Chapter 6

How international climate funds catalyse low-carbon resilient development: Case studies of PPCR and SREP

Neha Rai and Tom Tanner

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Introduction

As discussed earlier in this book, recent developments in climate policy are driving the integration of the mitigation and adaptation agendas. Measures aimed at reducing greenhouse gas emissions and efforts to prepare for the adverse effects of climate change are increasingly being pursued in tandem. This policy shift is reshaping the international climate finance landscape, and in developing countries – where the interrelated issues of climate change, development and finance are most prominent and urgent – this is in turn giving rise to significant changes in the political landscape.

Over time, international climate finance has evolved as a complex architecture and drawn in a wide range of players. Funding comes from both public and private sources, and may be channelled to developing countries in a variety of ways. These include the funding mechanisms set up under the UNFCCC, as well as a range of multi- and bilateral channels operating outside the UNFCCC (Rai *et al.* 2015a). At the same time as the overall scale of climate finance has grown in recent years, countries have also been making use of increasingly diverse sources of funding, financial instruments and intermediaries (Rai et al., 2015b, Kaur et al., 2014).

While the increases in funding can be taken as a good sign, the diversification of funding mechanisms, and the associated reshuffling of priorities and power structures, is less easy to interpret. The picture is complex, given the interaction between the general international context, with its influence on climate finance incentives and governance, and the specific political environments of individual countries. Much of the existing analysis fails to consider this interaction; that is, to ask how international initiatives are being translated and reformulated in national contexts.

In this chapter we address this question through case studies of the Pilot Program for Climate Resilience (PPCR) and the Scaling up Renewable Energy Program (SREP) as they operate at national level, in Bangladesh, Ethiopia and Nepal. These two programmes represent global

funding initiatives supporting the climate adaptation and climate mitigation agendas, respectively; both are part of the group of non-UNFCCC multilateral funds[1] known as the Climate Investment Funds (CIFs).

Our aim is to unpack the relationships between these international initiatives, national-level policymaking and processes concerning low-carbon resilient development (LCRD). In doing so, we move on from the early agenda-setting and formulation stages of the policy cycle discussed in Chapter 5 to consider the decision-making and implementation stages.

Our analysis makes use of a political economy perspective to examine national decision making; that is, the processes by which governments adopt a particular course of action (or non-action) and how they put their policies into effect. We use this approach to understanding institutional structures, powers and capacities to analyse the political and ideological processes underpinning climate finance governance. A key concept here is the influence of the decision-making coalitions forming around preferred 'narratives'. These narratives are derived from the particular incentives actors are subject to, based on their institutional positions, remits and structures, on the procedures and policies they follow, and on the resources and knowledge available to them.

From this perspective, national-level decisions about climate finance can be seen as the result of ongoing renegotiation of ideas and ideology. Our findings reveal some common patterns in decision makers' engagement with the climate finance process and highlight some of the potential pitfalls. This leads us to argue that outcomes can be improved if national level actors are able to use an understanding of the internal political economy of this decision-making process to deliver plans with wide stakeholder support. Clarity about the political economy of climate investments can help leaders build opportunities for consensus, avoid obstacles and choose more equitable and representative projects to pursue.

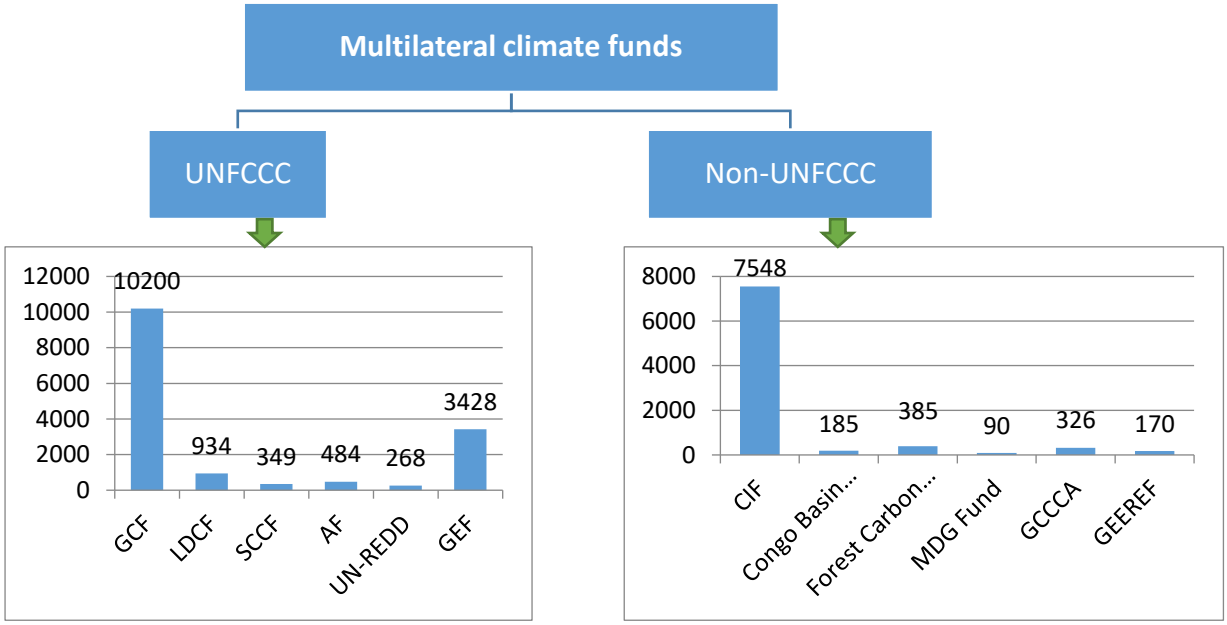
The international context: multilateral climate funds

