iied

briefing

APRIL 2013

Climate Investment Funds: understanding the PPCR in Bangladesh and Nepal

The Pilot Programme for Climate Resilience (PPCR) now operates in nine countries and two regions. It aims to support these countries and regions to prepare and implement climate resilience programmes that are long term and integrated into wider poverty reduction and development planning. Sharing early insights gained from the experiences of two pilot countries — Bangladesh and Nepal — can help to inform the ongoing PPCR implementation process and offers early guidance on issues that may arise in delivering transformative programmes.

Policy pointers

- **Flexibility when disbursing** climate finance is crucial for ensuring continued government ownership; but should not jeopardise a systematic country-led planning phase as this is key for smooth implementation.
- **Country ownership and** leadership is vital for ensuring continued government interest and 'buy in'. But leadership by one or two dominant players may inadvertently exclude wider interests.
- **Fostering public-private** partnerships to build trust and collaboration during PPCR implementation encourages private sector engagement. It is clearly important to prepare the public sector to harness private sector involvement.
- **Transformational change** will mean different things to different countries, but the PPCR's expectation of relatively quick results should not discourage longer-term transformational change.
- **Integrating climate** resilience across national development planning is crucial.

Developing countries' vulnerability to climate risks, and their growing need for climate finance to support adaptation measures, is widely acknowledged. The scale of 'climate finance' available at the global level has increased in recent years and the Pilot Programme for Climate Resilience (PPCR) is an example of one of the largest resources. The PPCR is the 'adaptation arm' of the Strategic Climate Fund, funded through the World Bank-administered Climate Investment Funds (see PPCR in a snapshot, overleaf).

The PPCR was introduced in 2008 to bridge the finance gap between developing countries' needs and responses to climate change. It was designed to take an innovative and programmatic approach, in comparison with short-term project-focused approaches. But the PPCR has its critics who disapprove of the role given to the multilateral development banks (MDBs) and the inclusion of non-grant finance (concessional loans) for adaptation.

Despite these tensions, the PPCR anticipates providing a model for innovative global adaptation finance. It has introduced several novel features designed to address the limitations of previous climate programmes.

- **Tailored and flexible programming.** Funding is designed to be tailored according to a country's needs, by developing a country-specific Strategic Program for Climate Resilience (SPCR).
- **Country led.** The programme aims to facilitate country ownership when planning and implementing the SPCR, including integrating funding into existing development strategies.
- **Private sector involvement.** The PPCR aims to foster private sector involvement, using donor finance to leverage further private sector finance.
- **Programmatic approach.** The aim is to support a programme of interventions that together deliver a transformational approach, going beyond 'business as usual' interventions that usually take a sector by sector, or project by project, approach.

As well as being novel, the model is ambitious, particularly because of the need to demonstrate quick results. How effective the PPCR is will depend largely on how it is being implemented in each country and how it contributes to the governance of planning national climate change responses.

To date, there has been little assessment of how countries are 'translating' the PPCR, yet shared insights could give other developing countries, policymakers, development partners and civil society early advice about how to plan and deliver transformational climate resilience programmes. Some questions to ask include:

- How well is PPCR programming tailored across all countries?
- To what extent is the PPCR process country 'owned' or led?
- Is PPCR catalysing private engagement in adaptation interventions?
- To what extent are country investment plans transformational?

To shed some light on these questions, IIED has reviewed the planning phases and progress to date of PPCR in Bangladesh and Nepal. This briefing shares some perspectives that the review gathered.

Tailored programming

The PPCR is intended to operate through flexible, country-led programmes that respond to the very different stages of preparedness of each country when addressing its climate risks.[2] Flexibility is needed for (i) the time taken to prepare and plan and (ii) defining the institutional mechanism for implementing SPCRs. In practice, the successful and appropriate tailored application of the PPCR model depends on countries' ability to lead the process.[3]

Flexibility over how climate finance is disbursed is crucial

In Bangladesh, the PPCR has indeed been tailored according to country needs. Bangladesh has a well-established policy framework for addressing climate change that includes priorities recently defined under the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) of 2009. Bangladesh was also one of the first countries to develop its National Adaptation Programme of Action (NAPA) — in 2005. BCCSAP priorities were based on NAPA priority themes. So the Government of Bangladesh opted to largely leapfrog the PPCR preparatory phase and move straight to implementation.

