy analysis revealed that like-minded coalitions support symbiotic decision making, while alternative coalitions with limited resources and dispersed knowledge are pushed to the margins. The case studies in this report offer policymakers insight into how countries can build their own 'climate finance readiness' by understanding their internal political

economy and using that understanding to steer effective decision making on climate finance investments.

- **Consider the context of narratives and incentives.** Each proposal for climate-resilient development will have proponents and dissenters driven by ideologies, incentives and resources. Policymakers will need to be bold and find pathways to successfully navigate the political economy at hand, often by reshaping incentives.
- **Be purposeful with the process.** Decision makers can develop more effective policies by actively seeking out and integrating more diverse views. Ensuring line ministries are engaged in decisions that directly affect them will increase ownership and cooperation during implementation.
- **Recognise patterns of coalition and dissent.** Where actors share a vision, channelling resources in that direction can generate synergistic actions. If an alternative view exists at the margins, seek policy or economic incentives for integrating it into the consensus. Look for dissent that may pose future obstacles in order to negotiate and manage expectations.

This working paper draws on a broader research project on Political Economy of Climate Investment Funds. For more information see: <http://www.iied.org/understanding-political-economy-climate-investment-funds>

²'Developmental state' economies are state based economies where economic development and markets are strongly governed and steered by the public sector.

1

Introduction

Funds aimed at helping developing countries respond to climate change have multiplied over the past decade and the Climate Investment Funds (CIF) are just one of many multilateral channels. The US\$10 billion committed to the Green Climate Fund (GCF) further contributes to the US\$100 billion expected from developed countries annually under the Copenhagen accord of 2009, although both CIF and GCF arrangements remain delinked.

Adequate finance is important, but so is ensuring that country systems for policy, planning and budgeting are ready to access, govern and deliver climate funds. Country 'readiness'³ to plan for and put climate funds into action is shaped by each country's political economy: the ways in which various actors work with ideas, power and resources to develop and implement policy.

The rise of climate finance initiatives is reshaping the political landscape in developing countries. New incentives and governance structures have reshuffled priorities and power (Tanner and Allouche, 2011). Within countries, various actors negotiate for climate finance and influence its delivery. The incentives they derive from their mandates, organisational structures, procedures and policies, and from their resources and knowledge base, can strengthen these decision-making coalitions (Abdelal et al., 2009, Kroll and Shogren, 2008). When they share ideas, their influence can be compelling (Riviere, 2014).

Decision makers need to understand this political economy in order to deliver plans that have wide stakeholder support. Clarity about the political economy of climate investments can help leaders build opportunities for consensus, avoid obstacles and pick more equitable and representative investments.

This paper explores how the underlying political economy in Bangladesh, Ethiopia and Nepal has shaped decisions institutionalising two CIF funds (the PPCR and SREP), how those countries have prioritised investment decisions, and have selected funding instruments. It examines narratives, discourses and drivers to explain how actors' ideas and incentives interact, shaping how climate finance is used.

It offers policy makers case studies that can help build a deeper understanding that will, in turn, help them manage expectations and steer opportunities for consensus-based outcomes for climate finance programmes. For example, understanding a country's political economy can help remove bottlenecks during planning and implementation, manage risks early, develop equitable investments and generate policy dialogues. It enables governments and development partners to find pathways that achieve timely and equitable outcomes, often by reshaping incentives. The paper's learnings will also help inform the Green Climate Fund (GCF), which is expected to be operational by October 2015.

³ A country's readiness refers to its capacity to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and the achievement of the MDGs (UNDP 2012. Readiness for climate finance; A framework for addressing what it means to be ready to use climate finance).

2

Approach and methods

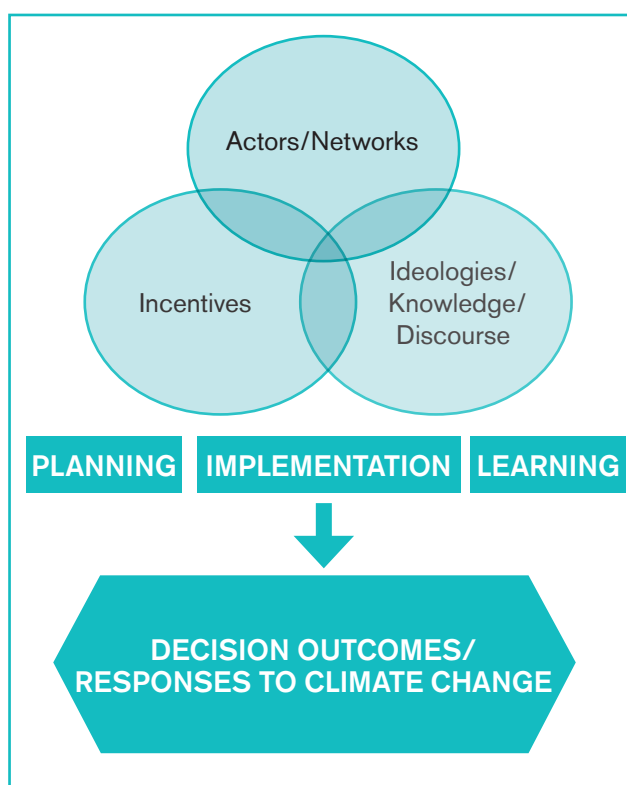
The PEA approach

This study uses a political economy analysis (PEA) to understand what influences and shapes decisions about international climate finance within recipient countries. It takes Tanner and Allouche's (2011) definition of political economy as the processes by which ideas, power and resources are conceptualised, negotiated and implemented by different groups at different scales. Their approach assumes policy decisions are "not just a rational choice, but shaped by new ideas, incentives, power plays and actors".

The paper focuses on three main elements⁴ of political economy, adapted from the Institute for Development Studies' KNOTS framework (IDS, 2006) (see Figure 1):

- **Actors and their coalitions:** Who is involved in decision-making and how are they connected? Do they form coalitions?
- **Ideologies, discourses and narratives:** What are the dominant ideologies/knowledge and conceptual framings around CIF objectives that shape coalitions, decisions and actions?
- **Incentives:** What are the underlying drivers, incentives and resources that shape these decisions?

Figure 1. Political economy elements



⁴Power is an important element in a political economy analysis. However, in this study we haven't analysed power dimensions in an absolute manner; we reflect on incentives and resources that strengthen actors to use power in decision making.

Methods

The research takes a 'national PEA' approach that invites country governments themselves to analyse how their domestic political economy might enable or constrain climate finance projects under the Pilot Program for Climate Resilience (PPCR) and the Scaling up Renewable Energy Program (SREP), using an action learning approach.

The study took five key steps (see Figure 2).

Around 80 stakeholders were interviewed from eight categories of stakeholders (Table 1). Interview questions aimed to understand actors' narratives and their interpretations of the core objectives of climate funds.

Figure 2: Steps in a PEA analysis

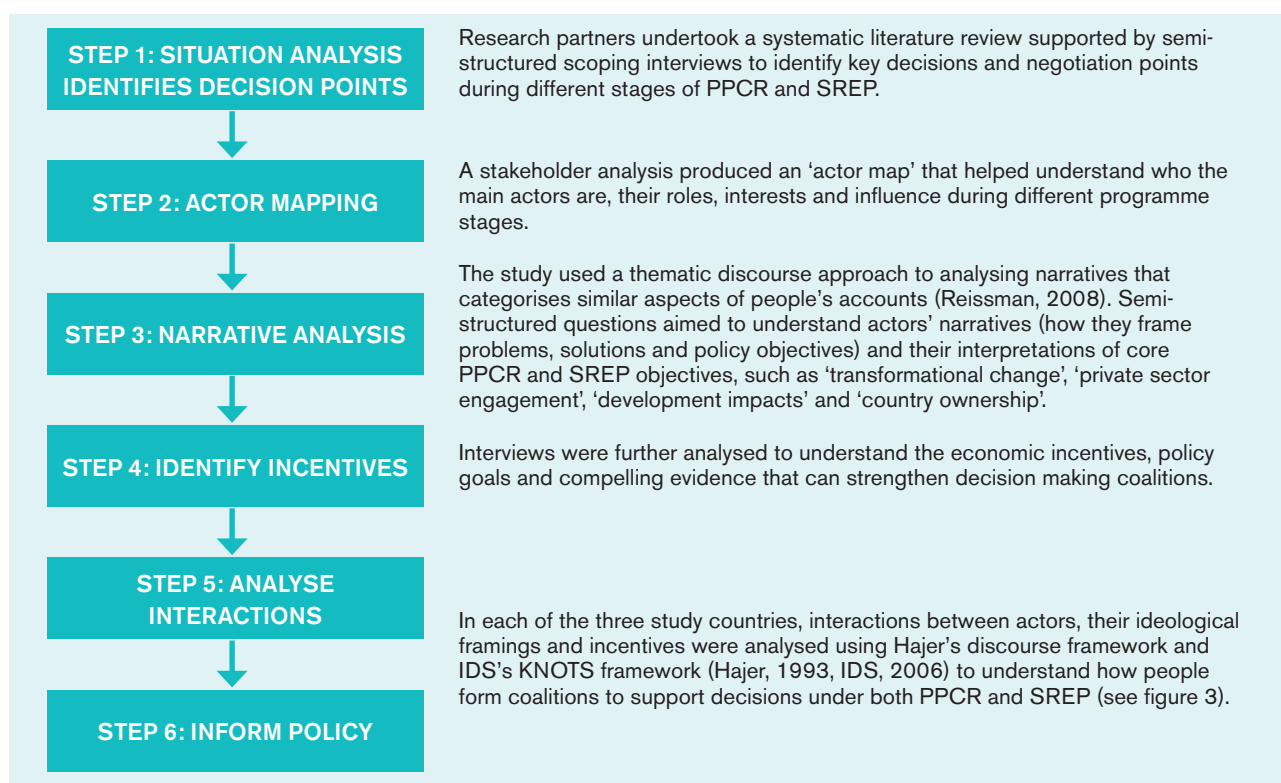
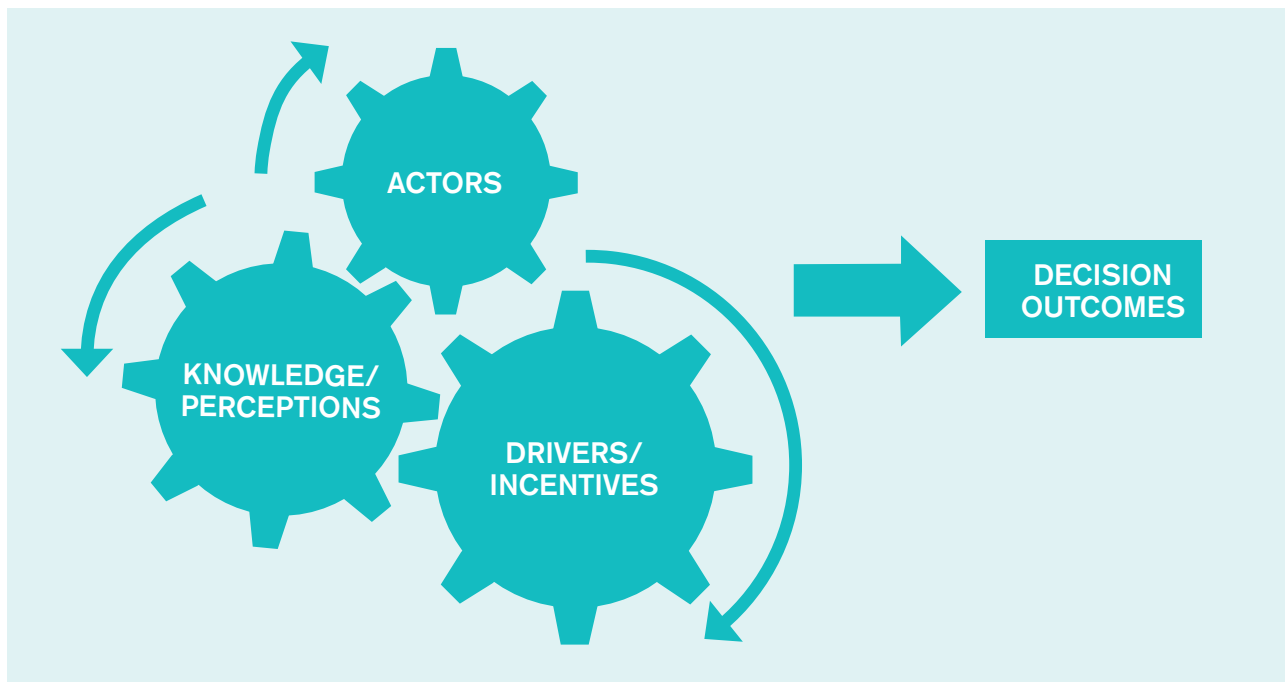


Table 1: Categories of actors interviewed during the semi-structured interviews

INVOLVEMENT	CATEGORIES	WHO THEY ARE?
Those directly involved in design and implementation	Government core ministries	Ministry of Finance and Environment Ministries
	Government executing line departments	Line departments directly implementing CIF
	Multilateral Development Banks	Actors directly involved in delivering CIF
Not directly involved	Other government actors	Government actors not directly involved in CIF delivery or those who have fallen out during the implementation stage
	Other multilateral actors	For example UNDP
	Civil Society	Civil society organisations, non-governmental organisations, think tanks
	Private sector	Private sector associations, relevant independent private companies
	Bilateral agencies	Donors and development partners

Figure 3: Analysis of PEA interactions



3

Climate Investment Funds (CIFs): background

The Climate Investment Funds (CIFs) channel is designed to assist developing countries pilot low-emission and climate-resilient development. The funds comprise of four funding windows within two trust funds – the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). Box 1 provides an overview of the CIF and Figure 4 illustrates how the CIFs fit relative to other major international initiatives.

The Strategic Climate Fund (SCF) is designed to support three targeted programmes:

- The Forest Investment Programme (FIP)
- The Pilot Program for Climate Resilience (PPCR)
- The Scaling-Up Renewable Energy Program (SREP)

These last two are the focus of this study.

Overview of PPCR

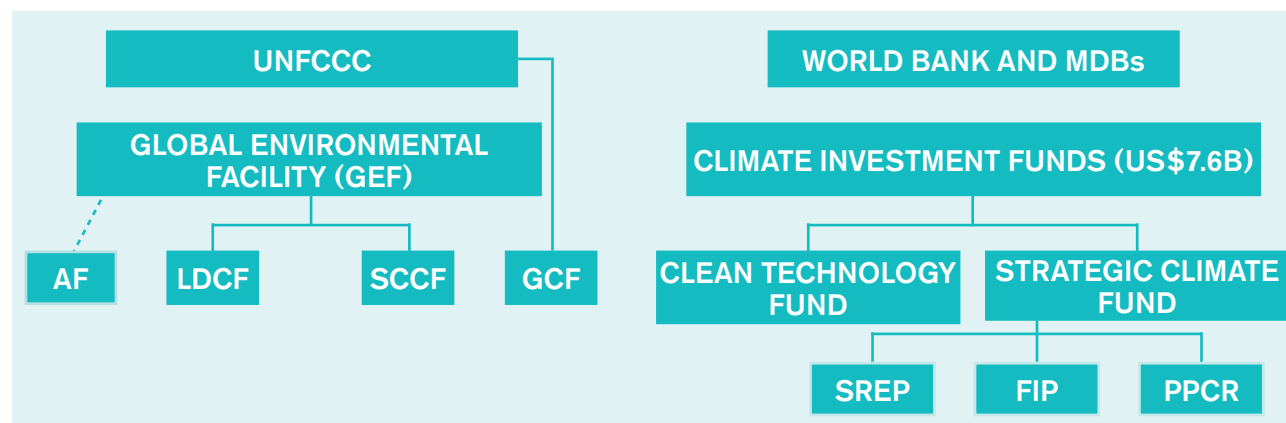
The PPCR was approved in 2008 to create an integrated, scaled-up approach to climate change adaptation in low-income countries. It aims for transformational change from a 'business as usual' project-led paradigm to a coherent long term programmatic strategy (CIF, 2011). Funding is provided in two stages (see Box 2).

BOX 1: HIGHLIGHTS OF CIF

- Operates in 63 developing countries.
- Programmatic, not 'project by project' approach.
- Total pledges worth \$5.5 billion to CTF and \$2.5 billion to the SCF.
- The PPCR receives 52% (\$1.3 billion) of the SCF and has already disbursed US\$46.8m.
- By October 2014 \$5.3 billion of the pledged fund had been approved for CIFs projects (BWP, 2014).
- Implemented by MDBs.
- The CIF operate outside the UNFCCC mechanism (see figure 4) but have a 'sunset' clause that expects them to phase out once the UNFCCC's Green Climate Fund (GCF) is operational.

Nine pilot countries (Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen and Zambia) and two regional groupings (six Caribbean island countries and three Pacific island countries) participate in the PPCR. The primary donors that fund

Figure 4: Overview of climate finance mechanisms



BOX 2. FUNDING STAGES FOR PPCR

Stage 1: Prepare SPCR

- Involves a planning grant supporting preparation of a proposal for a Strategic Programme for Climate Resilience (SPCR)
- The SPCR includes funds for two types of investment: i) technical assistance and ii) investment finance.
- Technical assistance is for countries to integrate climate resilience into national and sectoral development plans, and includes grant funding for policy reform, capacity building, and long-term institutional strengthening.