As discussed earlier the landscape of climate finance is becoming complex with diversification of funding mechanisms and reshuffling of power structures. In this section we will try to understand two emerging mechanisms used to deliver international finance and how climate investment funds sits within this landscape. The differences in the mechanisms and incentives of these funds highlight implications in terms of shaping countries' investment choices.

Globally, multilateral climate funds are of two types, depending on whether or not they operate under the aegis of the UNFCCC. UNFCCC mechanisms include the Green Climate Fund (the UNFCCC's main financial mechanism), the Global Environment Facility (originally set up as an interim measure), the Adaptation Fund (founded under the Kyoto Protocol) and the UN's initiative on Reducing Emissions from Deforestation and forest Degradation (UN-REDD). In addition to the CIFs, non-UNFCCC channels include the Global Climate Change Alliance, the Global Energy Efficiency and Renewable Energy Fund and the Forest Carbon Partnership Facility. Figure 6.1 illustrates the amounts delivered via these two funding categories. CIFs are by far the largest non- UNFCCC source of climate funding while GCF and GEF account for a similar proportion of UNFCCC funding.

[1] The differences between UNFCCC and non UNFCCC funds are further explained in the next section.

Figure 6.1 Channels used to deliver multilateral climate funding (amount in U$ mill) (Source: data used from CFU 2015.)



Although both UNFCCC and non-UNFCCC funds share core principles of mitigating emissions and building resilience, there are some key differences in their functioning. With respect to modes of access, some UNFCCC funds will allow accredited national agencies to access funds *'directly'*, whereas non-UNFCCC funds, including the CIFs, usually only grant access to countries '*indirectly*' through multilateral agencies. This has implications on country ownership of each fund, where direct access of funds by national entities is considered to generate higher level of country ownership in decision making.

Financial instruments also tend to differ: UNFCCC-operated funds have traditionally provided grants whereas non-UNFCCC funds, again including the CIFs, have deployed a wider variety of instruments, such as concessional loans, guarantees and private equity investments for both mitigation and adaptation. Issue of extending loans for adaptation projects (in case of CIFs) has emerged controversial in many countries. Within the climate change negotiations several developing countries and civil society organisations have expressed strong concerns around using loan based instruments for adaptation as it is considered a compensation by developed countries to developing countries for excessive carbon emitted in the past (Hulme et al., 2012). These controversies around use of specific instruments have implications on the acceptance levels of these funds in the national context.

Further, UNFCCC funds such as the Adaptation Fund have taken a project-based and issue- or sector-driven approach to funding, whereas the CIFs have emphasised a programmatic approach. The CIFs also disburse funds in two phases: a planning phase funds the development of project proposals and institutional capacity-building, and is followed by an implementation phase. In contrast, the Adaptation Fund offers only project formulation funding, to refine proposals for approved projects. Funding is made available on a first-come-first-served basis, encouraging countries with high readiness levels to submit credible proposals. The approaches deployed by each fund have implications on how projects get prioritised or absorbed within country programmes. CIFs programmatic approach allows countries to plan large scale efforts that link up with nationally planned priorities. Readiness support further helps them to develop proposals. Small scale issue based projects under

Adaptation Fund can target smaller community based investments, but its criteria of first come first serve also encourage submission of existing project proposals by early mover countries. These may have distributive implications on countries that may have greater needs but are less able to submit early proposals due to lower levels of readiness.

The differences in the nature of these funds – their use of loans rather than grants, the engagement of a wide range of actors and the changes in accessibility and institutional processes – are in turn shaping national-level LCRD investments (Nakhooda and Norman, 2014). New players, institutions and incentives are shaping countries' investment choices, and encouraging them to step up their efforts to reduce emissions and improve climate resilience.