The Government of Nepal also wanted to move directly towards investments, skipping over a full preparatory phase. In justification, it pointed to the adaptation planning taking place as Nepal developed its NAPA. However, the MDBs considered the NAPA to have a short-term remit (climate adaptation), compared to the longer-term climate resilience focus of the PPCR, and argued for a detailed preparatory assessment.[4] As a result, the process of planning the country's SPCR began without consensus from all parties, and as such, was a less than perfect start to the pilot.

In practice, the preparation processes in both countries have delivered both challenges and opportunities.

Affording flexibility to Bangladesh was crucial in ensuring the government's interest and ownership of the programme (see next section). 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 governments work on the NAPA was reflected in later versions.

These early experiences suggest flexible programming should be afforded to countries more uniformly, so as to foster continued ministerial interest in, and ownership of, investment programmes. But flexibility should not bypass crucial prerequisites, such as a systematic, country-led planning phase — even if scaled down — because this is essential for clarity and for avoiding later delays.

Do countries have 'ownership'?

Country leadership is important for integrating climate change adaptation into national and developmental planning processes during the PPCR. The programme aims to ensure country leadership by establishing 'ownership' of the programme through a series of government-led joint missions, and by designing governance structures and investment plans to fit with countries' needs.

For Bangladesh and Nepal, the ease at which country ownership has been achieved has been variable. The Government of Bangladesh assumed a high level of ownership early on, largely due to experience already gained with climate change planning for the country's NAPA and BCCSAP. But one drawback has emerged — the decision-making process is often steered by one or two dominant ministries. For example, the decisions to use loan finance for adaptation projects have mostly been approved without first establishing 'buy in' from all stakeholders. And dominant implementing ministries led the process to choose PPCR projects, and usually selected large-scale engineering rather than a range of project types. So there is strong country leadership, but without wide ministerial involvement or consensus in the planning, it appears to be less effective at reflecting the full range of national interests.

In Nepal, the process has been slower, and some stakeholders feel government ownership of the programme was partially undermined by early difficulties between consolidating the PPCR and the NAPA design processes (the NAPA was widely considered to have strong government ownership). This

PPCR in a snapshot

- PPCR is a targeted program of the Strategic Climate Fund (SCF) under the World Bank's Climate Investment Funds.
- It aims to demonstrate how climate risk and resilience can be integrated into measures for poverty reduction and development planning.
- The funding is made available in two different phases.

  First phase: technical assistance is provided through a grant that allows countries to define priorities and integrate climate resilience into a development plan, resulting in a Strategic Program for Climate Resilience (SPCR).

  Second Phase: funding is provided in form of grants and/or loans to implement this investment plan.
- Nine countries and two regions are participating in the PPCR: Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen, Zambia; the Caribbean and the Asia Pacific Regions.
- PPCR contributor countries are Australia, Canada, Denmark, Germany, Japan, Norway, Spain, UK, and the USA.
- Out of 18 countries 14 SPCRs were endorsed for a total funding of $800 million by October 2012.

lack of common understanding weakened government ownership during the PPCR's planning phases. Another challenge to encouraging equal levels of government ownership for the PPCR, as for the NAPA, was a shift in reporting responsibilities. Under the PPCR, MDBs bear the ultimate responsibility for demonstrating results to development partners, whereas, under the NAPAs, country governments are accountable, along with the implementing agencies.[4]

Owing to difficulties in establishing full country ownership during the planning phase, the Nepalese Government also felt it risked losing influence over the programme's implementation phase.[4] Over time, however, relations have improved and government leadership is growing. This was particularly evident when the government's strong preference for a biodiversity component was selected for the SPCR. Similarly, when selecting a focal agency for the PPCR, the government took ownership by choosing the Ministry of Science, Technology and Environment (MOSTE) over the Ministry of Finance (widely preferred by MDBs). The PPCR has also recently attempted to integrate indicators that measure inclusion of NAPA priorities within the PPCR results framework.

Is the PPCR catalysing private sector involvement?