- Investment finance is for on the ground investments that focus on up to three themes or sub-regions within the country. It is a combination of grant and loans.

Stage 2: Implement programmes

- The second stage provides financing of up to US\$60 million in grants and up to US\$50 million in loans for actual investments.
- This stage also includes further technical assistance such as capacity building, if needed.

PPCR are Australia, Canada, Denmark, Germany, Japan, Norway, Spain, UK and USA.

Overview of SREP

The SREP was established in 2009 to pilot and demonstrate the economic, social and environmental viability of low carbon development in the energy sector (Rai et al., 2013). SREP provides financing for renewable energy technologies such as solar thermal and photovoltaic systems, wind energy, bio-energy, geothermal energy and small-scale hydropower. The private sector is envisaged to play a key role in promoting renewable energy. SREP projects are expected to consist of both renewable energy investments (including infrastructure investments) and capacity building and advisory services, as well as support for policy changes that increase the use of renewable energy. A number of financing products such as grants, contingent grants or loans, concessional loans, guarantees and equity are available under the

SREP (CIF, 2010b). Similar to the PPCR funding is disbursed in two phases. In Phase I, pre-investment support is provided to the participating governments to develop an investment plan and associated advisory services are provided. Phase two funds are for implementing the investment plan (CIF 2010b).

SREP's criteria for allocating funds state that an enabling regulatory environment that promotes business 'is desirable'. For the renewable energy sector, an enabling environment may include policies that support private sector participation, public-private partnerships, or help make financing available for renewable energy technologies (CIF, 2010a).

In 2010, six pilot countries were selected: Ethiopia, Honduras, Kenya, the Maldives, Mali and Nepal. Four more countries joined after 2013: Armenia, Liberia, Tanzania and the Solomon Islands. Primary funders to SREP are Australia, Denmark, Japan, Korea, Netherlands, Norway, Spain, Sweden, Switzerland, UK and USA (BWP, 2014).

4

Actors and governance choices

Although PPCR and SREP use common governance mechanisms and programme cycles for all pilot countries, these countries have been at different stages of 'readiness'. Country contexts and MDB approaches have significantly determined how SREP and PPCR have been institutionalised.

This section looks briefly at the governance arrangements for PPCR and SREP at the international level and then discusses national governance for the two programmes in Ethiopia, Bangladesh and Nepal, examining core leadership, institutional governance and implementation arrangements. The sections following then look at investment choices within funds, and at each country's choice of funding instruments.

International climate finance governance

At the international level, the Climate Investment Funds (CIFs) are overseen by the CIF Administration Unit (CIF AU) within the World Bank and implemented through MDBs including the: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), World Bank (WB) and the International Finance Corporation (IFC).

Each of the three SCF programmes are governed by the SCF Trust Fund Committee, a programme specific sub-committee (one for PPCR and one for SREP) with observers, a partnership forum, a MDB committee, an administrative unit, and a trustee.

National climate finance governance

SREP and PPCR investment plans are to be developed, endorsed and implemented through national systems. At the national level, institutionalising either fund entails:

- Selecting a focal and executing agency to administer and execute the investment plan, and
- Establishing a mechanism to coordinate programme activities in different phases and define the roles and responsibilities of ministries, MDBs, government departments, and private sector and civil society partners.

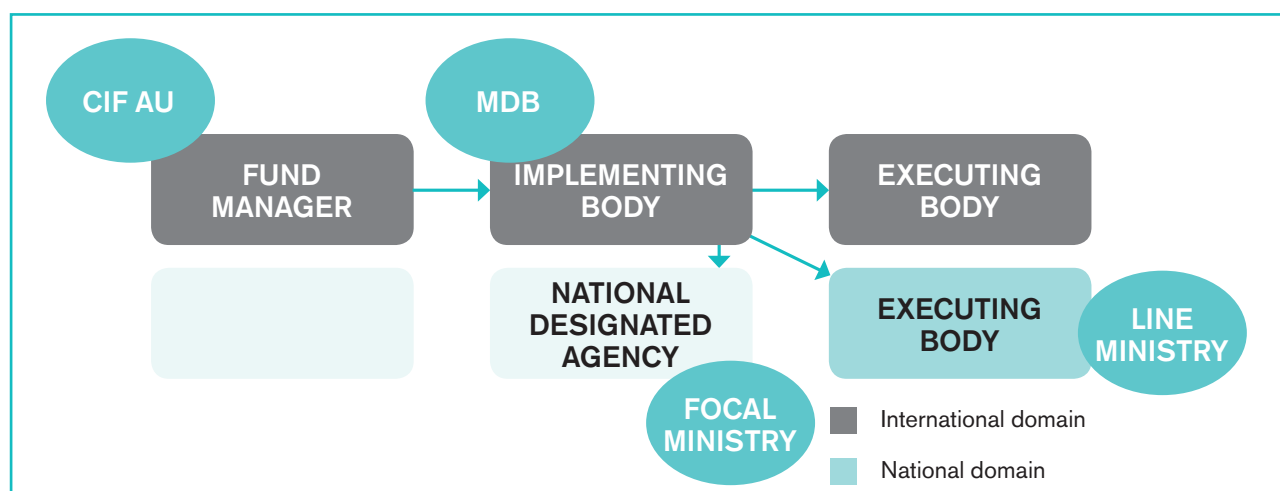
The arrangements vary depending on a country's institutional readiness (Rai and Anderson, 2013). The key actors and the linkages between them are outlined in Figure 5 and described below.

Focal ministries: Core ministries such as finance, planning or environment ministries endorse and coordinate the planning and implementation process.

Regional MDBs: MDBs implement investment programmes with the government executing entities.

Executing entities: Line ministries and departments such as water or energy ministries implement investment projects with a MDB counterpart.

Figure 5: Key institutions and links for SREP and PPCR. Source: adapted from UNDP (UNDP, 2011)



PPCR governance arrangements in Nepal and Bangladesh

Each country has taken its own approach to setting up a governance mechanism. Some have defined new implementation arrangements, and others have harnessed existing ones (more evident in PPCR than in SREP, due to the programme's dedicated technical assistance for 'mainstreaming' and institutional capacity development). Some PPCR countries have shifted core climate change leadership from environment to finance and planning ministries because these have 'convening authority' across multi-sector climate change issues. Table 2 highlights key institutions involved in different capacities in PPCR in Bangladesh and Nepal.

Core leadership: The environment and finance ministries are designated focal authorities for PPCR in Bangladesh. Co-financing in PPCR projects from the Government of Bangladesh and its implementation through annual development planning budgets also demonstrates greater buy-in beyond the environment ministry. Nepal decided to select its environment ministry (MOSTE) as the lead PPCR agency, despite external preference for the Ministry of Finance (Rai, 2013a).

Governance arrangements: A number of Bangladesh institutions can absorb and operationalise international climate finance flows. The two national climate funds, the government-funded Bangladesh Climate Change Trust Fund (BCCTF) and the multi-donor Bangladesh Climate Change Resilience Fund (BCCRF) both offered a wide range of institutions for cross-sectoral coordination. BCCRF's existing institutional arrangement was therefore harnessed to position PPCR in Bangladesh under the Joint Secretary of MOEF. Unlike Bangladesh, Nepal set up a wide range of new institutions with PPCR support. These included two coordination committees for PPCR and for multi-stakeholder coordination amongst government, MDBs and NGOs (see Table 2).

Implementation arrangements: Line ministries or departments, in collaboration with MDB counterparts implement programmes prioritised in the investment proposal (SPCR). National line ministries and departments which were already channelling considerable resources continue to be the key recipients of funds in Bangladesh (Rai et al., 2014, ICF, 2013). For example, the Bangladesh Water Development Board (BWDB) and the Local Government Engineering Department (LGED) have received 45 per cent of BCCRF and BCCTF funds so far and now implement the two PPCR investment projects. These departments also have long-standing partnerships with MDB counterparts, with whom they

Table 2: Institutions involved in PPCR in Bangladesh and Nepal

COUNTRY	INSTITUTIONAL PLANNING AND COORDINATION MECHANISM	IMPLEMENTING ARRANGEMENT	
Bangladesh	Focal ministries Ministry of Environment and Forest (MOEF) Ministry of Finance (MOF) Institutional arrangement: Harnessing existing mechanism set up for Bangladesh Climate Change Resilience Fund (BCCRF), within MOEF.	MDBs	Counterpart line ministries/department
		World Bank	Water Development Board
		ADB	Local Govt Engineering Department
		IFC	Previously Ministry of Agriculture Now MOEF.
Nepal	Focal ministries Ministry of Science Technology and Environment (MOSTE) Institutional arrangement: New institutions within MOSTE: <ul style="list-style-type: none"> • 2 coordination committees- PPCR coordination committee chaired by MOSTE and the National Planning Commission, and the Multi stakeholder Climate Change Coordination Committee. • Climate Change Programme Results Framework Coordination Committee (CCPRF CC) facilitates coordination between committees. 	ADB	Department of Soil Conservation and Watershed Management (DSCWM)
		IFC	MOSTE
		WB	<ul style="list-style-type: none"> • Dept. of Hydrology and Meteorology • Ministry of Agriculture Development (MOAD)

implement the PPCR. In Nepal, the key line departments responsible for implementing the fund with MDBs are the Department of Soil Conservation and Watershed Management (DSCWM) and the Department of Hydrology and Meteorology.

The private sector investment in agriculture and food security was originally planned to be implemented by IFC and ministries of agriculture in both countries. In Bangladesh, the role has been transferred to the MOEF to overcome differences in mandates and objectives between IFC and the agriculture ministry. In Nepal the private sector agriculture component is implemented directly by IFC.

Civil society, development partners and other multilaterals such as UNDP were involved in Bangladesh's initial consultation process on PPCR, but have limited input into programme delivery.

SREP governance arrangements in Ethiopia and Nepal

SREP's primary focus is investments, though there has been some support for policy reform and capacity development. For most SREP countries the focal ministry has a mandate for energy. When establishing an institutional architecture to steer, coordinate and manage the SREP, countries have involved existing institutions but often combined this with shaping a range of new coordinating points, as seen for Ethiopia and Nepal (Table 3).

Table 3: Institutions involved in SREP in Ethiopia and Nepal

COUNTRY	INSTITUTIONAL PLANNING AND COORDINATION MECHANISM	IMPLEMENTING MECHANISM	
Ethiopia	Focal ministry Ministry of Water, Irrigation and Energy (MOWIE) Institutional arrangement: Inter-ministerial committee of the CRGE Facility	MDBs	Counterpart line ministry/ Department
		AfDB	Ministry of Mines
		WB	Ethiopian Electric Power Corporation (EEPCo)
		IFC	Private sector
Nepal	Focal ministries Ministry of Science Technology and Environment Ministry of Finance Institutional arrangement: SREP steering committee.	WB	Alternative Energy Promotion Centre (AEPC)
			Central Renewable Energy Fund (CREF)
		ADB	AEPC
		IFC	MOSTE

Core leadership

Nepal has designated its finance and environment ministries as focal points for SREP. In Ethiopia, overall responsibility for the SREP lies with the Environmental Ministerial Council, an inter-ministerial group that controls strategy for the country's Climate Resilient Green Economy Facility, of which the SREP is a constituent.

Governance and implementation arrangement

In Nepal, the SREP is coordinated by a single semi-autonomous agency responsible for investing in small scale renewables (AEPC) (AEPC, 2013). A Central Renewable Energy Fund (CREF) and a steering board have also been set up to mobilise funds from different instruments and engage with the private sector. A dedicated agency allows institutional focus on decentralised energy up to 10 megawatts. Large scale energy projects are the energy ministry's responsibility. Moving forward, the energy ministry would need to have a key role in scaling up renewables in Nepal but this will require much more coordination between MOSTE and the Ministry of Energy than currently exists.

In Ethiopia, the Ministry of Water, Irrigation and Energy (MOWIE) and the Climate Resilient Green Economy Facility are the key focal authorities. MOWIE leads the coordination and management through its SREP coordination unit. Ethiopia's geothermal and wind components of SREP are implemented by the Ethiopian Electric Power Corporation (EEPCo) and the Ministry of Mines in collaboration with a MDB counterpart.

In both countries, the IFC aims to catalyse private sector involvement with renewable energy technologies by providing incentives to commercial banks. In Nepal, the private sector has been engaged in the SREP prioritisation process and CREF will manage the private sector component under the leadership of a commercial bank. The IFC and ADB aim to incentivise the private sector to invest in grid-connected renewables. As with PPCR, the private sector component is a direct agreement between the MDBs and the private sector in both countries, with limited engagement of public bodies. However, in Ethiopia, parallel but inadequately coordinated efforts between IFC and the National Banks of Ethiopia have caused delays in implementation (refer to Annex 1 for details).

5

Investment choices within the funds

Phase one of both programmes involves a multi-sectoral dialogue to plan investments. The aim is to develop a Strategic Program for Climate Resilience (SPCR) for PPCR and an investment plan (for SREP). Funding is made available for capacity building for policy reform and long-term institutional strengthening through technical assistance and 'on the ground' investments. Investments usually focus on one or two themes or sub-regions within the country (for PPCR) and on renewable technologies (for SREP), financed through a combination of grants and loans.

The plans are customised by each country. A country's capacity and priorities, leadership in focal ministries, existing relationship between MDBs and executing ministries (and their investment record), policy and planning support, available co-finance and the ability of pipeline projects to unlock finance all determine what investment projects are prioritised. Annex 1 gives considerably more detail on planned investments, country-by-country.

PPCR investment choices

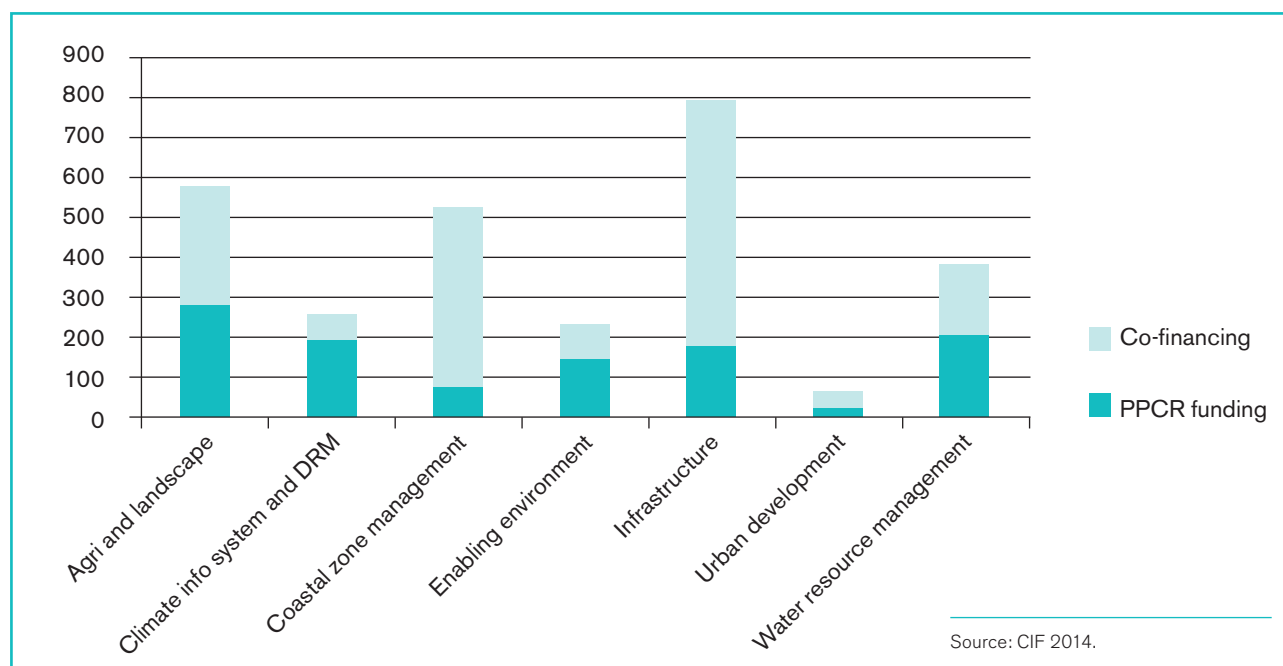
The project portfolio for PPCR is diverse. Of the total US\$1.3 billion PPCR funding, maximum funds have been prioritised for agriculture and landscape management and water resource management. The sector and type of investment also determine the co-financing received. For example, within the PPCR (see

Figure 6), coastal zone management and infrastructure has generated high additional finance compared with work on climate information systems and an enabling environment (because more agencies contribute for such investments) (CIF, 2014).

The PPCR's process for developing the SPCR is flexible and customised to country readiness. Both Nepal and Bangladesh had well-defined climate change priorities through their National Adaptation Plan of Action (NAPA). Bangladesh's climate change strategies allowed it to leapfrog SPCR's initial exploratory phase. The Government of Nepal also wanted to move directly towards investments, pointing to the adaptation planning taking place as Nepal developed its NAPA. However, the MDBs considered the NAPA to have a short-term remit compared with the longer-term climate resilience focus of the PPCR, and wanted a detailed preparatory assessment. As a result, the process of planning Nepal's SPCR began without consensus from all parties, making it a less than ideal start (Rai, 2013a).