Case studies

The analysis presented here is based on interviews with a wide range of stakeholders in each of our chosen case-study countries. These case studies were conducted under an IIED research study on 'Political economy of Climate Investment Funds' (Rai et al., 2015a) which used semi structured interviews and a discourse analysis approach to understand actors' perceptions of the core objectives of the Climate Investment Funds, which are to:

- effect transformational change in recipient countries
- contribute to development impacts in these countries
- catalyse private-sector involvement in climate change actions
- ensure countries have 'ownership' of their climate change actions
- scale up investments.

The 'transformational change' of the first of these objectives can be described as a shift away from business-as-usual decisions at national level. It implies a long-term process of 'institutional and policy changes, technological shifts, and re-orienting investment priorities … to demonstrate effects, remove barriers and develop mechanisms for replication [of projects]' (ICF, 2013), p. 18).

Each case study begins with a general description of the climate finance programme concerned and of related administrative structures in the case-study countries. We then move on to analyse the political economy of the investment decisions made in these countries. We examine the narratives, actors and incentives – the policy, economic and knowledge-based factors – that have shaped these decisions. We also identify alternative and marginal viewpoints and assess their influence on decision making and project implementation.

Case study: the PPCR in Bangladesh and Nepal

The PPCR

The aim of the Pilot Program for Climate Resilience is to enable low-income countries to develop an integrated, scaled-up approach to climate adaptation. It is the largest of any of the adaptation funds, with a total value of US$1.2 billion until 2015. Initially, 20 countries and regions have been chosen to receive funds under the programme. Funding is made available for capacity building and policy reform, long-term institutional strengthening through technical assistance and 'on the ground' investment. Investments are typically focused on one or two themes or sub-regions, and funding is usually delivered through a combination of grants and loans.

Like the other Climate Investment Funds, the PPCR supports two phases of activity, planning and implementation. Planning typically involves countries in delineating the policies, strategies and development plans that need to be updated to achieve climate resilience, as well as dividing up key tasks between agencies – government bodies, development banks and other partners – and setting up a results framework to track progress (CIF, 2009). Implementation involves operationalisation of the investment projects prioritised under the Strategic Programme for Climate Resilience (SPCR)- an investment plan drafted in the planning phase.

As shown in Figure 6.2, the PPCR has a diverse project portfolio, with the three areas of highest PPCR funding being agriculture and landscape management, infrastructure and water resource management. The figure also illustrates the co-finance generated by PPCR funding, and it is notable that this varies considerably by sector. There are particularly high levels of additional finance available for coastal zone management and infrastructure, and comparatively little in the areas of climate information systems and 'enabling environment'- that is, the creation of an capacities favourable to investment in climate adaptation projects

(CIF, 2014).