Private sector involvement is seen as crucial for the Climate Investment Funds. MDBs are committed to deploying PPCR funds to help foster private sector development and leverage additional private investment for adaptation. The PPCR is designed to: (i) enhance knowledge, capacity and financial incentives for the private sector, enabling it to deliver climate change interventions; (ii) develop the necessary regulations to encourage adaptation in the private sector; and (iii) use concessional financing (loans) to attract private sector investment.[2]

National governments have also proposed specific climate resilient actions that they anticipate delivering through the private sector (see Delivering climate resilience through the private sector). But experience from other countries shows that even such targeted interventions may encounter significant challenges. ODI recently reviewed climate investments that were specifically designed to leverage further finance. From $8.5 billion of leveraged investments, only 20 per cent came from the private sector.[5]

In Bangladesh, key issues that deter private sector engagement include limited understanding of potential commercial opportunities; and the limited public sector support for private activities. The private sector sees little immediate impact from climate change on its business affairs, and so considers it irrelevant to short-term strategy. Inadequate evidence of benefits from climate-focused investments, and a lack of tested business models for addressing what are relatively novel and risky issues, further discourages the private sector from getting involved.[6] Low levels of preparedness for cooperative working within the public sector are another stumbling block. There are often no established relationships between national government and the private sector, particularly in the agriculture sector.[7] Public sector officials may find it difficult to fully understand the role of the private sector in adaptation, and are therefore unable to design appropriate policies to deliver public private partnerships on adaptation projects. For example, they may be unclear whether to use PPCR finance to engage the private sector in delivering adaptation, or whether to leverage investments from the private actors to augment PPCR funding.

The PPCR in Bangladesh (through the IFC) is exploring commercial opportunities, but little is being done to remove entry barriers and create a policy environment that encourages businesses to enter the market for adaptation services. Nepal's SPCR, on the other hand, may be facilitating greater public and private sector awareness of collaboration opportunities but it is too early to comment on how the Government of Nepal intends to proceed.

Delivering climate resilience through the private sector

In Bangladesh, the World Bank's International Finance Corporation (IFC) is working with private stakeholders to promote climate resilient agriculture and food security (for example, through improved practices and distribution chains) using $13m from the PPCR grant and concessional financing. IFC is also exploring ways to engage the private sector in providing low-cost housing for coastal populations. In Nepal, the IFC is working with private stakeholders to build climate resilient communities, primarily through addressing agricultural supply chain issues. It is using $17m from the PPCR grant and credit, and expects to leverage an additional $19.8 million, some of which will be from the private sector.

A transformational approach?

The PPCR aims to enable new and innovative pilot projects that developing countries can scale up into programmes of adaptation. It tries to catalyse a transformational shift away from 'business as usual', which usually takes a sector by sector and project by project approach.[2] In this context, transformational change also means a longer-term focused approach that goes beyond merely 'climate proofing' development. Transformational change requires increasing national partners' capacity to achieve long-term climate resilient development.[2,4]

Of course, when translated into national actions, countries' vision for transformational change will vary. PPCR in Bangladesh aims to bring transformational change through expanding infrastructure investments to all coastal districts. The country investment plan focuses on climate proofing large-scale coastal infrastructure, including embankments and water supply infrastructure. This trend resonates with other investments under the Bangladesh Climate Change Resilience Fund and Bangladesh Climate Change Trust Fund. The technical assistance component of Bangladesh's PPCR is therefore quite small compared with other PPCR countries, and only aims to build capacity in one ministry (that is, the MoEF). Importantly, there is no specific aim to integrate climate concerns into national developmental planning — and that brings the transformational effect into question. But the PECM (Poverty Environment Climate Mainstreaming) project of Bangladesh's Planning Commission is undertaking some independent attempts to integrate poverty-environment-climate linkages into national development planning and budget processes. Past experiences show that large coastal embankment and afforestation projects struggle to remain sustainable, due to inadequate community involvement.[8] Learning from this experience, a better programmatic approach would entail engaging local governments and communities early (during programme design) and increasing their capacities to propose and help maintain large-scale adaptation ventures.