These early processes have delivered both challenges and opportunities. Affording flexibility to Bangladesh was crucial in ensuring the government's interest and ownership of the programme. But bypassing the dedicated preparation phase also meant roles and responsibilities were not clearly defined, causing later interruptions in delivering the SPCR. In Nepal, the relationships between stakeholders evolved and the government's work on the NAPA was

Figure 6: PPCR funding and available co-financing by investment type



reflected in later versions. Core features of the PPCR investment outcomes are summarised in Table 4 and discussed below.

Comparison of PPCR investment choices in Bangladesh and Nepal

Nepal's PPCR investments are divided between capacity-building projects and climate information systems, in line with its national adaptation plan. Bangladesh favoured infrastructure projects rather than 'softer' investments in capacity building. Now, however, as the countries move from planning to implementation of PPCR, coordination between the executing departments is becoming an issue. In Bangladesh, for example, there were plans to improve forests around the coastal embankments that are being repaired, but this side of the project has been cut back because of insufficient cooperation between the water development board and the forestry department. Likewise, private-sector projects in both countries have experienced delays. Policymakers, companies and the IFC would need to work through their differences to arrive at a shared vision for engaging private sector. For a more detailed overview of decision outcomes, see Annex 1 or Table 4. The discussion here highlights the main decision outcomes.

Programmatic investment planning: Programmatic investment planning is an innovation within CIF. Bangladesh's plan focused on all investments in the coastal areas of the country. Nepal on the other hand

has prioritised its agriculture sector within its investment plan. Although both defined 'programmatic' differently, both translated their proposals into projects with capacity building and mainstreaming support, although technical assistance is higher in Nepal.

Planning decisions: Although planning consultations were inclusive, investment planning decisions have been strongly driven by a core group of focal ministries, MDBs and their traditional government counterparts.

Investment decisions: Bangladesh has used the PPCR money to top up and scale up infrastructure investment. Their transformative strategy has focussed on increasing the scope and scale of adaptation actions, with limited focus on building institutional capacity through technical assistance. Nepal, on the other hand, focuses on districts' and communities' adaptive capacities and invests in climate information systems, adaptation tools, instruments, methods and strategies. Bangladesh prioritised coastal infrastructure because of available co-financing (the finance required was enormous and PPCR funds were relatively small), existing partnerships and the investment experience of MDBs and line departments in coastal infrastructure development. The government's ability to use concessional loans, raise co-finance and harness existing partnerships has also encouraged investment in coastal infrastructure in Bangladesh. Nepal on the other hand has targeted PPCR funds towards capacity development and agriculture sector, building on national priorities articulated in its NAPA.

Table 4: PPCR projects portfolio, Bangladesh and Nepal

BANGLADESH
<p>Investment Project 1: Promoting Climate Resilient Agriculture and Food Security. (Private sector component). The project aims to catalyse private sector involvement in adaptive agriculture: scaling up climate resilient varieties of rice and crops, providing efficient irrigation systems, and developing early warning systems for farming communities.</p> <p>Instruments: Grant and loan total: 13 US \$m; PPCR grant: 3*; Concessional loan: 10</p> <p>Implementing agencies: MDB: IFC; Gov line department: Department of Agricultural Extension (DAE) of the Ministry of Agriculture involved initially. MOEF is now the Government counterpart for this role.</p>
<p>Investment Project 2: Coastal Embankments Improvement Project (CEIP) and Afforestation.</p> <ul style="list-style-type: none"> • Rehabilitate and climate proof embankments and polders. • Rehabilitate or build water management related structures within polders. • Finance coastal afforestation alongside embankments • A participatory monitoring system <p>Instruments: Grant and loan total: 325 US \$m; PPCR grant: 25; IDA credit: 300</p> <p>Implementing agencies: MDB: World Bank; Government line department: Bangladesh Water Development Board, the Forest Department (FD) and the Bangladesh Forestry Research Institute (BFRI).</p>
<p>Investment Project 3: Coastal Climate Resilient Water Supply, Sanitation, and Infrastructure Improvement. Project 3a: Climate Resilient Infrastructure Improvement in Coastal Zone Project. Project seeks to build resilience for coastal roads, jetties, schools and urban drainage systems. Government part of funds will go towards restoring the livelihoods of coastal fishing communities.</p> <p>Instruments: PPCR grant: 10; PPCR loan: 20; Co-financing from ADB: 20; KfW:8, GoB:31</p> <p>Implementing agencies: MDB: ADB; Gov: LGED, Department of Public Health and Engineering (DPHE), Ministry of Food and Disaster Management, Water Supply and Sewerage Authority.</p> <p>Project 3a: Coastal Town Infrastructure Project, seeks to provide basic services such as water supply and sanitation, and to restore livelihoods in coastal towns.</p> <p>Instruments: The US\$117 million required is funded by PPCR (US\$10 m credit and US\$20 m grant), by the Government of Bangladesh (US\$23.2 m), and through grant support from Bill and Melinda Gates foundation (US\$1.5 m grant) and credit support from ADB (US\$52 m).</p>
<p>Technical Assistance 1: Capacity building: Climate Change Capacity Building and Knowledge Management.</p> <p>Instruments: Grant only: \$0.5m</p> <p>Implementing agencies: MDB: Asian development Bank (ADB); Gov: MOEF and Economic Resource Division (ERD)</p>
<p>Technical Assistance 2: Feasibility Study for a Pilot Program of Climate Resilient Housing in the Coastal region.</p> <p>Instruments: Grant only: \$0.4m</p> <p>Implementing agencies: MDB: IFC; Gov: MOFDM/LGE</p>

continues

Table 4: PPCR projects portfolio, Bangladesh and Nepal (cont.)

NEPAL
<p>Investment Project 1: Building Climate Resilience of Watersheds in Mountain Eco-Regions. The project aims to build resilience of freshwater resources in mountain eco-regions in order to improve agricultural productivity, including:</p> <ul style="list-style-type: none"> • Participatory planning for watershed management • Implementing watershed management plans in priority watersheds • Water efficient measures • Incorporating lessons on improving access and reliability of water resources in vulnerable mountain regions. <p>Instruments: Total 30.6 million USD; Project preparation grant 0.5; PPCR grant 23.53; ADB Water Facility Fund 0.5; Nordic Development Fund (Grant) 2; Government grant proposed 4.03</p> <p>Implementing agencies: MDB: ADB; Gov: Department of Soil Conservation and Water Management</p>
<p>Investment Project 2: Building Resilience to Climate-Related Hazards: Aims to build community resilience to climate related hazards, by supporting early warning systems for improved farming practices as well climate risk insurance mechanisms. The project has four parts:</p> <ul style="list-style-type: none"> • Institutional strengthening, capacity building and implementation support for the Department of Hydrology and Meteorology (DHM) • Modernisation of observation networks and early warning systems. • Enhancing the DHM's service delivery system • Creating an agriculture management information system (AMIS). • DHM is responsible for the first three parts and MoAD is responsible for the fourth. <p>Instruments: Total \$31.3m; CIF Grant 16; Loan 15; Government grant proposed 0.3.</p> <p>Implementing agencies: MDB: World Bank; Gov: Department of Hydrology and Meteorology</p>
<p>Technical assistance project 3: Mainstreaming Climate Risk Management in Development. The TA offers support to integrate climate change risk management into planning and practices. It also supports work to develop and apply knowledge management tools in response to climate change. The programme has developed a training package on community based assessments of climate change vulnerability and will also document traditional and indigenous adaptation practices in Nepal.</p> <p>Instruments: CIF Grant 7 million USD</p> <p>Implementing agencies: MDB: ADB; Gov: MOSTE</p>
<p>Investment project 4: Building Climate Resilient Communities through Private Sector Participation. This project aims to address market barriers that discourage private sector and local financial institutions from investing in climate change adaptation actions. It seeks private collaboration in climate resilient agriculture, hydropower and low cost climate resilient housing.</p> <p>Instruments: Total: 8.7 million USD; CIF Grant 2.1; Project preparation grant 0.3; Loan 6.6</p> <p>Implementing agencies: MDB-IFC</p>
<p>Investment project 5: Enhancing Climate Resilience of Endangered Species. Aims to address the risks climate change poses to endangered wildlife.</p> <p>Instruments: CIF Grant 5 million USD</p> <p>Implementing agencies: MDB- World Bank; Gov- Ministry of Forests and Soil Conservation</p>

* All figures in US\$ million.

Implementation of planned projects: Coordination between executing departments will be crucial for effective delivery of the PPCR. In Bangladesh, PPCR has not entirely managed to achieve inter-departmental cooperation. The forestry component within the coastal embankment project has been reduced because of insufficient cooperation between the water development board and forestry department (who own much of the land around coastal embankments). Unbalanced allocation of implementation resources between the hydro-meteorological component and the agriculture dissemination component in Nepal's PPCR has also caused discontent. This component was meant to be linking agriculture farmers to an early warning system. A large share of the project is allocated for building hydro- meteorology infrastructure, acquiring new technologies and capacity building within the hydro-meteorology department, with much less development of climate resilient technologies that the agriculture ministry had envisaged. These differences are capable of undermining implementation in later stages (see Annex 1 for further details on the project).

Private sector component: PPCR seeks to catalyse private sector involvement in climate change adaptation. Public finance is used to remove barriers to private sector investment. Both Bangladesh and Nepal have used a similar model to engage the private sector in agriculture and food security issues. However, both experienced delays due to reduced buy in from the implementing agriculture ministry, which is unconvinced about private sector capacities and roles in climate change adaptation. These actors also believe that government has systems in place that makes the

public sector better placed to deliver projects for farmers, whilst the private sector is best suited to a complementary role. Conflicts between the IFC's mandate to work directly with the private sector and the governments' emphasis on harnessing existing public sector channels have hindered the implementation of private sector oriented investment projects.

SREP Investment Choices

SREP's investment portfolio comprises two segments: a) energy access through investments in mini grids (hydro, PV and wind), off-grid distributed PV technology and improved cook stoves and b) increased grid-tied technology, including geothermal, wind, solar PV, solar-wind hybrids, hydro and waste-to-energy projects (Figure 7). Until 2013, about 25 per cent of SREP funds were targeting 'energy access' projects while 65 per cent were used to add renewable energy to the electricity grid, and 10% were allocated to capacity building.

Table 5 and the section below summarise the planning and prioritisation outcomes for SREP in Ethiopia and Nepal.

Comparison of SREP investment choices

To fuel a growing gross domestic product (GDP) and avoid the climate sensitivity of hydropower, Ethiopia decided to put large-scale geothermal and wind on the grid. Nepal, on the other hand, planned to spread energy to remote areas by investing in small-scale

Figure 7: Distribution of SREP funding by energy technology mix (in US\$ million as of 2013)

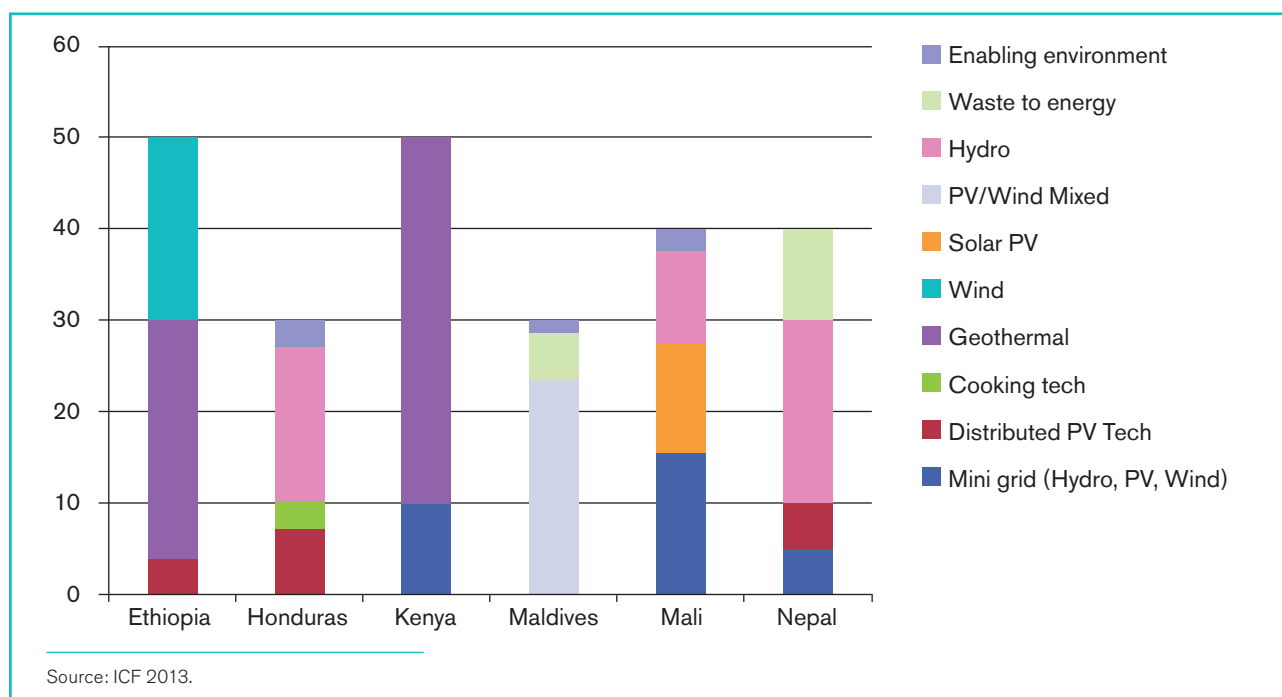


Table 5: SREP projects portfolio, Ethiopia and Nepal

ETHIOPIA
<p>Investment Project 1: Aluto Langanu Geothermal Field Development and Geothermal Sector Strategy. The project intends to:</p> <ul style="list-style-type: none"> • Explore, drill and build capacity for construction of 75 MW of geothermal power • Develop a long term strategy for exploiting geothermal • Exhibit commercial and technical viability of geothermal technology • Develop investable projects in geothermal to achieve Ethiopia's vision for 1 GW geothermal by 2030
<p>Instruments: Grant and loan total: 233.6 US \$m; SREP fund 26; Government 81.1; MDB 60.0; Others 66.5</p>
<p>Implementing agencies: MDB: AfDB; Gov.: Ministry of Mines, Former Environmental Protection Authority (EPA) now structured into Ministry of Environment and Forest (MEF).</p>
<p>Investment Project 2: Assela Wind Farm Project. SREP funds will invest in: 100 MW of wind generation capacity; Local capacities and manufacturing, which will help reduced technology costs.</p>
<p>Instruments: Total Grant and loan: 250 US \$m; SREP fund 20; Government 40; MDB 140; Others 50</p>
<p>Implementing agencies: MDB: World Bank, Gov: EEPCo</p>
<p>Investment Project 3: Clean Energy SMEs Capacity Building and Investment Facility. Have two distinct aspects.</p> <ul style="list-style-type: none"> • It intends to build market players' capacity through a technical assistance component that aims to 'skill up' women-run SMEs and remove barriers for suppliers of clean energy products such as home-based cook stoves, mini grids or solar home systems. • Funds will also support banks to develop their capacity for assessing the risks of investing in SMEs. • A financial component funds risk-sharing agreements with local banks to encourage 'risky renewables lending', particularly for new manufacturing facilities and local SMEs in the renewable energy sector.
<p>Instruments: Total Grant and loan: 12 US \$m; SREP fund 4; MDB 4; Others 4.</p>
<p>Implementing agencies: MDB: IFC; Government: Ministry of Water, Irrigation and Energy (MOWIE), Ministry of Finance and Economic Development (MOFED)</p>
<p>SREP reserve project 1: Tendaho Geothermal Field Development 2. Sor SHEPP expansion project. The second tier of SREP includes activities/projects that will be implemented by funds from SREP's reserve fund. In October 2012, the CIF Forum decided to allocate the reserve fund for private sector engagement. Ethiopia has allocated US\$19.5 million for programmes to develop the Tendaho geothermal field and expand and rehabilitate the Sor small hydropower plant.</p>
<p>Instruments:</p> <ul style="list-style-type: none"> • Tendaho Geothermal Field Development; Total: 319.6 US\$m; SREP 10; GoE 60.85; MDB 188; Others 60.75 • Sor SHEPP expansion project; Total: 25.1 US\$m; SREP 9.0; GoE 5.0; Others 10.2

hydropower (both on- and off-grid), solar and wind, and waste-to-energy generation. But the diffusion of narratives indicates a last-minute change in this plan, replacing large multilateral investments in small-scale hydropower with grid-tied solar projects (still under discussion at the time of this study). The private sector will still take in about 50% of SREP funding in Nepal, but only 10% in Ethiopia.

For a fuller discussion of SREP investment choices see Annex 1.

Large scale infrastructure vs 'energy access' projects: Nepal and Ethiopia have taken different approaches in investing in renewable energy. Ethiopia focuses on large scale grid-based technologies in order to meet its growth objectives. The aim is to enhance the scale of energy by diversifying from unreliable hydropower to geothermal and wind power. Nepal, on the other hand, has emphasised energy access targets for households, which was initially to be met by investing in small hydro (recently changed to grid-tied solar), and

Table 5: SREP projects portfolio, Ethiopia and Nepal (cont.)