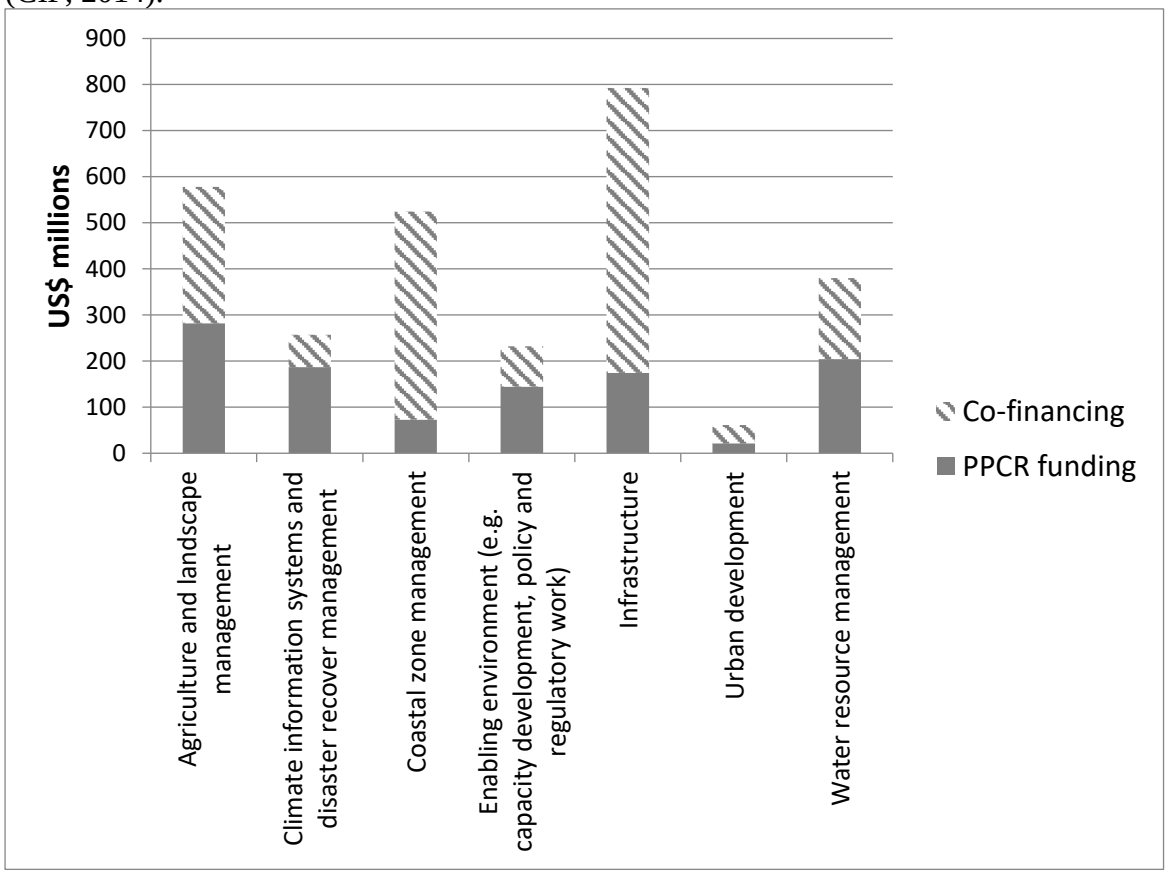


Figure 6.2 Total PPCR funding and co-financing by investment type in 2014 (Source: data used from CIF 2014)

Governance of PPCR funding varies from country to country, with some making new administrative arrangements and others harnessing existing ones –new governance shifts are more evident in PPCR countries than for the SREP, due to the provision of dedicated technical assistance funding for 'mainstreaming' and upgrading institutional arrangements and capacity development. SREP has a relatively smaller component of capacity building in comparison to PPCR.

Some governments have shifted or shared core responsibility for climate change leadership beyond their environment ministries, typically to departments dealing with finance and planning; in Bangladesh, responsibility for the country's involvement in the PPCR is shared between the environment and finance ministries. The effect of this is to locate leadership with 'convening authorities' operating across multiple sectors. In a further demonstration of this wider 'buy-in', Bangladesh also co-finances PPCR projects and includes them in its annual development planning budgets. In contrast, Nepal has selected its environment ministry, MOSTE, as its lead PPCR agency, despite external preference for the ministry of finance (Rai, 2013, Ayers et al., 2011). Programmes prioritised in the investment proposal used to propose PPCR projects (also called the Strategic Programme for Climate Resilience (SPCR) is then implemented by line ministries or other departments, in collaboration with multilateral development banks.

For implementation, Bangladesh makes use of existing channels in the form of government line departments and agencies already channelling considerable resources (Rai et al., 2014, ICF, 2013). The Bangladesh Water Development Board and the Local Government Engineering Department, for example, have received 45 per cent of their trust funds for

example the Bangladesh Climate Change Resilience Fund (BCCRF) and Bangladesh Climate Change Trust Fund (BCCTF) so far and are now responsible for implementing the two PPCR investment projects prioritised under their SPCR. These two agencies are also making use of longstanding partnerships with multilateral development banks. There are two key implementation agencies in Nepal, the Department of Soil Conservation and Watershed Management and the Department of Hydrology and Meteorology.

Civil society, development partners and other multilaterals such as the UN Development Programme were involved in Bangladesh's initial consultation process on the PPCR, but have limited input into prioritisation and programme delivery. As a result we can observe hindrances or differences in opinions whilst implementation of the programme.

The political economy of PPCR investment decisions: coalitions and incentives in Bangladesh and Nepal

In terms of the PPCR investment decisions and priorities in our two case-study countries, Bangladesh has favoured climate-proofing coastal infrastructure projects over 'softer' capacity building activities. In contrast, Nepal has specifically targeted capacity building projects, including climate information systems for use in agriculture. The overall aim in this latter case is to enhance the capacity of communities to adapt to climate change by developing the use of a variety of tools, instruments, methods and strategies. This softer investment approach contrasts with Bangladesh's infrastructure heavy approach.

These two countries have taken very distinct approaches, then, to their use of PPCR funding. What narratives drove these choices, and how were they shaped by the internal politics and incentive structures within these countries? A summary of findings is provided in Table 6.1. The discourse analysis from interviews suggest that, the capacity building approach taken in Nepal reflects a dominant narrative of the transformational potential of long-term sustainability and increased capacity for climate adaptation amongst government officials. The country's PPCR pilot projects are seen as just the first step in a long-range approach prioritising inclusive social development. Alternative storylines by multi laterals calling for an approach based on infrastructure development, growth and employment have remained on the fringe.

In Bangladesh the position is essentially reversed. A similar narrative to the one side lined in Nepal – of transformational change through investment in infrastructure and growth – has won out. This reflects a view of economic growth as a pathway to development, with a prevailing perception among core implementing ministries, multilateral development banks and bilateral agencies that PPCR investments can generate growth, which in turn can generate improved employment opportunities.

