

# Briefing

Climate change, green economy

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## Policy pointers

**Diverse stakeholders** and coalitions will shape, support or oppose investments in climate resilience. Effective action depends on buy-in from all parties.

**Incentives — economic** rewards, policy goals and compelling evidence — can strengthen decision-making coalitions that form around particular ideas and priorities.

**Apparent consensus** may mask marginalised viewpoints, and the dissenters can later block progress on projects they disagree with.

**Policymakers can help** divergent views be heard and integrated by reconfiguring the incentives that lend weight to certain arguments or alliances.

## Deepening readiness for climate finance: the role of the political economy

As the UN prepares to roll out a multibillion-dollar Green Climate Fund, other climate finance initiatives are already reshaping the political landscape in developing countries. New incentives and governance structures have reshuffled priorities and power. Decision makers need to understand these forces in order to deliver plans that all stakeholders will support. Clarity about the actors, ideas and interests that drive decisions — the political economy of climate investments — can help leaders build consensus, avoid obstacles and pick more equitable investments supported by broader constituencies.

The US\$10 billion Green Climate Fund will add to a growing pool of funds aimed at helping developing countries respond to climate change. Although scale of finance is important, it is equally important that recipient countries are prepared to use each dollar well. Hence the new climate fund comes with a large readiness programme to help governments lay the necessary foundation.

Yet the efforts to date around country readiness largely overlook deeper dynamics in the effective use of finance. Readiness to plan climate investments and put them into action is shaped by each country's political economy — the ways in which various actors work with ideas, power and resources to make policy decisions and carry them out (Box 1). Government officials, development partners and other stakeholders all bring their own beliefs and interests to the table.

For climate finance to be effective, leaders must build consensus and shared commitment. By considering the arguments, incentives and power dynamics that are in play, policymakers' priorities will be more equitable and representative of a

broad group of stakeholders, and they can head off the risk that dissenters will dig in their heels when it comes to implementation.

This briefing 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 Program for Climate Resilience (PPCR) and the Scaling Up Renewable Energy Program (SREP). It draws from broader analysis of the discourses around these investments, including 80 interviews with government, multilateral development banks and other stakeholders. Interview questions aimed to understand actors' narratives and their interpretations of the core objectives of climate funds: how the funds will bring transformational change, engage the private sector, ensure development impacts, build country ownership and scale up investments.

These case studies highlight common patterns in ideas and point to some pitfalls that decision makers should avoid when navigating the climate finance process.

## Case study 1: scaling up renewable energy in Ethiopia and Nepal

The US\$796 million Scaling Up Renewable Energy Program (SREP) aims to pilot low-carbon development pathways in the energy sector and demonstrate their economic, social and

environmental viability.<sup>1</sup>

Funds are channelled through five multilateral development banks into 27 countries.

**Narratives.** Stakeholders involved in planning the 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 — leaving actors with alternative ideas on the sidelines.

In Ethiopia, the government and multilateral development banks strongly agreed that diversifying energy technologies was a transformative move that would drive economic growth. This led decision makers to prioritise grid-based geothermal and wind energy projects. The private sector has a limited role in these plans, with less than ten per cent of SREP funds targeted to private projects; the prevailing narrative was that local private firms were not up to the task of rolling out a massive renewable power supply for the national grid. Yet despite the accord at high levels, there were also other, less mainstream views in Ethiopia on how to make SREP transformational. Stakeholders on the margins of the consensus argued for providing much-needed energy in rural areas — 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, policymakers and multilateral

development banks saw potential for SREP to transform the country to low-carbon growth, with co-benefits for health, education and employment. The consensus focused on upscaling proven technologies such as small hydropower projects to improve energy access and relieve poverty. At the same time, however, a vocal set of stakeholders from bilateral and multilateral agencies argued for promoting more innovative technologies like waste-to-energy and solar-wind hybrid power in Nepal. Views on the private sector were similarly divided. Some stakeholder narratives set private companies at the centre of transformation, arguing that the public sector could not electrify the country alone. Others in the government believed the private sector was not ready to invest in renewables and might be best placed to support change rather than lead.