NEPAL
<p>Investment project 1: Small hydropower development- On grid. ADB and IFC proposed to create an enabling environment for the private sector to invest in grid connected small hydro. The project intends to build capacities of local banks and demonstrate a viable investment environment for them to invest in renewable investments. Rather than provide direct subsidies, the programme will provide subsidised, long tenure loans to commercial banks, which will then lend on to commercial hydropower developers. Technical assistance and guarantees will be agreed with lending institutions, with the addition of foreign exchange risk support to banks to support market development. However, after the approval of plans, ADB stated that their share of funds will come as loans, which has caused disagreement within the Government of Nepal and therefore delays. Most recently it was decided to reallocate funds from small hydro to solar under this component. These are very recent changes and the reason for this change was not entirely captured during this study.</p> <p>Instruments: Total SREP funds 20 US\$m</p> <p>Implementing agencies: IFC and ADB</p>
<p>Investment project 2: Mini and Micro Initiatives: Off grid Solar PV and Mini/micro hydro. SREP aims to provide affordable energy access to Nepal's rural populations by building 30MW capacity of mini micro hydropower installations and solar home systems.</p> <p>Instruments: Total Grant 12 US\$m</p> <p>Implementing agencies: ADB and AEPC</p>
<p>Investment project 3: Extended Biogas</p> <p>Project aims to scale up municipal 'waste to energy' by covering initial costs and removing credit barriers. Financing and advisory support will help establish around 160, 000 bio gas plants. This investment project was initially designed to support small scale household bio gas. Now it is being implemented, it is focusing on more viable opportunities such as community installations in schools and hospitals, and commercial or industrial situations.</p> <p>Instruments: Total 8 US\$m</p> <p>Implementing agencies: MDB: World Bank; Gov: AEPC</p>

by investing in off-grid mini micro hydro, solar and wind hybrid, and extended waste-to-energy generation.

Proven technologies vs diversification: Ethiopia aims to enhance the scale of energy production by diversifying from unreliable hydropower to geothermal and wind power. Nepal has emphasised scaling up proven technologies such as hydropower for productive uses. Pilots for new technologies such as solar-wind hybrid and extended biogas have met disagreement because concessional loans have been used for funding them and because technologies such as waste-to-energy don't have enough proven success in contexts similar to Nepal.

Private sector investment: Ninety per cent of SREP funds in Ethiopia will be channelled through public sector projects while 10 per cent will be channelled

through the private sector. In Nepal the public-private portfolio is 50:50. This is largely because IFC in Nepal has opted for commercially viable grid-based investments. Ethiopia on the other hand has retained SREP investment in grid-based public sector funded projects. Ethiopia's government is sceptical about the readiness of private sector to lead on renewable energy projects. There is also an emphasis on localisation and nurturing of the local private sector, which is clearly not ready to engage in large grid-based projects. As a result, the private sector component is limited to building capacities of market players, including commercial banks and SMEs. But regulatory barriers affect the involvement of commercial banks. Because of this, the project's implementation has been delayed (see Annex 1 for further details).

6

Choice of funding instruments

CIFs use a range of financing instruments, unlike the UNFCCC mechanism where funds are usually channelled through grants. Different instruments suit different investment needs. Risk management instruments enable investors to invest in high risk investment portfolios. Grants are effective in supporting investments in climate resilience, and capital instruments are effective once investments are commercially viable. Some of the options suggested in the CIF design document include:

- Concessional loans
- Risk guarantees
- Equity
- Mezzanine financing, and
- Convertible loans.

Within PPCR and SREP, grants have been significantly used for softer measures such as technical assistance, capacity building and for preparatory uses which do not seek returns from investments. The private sector component is funded through MDB loans. Concessional loans allow investments in projects which require high scales of finance, such as large scale infrastructure investments, which also seek co-finance from a range of sources. For example, Bangladesh's coastal embankment projects under the PPCR have been able to unlock a large scale of IDA credit due to the nature of investment needs. Nepal, by contrast, has mostly used

grants due to its strong focus on capacity development. Concessional loans are only used in Nepal for building early warning infrastructure and for catalysing the private sector. Similarly, in the case of SREP in Ethiopia, larger-scale grid-tied energy projects have been able to seek greater levels of co-financing through MDB credit (see Figures 8–10 below for more detail).

In practice, neither PPCR nor SREP has used the full range of financing instruments available. Grants and concessional loans have been widely used, and risk guarantees in some cases, such as in Ethiopia where direct international loans to private sectors are not allowed as per the regulations of the country. But because the range of contributors have varying levels of risk appetite, countries have been somewhat risk averse in deploying a full range of instruments (ICF, 2014). In some countries, using loans for climate change matters is against the policy mandate. For example, in Nepal a cabinet decision has ruled out the use of loans for climate change investments. As a result, convincing government to sign up for loans was a challenge.

Figure 8: Financing instruments used in PPCR Bangladesh by project type

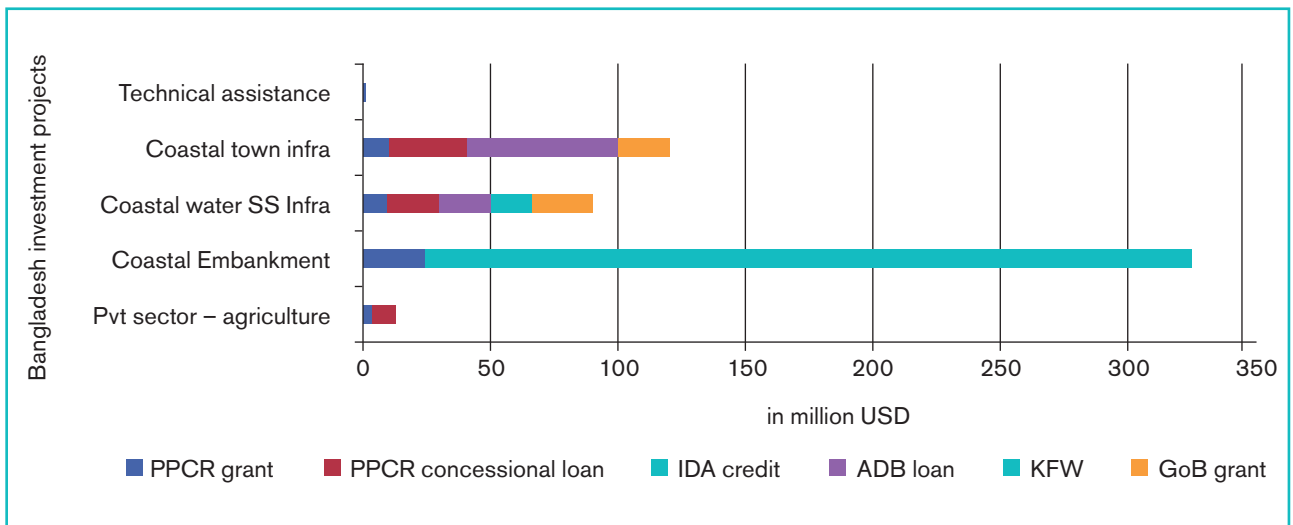


Figure 9: Financing instruments used in PPCR Nepal by project type

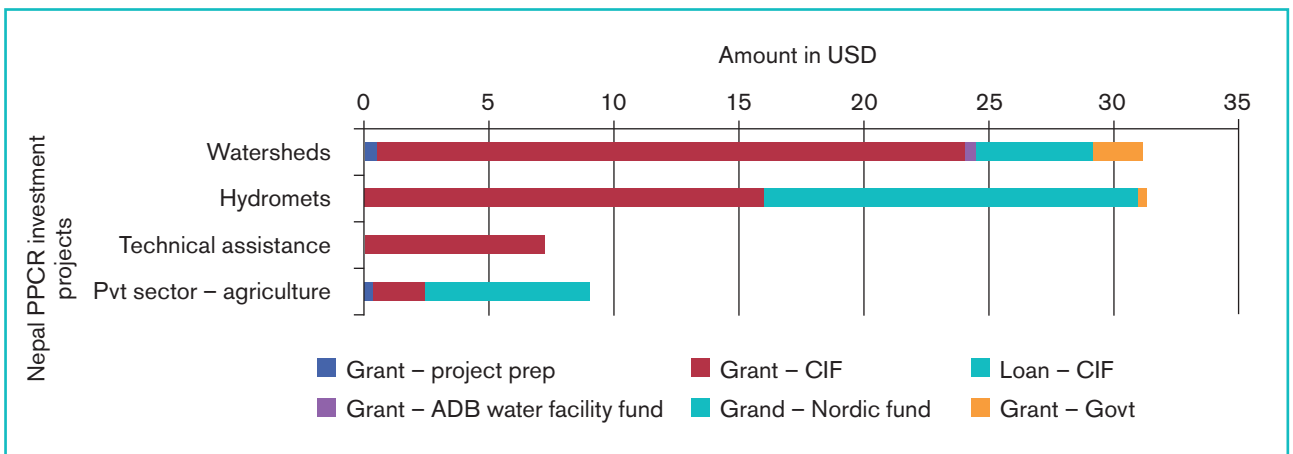
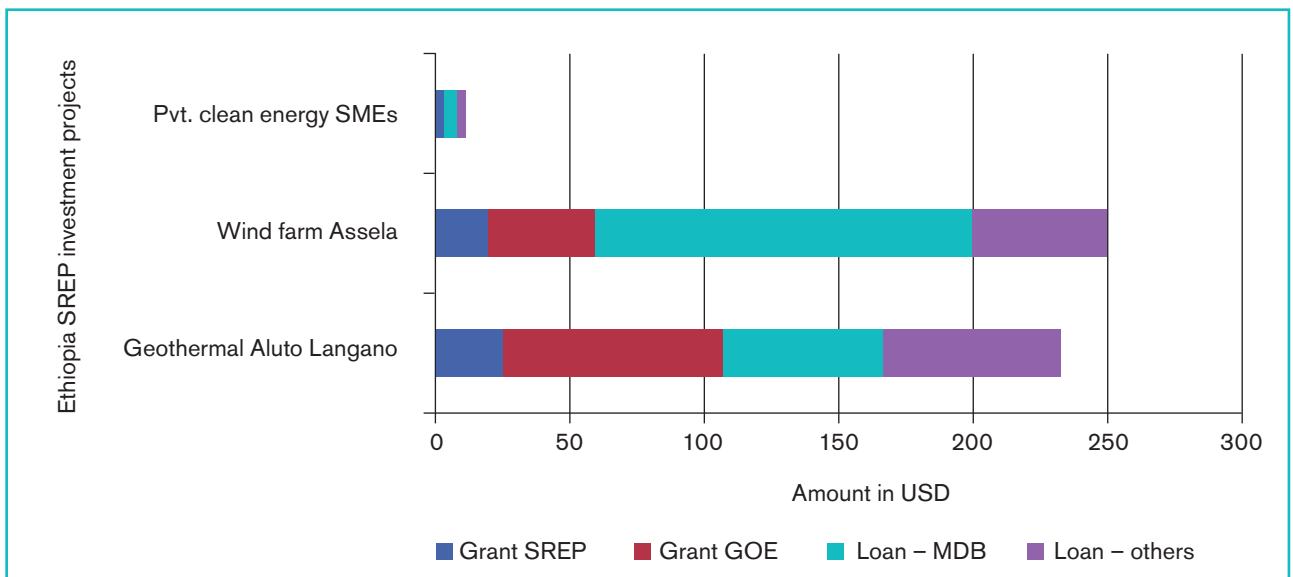


Figure 10: Financing instruments used in SREP Ethiopia



7

Networks and coalitions around narratives

In Nepal, Bangladesh and Ethiopia, various groups of actors have a shared understanding of the core objectives of CIF and how PPCR and SREP will:

- Bring transformation
- Affect development
- Catalyse the private sector
- Ensure country ownership, and
- Scale up change.

These shared narratives play a strong role in the support given to investment decisions as well as the support offered during programme implementation.

Narratives around PPCR objectives

Effective decisions about adaptation investments under the PPCR depend on stakeholders coming together around a common understanding of development pathways and PPCR objectives. Yet in the case studies, alternative views also existed that were never fully integrated or resolved, but instead remained marginalised or widely dispersed among unconnected actors. Notably, stakeholders who were not part of the consensus in the planning stage sometimes put up 'roadblocks' later during implementation.

Transformational Change

Bringing transformational change is one of the core objectives of CIFs. Transformation here is understood as shifting away from business as usual. It implies a long-term process that requires "institutional and policy changes, technological shifts, and re-orienting investment priorities...to demonstrate effects, remove barriers and develop mechanisms for replication" (ICF, 2013).

Within Bangladesh, three broad narratives define actors' interpretations of the PPCR's ability to bring transformation: those who believe it will occur by providing climate resilient **infrastructure**, those who look to **social innovation** for transformation, and those who were **sceptical** about the transformational potential of PPCR. The dominant narrative expects transformational change to result from infrastructure investments and economic growth, and is strong amongst actors who are designing and delivering PPCR in Bangladesh including the core focal ministries, MDBs and executing line departments (see Figure 11). Stakeholders who championed social innovation and inclusiveness never gained a firm foothold in the planning process. Similarly, there was widely scattered scepticism about whether PPCR could truly bring about a transformation in Bangladesh, but this had little effect on decision making. Nevertheless, even if dissenters do not sway the policy consensus, they are often in a

position to hinder the implementation of projects they disagree with.

In Nepal, a consensus grew around the importance of **long-term sustainability goals** and the need for **greater capacity** for climate adaptation in order to bring transformation. This led to investments in climate information systems and other capacity-building initiatives that will give farmers and local governments a stronger basis for making adaptation decisions over the coming decades. The PPCR pilot projects were seen as just a first step in a long-term approach. Inclusive social development was the priority in this dominant narrative, while stakeholders who called for more attention to infrastructure development, growth and employment remained on the fringe (see Figure 11).

Developmental benefits

CIFs aim to bring about significant development impacts such as reducing poverty and enhancing health and education, particularly for poor and vulnerable people. Countries have outlined how PPCR will achieve development impacts within their investment plans. Many SPCRs integrate climate vulnerability into poverty

reduction strategies, community-based adaptation and use of climate risk reduction systems for the poor, as some of the ways for achieving development impacts. But as PPCR countries move from planning to implementation, the efforts to bring development impacts are not always consistent, and various actor groups have diverse opinions on how PPCR will achieve meaningful development impacts.

In Bangladesh, the dominant narrative is that development impact is expected to be realised through following an **economic growth pathway**. MDBs, some core implementing ministries and bilateral agencies believe PPCR investments will set the country on the path to growth and will generate employment opportunities. Those not directly involved in PPCR called for more attention to achieving **social development** by investing in equity and inclusivity, but this narrative has not translated into PPCR decisions. Both social development and the growth discourse are also prevalent in Nepal. However, more ‘implementing’ government actors take the social development view than in Bangladesh, although the views are more diffused in Nepal with no clear coalition or consensus.

Figure 11: Actor narratives on how PPCR will bring transformation in Nepal and Bangladesh

BANGLADESH	Capacity in CR infrastructure	Socio economic innovation	Mainstreaming	Private sector incl.	Sceptical
Govt- core	●				
Govt- line ministry	●				
MDB	●				
Civil Society					●
Other-multilateral		●	●		
Govt-Other		●			●
Bilateral				●	●

NEPAL	Long term objectives & Sustainability	Increased Capacity	Mainstreaming	Capacity in CR infra	Sceptical
Govt- core	●	●		●	
Govt- line ministry	●	●			
MDB	●			●	
Civil Society			●		
Other-multilateral					
Govt-Other		●	●		●
Bilateral			●		

Source: Semi-structured interviews

Figure 12: Actor narratives on how PPCR will bring development impacts in Bangladesh and Nepal

BANGLADESH		Inclusive social development	Growth & employment
Govt- core			●
Govt- line ministry			●
MDB			●
Civil Society	●		
Other-multilateral	●		
Govt-Other	●		
Bilateral	●		●

NEPAL	Inclusive social development	Growth & employment	Infra development	PPCR is demonstrative only
Govt- core	●			●
Govt- line ministry	●			●
MDB		●	●	
Civil Society	●			●
Other-multilateral				●
Govt-Other	●			●
Bilateral				●

Source: Semi-structured interviews

Country ownership and alignment with national priorities

The CIFs also seek to encourage country ownership in both planning and delivery of the funds. Country ownership can be demonstrated in different ways including alignment with national priorities (plans and strategies), strength of country focal points, wider stakeholder involvement in CIF planning and delivery, and joint financing by the government (ICF, 2013). In both Bangladesh and Nepal, PPCR has been successful in aligning within national priorities, plans and strategies. However, in Bangladesh PPCR has been less effective in broader coordination and inclusion of other ministries and departments while implementing projects. Stakeholder involvement has been limited to receiving information rather than contributing to consultation on decision making. Nepal on the other hand has had a systematic participation model to assess adaptive capacity at different scales. In practice, stakeholders have different storylines around the extent to which PPCR demonstrates country ownership.

In Bangladesh the dominant narrative is that having **decision making powers in the hand of lead ministry/ies** represents country ownership, irrespective of wider stakeholder representation.