At the same time, a narrative supported among some actors in Bangladesh calling for a social development approach – similar to the dominant narrative in Nepal – has not translated into PPCR investment decisions. Actors championing this viewpoint came from a wide range of departments and institutions, but in general were less directly involved in the PPCR decision-making process and shared few points of contact or resources. This led to a lack of coalition and incentives to action, diluting their influence.

Regarding the incentives that have led to these narratives becoming dominant, policy incentives have played a crucial role in Nepal. These are provided principally by two high-level strategic plans – the country's NAPA (National Adaptation Programme of Action) and a sectoral framework for adaptation in agriculture – both of which focus on the capacity needs of departments of agriculture, water and climate information systems. Further motivation was provided by the results of research highlighting water scarcity on farms and the poor quality

of forecasting systems' communication with the farming community; these findings were the basis of support for investing in climate information systems.

In Bangladesh, economic and knowledge incentives were an important factor in the decision to prioritise infrastructure investments. 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. Economic incentives were also highly influential. The experience of multilateral development banks and line departments of working together on infrastructure projects encouraged the government to use PPCR money for similar purposes. In addition, co-finance was available for coastal infrastructure projects already in the banks' pipelines and ready for funding top-ups; PPCR thus represented a means of scaling up the level of investment. An illustration in figure 6.2 shows that coastal management and infrastructure have high looking co-financing from additional sources. The policy context – in the form of Bangladesh's climate change strategy and NAPA – was also supportive.

Table 6.1 Narratives supporting PPCR investment decisions in Bangladesh and Nepal

	Bangladesh	**Nepal**
Investment decision	Longer-term infrastructure investments, e.g. coastal embankments, water sanitation	Capacity building projects Climate information and early warning systems
Dominant narrative	Transformational impacts through PPCR investments can be achieved by providing climate resilient infrastructure. Development aims can be achieved by targeting economic growth.	Transformational impacts through PPCR investments can be achieved by meeting long-term sustainability goals and the need for greater capacity for climate adaptation. Greater focus on social development.
Actors supporting dominant narrative	Core government ministries, e.g. finance ministry Affiliated line ministries and departments Multilateral development banks	Core government ministries, e.g. finance ministry Affiliated line ministries and departments Some Multilateral development banks
Alternative narrative	Socioeconomic innovation and inclusive development will deliver transformational impacts and development benefits.	Infrastructure and economic growth pathways.
Actors supporting alternative narrative	Other government bodies Civil society Other multilateral agencies including UN agencies	Some Multilateral development banks
Incentives shaping dominant narrative	*Economic incentives* • Projects already in pipeline • Track record in using technology for infrastructure projects • Existing partnerships between multilateral development banks and government line departments *Policy incentive* Investment priorities in existing climate change policies: • BCCSAP • NAPA *Knowledge incentive* • Results of vulnerability and loss and damage assessments	*Economic incentive* Availability of concessional loans *Policy incentives* Investment priorities in existing climate change policies: • NAPA • Climate Change Adaptation Framework for Agriculture *Knowledge incentive* Research results: • Water scarcity • Ineffective forecasting systems

Our findings also illustrate the risk to implementation that alternative views can pose. For example, the PPCR funds initiatives through International Finance Corporation (IFC) (the MDB managing PPCRs private sector investments) that aim removal of barriers to private-sector investment in adaptation-related activities. In both Bangladesh and Nepal the original intention was that responsibility for implementing this policy in the key areas of agriculture and food security would rest with the agriculture ministries. However their officials have been reluctant to spend public funds to incentivise profit-oriented businesses, arguing that the private sector has insufficient capacity, its capabilities not extending much beyond the supply of basic goods such as seeds, fertilisers and pesticides. In both cases this difference of opinion has led to significant delays in implementation, and the solution devised by the IFC has involved bypassing the agriculture ministry. In Bangladesh the policy is now operated primarily by the environment ministry, while in Nepal the IFC manages it directly.

A further example is provided by the issue of coordination between executing departments in Bangladesh. The country's project to repair coastal embankments originally included plans to improve surrounding areas of forest, but these have been cut back due to a lack of cooperation between the water development board responsible for implementing the coastal embankments programmes and the forestry department. Imbalances in allocation of resources for Nepal's PPCR investments also appear to be creating dissent. The project to provide climate early warning systems, managed principally through the country's hydro-meteorology department, has been allocated a greater share of the funding. As a result, projects to develop climate resilient technologies and link farmers to an early warning system through a dissemination programme will receive much less funding than the agriculture ministry had envisaged. Differences in opinions on how programmes should be implemented and lack of inclusion of wider opinions have the potential to undermine implementation.

These examples illustrate the potential for conflicting or marginalised views – views not integrated into policy or otherwise resolved – to set up later 'roadblocks' to implementation. Where there is insufficient policy consensus, dissenters can be in a position to disrupt plans they disagree with.