Another challenge to achieving transformational change is the MDBs' commitment to demonstrate results within a relatively short time. The drive for quick results contradicts the idea of transformational change.[4] It encourages business-as-usual interventions such as climate proofing because they deliver over more predictable timeframes. For example, in Nepal one private sector oriented component seeks links between infrastructure improvement and benefits to the poor. But the results framework has no clear indicators for measuring these outcomes. Instead, input indicators are chosen that demonstrate results from infrastructure projects.[9]

Lessons

This initial assessment of how Bangladesh and Nepal are interpreting the PPCR's aims shows clearly how objectives can be differentiated across participating countries. Political economy dynamics, country leadership, varying interests and country circumstances all heavily influence interpretation and implementation.

Further work will explore the political economy dynamics of implementing the PPCR, but for now, the lessons emerging from this preliminary assessment are:

- Flexibility over how climate finance should be disbursed is crucial for ensuring continued government ownership, but should not neglect essential prerequisites, including appropriate planning, that are key for delivering actions.
- Overall, it seems managing stakeholder expectations from the start is vital to fostering country ownership, and hence the leadership needed for smooth implementation. Where country leadership is strong, care must be taken that one or two lead actors do not dominate the planning process.
- Given the complexities involved in engaging the private sector, a new approach may be necessary. As well as preparing private actors and providing incentives for them to provide climate services, it is clearly important to prepare the public sector to harness private sector involvement. Public-private partnerships are one way to foster greater trust.
- Transformational change may be interpreted according to country needs, but needs to integrate climate resilience right across national development planning. It will be important to ensure pressure for quick results does not discourage policymakers from creating an enabling environment for transformational change. Prioritising investment into short-term, 'quick result' infrastructure projects risks maintaining 'business-as-usual', rather than piloting long-term transformations.

NEHA RAI

Neha Rai (www.iied.org/users/neha-rai) is a Researcher in IIED's Climate Change Group.

This briefing draws on a literature and scoping review of the PPCR in Bangladesh and Nepal, including conversations and interviews with government officials, multilateral development banks, development partners and civil society groups. This is part of a broader political economy study of Climate Investment Funds with a particular focus on the Pilot Programme for Climate Resilience (PPCR) in Nepal and Bangladesh and the Scaling-up Renewable Energy Programme (SREP) in Ethiopia and Nepal.

Notes

1 Country investment plans are proposals for technical assistance and investment components, as defined in country SPCRs (Strategic Programs for Climate Resilience). 2 Climate Investment Funds. 2009. *Programming and financing modalities for the SCF targeted program, the Pilot Program for Climate Resilience (PPCR).* See: https://www.climateinvestmentfunds.org/cif/node/110 3 Rai, N., Anderson. S. 2013. *National institutional capacity and coordination in the Pilot Programme for Climate Resilience (PPCR) — Draft report.* IIED, London. For more information contact neha.rai@iied.org. 4 Ayers, J. *et al.* 2011. Negotiating climate resilience in Nepal. *IDS Bulletin Special Issue: Political Economy of Climate Change* 42(3): 70–79. 5 Whitley, S. 2013. *Five early lessons from donors' use of climate finance to mobilise the private sector.* ODI, London. See: www.odi.org.uk/opinion/7268-climate-finance-private-sector-donor-lessons. 6 IFC. 2010. *A strategy to engage the private sector in climate change adaptation in Bangladesh.* See: www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/IFC_pres_CC_PS_V8_Sep12010-_IFC_%20sk.pdf 7 Discussions with Mrinal Kanti Sircar and Rita Lohani on 16th June, 2013 at International Finance Corporation, Dhaka. 8 Independant Evaluation Group. 2012. *Adapting to Climate Change: Assessing the World Bank Group Experience: Phase III.* See: http://ieg.worldbankgroup.org/content/ieg/en/home/reports/climate_change3.html 9 CIF. 2012. Donor comments on Nepal's SPCR components. Comments from Germany on the approval by mail. Nepal: Building Climate Resilient Communities through Private Sector Participation (IFC).

UKaid from the British people

The International Institute for Environment and Development (IIED) is an independent, nonprofit research institute working in the field of sustainable development. IIED provides expertise and leadership in researching and achieving sustainable development at local, national, regional and global levels.

This research was funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the views of the UK Government.

Contact: Neha Rai
neha.rai@iied.org
80–86 Gray's Inn Road,
London WC1X 8NH, UK
Tel: +44 (0)20 3463 7399
Fax: +44 (0)20 3514 9055
Website: www.iied.org

iied