Government ownership and ‘will’ is also measured by the amount of **co-financing** the government contributes to infrastructure investments. Actors that oppose this view believe PPCR lacked wider country ownership as decision making and **negotiations were limited to a few ministries**. For these stakeholders, country ownership ought to imply **nationally set priorities and inclusion of stakeholders at many levels**, in both planning and implementation. This discourse is prominent amongst civil society organisations, other multilaterals, and government departments that are not directly involved in the PPCR.

Private sector engagement

Catalysing private sector engagement is one of the principle objectives of the CIFs. Various incentives are being put in place to encourage private sector investment in both climate adaptation and mitigation. In practice, several factors have affected the success of this strategy.

For example, in both Bangladesh and Nepal, delays arose because of differences in mandates and opinions between agricultural ministries and IFC over the role of the private sector. The PPCR asks governments to spend public funds to remove barriers

Figure 13: Actor narratives on how PPCR considers country ownership in Bangladesh and Nepal

BANGLADESH	Decision by core govt.	Negotiation by a few leaders is not country ownership	MDB led	Co-financing
Govt- core	●			
Govt- line ministry	●			
MDB	●			●
Civil Society			●	
Other-multilateral				
Govt-Other		●	●	
Bilateral		●		

NEPAL	Decision by core govt.	Negotiation by a few leaders is not country ownership	MDB led	Donor led	Nationally set priorities
Govt- core				●	●
Govt- line ministry	●				●
MDB	●				
Civil Society		●			●
Other-multilateral					
Govt-Other		●	●		●

Source: Semi-structured Interviews.

Figure 14: Actors' views on the role the private sector should have in PPCR

BANGLADESH	PS is unready	PS should lead	PS can have a negative impact	PS can have some role	PS can complement but not lead
Govt- core		●			●
Govt- line ministry					
MDB				●	
Civil Society			●		
Other-multilateral					●
Govt-Other		●	●		●
Bilateral	●				

NEPAL	PS is unready	PS should lead	PS can have a negative impact	PS can have some role	PS can complement but not lead
Govt- core		●		●	
Govt- line ministry					●
MDB		●		●	
Civil Society	●		●	●	
Other-multilateral					
Govt-Other			●		
Bilateral				●	

Source: Semi-structured interviews.

Table 6: Summary of narratives for PPCR in Bangladesh and Nepal

	BANGLADESH		NEPAL	
	CORE NARRATIVES	ALTERNATE NARRATIVES	CORE NARRATIVES	ALTERNATIVE NARRATIVES
Transformational impact	Climate resilient infrastructure investment	Sceptical about PPCRs transformational potential Social innovation	Targeting long term objectives and sustainability Increased capacity	Mainstreaming Sceptical
Development benefits	Growth and employment	Inclusive social development	Inclusive social development PPCR is just demonstrative	Infrastructure development Growth and employment
Country Ownership	Decisions by core government	Negotiation by a few leaders is not country ownership	Dispersed narratives Decisions by core government Nationally set priorities MDB led	
Private sector engagement	Private sector can take a lead	Private sector can complement govt activities but is not yet ready to lead.	Dispersed narratives: no core narrative Private sector should complement public sector Private sector has a role and can lead Private sector is unready and can have negative impacts	

to private sector investment in adaptation-related activities, but agriculture officials in both countries have been reluctant to use public funds to incentivise businesses deemed to be profit-oriented. They argue that the **private sector has few capabilities** to lead beyond marketing inputs such as seeds, fertilisers and pesticides. They also feel that **government departments have better outreach**, infrastructure and institutions down to the farmer’s level and therefore **private sector should complement but not lead**.

As a result, several governments have prioritised public investments over private investment. And even though some actors in Nepal consider the **private sector as a vehicle for change**, such discourses have been unable to translate themselves into actions. Because of these differences in opinions, the government counterpart for implementing PPCR with IFC in Bangladesh will now be the Ministry of Environment rather than the Ministry of Agriculture. Changes in mandates and roles have also delayed PPCR implementation in Bangladesh.

Narratives around SREP objectives

Stakeholders involved in planning the SREP investments coalesced into groups that shared common narratives and visions. They promote a similar pathway for transformational change and the development benefits to aim for, as well as how to engage the private sector and scale up efforts. These coalitions had the power to direct investment decisions – leaving actors with alternative ideas on the side lines.

Transformational change

In Ethiopia, the government and multilateral development banks agreed that **diversifying energy technologies** was a transformative move that would drive economic growth (Figure 15). This led decision makers to prioritise grid-based geothermal and wind energy projects. Yet within Ethiopia there were also other, less mainstream views on how to make SREP transformational. Stakeholders on the margins of the consensus argued for providing much-needed **energy in rural areas** to

bring **co-benefits for the poor** – but these ideas failed to translate into investments.

In Nepal, narratives around the pathway to transformational change were more diverse and diffused, and priorities were very different from Ethiopia's. Overall, policy makers and MDBs saw potential for SREP to transform the country to low-carbon growth, with **co-benefits** on health, education and employment, among others. The consensus focused on up scaling proven technologies such as small-scale hydropower projects to improve energy access and relieve poverty. Yet some stakeholders from bilateral and multilateral agencies argued for promoting innovative technologies such as waste-to-energy and solar-wind hybrid in Nepal. Diffused narratives translated into a mix and match of off-grid and grid-tied technologies in hydropower, solar and waste-to-energy in the investment plan. However, recent events have seen substantial changes in the implementation plan with the small hydro component now planned to be replaced with solar. In the absence of strong networks Nepal has experienced delays due to unresolved disagreements between actors.

Figure 15: Actors' views on how SREP will bring transformation in Ethiopia and Nepal

ETHIOPIA	Technology Diversification	Co-benefits	Economic growth	Carbon finance
Govt- core			●	●
Govt- line ministry	●			
MDB	●			
Private Sector		●	●	
Other-multilateral				
Govt-Other				
Bilateral	●	●		

NEPAL	Technology Diversification	Co-benefits	Economic growth	Low carbon pathway	Capacity & Mind set	Sceptical
Govt- core		●			●	●
Govt- line ministry				●		
MDB	●		●		●	
Civil Society						
Other-multilateral						
Govt-Other						
Bilateral	●					

Source: Semi-structured interviews

Development benefits

One of the key design principles for SREP was that it should “seek wider economic, social and environmental co-benefits, such as reduced local pollution, increased energy security, enterprise creation, and increased social capital, particularly greater involvement and empowerment of women and other vulnerable groups” (CIF, 2010b). All SREP countries list poverty reduction, increased energy security, and job creation as co-benefits, but the strength of these narratives differ within countries.

In Ethiopia, government, bilateral stakeholders and the private sector argue for achieving development by encouraging economic development, employment and job creation. Energy security is expected to sustain economic growth through increasing production and creating additional job opportunities. In Nepal a core group of actors from government and development partners feel development impacts will come from energy access in marginalised areas by bringing more opportunities for rural development (see Figure 16).

Figure 16: Actors’ views on how SREP will bring development benefits in Ethiopia and Nepal

ETHIOPIA	Economic Development	Job creation
Govt- core	●	
Govt- line ministry	●	
MDB		
Private Sector	●	
Other-multilateral		
Govt-Other		
Bilateral		●

NEPAL	Energy Access & Rural Dev.	Job creation	Economic dev	Poverty Reduction	Environmental Co-Benefits	Govt capacity dev
Govt- core			●	●		
Govt- line ministry	●	●				
MDB					●	●
Civil Society						
Govt-Other						
Bilateral	●					

Source: Semi-structured interviews.

Scaling up

SREP expects to scale up renewable energy by leveraging additional financing from MDBs, bilateral agencies/banks and from other public and private sources to achieve large-scale renewable energy impacts (CIF, 2010b). The narratives to scale up renewable energy are not always consistent, and various actor groups have diverse opinions on how PPCR will achieve scaling up.

For example, government stakeholders in Ethiopia argue for a localisation strategy that will scale up and

harness local capacities. Yet some stakeholders from government and MDBs support the **increase of renewable energy supply** into the national grid. MDBs and some development partners consider scaling up to mean **replicating** existing successful programmes and good practices. In Nepal, government stakeholders, development partners and the private sector generally consider scaling up will come from **up scaling existing technologies**, for example by expanding renewable technologies such as small hydro projects.

Figure 17: Actors' views on how SREP will achieve 'scaling up' in Ethiopia and Nepal

ETHIOPIA	Scale up supply	Scale up existing technology	Harness local capacity	Diversification
Govt- core	●		●	
Govt- line ministry			●	
MDB	●			
Private Sector				●
Civil Society		●		
Bilateral				

NEPAL	Scale up supply	Scale up technology	Catalyse Pvt sector	Replicate good practice	Rural energy access	Co-benefits
Govt- core		●			●	●
Govt- line ministry		●				
MDB	●		●	●		
Private sector		●				
Civil Society						
Bilateral		●				

Source: Semi-structured interviews.

Private sector development

SREP aims to create an enabling environment for private sector engagement and to leverage investments in renewables. In practice, the level of private sector engagement is not universally high in SREP projects across countries.

The private sector received a limited role in Ethiopia's plan, with less than 10% of SREP funds targeting them. (In contrast, Nepal has a 50:50 share for public and private.) The prevailing narrative in Ethiopia was that **local private firms were not up to the task** of rolling out a large renewable energy power supply for the national grid. Technologies such as geothermal and wind are novel and deemed to require huge capital and technical capacity, which the current local private sector is lacking. Government stakeholders argue that private sector should complement or support the activities of

public sector and not lead or own renewable energy production. Yet some actors have alternate views. Development partners, MDBs and the private sector argue that the **public sector doesn't provide a level playing field** to the private sector to invest in renewable industry. They believe the **public sector is reluctant** to engage the private sector on equal footing.

Some stakeholders in Nepal view the private sector as being at the centre of transformation. Development partners, donors, some government officials and private actors widely agreed that the public sector alone cannot provide the scale of investment needed to electrify the country. Yet some government stakeholders also believe that the private sector is not ready to invest in renewables, and may be best placed to support rather than lead.

Figure 18: Actors' views on how SREP will catalyse private sector

ETHIOPIA	Public sector -reluctant	PS can complement public sector	PS deterred by risk	PS role can be increased	PS SMEs can be engaged
Govt- core		●	●		
Govt- line ministry		●	●		
MDB	●			●	●
Private Sector	●				
Civil Society		●			
Bilateral	●				

NEPAL	PS can complement public sector	PS deterred by risk	PS role can be increased	PS can bring finance
Govt- core	●	●	●	●
Govt- line ministry	●	●		
MDB			●	
Civil Society				
Private sector		●	●	
Govt-Other				
Bilateral		●	●	

Source: Semi-structured interviews.

Table 7: Summary of narratives for SREP in Ethiopia and Nepal

	ETHIOPIA		NEPAL	
	Core narratives	Alternative narratives	Core narratives	Alternative narratives
Transformational impact	Technology diversification Economic growth	Development co-benefits	Dispersed narrative Transition onto a low carbon pathway, Bringing health, education and employment co-benefits Enhancing capacities as well as change in mind-sets of different actors, and Technology diversification	
Development benefits	Economic growth Employment	Energy access and rural development Poverty reduction	Energy access in marginalised areas. Job creation Health benefits Poverty reduction	Capacity building Economic development
Scaling up	Harness and build local capacities	Replicating good practices	Scale up existing technologies	Replicate good practices Scale up supply
Private sector engagement	Skepticism about capacities of private sector. Private sector not yet ready but can complement public sector	Public sector is reluctant to engage private sector	Private sector can play increased role in production as well as financing	Private sector can complement but not lead. Private sector is profit oriented and deterred by risk and lack of incentives

8

Incentives that underpin actor narratives and decisions

A wide range of incentives (see Box 3) underpin the discourses and the decisions made under SREP and PPCR. Incentives, which can include policy, economic and knowledge-based factors, can strengthen coalitions and shape national decisions on climate finance.

Dispersed narratives, on the other hand, which lack incentives or resource support, are less capable of influencing decisions.

Drivers for PPCR decisions

In Bangladesh, climate change vulnerability assessments such as evaluations of loss and damage from Cyclone Sidr in 2007 called for US\$1.2 billion to rehabilitate coastal embankments. This evidence offered a strong **knowledge** incentive to invest in infrastructure. Existing partnerships between MDBs and the line departments that would plan and manage the projects allowed the government to rationalise the use of PPCR money towards projects they had expertise in. Co-finance was available for coastal infrastructure projects already in the pipeline and requiring a funding top-up, making a strong **economic** case. Bangladesh's climate change strategy and the NAPA provided **policy** support to take these investment decisions forward (summarised in Table 8).

BOX 3. WHAT ARE INCENTIVES?

For the purpose of this research, 'incentives' are understood as policy, economic and knowledge-based incentives:

- Policy incentives refer to the existence of a policy, regulation or institutional mandate that supports discourses and decisions
- Economic incentives refer to the availability of resources, funds, technologies, capacities etc. that strengthen decisions
- Knowledge incentives refer to the availability of evidence and understanding that drives decision making.

In Nepal, decisions were guided by two high-level strategic plans, the National Adaptation Programme of Action (NAPA) and the sectoral framework for adaptation in agriculture. These plans focused on the capacity needs of agriculture, water and climate information systems which prompted the government to make their investments. Further motivation came from research on water scarcity on farms and the

Table 8: The main incentives driving PPCR priorities in Bangladesh and Nepal

PPCR	ECONOMIC INCENTIVE	POLICY INCENTIVE	KNOWLEDGE INCENTIVE
Bangladesh	<ul style="list-style-type: none"> Existing pipeline projects Technology track record in infrastructure Existing partnerships between MDBs and line departments 	<ul style="list-style-type: none"> Existing climate change policies identified investment priorities – (BCCSAP and NAPAs) 	<ul style="list-style-type: none"> Vulnerability assessments and loss and damage assessments
Nepal	<ul style="list-style-type: none"> Availability of concessional loans 	<ul style="list-style-type: none"> NAPA priority Climate Change Adaptation Framework for Agriculture 	<ul style="list-style-type: none"> Scarcity of agricultural water Need for early warning system Bridge gap between forecasting systems and farming communities

existence of poor linkages between existing forecasting systems and farming communities, offering a strong knowledge incentive. These incentives (summarised in Table 8) supported the case for investing in climate information systems.

Drivers for SREP decisions

The contrasting investment decisions made in Ethiopia and Nepal were guided by the different economic incentives the countries faced, as well as the policy goals and knowledge that each had available to them (summarised in Table 9).

Ethiopia's grid-based approach lined up with the **economic** incentive offered by available co-finance for renewable energy and **policy** incentives from national

development plans that promoted a fast-growing grid and extra energy for export. Furthermore, policymakers know that climate variability is already affecting existing energy sources (such as hydropower), so there was an additional knowledge **incentive** to diversify technologies. These incentives have jointly steered Ethiopia to invest in large-scale grid-based electricity. IFC's knowledge and existing expertise in a risk sharing facility with the International Bank of Ethiopia also encouraged IFC to replicate the model to incentivise small- and medium-sized enterprises (SMEs) in the renewables industry.

It was found that these incentives were also capable of strengthening a shared narrative and supporting actor coalitions for making decisions regarding climate finance.

Table 9: The main incentives driving SREP priorities in Ethiopia and Nepal

SREP	ECONOMIC INCENTIVE	POLICY INCENTIVE	KNOWLEDGE INCENTIVE
Ethiopia	<ul style="list-style-type: none"> Availability of co-finance Export energy Scale up supply 	<ul style="list-style-type: none"> Growth and transformation plan (GTP) Ethiopia's vision for 1 GW geothermal by 2020 (6%) Ethiopia's vision to become a middle income country – 2025 	<ul style="list-style-type: none"> Knowledge of impact of climate variability on existing energy source (hydro power).
Nepal	<ul style="list-style-type: none"> Proven technologies and existing systems in place. Energy for productive uses Commercially viable technology. 	<ul style="list-style-type: none"> Focus on energy access in rural areas – National Rural Renewable Energy Programme 	<ul style="list-style-type: none"> Knowledge and long-term experience MDB expertise in other countries

9

Interplay and implications of political economy

Our political economy analysis reflects on the actors, narratives and incentives and how these interact to generate consensus, cooperation, exclusion or competition, and consequently affecting how international climate finance is implemented nationally. Understanding these interactions can help policymakers manage expectations and stakeholder risks early on, prioritise equitable climate finance investments, and fashion a consensus from divergent ideas.

- Some actors with shared ideas and narratives form **consensus** coalitions that drive investment decisions. Incentives strengthen these coalitions.
- Alternative dispersed narratives lacking support have less influence on decisions (**exclusion**), but
- Diverging views can **compete** with the consensus and drive conflict.

Policymakers need to ask themselves:

- How equitable can we make decisions, given wider politics and relationships?
- How effectively will we be able to implement and deliver the consensus projects?
- How can we ensure a broader consensus towards a shared vision and so reduce conflicts that interfere with, constrain and delay implementation?