Thus we can see that dispersed stories that lack incentives are less able to influence decisions but stakeholders with divergent views can hamper actions or cause delays during the implementation. A similar trend can be observed in our next case study on scaling up renewable energy programme.

Case study: the SREP in Ethiopia and Nepal

SREP

The aim of the US$796 million Scaling Up Renewable Energy Program is to pilot low-carbon development pathways in the energy sector and demonstrate their economic, social and environmental viability(Rai et al., 2013). The primary focus is investment, though related policy reforms and capacity development are also supported. It also emphasises the role of the private sector (using IFC as an implementing entity) in achieving a sustainable increase in the use of these technologies.

SREP provides funding in the form of grants, concessional loans, guarantees and equity. The planning phase of funding supports countries to develop an investment plan. Grants are provided for capacity building and advisory services, while investments support the cost of introducing new technologies. The implementation of the investment plan is supported by the second phase of funding (CIF, 2010).

Figure 6.3 shows SREP funding by country and type. The technologies invested in fall into two main categories: those aimed at providing energy access, in the form of mini-grids (which combine hydro, solar PV and wind energy), off-grid distributed solar PV technology and improved cook stoves, and renewable grid-tied technologies, including geothermal, wind, solar PV, hydro and solar-wind hybrid and waste-to-energy projects. By 2013 about 25 per cent of SREP funds were used for energy access projects and 65 per cent for renewable grid-tied projects; the remaining 10 per cent was allocated to capacity building.

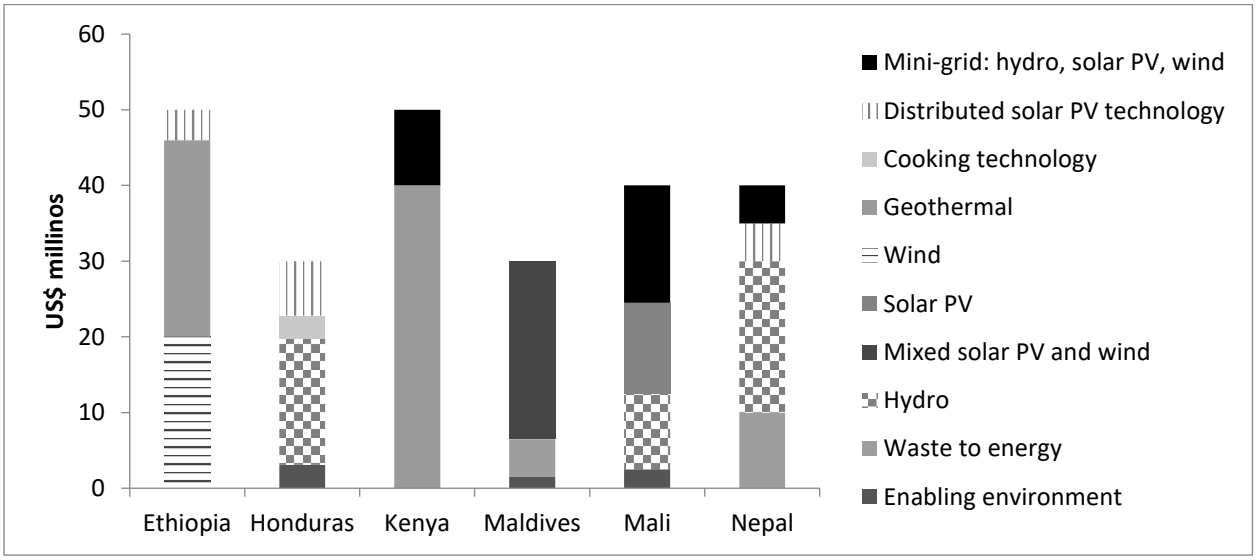


Figure 6.3 SREP total funding by country and technology type, as of 2013 (Source: use of figure from ICF 2013)

In most participating countries the energy ministry is the government department with overall responsibility for SREP involvement. However, in Nepal the finance and environment ministries share this role, while in Ethiopia it is part of the remit of the Environmental Ministerial Council. This is an inter-ministerial group that controls the country's Climate Resilient Green Economy Facility, of which SREP funding forms one part.

The institutional architecture for implementation of SREP projects often combines the use of existing arrangements with a range of new coordinating bodies. In Nepal it is coordinated by the Alternative Energy Promotion Centre (AEPC), a semi-autonomous agency responsible for investing in small-scale renewables (AEPC, 2013). A Central Renewable Energy Fund and a

steering board have also been set up to mobilise funds from different funding instruments (such as grants, loans) and sources (such as donor and government) and engage with the private sector. A dedicated agency focuses on decentralised energy projects of up to 10 megawatts, while larger-scale energy projects are the responsibility of the energy ministry.