**Incentives.** The contrasting investment decisions made in Ethiopia and Nepal were guided by the different economic incentives they faced, as well as the policy goals and knowledge that each was working with. Ethiopia's grid-based approach lined up with available co-finance for renewable energy and with national development plans that promote a fast-growing grid and extra energy for export. Nepal's government stakeholders, on the other hand, saw the economic benefits of funding proven and commercially viable technologies, and providing power for the rural economy. Ethiopia has a target to produce a gigawatt of geothermal power by 2020, and the mandate to diversify is backed by evidence that climate variability is hurting existing hydropower projects. Nepal's high-level plans aim to expand rural energy access, and the country was inclined to harness existing national arrangements that focused heavily 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.

**Outcome.** To fuel a growing 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 hydropower (both on- and off-grid), solar and wind, and waste-to-energy generation. But the diffusion of narratives led to a last-minute change in this plan, replacing large multilateral investments in small-scale hydropower with grid-tied solar projects. The private sector will still take in about 50 per cent of SREP funding in Nepal, but only 10 per cent in Ethiopia.

*For climate finance to be effective leaders must build consensus and shared commitment*

### Box 1. Political economy building blocks

These four components of the political economy are the cornerstones that determine how countries use climate finance.

**Actors:** who is involved in deciding how to spend climate finance, and who will be implementing the projects?

**Narratives:** what beliefs, opinions and ideologies are circulating in discussions? What do different stakeholders think about their country's context and how climate finance can support development?

**Incentives:** what are the economic incentives, existing policy goals or convincing evidence that motivate proposed investments?

**Coalitions:** are stakeholders finding common ground and making allies based on shared narratives and incentives, or are differences dividing them?

## Case study 2: piloting climate resilience in Nepal and Bangladesh

The Pilot Program for Climate Resilience (PPCR) is the largest climate change adaptation fund in the world at US\$1.2 billion. Its goal is to create an integrated, scaled-up approach to adaptation in low-income countries, starting with 20 pilot nations and regions.<sup>2</sup>

**Narratives.** As with SREP, decisions about adaptation investments under PPCR depended on political stakeholders coming together around a common understanding of development pathways and objectives. Yet alternative views also existed that were never fully integrated or resolved, but instead remained marginalised or widely dispersed — and the disagreements caused roadblocks later on.

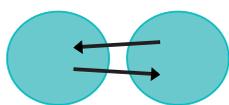
In Nepal, a consensus grew around the transformational potential of long-term sustainability goals and increasing capacity for climate adaptation. This led to investments in climate information systems and other capacity-building initiatives. The PPCR pilot projects were seen as just a first step in a long-range approach. Inclusive social development was the priority in this mainstream story, while stakeholders who called for more attention to infrastructure development, growth and employment remained on the fringe.

The opposite was true in Bangladesh, where transformational change was deemed to result from infrastructure investments and economic growth. Here, stakeholders who championed social innovation and inclusiveness 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 the lack of a coalition diluted their influence. 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.

But even if they do not sway the policy consensus, dissenters are often in a position to deter implementation of plans they disagree with. In both Bangladesh and Nepal, delays arose when agricultural ministries and the International Finance Corporation (IFC), the multilateral development bank that implements PPCR, differed over the role of the private sector. 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. They argue that the private sector has few capabilities beyond

### Box 2. Coalitions and dissent

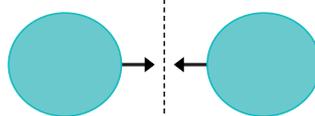
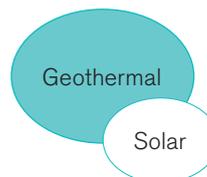
Shared stories and incentives glue together a consensus decision, while divergent or dispersed views undermine it. Taking the SREP case as an example, three different power dynamics are evident:



**Symbiotic: like-minded coalitions support symbiotic decision making.** In both Ethiopia and Nepal, the dominant group of stakeholders shared and reinforced a story of how change could happen, often supported by policy and resources. Coherent

stories (backed up by incentives) are symbiotic, multiplying the coalition's power and promoting cooperation among its members.

**Marginalised: alternative coalitions with limited resources and dispersed knowledge are pushed to the margins.** In Ethiopia, a broad network of actors supported decentralised rural electricity over large-scale grid-based geothermal technology, but they could not sway the dominant coalition.