Investment decisions and the interplay of political economy

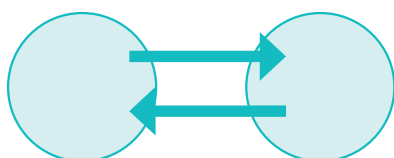
Decisions about both adaptation and low-carbon investments under the PPCR and SREP depended on political stakeholders coming together around a common understanding of development pathways and the objectives of PPCR and SREP. Coalitions of narratives, when supported by incentives, play a strong role in generating support for investment, as well as in moving from investment planning to implementation stages. However, ideas 'on the fringe' could be equally important but fail to influence decisions if they lack supportive incentives. Understanding this can help policymakers tie in incentives that help ensure investment decisions respond to all widely-held views, making climate finance more representative across stakeholder groups. Below we discuss some examples of how decisions have been enabled or constrained by the political economy they are embedded in.

Bangladesh decided to prioritise coastal infrastructure while Nepal focussed on capacity strengthening and climate information systems for farmers.

In Bangladesh, the narrative of transformational change from infrastructure investments and economic growth prevailed. Post Cyclone Sidr vulnerability assessments offered a strong knowledge incentive to support this direction. Existing technical partnerships between MDBs and implementing line departments, and available co-finance for coastal infrastructure, made a strong economic case that built consensus and cooperation (see Figure 19). Bangladesh's climate change strategy and the NAPA provided policy support to take the consensus position forward.

Although views were much more diffused in Nepal, the decision to invest in climate information systems arose from a view that long-term sustainability goals are important and that greater capacity for climate adaptation will lead to transformation. Decisions were also incentivised by two high-level strategic plans, the NAPA and Nepal's sectoral framework for adaptation in agriculture. Further knowledge incentives were provided by evidence of water scarcity on farms and of the poor linkages between existing forecasting systems and the farming community.

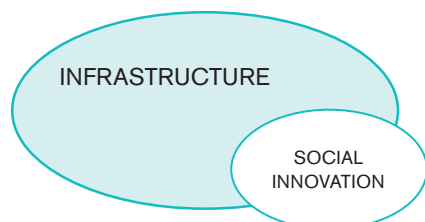
Figure 19: Consensus and cooperation



Stakeholders who championed alternative narratives on social innovation in Bangladesh never gained a firm foothold.

Even though these 'champions' came from a wide range of departments and institutions, they were not well linked through existing relationships and resources, and this lack of 'coalition' diluted their influence (see figure 20).

Figure 20: Alternative views



Ethiopia focussed on grid-based projects while Nepal focussed on energy access for rural areas

The decision to invest in grid-based geothermal and wind energy projects in Ethiopia was driven by a strong consensus narrative that diversifying energy technologies would be a transformative move that would drive economic growth. This was supported by a clear policy incentive to scale up grid based energy for growth under the country's Growth and Transformation Plan. Available co-finance from other sources as well as co-financing as a measure of good performance (within the SREP results framework) provided an economic incentive for investing in large-scale projects. Policymakers also had evidence that climate variability is already affecting existing energy supply. Actors with alternative views argued for providing much-needed energy in rural areas – but these ideas failed to influence and translate into investments.

In Nepal, narratives around SREP's pathway to transformational change were more diverse and diffused, and priorities were very different from Ethiopia's. In the SREP investment plan these diffused narratives translated into a mix and match of off-grid and grid-tied technologies in hydropower, solar and waste-to-energy. There has recently been substantial changes to the implementation plan, with the small hydro (grid-tied) component now planned to be replaced with grid-tied solar. In the absence of strong networks, unresolved disagreements between actors has delayed implementation in Nepal. However, the National Rural Renewable Energy Plan provides a strong policy incentive in steering the country towards investing in proven technologies that enhance energy access in rural areas, i.e. harnessing and expanding Nepal's existing national arrangements, which heavily focus on hydropower and biogas. There is little clarity about why this shift happened at the last minute⁵.

Ethiopia has only a limited focus on private sector engagement, whereas the public private role is more balanced in Nepal.

The private sector was assigned a limited role in Ethiopia's plan with less than 10% SREP funds targeted to the private sector. In contrast to this, Nepal has allocated 50:50 shares to public and private sector. The prevailing narrative in Ethiopia that constrained investments was that local private firms were not prepared to roll out large-scale projects in renewables. This differs to the view of a number of influential stakeholders in Nepal who consider the private sector

⁵ The shift from small hydro to solar is fairly recent in SREPs investment plan. The implementing actors are in the process of seeking approval. As the interviews for this case study were undertaken last year, in 2014 before this decision was made, the cause behind this recent shift in Nepal remains unclear.

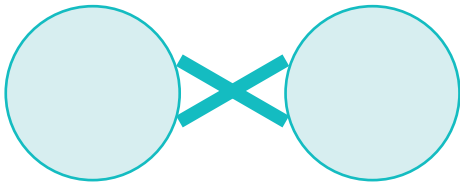
as the engine of change. However, other government stakeholders believe that private sector is not ready to invest in renewables, and may be best placed to support rather than lead.

Implementation decisions and interplay of political economy

Where alternate views existed but were never fully integrated or resolved, stakeholders sometimes erected constraints later on.

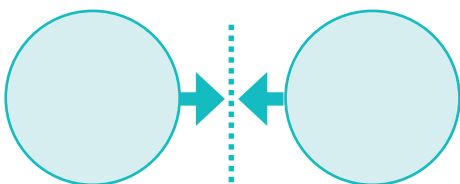
Reduced plans: In Bangladesh, there were plans to improve forests around the coastal embankments that are being repaired. But this side of the project has been cut back due to insufficient engagement, lack of a shared vision and an ongoing dispute between the implementing water development board and the forestry department (see figure 21).

Figure 21: Conflict



Perceived inequalities: In Nepal's PPCR climate information system project those dealing with agriculture see their share of the resources as much less than that allocated to meteorology. The project is meant to link farmers with an early warning system for climate variability. A large share of resources is allocated for building hydro-met infrastructure, acquiring new technologies and capacity building within the hydro metrology department, with much less development of climate resilient technologies than the agriculture ministry envisaged. Such perceived inequalities could risk undermining later implementation (see figure 22).

Figure 22: Competition



Delayed private sector component: In both Bangladesh (PPCR) and Ethiopia (SREP) the private sector component has been delayed as a direct outcome of divergent opinions between MDBs and government departments and ministries. The initial proposal in Bangladesh was for the IFC and the agriculture ministry to jointly implement the private sector component. Whilst the IFC has a specific mandate to work directly with the private sector, the ministry has been reluctant to use public funds to incentivise profit-orientated businesses, who they also deem to be lacking in capacity. Ministry staff also considers their own departments to have better outreach, infrastructure and institutions, including at the farmer level. Because of these differences in opinions and mandates, Bangladesh's PPCR has had to switch its government counterpart for implementing a private sector component with IFC to the Ministry of Environment, delaying implementation.

In Ethiopia, differences in opinion, inadequate regulatory incentives and differences in mandates between actors have delayed the implementation of the private sector component of SREP. IFC was aiming to replicate its existing good practice model of providing a risk sharing facility. The intention was to help SMEs access finance for renewables from local banks. However, changes in incentives such as a 'liquidity squeeze' for commercial banks (brought about by regulatory changes) have stalled this ambition. The IFC will not offer risk guarantees and other financial support in such circumstances. As IFC is mandated to work directly with a country's private sector and outside government ministries and financial services, the commercial banks supported by IFC are forced to compete directly with the Ethiopian state banks, which are supported by the Development Bank of Ethiopia.

These examples demonstrate how actors whose views diverge from the dominant consensus can later deter implementation even if they can't influence planning decisions.

10

Conclusions and lessons

This working paper has shared experiences of how international climate finance is governed and implemented at the country level, offering policymakers insight into how countries can build their own 'climate finance readiness' by understanding their internal political economy and using that understanding to steer consensus-based decision making on climate finance investments. We provide learnings from both national experiences of governing CIFs as well as broader learnings from the political economy analysis.

Lessons from CIF governance processes at the national level

From national institutionalisation and governance of CIFs

- **Country ownership could go beyond the involvement of a few lead national actors:**

National ownership is strongly evident from the role of core and implementing ministries in decision making in all three case countries; and, in Bangladesh and Nepal, from the availability of government co-finance. But leadership by a few dominant players may inadvertently exclude wider interests. Inadequate multi-stakeholder representation in national dialogues could constrain a national vision for climate resilience. Achieving broader country ownership may require taking such dialogues beyond information dissemination exercises to enter into dialogue and gather input as well.

- **Seeking investment proposals from those at the decision making fringe:** Our analysis shows that line ministries and departments that were previously involved in implementing climate-related programmes are the main recipients of CIFs resources. While an established network between line departments and MDB counterparts helps minimise costs and allows financial leveraging, and topping up existing pipelines may make economic sense, integrating climate resilience into other sectoral ministries is also important in order to steer transformational change. This may require creating incentives and avenues to integrate alternative views by providing resource and policy support to ministries such as health and social welfare as well as to sub-national and civil society actors as proposals are developed.
- **Institutional coordination and consensus is the core of effective implementation:** Investment plans have not always been successful in catalysing good coordination within government and between government and MDBs. This has hindered implementation and allowed conflict and competition to persist. Common understanding about interests and incentives can help with good coordination that is crucial for ensuring effective implementation.

Investment plans

- Flexible planning cycles customised to country readiness makes sense. **However, some preparatory element is vital** to:
 - (a) Define and divide roles and responsibilities for co-ordinated delivery of climate actions, and
 - (b) Manage expectations, remove information asymmetries and establish a process of extended dialogue that will ensure the stakeholder interest needed for uninterrupted programme delivery. The extent of planning required (whether detailed or basic) should be a country's own decision.
- **Opportunities can be sought for choosing transformational projects.** CIF programmes in some cases have incentivised 'business as usual' investments instead of achieving transformational investments. For example, although there is an undeniable need for infrastructure investment in Bangladesh, such investments could have been complemented with socially innovative projects. Perverse incentives that support short-termism should also be removed. For example using co-financing as a measure of good performance can discourage decision makers from selecting projects that are unlikely to attract co-finance or demonstrate results in the short-term future.
- **Identify ways to address private sector engagement challenges.** Private sector components have struggled to take off, sometimes because of lack of public sector support and the inflexible institutional mandates of implementing MDBs. Countries need to prepare more thoroughly to design better private sector initiatives. This may require increasing awareness of programme ambition among both public and private sectors before leaping into investment decisions. Clarity around which part of the private sector is being targeted (local, international, small or large) and precisely how it could invest, would provide reassurance to all parties, and potentially encourage more focused actions. International financial intermediaries could be mandated to work in coordination with governments, rather than alongside them, especially in 'developmental state' economies where the private sector is deeply regulated by government. This may mean tailoring leadership depending on the level of state involvement and the readiness of national financial intermediaries. Where state institutions are 'ready', funds may be channelled through financial institutions such as national development banks.

Lessons from analysing the political economy

Our political economy analysis show how like-minded coalitions support symbiotic decision making, while alternative coalitions with limited resources and dispersed knowledge are pushed to the margins. Divergent coalitions compete for power and hinder action.

- Actors with shared ideas form coalitions that support investment decisions
- Incentives – economic rewards, policy goals and compelling evidence – can strengthen these decision-making coalitions
- Dispersed stories and incentives are less able to influence decisions
- Nevertheless, stakeholders with divergent views can hamper action.

Understanding the political economy of climate finance decisions will help national policymakers drive consensus decisions that can be implemented efficiently and effectively without later encountering obstacles erected by stakeholders' divergent opinions.

A deeper understanding of the political economy can also help ensure investment decisions respond to all widely-held views, making climate finance more representative across stakeholder groups.

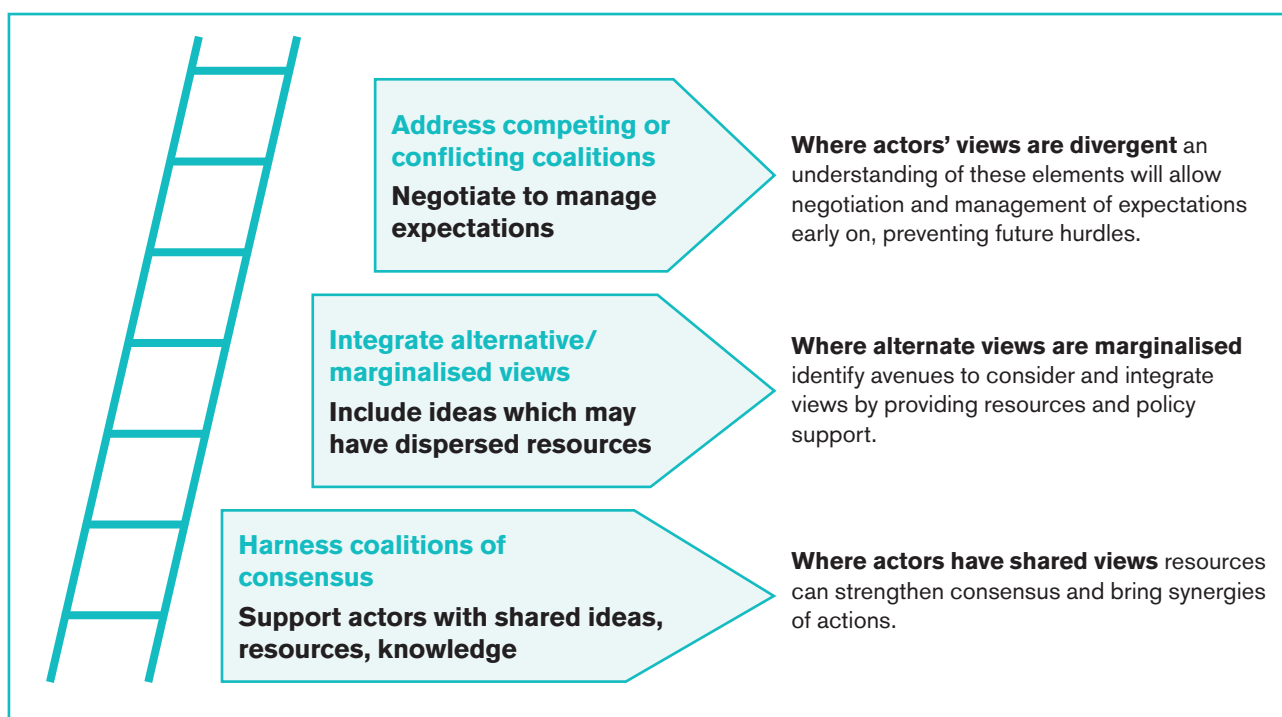
Governments can learn to use political economy thinking in different contexts, such as harnessing strong coalitions, identifying ways to integrate marginalised views, and negotiating and managing expectations of those who may otherwise disrupt programme implementation (see figure 23).

The proliferation of climate finance initiatives over the past decade has led to changes in incentives and governance structures within recipient countries, making such an understanding particularly timely, not least because the Green Climate Fund (GCF) will become operational later this year.

The case studies and lessons learnt suggest the following guidelines that offer lessons for country governments and climate finance initiatives such as the GCF.

- **Consider the context of narratives and incentives.** Each proposal for climate-resilient development will have proponents and dissenters driven by the ideologies, incentives and resources in play. To steer towards a broadly supported consensus and avoid time-consuming disputes, governments and development partners will need to be bold and find pathways to successfully navigate the political economy at hand, often by reshaping incentives. Governments and development partners can make more effective policies by actively seeking out and integrating more diverse views.
- **Be purposeful with the process: adequate attention should be given to the sequence of decisions and who is represented in the policy process.** Ensuring that line ministries are engaged in decisions that directly affect them will increase ownership and cooperation during implementation.
- **Recognise patterns of coalitions (competitive or cooperative) and dissent.** Where actors share a vision, channelling resources in that direction can generate synergistic actions. If an alternative view exists at the margins, seek policy or economic incentives for integrating it into the consensus. Look for dissent that may pose obstacles down the line in order to negotiate and manage expectations (see figure 23).

Figure 23: How to harness the political economy using a consensus ladder



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Appendix 1: Investment projects of Bangladesh, Nepal and Ethiopia in PPCR and SREP

PPCR investment choices in Bangladesh

The Government of Bangladesh (GoB) chose SPCR priority projects from amongst the 44 priority themes detailed in the BCCSAP and NAPA. It focused predominantly in coastal zones and prioritised three investment projects and two technical assistance projects in its SPCR.

This programmatic approach addresses the strategic needs of Bangladesh's extremely vulnerable coastal belt. A joint agreement with the World Bank will help rebuild embankments while ADB will help improve infrastructure within embankment areas. Investment decisions considered institutions' comparative advantages and track records in such investments. A strong focus on infrastructure-type investments over softer investments (such as capacity building or mainstreaming) is also evident. But Bangladesh had already initiated capacity strengthening via the BCSSAP.

1. Promoting climate resilient agriculture and food security (MDB: IFC)

The project aims to catalyse private sector involvement in adaptive agriculture scaling up climate resilient varieties of rice and crops, providing efficient irrigation systems and developing early warning systems for farming communities. The focus is on 12 coastal polder areas with US\$3 million for technical assistance and US\$10 million in concessional loans. The project's main drivers were:

- Coastal area vulnerability to climate change impacts, such as saline intrusion
- Agriculture and food security is one of the main thematic priorities under Bangladesh's climate change strategy
- The MDB partner, IFC, has a strong track record of investing in agriculture projects as well as working experience with the private seed companies and NGOs (for example, BRAC – Bangladesh Rural Advancement Committee)

The programme seeks to provide:

- Advice for farmers and the private sector
- Capacity building for banks on better agricultural lending within climate contexts
- Capacity building for farmers on producing improved seed varieties as well as on basic business literacy

- An evaluation of market potential for low cost climate resilient housing in the polder areas.