In Ethiopia, the Ministry of Water, Irrigation and Energy (MOWIE) and the Climate Resilient Green Economy Facility are the key implementing bodies, with MOWIE taking the lead through its SREP coordination unit. In addition, geothermal and wind projects are implemented by the Ethiopian Electric Power Corporation and the Ministry of Mines in collaboration with a multilateral development bank.

In both countries, the IFC aims to catalyse private sector investment in renewable energy by providing incentives to commercial banks. In Nepal, the private sector has been involved in the prioritisation process for choosing SREP investment projects and implementation of the private sector component of investments is being managed by the country's Central Renewable Energy Fund (CREF) under the leadership of a commercial bank. The IFC and the Asian Development Bank (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.

The political economy of SREP investment decisions: coalitions and incentives in Ethiopia and Nepal

In Ethiopia SREP investment has gone into large-scale on-grid geothermal and wind energy. Its overall aims are to fuel the country's economic growth by scaling up and diversifying its energy supply – currently Ethiopia is heavily reliant on hydropower, which is particularly sensitive to climate change. In Nepal investments are aimed at expanding energy access in remote areas using a variety of technologies, including hydropower, solar, wind and waste-to-energy.

Analysing stakeholder interview responses in terms of the five core objectives of the CIFs (which can be summarised as transformation, development, private sector engagement, ownership and scaled-up change) again provides a picture of the shared narratives and coalitions shaping these investment decisions; Table 6.2 provides a summary of findings.

In Ethiopia, the decision to prioritise grid-based geothermal and wind energy projects reflected a view in government and the multilateral development banks that diversifying energy technologies was a transformative move that would drive economic growth**.** Aside from this dominant narrative, some actors argued for providing rural areas with much-needed energy access in order to realise co-benefits for the poor. These views remained marginal, however, and were not translated into investment decisions.

Priorities in Nepal were very different, and views were also more diffuse. Overall, government policymakers and the multilateral development banks held to a narrative of transformational change through low-carbon growth, achieved by improving energy access and relieving poverty. Investment decisions based on this view were focused on up-scaling proven technologies to improve household energy access, and realising associated co-benefits in areas such as health, education and employment. However some stakeholders from bilateral and multilateral agencies argued for the use of more innovative technologies, such as waste-to-energy and hybrid solar-wind systems.

These competing narratives translated into a mix-and-match of investments in Nepal, involving on- and off-grid technologies of different types. In the absence of a dominant

consensus and of strong policy networks there have been disagreements between actors and delays in implementation. In particular, an initial plan for multilateral investment in small-scale hydropower (both on- and off-grid) has recently been replaced with grid-tied solar projects. Similarly, pilot projects involving new systems such as hybrid solar-wind and extended biogas have been controversial because of the use of concessional loans to fund them and the unproven nature of the technology. Nepal has historically objected the use of loans to fund climate relevant projects largely because they consider climate actions is the polluters' responsibility and the developing countries should fund those using grants.

Despite the SREP's core aim of catalysing private-sector investment, 90 per cent of Ethiopia's SREP funds are being channelled to public sector projects. Views on private sector engagement have been divided in Ethiopia, with some stakeholders holding to narratives that would set private companies at the centre of the country's transformation plans, arguing that large-scale electrification projects are beyond the capabilities of public agencies. However the view that has dominantly prevailed reflects the government's scepticism about the readiness of private companies to lead on renewable energy projects, and its related preference for nurturing the private sector on a smaller, more local scale.

As a result, the private sector component of SREP funding in Ethiopia led by IFC has been limited to the allocation of 10 per cent of funds to building capacity among commercial banks and SMEs. This has also faced delays and lost momentum, due to regulatory barriers to the involvement of commercial banks(Rai et al., 2015a). In contrast, Nepal's SREP investments are split 50:50 between public and private sector projects, largely because the IFC which is the implementation arm of the private sector component of CIFs has opted for commercially viable grid-based investments and also because Nepal doesn't experience the same national regulatory constraints for engaging the private sector, that Ethiopia does.

With regard to the incentives that underlie the investment decisions made in our two case study countries, Ethiopia's large-scale grid-based approach is aligned to the economic incentive of the co-finance available for renewable energy projects and the policy incentives provided by its growth and transformation plan for a fast-growing grid that will enable the country to export energy, grow economically and achieve a status of a middle income country by 2025. The associated decision to diversify the energy technologies used has been shaped by knowledge incentives: policymakers in Ethiopia are aware that existing energy sources – principally hydropower – are vulnerable to (indeed are already being affected by) climate variability. Also operating here is the policy incentive represented by the country's target of producing 1 gigawatt of power from geothermal sources by 2020. Apart from grid based infrastructure, The IFC's knowledge and existing expertise of working with SMEs 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, as a private sector investment component within SREP.