**Competitive: divergent coalitions compete for power and hinder action.**

A struggle between the government and the IFC over private-sector engagement slowed implementation in both Ethiopia and Nepal.

marketing inputs like seeds, fertilisers and pesticides. Because of these differences in opinion, the IFC decided to work primarily with the ministry of environment to implement PPCR in Bangladesh, rather than with the ministry of agriculture. The changes in mandates and roles have delayed implementation of projects.

**Incentives.** In Nepal, decisions were guided by two high-level strategic plans: a National Adaptation Programme of Action (NAPA) and a sectoral framework for adaptation in agriculture. The plans focused on capacity needs for agriculture, water and climate information systems, prompting the government to invest in these areas. Further motivation came from research into water scarcity on farms and poor linkages between existing forecasting systems and the farming community, which backed up arguments for investing in climate information systems.

In Bangladesh, climate change vulnerability assessments, including evaluations of loss and damage from Cyclone Sidr in 2007, called for US\$1.2 billion to rehabilitate coastal embankments. The multilateral development banks and the line departments that would build the projects had already worked together on other infrastructure initiatives, and this track record encouraged the government to use PPCR money for similar purposes. Indeed, there was co-finance available for coastal infrastructure projects that were in the banks' pipeline and ready for a funding

top-up. Bangladesh's climate change strategy and NAPA supported taking these forward.

**Outcome.** 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 will have a hard time getting started unless policymakers, companies and the IFC can work through their differences.

## Key lessons

In summary, the case studies reveal basic patterns in how a country's political economy works with its climate finance programmes:

- **Actors with shared ideas and resources form coalitions that support investment decisions.** In Ethiopia, for instance, grid-based renewables were prioritised under SREP because a powerful group of stakeholders agreed that diversification of technology in the energy mix would lead to economic growth. For PPCR in Bangladesh, decisions were driven by a common story about investments in climate-resilient infrastructure as a pathway to transformation and development.
- **Incentives — economic rewards, policy goals and compelling evidence — can strengthen these decision-making coalitions.** The coalition around SREP in Ethiopia drew on policy support from existing plans and the economic incentive of available co-finance. The consensus on PPCR investments in Bangladesh was boosted by proven technical partnerships and evidence from loss-and-damage assessments, as well as the promise of co-finance.
- **Dispersed stories and incentives are less able to influence decisions.** In Bangladesh, a wide range of actors believe investing PPCR funds in community-based adaptation or social innovations will yield more progress than business-as-usual infrastructure

investments. These ideas have not translated into decisions, however, because they lack a tight coalition, supporting policies and clear economic incentives.

- **Stakeholders with divergent views can hamper action,** as seen with the delays around engaging the private sector in both countries.

To make effective decisions and avoid hurdles in implementing climate funds, governments need to thoroughly understand and harness their internal political economy.

Acknowledgement of the political economy is essential to building readiness for climate finance. The case studies offer lessons for governments and climate finance initiatives such as the Green Climate Fund:

- **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 that work around 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. More attention is needed to the sequencing of decisions and representation of actors 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 coalition and dissent (Box 2).** 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.

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This briefing draws on a broader research project on Political Economy of Climate Investment Funds. For more information see: [www.iied.org/understanding-political-economy-climate-investment-funds](http://www.iied.org/understanding-political-economy-climate-investment-funds). It is based on an IIED working paper:

**Political economy of international climate finance: Negotiating investment decisions in PPCR and SREP** by Neha Rai, Sunil Acharya, Ramesh Bhusal, Raju Chettri, Md Shamshudoha, Misgana Elias Kallore, Nanki Kaur, Sumanta Neupane, Lidya Tesfaye. <http://pubs.iied.org/10111IIED>



## Knowledge Products

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Clean Energy Nepal is an independent, non-profit organisation focusing on sustainable energy use.

Echnoserve is a consulting company based in Addis Ababa, Ethiopia and the United States.

The Center for Participatory Research and Development is a research organisation based in Dhaka, Bangladesh.

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## Notes

<sup>1</sup> Rai, N et al. (2013) Climate investment funds: Scaling up Renewable Energy Programme (SREP) in Ethiopia – a status review. / <sup>2</sup> Rai, N (2013) Climate Investment Funds: understanding the PPCR in Bangladesh and Nepal. <http://pubs.iied.org/17151IIED>