Based on extensive stakeholder consultation, IFC decided to focus on one major food staple (rice) and a few commercial crops (sunflower, oil and pulses) in the 12 coastal polder regions. The project tries to strike a balance between providing incentives to the private sector to invest in commercial crops as well as ensuring food security. The programme was originally meant to be implemented in partnership with the Ministry of Agriculture's Department of Agricultural Extension (DAE) and the Bangladesh Meteorological Department. However, due to ideological differences on private sector engagement in agriculture sector, the programme is now being implemented through the environment ministry. There were two main reasons for the fall out:

- IFC has a mandate to deliver its project directly through the private sector. Bangladesh's public sector on the other hand is unenthusiastic about expenditures incurred to incentivise the private sector, particularly in agriculture. The Ministry of Agriculture feels that its own channels through Department of Agriculture extension can do this so they shouldn't need private sector to channel services directly to the farmers.
- There is also adversarial feeling between public and private sector. For example, public sector barriers deter private investment in new and risky areas such as climate resilient agriculture (Rai, 2013a). Any new seed variety (e.g. saline resistant varieties) must be released by the public sector. So the private sector overwhelmingly relies on the government for developing new seed varieties and there are very few private research and development laboratories. This restricts private sector direct access to new varieties and limits their role to supplying, not developing, agricultural inputs.

As the project moves from planning to implementation, greater alignment is needed between support for the private sector and ongoing government work. Greater interaction is needed with government to ensure better outreach and replication of technology on the ground. The Department of Agriculture has strong infrastructure, institutions and resources reaching down to the farmer level. Without their involvement, delivery of this project may not be sustained.

2: Coastal Embankments Improvement and Afforestation (MDB: World Bank)

The Coastal Embankments Improvement Project (CEIP) is a blended programme with US\$ 25 million financing from CIFs and co-financing from IDA credit worth US\$300 million. This project seeks to respond to the extensive coastal flooding during the annual monsoon and use coastal water management infrastructure to protect the local people and environment. This large-scale project will be implemented in phases covering following main components:

1. Rehabilitate climate resilient embankments through climate proofing of polders.
2. Rehabilitate or build water management related structures within polders.
3. Finance coastal afforestation alongside embankments to ensure longevity and greater protection. The project has a social forestry component, with 5 million USD funding from the PPCR focusing on indigenous species.
4. Implementation of a social and environmental framework plan. This includes re-settling people near polders.
5. Monitoring and evaluation systems to monitor the project, particularly sea level rise.
6. A participatory monitoring system where NGOs and local authorities will be involved to implement the social forestry and the monitoring component of the project.

The MDB partner is the World Bank. Most components are being implemented by the Bangladesh Water Development Board coastal embankment unit. The MoEF's Forest Department was meant to implement a forestry component, but this has been reduced. Initially, the plan was to plant one hectare of forest across all polders but a review by BWDB revealed how, during cyclone surges, big trees get uprooted and further damage the polder infrastructure. Inadequate coordination between BWDB and the Forest Department in early stages has also hindered this component. Because most of the land belongs to Forest Department, negotiations have proven to be difficult. Poor coordination between line departments is recognised as constraint across many CIF programmes (ICF, 2014).

Primary drivers for prioritising CEIP within the investment plan:

- **Broad nation-wide decision to address coastal vulnerability** Government decided to prioritise the coastal areas, which needed US\$1.2 billion of rehabilitation after Cyclone Sidr.
- **Available co-financing** After Cyclone Sidr, the World Bank designed a US\$ 300 million multi-phase project to rehabilitate embankments along the coast. PPCR funds were to be integrated as co-financing within this pipeline programme. Bangladesh has been investing in coastal embankments for many decades, but a study revealed that the height of the embankments will need to be increased significantly to protect the inland community from climate induced tidal inundation. The Coastal Embankment Improvement Project seeks to make regular development climate-resilient development.
- **Comparative advantage and experience of MDB and government counterparts in coastal infrastructure development** The prioritisation and project selection process evaluated the comparative advantages of institutions working in the coastal sector, what projects already existed under which ministries, and different ministries experiences and expertise in project implementation.

3: Coastal Climate Resilient Water Supply Sanitation and Infrastructure Improvement (MDB: ADB)

This investment component seeks to 'climate proof' existing infrastructure, or build new climate-resilient infrastructure. There are two investment components.

The first is a 'Coastal Climate Resilient Infrastructure Project' that seeks to build resilience for coastal roads, jetties, schools and urban drainage systems. The PPCR fund is US\$30 million (US\$20 million loan, US\$10 million grant) while rest is leveraged from other sources. For example, KfW (Kreditanstalt für Wiederaufbau) is supporting US\$8 million of grants for the coastal green project; the Government of Bangladesh has contributed US\$31 million in grants, of which US\$16 million is for restoring the livelihoods of coastal fishing communities and the remainder is credit support by the ADB. Municipal governments, the Local Government Engineering Department and the Department of Public Health and Engineering (DPHE) will execute the project. Capacity building is embedded in all project components.

The second investment component, the 'Coastal Town Infrastructure Project', seeks to provide basic services such as water supply and sanitation, and to restore livelihoods in coastal towns. The US\$117 million required is funded by PPCR (US\$10 m credit and US\$20 m grant), by the Government of Bangladesh (US\$23.2 m), and through grant support from Bill and Melinda Gates foundation (US\$1.5 m grant) and credit support from ADB (US\$52 m).

Concerns around prioritised investment projects (see details in Box 4)

- **Decision making:** Although various actors were engaged in PPCR planning consultations, investment planning is largely carried out by key focal ministries (finance and environment), implementing MDBs (ADB, WB and IFC) and their government counterparts (LGED, BWDB).

Yet many others have influential roles to play in climate-resilient development within Bangladesh. Actors such as other government departments (disaster management, planning ministry, agriculture ministry); other multilaterals (UNDP) and civil society have concerns about investment planning but are not directly involved in shaping PPCR implementation.

- **Infrastructure investment vs. social innovation:** Bangladesh undoubtedly requires enormous investment in coastal infrastructure. However, some stakeholders, including the non-implementing arm of the environment ministry, the disaster management ministry and UNDP, consider strengthening old infrastructure a 'business as usual' solution. PPCR is a pilot project and the prioritisation process could have complemented such measures with innovative ideas in disaster risk reduction, climate smart agriculture technology development, community-based adaptation, social protection or measures to mitigate population displacement. The SPCR could have also focused on innovative and transformational pilots that can be scaled-up to add value to the existing activities.
- **Developmental impacts:** Coastal projects could be better targeted to benefit the most vulnerable. For example, they could target coastal populations living beyond embankments, as these populations remain unprotected from cyclones.

PPRC investment choices in Nepal

Nepal has chosen a multi-sectoral (water, food security, and ecosystem balance) approach in prioritising and implementing PPCR. In the design stage, Nepal tried to align PPCR with the NAPA formulation process, using the same thematic working groups to work on planning and prioritising components. Some people debated the necessity of a completely new programme and it was decided to create the SPCR by incorporating NAPA objectives and adding additional aspects such as a private sector component.

After a series of negotiations the SPCR outlined five investment projects to be supported. The PPCR sub-committee agreed to these projects in principle in June 2011 and all four investment projects and one technical assistance project are now in various stages of development (GoN, 2012).

1: Building Climate Resilience of Watersheds in Mountain Eco- Regions (MDB: ADB)

The first investment project aims to make vulnerable freshwater resources in mountain eco-regions more resilient to climate change in order to improve agricultural productivity. NAPA has partly directed this need to protect watersheds and water resources. The implementing MDB is the ADB and the government counterpart is Department of Soil Conservation and Water Management (DSCWM). The project has four components:

- Participatory planning for watershed management
- Implementing watershed management plans in priority watersheds
- Using water more productively
- Incorporating lessons on improving access and reliability of water resources in vulnerable mountain regions into country programmes.

2: Building Resilience to Climate-Related Hazards (MDB: World Bank)

The second investment project aims to build community resilience to climate related hazards by supporting early warning systems and weather forecasting for improved farming practices. The programme will also establish climate risk insurance mechanisms for the agricultural community. The project is being implemented by the World Bank and Nepal's Department of Hydrology and Meteorology (within MOSTE, the Ministry of Science, Technology and Environment) and the Ministry of

Agricultural Development (MoAD). The project has four parts:

- Institutional strengthening, capacity building and implementation support for the Department of Hydrology and Meteorology (DHM)
- Modernisation of observation networks and early warning systems
- Enhancing the DHM's service delivery system, and
- Creating an agriculture management information system (AMIS).

DHM is responsible for the first three parts and MoAD is responsible for the fourth. Both the early warning system and AMIS were NAPA priorities. Nepal lacks hydro metrological stations for real time hydrometric data. Construction and modernisation of hydro metrological stations was therefore prioritised by all ministries. Early warning systems were also seen as an easy option that could be funded through available concessional loans.

In the past, farmers have not used DHM services to support their agriculture decisions. Thus, the Ministry of Agricultural Development has been tasked with filling this gap through AMIS. AMIS will provide agriculture related information such as weather, climate data, agriculture technologies etc. to stakeholders, including planners and scientists, through a media portal. A subsequent task will be to provide agro-advisory services to farmers, based on weather forecasts.

Despite being a policy priority, the project has generated inter-departmental discontent because of the way projects have received priority during the implementation stages. Around US\$25 million is allocated for building hydro- metrological infrastructure, acquiring new technologies and capacity building within DHM, while US\$1.2 million is allocated for capacity building by MoAD. Both Nepal's National Agriculture and Research Centre (NARC) and MoAD view that as an unequal allocation. The project now focuses on disseminating information to farmers by linking them into early warning systems, with much less of the development of climate-resilient technologies that MoAD had envisaged.

Technical assistance: Mainstreaming Climate Change Risk Management in Development (MDB partner: ADB)

The technical assistance project offers support to integrate climate change risk management into planning and practices. It also supports work to develop and apply knowledge management tools in response to climate change. The programme has developed a training package on community-based assessments of climate change vulnerability. The programme will also document traditional and indigenous adaptation practices in Nepal. This technical assistance is being

BOX 4: IMPLICATIONS OF PPCR DECISIONS: SUMMARY OF KEY MESSAGES

Flexible programme cycles: The process of SPCR development is flexible and customised to country readiness. Both Nepal and Bangladesh had well-pronounced climate change priorities through its NAPA and climate change strategies which allowed Bangladesh to leapfrog phase 1. Some preparatory element is although vital to: (a) define and divide roles and responsibilities for co-ordinated delivery of climate actions; and (b) manage expectations, remove information asymmetries and establish a process of extended dialogue to ensure stakeholder interest for uninterrupted programme delivery. The extent of planning required (whether detailed or basic) should be country's own decision.

Programmatic investment planning:

Programmatic investment planning is an innovation within CIFs. Bangladesh's plan focussed on programmatic geographic investments in the coastal areas of the country. Nepal on the other hand has prioritised agriculture priorities in its programmatic sector planning. Although both defined 'programmatic' differently, programmatic proposals are uniformly translated into projects with capacity building and mainstreaming support.

Decisions in Investment planning: Planning consultations are although inclusive; investment planning decisions are strongly driven by a group of core focal ministries, multilateral development banks and their traditional government country parts. Bangladesh prioritised coastal infrastructure because of available co-financing from pipelines (given the enormous scale of finance required and PPCR funds were relatively small), existing partnerships and investment experience of MDBs and line departments in coastal infrastructure development.

Transformational projects: PPCR seeks to achieve transformational shift through climate responsive investments. Across the PPCR countries some projects may be clearly transformational while others lack the sense of transformation. Investment in age old infrastructure in Bangladesh lack the spirit of transformation, although the large scale requirement of infrastructure investment in coastal areas is undeniable, some consider it no more than business as usual development. Stakeholders feel PPCR as a pilot programme could have been more bold and innovative by complementing infrastructure investment with socially innovative projects.

Private sector investment challenges: PPCR seeks to catalyse private sector in climate adaptation activities. Public finance is used to remove barriers to private sector investment. In Both Bangladesh and Nepal, this component has struggled in effective delivery. While IFC has mandate to deliver projects directly through the private sector, government stakeholders are less positive about public expenditure incurred to incentivise the private sector in the agriculture sector. Capacities of private sector are also weak in both countries, often limited to agricultural input marketing. Government departments have better outreach, infrastructure, and institutions down to the farmer's level. Inadequate coordination between government counterparts, IFC and the private sector could hinder effective delivery as countries move towards implementation in these countries. There is also an adversarial role between public and private sector. For example, in agriculture, public sector barriers deter private investment in new and risky areas such as climate resilient agriculture (Rai, 2013b).

Moving from planning to implementation:

Inter-government coordination: as countries move from planning to implementation, coordination between executing departments will be crucial in effective delivery of PPCR. In Bangladesh, PPCR has not entirely managed to achieve inter departmental cooperation. The forestry component within the coastal embankment project has been reduced because of insufficient cooperation between water development board and forestry department (who are the primary owners of land around embankments). Unequal allocation of resources between the hydro met component (DHM) and the agriculture dissemination component (NARC and agriculture ministry) during the implementation phase has also caused discontent amongst the agriculture departments in Nepal who were seeking for more concrete investment in climate resilient agriculture technologies.

implemented by the ADB and MOSTE. In addition, this project is working to build coordination among various other climate change projects. Nepal's Climate Change Project Coordination Committee is the result.

3: Building Climate Resilient Communities Through Private Sector Participation (MDB: IFC)

Private sector involvement was not a priority in Nepal's NAPA, and has been added into the SPCR. This project aims to address market barriers that discourage private sector and local financial institutions from investing in climate change adaptation actions and products. It seeks private collaboration in climate resilient agriculture, hydropower and low-cost climate-resilient housing. By May 2013, four lead firms for agri-business had been selected and a MoU signed to provide extension services to farmers. The project has three main parts:

- Public and private sector collaboration that enhances food security through promoting climate resilient agriculture
- 'Climate proofing' selected vulnerable infrastructure, such as private hydropower stations, and
- A feasibility study for low-cost climate-resilient housing.

Although decision makers agreed on the importance of the private sector in addressing climate change and the need to build its capacities to help build a climate-resilient environment, there seems to be confusion on what exactly the private sector's role will be and how business will be incentivised in low-profit adaptation projects.

As in Bangladesh, the IFC directly implements the private sector component of the SPCR in collaboration with agriculture businesses. There is little coordination with agriculture departments and ministries, raising concerns around the project's effective delivery. The Government has strong on the ground experience, and the disconnect between the government and the IFC/private sector may be a significant missed opportunity.

4: Enhancing Climate Resilience of Endangered Species (MDB: World Bank)

The last investment project aims to address the risks climate change poses to endangered wildlife. Nepal's NAPA has prioritised forest and biodiversity issues and this investment project is intended to address those priorities. It was not on the original list of PPCR priorities but was included after much debate. The project is being led by Nepal's Ministry of Forest and

Soil Conservation and the implementing bank is the World Bank.

SREP investment choices in Ethiopia

A significant part of Ethiopia's population is rural, has limited grid-based electricity and depends on agriculture. SREP has approved US\$50 million (96 per cent grant and 4 per cent loan) for three renewable energy projects: geothermal, wind and a clean energy SME facility. The investments seek to accelerate electrification within the country by scaling up available sources of renewable energy. A key process during the planning stage, developed by national stakeholders and the MDBs, was establishing screening criteria for potential SREP projects (GoE, 2011):

- Strategic relevance (i.e. to Ethiopia's Growth and Transformation Plan and Climate Resilient Green Economy commitment)
- Gender equality promotion
- Beneficial environmental impact
- Potential to scale-up
- Cost effectiveness
- Potential for new direct beneficiaries, and
- Implementation readiness.

The first draft of the Investment Plan identified eight possible activities. Whilst all were aligned with SREP's programming guidelines, the number had to be reduced to minimise transaction costs; in other words, to finance a small number of projects with significant scale-up potential, rather than many small projects (GoE, 2011). Since Ethiopia does not have a central renewable energy policy, further selection criteria had to be developed.

1: The Aluto Langano Geothermal project (MDB: AfDB)

Conventionally, Ethiopia has relied strongly on hydropower, but climate variability's impact on hydropower reveals a strong need to diversify. The Aluto Langano Geothermal project seeks to scale up a pilot from 7MW to 75MW energy output, as part of the country's ambition to produce up to 1 GW energy from geothermal by 2030 (IRENA, 2014). By investing in geothermal, Ethiopia seeks to connect additional power to the national grid and potentially export a surplus to neighbouring countries.