In Nepal, the economic incentive of lower costs is behind the decisions of government actors to opt for proven and commercially viable technologies, while the choice of smaller-scale systems reflects the country's policy focus on providing power for the rural economy. 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.

Table 6.2 Narratives supporting SREP investment decisions in Ethiopia and Nepal

	Ethiopia	**Nepal**
Investment decision	Large-scale on-grid geothermal and wind energy	Rural small-scale hydropower (on- and off-grid), solar and wind energy, and waste-to-energy generation
Dominant narrative	Transformation can be achieved through diversification of energy technologies and economic growth. Development aims can be achieved through economic growth and improved employment opportunities.	Transformation can be achieved through transitioning to low-carbon growth, with co-benefits for health, education and employment.
Actors supporting dominant narrative	Implementing line ministries Multilateral development banks Bilateral donors	Core government ministries Multilateral development banks
Alternative narrative	Development co-benefits based on poverty reduction can be achieved by investing in energy access in rural areas.	Promote innovative technologies and scale up supply.
Actors supporting alternative narrative	Bilateral donors	Dispersed set of actors
Incentives shaping dominant narrative	*Economic incentives* • Availability of co-finance • Income from energy export • Economic benefits of scaling up energy supply *Policy incentives* • Growth and Transformation Plan • National target of producing 1 GW (6%) of electricity from geothermal sources by 2020 • National target of achieving status of a middle income country by 2025 *Knowledge incentive* • Knowledge of the negative impact of climate variability on hydropower, currently the main energy source	*Economic incentives* • Proven technologies and existing systems in place • Energy for productive uses • Commercially viable technology *Policy incentive* • National Rural Renewable Energy Programme focus on energy access in rural areas *Knowledge incentives* • Knowledge and long-term experience • Multilateral development banks' expertise, based on experiences elsewhere

Conclusions

The political economy analysis presented here illustrates how different narratives – supported by different groups of actors influenced by different combinations of incentives – interact to generate consensus, cooperation, exclusion and competition in the policy process. This

provides valuable insight into how international climate finance programmes are translated into national policies and actions.

We can see that investment decisions are the result of coalitions of actors forming around shared ideas and resources. In Ethiopia, for instance, SREP investments prioritised grid-based renewables because of the view held among powerful stakeholders that diversification of energy technologies would help to promote economic growth. In Bangladesh, PPCR funding decisions were driven by a widespread belief that building climate resilient infrastructure would provide a pathway to transformational change and development.

These decision-making coalitions are shaped by a range of incentives, including economic factors, policy goals and factual evidence. Ethiopia's SREP investment decisions reflect the country's targets for energy generation and the economic incentive of the co-finance available for renewable energy projects. The consensus over PPCR funding decisions in Bangladesh was boosted by factors such as the country's existing expertise in infrastructure projects and evidence provided by loss and damage assessments of the need for investment.

Our analysis has also highlighted the existence of alternative and non-mainstream views. In Bangladesh a range of actors expressed the belief that investment of PPCR funds in community-based adaptation measures would yield better results than business-as-usual infrastructure investments. In the absence of strong coalitions with clear incentives, such views did not translate into investment decisions.

This does not mean, however, that alternative views have no influence. As illustrated by the limited success with which the private sector has been recruited into SREP programmes in Ethiopia and Nepal, stakeholders with competing views can significantly delay and disrupt action. The example of Nepal also suggest that SREP were used to fund a mixture of proven and new technologies which seems to indicate that different views can be expressed in investment decisions and it's not necessary that one narrative will always win out in practice.

Based on these findings, we suggest that in order to reach effective decisions about climate funding and avoid barriers to implementation, governments and international climate finance initiatives need a thorough understanding of the internal political economy of these decisions. Acknowledgement of the political economy is essential to achieving readiness for climate finance.

By mapping the interactions among various narratives and their supporting stakeholders, policymakers will be better able to manage expectations and risks, prioritise more equitable projects and fashion a workable consensus. Any given programme or project proposal will have its proponents and opponents, with views shaped by the particular incentives 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 in the context at hand. Often this is likely to mean reshaping incentives by providing resources to weaker coalitions that promote responsible investments.

A proactive approach to this process is needed: policies are likely to be more effective policies where decision makers have actively sought out and integrated diverse views. More thought needs to be given to the sequencing of decisions and representation of actors in the policy process. For instance, ensuring that line ministries are involved in decisions that directly affect them will increase their sense of ownership and promote cooperation.

Recognising patterns of agreement and dissent is crucial here. If actors share a vision, channelling resources in that direction can generate synergies. Where they hold alternative views, it may be possible to align policy or economic incentives so as to integrate these views

and achieve a level of consensus. If competing or dissenting views seem likely to pose obstacles to implementation, it becomes possible to negotiate and manage expectations.

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