SREP funds are being used to expand the project activities and leverage additional finance. Around 26 million US\$ of SREP funds will be supplemented with co-finance from the Government of Ethiopia and partnering MDBs. The Ministry of Mines (MoM) is executing the project in partnership with the AfDB. The Iceland development agency and Japanese government are providing technical consultancy support. The project intends to:

- Explore, drill and build capacity for construction of 75 MW of geothermal electricity
- Develop a long-term strategy for exploiting geothermal resources in Ethiopia
- Exhibit commercial and technical viability of geothermal technology in the country to scale up future investments, and
- Develop investable projects in geothermal to achieve Ethiopia's vision for 1 GW geothermal by 2030 (CIF, 2012b, IRENA, 2014).

2: Assela Wind Farm (MDB: World Bank)

The Assela Wind Farm aims to generate 100 MW of energy. The project was selected to complement an existing hydropower system and to support stable supply during months when hydropower is unpredictable. Ethiopia could generate up to 100 GW of wind power. However the technology is yet to be established. SREP financing intends the Assela project to serve as a proving ground for future investments by establishing efficacy and affordability within Ethiopia. The project is being implemented by EEPCo in partnership with the World Bank. The funds will invest in:

- 100 MW of wind generation capacity
- Local capacities and manufacturing, which will help reduced technology costs in the country.

The seed money of \$50 million from SREP is expected to receive co-finance worth \$230 million from the Ethiopian government and other MDBs.

The ambitious SREP plan to scale up renewable energy from wind and geothermal is strongly driven by the national Growth and Transformation Plan (GTP), which seeks to achieve middle-income country status by 2025.

3: The SME Risk Mitigation facility (MDB: IFC)

SREP Ethiopia's private sector engagement comes through the Clean Energy SME Capacity Building and Investment Facility, a US\$4 million project to support greater energy access and develop the off-grid renewable market. The programme has two distinct aspects:

- It intends to build market players' capacity through a technical assistance component that aims to 'skill up' women-run SMEs and to remove barriers for suppliers of clean energy products such as home-based cook stoves, mini grids or solar home systems. Funds will also support banks to develop their capacity for assessing the risks of investing in SMEs.
- A financial component funds risk-sharing agreements with local banks to encourage 'risky renewables lending', particularly for new manufacturing facilities and SMEs. Risk sharing will encourage local private banks to provide loans to local SMEs in the renewable energy sector. Financial support is expected to be directed towards SMEs that invest in improved cook stoves, solar home systems and lighting devices.

IFC has an existing risk-sharing facility with NIB International Bank of Ethiopia to help coffee cooperatives and SMEs access finance. The risk-sharing agreements have been successful in unlocking finance for farmers and also incentivising private banks to learn and engage with SMEs. Through the SREP component, IFC was aiming to replicate the existing good practice model with NIB and two other banks.

However, local financial banks are experiencing a 'liquidity squeeze' in the market because of interest rate changes brought about by regulatory changes, and in such circumstances the IFC cannot offer risk guarantees and other financial support.

Also, the IFC is mandated to work directly with a country's private sector, where it plays a key role in enabling a catalytic environment and ensures strong fiduciary standards in countries where public sector intermediaries are not yet ready to directly engage. But in developing economies the National Development Bank may play a key role in dealing with state as well as private companies (IFC, 2014, IFC, 2013). In Ethiopia, the IFC's mandate to work outside government ministries and financial services forces it to compete

directly with the Ethiopian state banks. The overarching authority of DBE and its relatively secure financial position gives it a significant advantage. In this context, it is worth asking if an institution with a mandate to work with the government, rather than alongside it, would be more appropriate. Furthermore, although the IFC aims to nurture private sector engagement in novel and risky areas, the institution also seeks to achieve viability from investment, and the Ethiopian experience demonstrates its unwillingness to step into uncertain financial situations.

Other investments

The second tier of SREP includes projects that will be implemented by funds from SREP's reserve fund. In October 2012, the CIF Forum decided to allocate the reserve fund for private sector engagement. Ethiopia has allocated US\$19.5 million for programmes to develop the Tendaho geothermal field and expand and rehabilitate the Sor small hydropower plant.

Primary drivers for grid-based investments in Ethiopia

- **Policy ambition:** The Growth and Transformation Plan (GTP) laid out ambitious policy objectives to meet the growing demand for energy in the country through sufficient and reliable power supply that meets international standards. The GTP has plans to continue construction of hydroelectric power plants and deploy other renewable energy generation projects, expanding, strengthening and modernising the existing transmission and distribution lines to provide improved access to rural villages all over the country and to reduce power losses to international benchmark levels (MoFED, 2009).
- **Export energy:** GTP also lays out Ethiopia's ambition to export clean energy to neighbouring countries (MoFED, 2009, MoWE, 2011).
- **Diversify energy mix:** Diversifying the energy mix, which thus far has predominantly been hydro-power, is another key objective of SREPs Investment Plan (GoE, 2013).

In summary, it was fundamental that the planning of SREP operations in Ethiopia dovetailed with the existing development aspirations and brought together the disparate strategic objectives, priorities and vision for development of renewables contained in various documents (GoE, 2011).

Concerns around decisions

- **Scale up of energy for export:** This notion of exporting energy is reiterated several times throughout the SREP Investment Plan. Whilst this objective is in keeping with the pre-existing policy framework in Ethiopia, development partners (Switzerland) raised concerns that SREP resources must primarily enhance domestic development through energy access and security, and that electricity export fails to genuinely enhance growth within Ethiopia. At the SREP sub-committee meeting in May 2012, Ethiopia defended the proposed export, stating that SREP funds will be for diversification of energy in the country and power generated with SREP funding will be used locally. Ethiopia insisted it had identified its overall electricity demand growth, which it based on the electricity demand growth of its domestic and export markets. Correspondingly, it had prepared its generation expansion programme to meet expected electricity demand.
- **Large-scale infrastructure and poverty reduction:** Development partners further contended that the focus on the large-scale Aluto Langanjo Geothermal and Assela Wind Power projects did not directly address poverty alleviation or adequately involve the private sector (Switzerland, 2012). The Government of Ethiopia contended that the Investment Plan did indeed comply with the principles, objectives and criteria as specified in the design documents and programming modalities (GoE, 2013).
- **Co-financing from projects:** SREP investments are intended to leverage financing from other sources at the ratio of 1:4. Leveraging is often used interchangeably with co-financing in SREP decisions. But leveraging implies catalysing new money whereas co-finance implies already committed funds from non-CIF sources. Ethiopia expects to raise around US\$450 million in co-financing for the country within its large-scale infrastructure investments such as wind and geothermal. This ability to raise co-finance or committed money has encouraged investments in large-scale wind and geothermal infrastructure. In terms of leveraging finance from private sector, only 10 per cent of funds across all SREP countries is likely to come from the private sector (ICF, 2013). Ethiopia in fact doesn't expect any finance to be leveraged from private sector.

SREP investment choices in Nepal

SREPs investment plans across countries have focussed on grid-based renewable energy supply, with the exception of Nepal, which has ambitions for energy access projects. Nepal received US\$40 million to invest in scaling up renewables within the country. The country's SREP investment programme seeks to combine investment projects and capacity building by:

- Leveraging additional finance from development partners and the private sector
- Making private lending through commercial banks for renewable energy products a mainstream expectation
- Scaling up small hydro projects
- Bringing co-benefits such as reduced emissions, productive use of energy, and empowerment of women, children and vulnerable communities, and
- Establishing a single mechanism through a Central Renewable Energy fund (CREF) to channel credit, subsidies and technical assistance for renewables and to help AEPC become the single agency for projects up to 10MW in the country.

The Nepal SREP investment plan intends to fund four different energy technologies: small hydropower, mini/micro-hydropower, solar PV and extended biogas (CIF 2011). In making this decision, the government had to balance the objectives of several key stakeholder groups:

- The manufacturers of micro/mini hydro, solar and biogas energy wanted SREP support for projects using their power sources.
- The banks had an interest in gaining more resources and creditworthiness, and were generally leaning towards grid-based projects that have more proven commercially viable than remote off-grid projects in rural areas.
- The Government wanted to incorporate SREP into its overall renewable energy planning and to adopt a new renewable energy policy and its own support programme (Peoples Hydropower, PHP).
- The Nepal Electricity Authority (NEA) was mostly concerned about grid stability and the rising electricity demand. It preferred larger, grid-based renewable energy systems.

The government and the MDB-joint mission tried, and to a large degree succeeded, in balancing these different objectives and interests in the following investment projects.

1: Small hydropower private sector component (MDB: ADB and IFC)

ADB and IFC are jointly implementing Nepal's SREP small hydropower component, which aims to create an enabling environment for the private sector to invest in grid-connected small hydro. US\$20 million will be used to provide financing and advisory services to develop and test commercially viable small hydropower projects. The project will build capacities of local banks and demonstrate a viable investment environment for the private sector to invest in renewable technologies. The programme expects to leverage around US\$93.4 million in additional financing from private sector and other partners, once the private sector is mobilised to invest in the renewables sector. The programme is directly implemented by the MDBs and the private commercial banks. The project is expected to boost the grid capacity by 50 MW. Rather than provide direct subsidies, the programme will provide subsidised, long tenure loans to commercial banks, which will then lend on to commercial hydropower developers. Loans are preferred to direct subsidies as they encourage financial services to adopt good practices for risk management and lending to future projects.

Technical assistance and guarantees will be agreed with lending institutions, with the addition of foreign exchange risk support to banks to support market development. The initial public support of US\$20 million could leverage the desired ratio of up to 1:4 from private finance, although no firm commitments have yet been made. The government is sceptical about using loans to subsidise the private sector. This, and lack of clarity on how private sector can contribute to climate-resilient development, are causing delays.

2: Extended Bio gas programme (MDB: World Bank)

The World Bank is channelling around US\$10 million of SREP financing to scale up municipal waste-to-energy by covering initial costs and removing credit barriers. Financing and advisory support will help establish around 160,000 biogas plants. The programme expects to leverage around US\$126.4 million from private sector and development actors. This investment project was initially designed to support small-scale household biogas. Now it is being implemented, it is focusing on more viable opportunities such as community installations in schools and hospitals, and commercial or industrial situations. Most recently the project is being discussed for replacement by a grid tied solar project.

Investment project 3: Mini micro off grid electricity (MDB: ADB)

SREP aims to provide affordable energy access to Nepal's rural populations by allocating US\$12 million to build 30MW capacity of mini micro hydropower installations and solar home systems. The implementing MDB (ADB) also expects to leverage around US\$131 million in additional financing from other actors such as the private sector, government and development partners (CIF, 2012a).

Capacity building

Across all three investment projects SREP will support capacity building in renewable technologies by:

- Building commercial banks' capacities to invest in renewable energy using different financing instruments
- Raising awareness and experience in local financial institutions and banks so they extend lending to SMEs in renewable technologies, and
- Enhancing local government capacities in decentralised renewable energy delivery.

Drivers for investment priorities

- **Investment in proven technologies:** Nepal identified sectors which were sufficiently proven to scale up. The country has long experience with small and micro hydropower installations. Wind is a relatively new technology in Nepal, so wasn't selected as a major priority. Nepal's approach is that the incremental use of proven renewable technologies will have a transformational change on its economy and livelihoods (Rai, 2013b). These objectives also align with Nepal's National Rural Renewable Energy Programme (NRREP) and the Rural Renewable Energy Policy 2006. This will also allow Nepal to harness its existing institutional arrangement at AEPC. However, within the mini-micro solar hybrid investment, wind energy has recently been included through potential loans from ADB. Although AEPC was mainly interested in solar and micro hydro, ADB has emphasised wind. ADB has a pilot wind power that it wanted to scale. Nepal also has strong potential for wind energy but not much has been done so far. Technology transfer from abroad could position Nepal to harness its wind potential. However, implementation of these loans is still pending due to issues over loan component that ADB wants to put in SREP. As per a cabinet decision by GoN, Nepal has agreed not to borrow loans for investment in climate change relevant activities.

- **Investment in energy for productive uses:**

Investment in energy for productive uses was one of the selection criteria for SREP projects. During the initial prioritisation stages government favoured domestic level biogas, improved cook stoves and solar home systems. However, such technologies have received government support since the 1990s and was therefore not considered innovative and transformational. As a result, MDBs and the government thought of scaling up investment in technologies that the country has less experience in, such as converting municipal waste into electricity and mini grid solar power, particularly for productive purposes (Rai et al., 2013). Energy for productive uses (for example institutional and community biogas or mini-micro hydro) is also expected to help businesses in marginalised areas and encourage migrants to return and set up enterprises.

- **Investment in commercially viable technology to attract private sector involvement:**

The commercial viability of proven grid-based technologies is the primary driver for selecting small hydropower as a demonstration project for catalysing private sector engagement.

Concerns around prioritisation and implementation

- **Investment in large scale waste to energy technology:** A transition from household to extended waste-to-energy technology was considered necessary to test new technologies, diversify renewable sources and enable technology transfer from neighbouring countries. However, Nepal's Government and AEPC expressed concerns over government and municipal authorities' capacity to implement this project and also the lack of evidence that this technology has proven successful in neighbouring countries.
- **Government preference for conventional hydro power:** Nepal's Government has a strong policy to engage the private sector in hydropower. Yet hydropower has not been exploited to the fullest. In such conditions hydropower was considered to be higher priority rather than municipal waste.
- **Investment in hydropower is not transformational:** Development partners expressed concern around the transformational potential of 50 MW of energy from small hydropower, when country's energy needs are exceptionally high.

- **Extension of loans for low carbon technology:** The ADB's preference to use loans for expanding the solar wind hybrid technology conflicts with a cabinet decision not to accept loans for climate relevant interventions, causing delays in implementation.
- **Alignment between MDB objectives and the national umbrella programme:** Nepal's National Rural Renewable Energy Programme is a single umbrella framework for renewable energy, funded by various donors through a joint financing mechanism. The programme follows a subsidy model where 40 per cent of the subsidy comes from the government. Out of a total pool of US\$200 million, 35 per cent of the fund is government funded. The Government expects SREP investments to rest within the NRREP framework. The MDBs are less approving of a subsidy based model and would likely prefer the phase out of subsidies.

Coordination within government: Delivery of renewable energy projects is distributed between the ministries of energy and environment (through AEPC). AEPC delivers alternative energy projects up to 10MW while the Ministry of Energy manages renewable energy generation above 10MW. Although the Ministry of Energy is responsible for the SREP small hydro component, its direct role in implementation and delivery has remained limited. As projects move from planning to implementation it could be worth investing in coordination with MoE as it largely manages the grid-based system within Nepal.

Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AEPC	Alternative Energy Promotion Centre (Nepal)
BFRI	Bangladesh Forestry Research Institute
BWDB	Bangladesh Water Development Board
BCCSAP	Bangladesh Climate Change Strategic Action Plan
CEIP	Coastal Embankments Improvement and Afforestation Programme (Bangladesh)
CREF	Central Renewable Energy Fund (Nepal)
CREF Facility	Climate Resilient Green Economy Facility, Ethiopia
CIF	Climate Investment Funds
CTF	Clean Technology Fund
DHM	Department of Hydrology and Meteorology (Nepal)
DPHE	Department of Public Health and Engineering (Bangladesh)
DSCWM	Department of Soil Conservation and Water Management (Nepal)
EBRD	European Bank for Reconstruction and Development
EEPCo	Ethiopian Electric Power Corporation
EPA	Environment Protection Agency
FIP	Forest Investment Programme
GEF	Global Environmental Facility
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IBRD	International Bank of Reconstruction and Development
LCRD	Low-carbon resilient development
LGED	Local Government Engineering Department (Bangladesh)
MDBs	Multilateral Development Banks
MOSTE	Ministry of Science, Technology and Environment (Nepal)
MoFED	Ministry of Finance and Economic Development
MoWE	Ministry of Water, Irrigation and Energy (Ethiopia)
MoM	Ministry of Mines (Ethiopia)
NAPA	National Adaptation Program of Action
NRREP	National Rural Renewable Energy Programme (Nepal)
PPCR	Pilot Programme for Climate Resilience
REDD	Reducing Emissions from Deforestation and forest Degradation
RREP	Nepal's Rural Renewable Energy Programme
SCF	Strategic Climate Fund
SPCR	Strategic Programme for Climate Resilience

Related reading

Rai, N. (2015) "Deepening readiness for climate finance: the role of the political economy" IIED policy brief. <http://pubs.iied.org/pdfs/17290IIED.pdf?>

Rai, N., S. Huq, et al. (2014). "Climate resilient planning in Bangladesh: A review of progress and early experiences of moving from planning to implementation." *Development in Practice* 24(4): 527–543.

Rai, N., S. Greene, et al. (2014) "What can the Green Climate Fund learn from SREP's role in engaging the private sector?"

Rai, N. (2013) "Climate Investment Funds: understanding the PPCR in Bangladesh and Nepal, IIED Briefing Note."

Rai, N., K. Appunn, et al. (2013). "Climate Investment Funds: Scaling up Renewable Energy Programme (SREP) in Ethiopia – a status review."

This working paper explores how countries can enhance their 'climate finance readiness' by understanding their internal political economy. Studies in three countries reveal how actors' various ideas and incentives influence their choices and decisions on climate finance projects. Understanding how these factors interact – understanding the political economy – can help policymakers manage expectations and stakeholder risks early on, prioritise equitable climate finance investments and fashion a consensus from divergent ideas.

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