**Terms of Reference**

**Short term consultancy**

**Report on political economy and climate change**

**Background**

Governance of Climate change is becoming an increasingly central topic, for the WBG overall and for the GOV GP. While governance and public institutions do not directly impact GHG emissions, they are critical for making the necessary rapid changes across many systems and policy areas happen, as well as for preserving social cohesion in the face of accelerating stresses due to climate change impacts (natural disasters, shifts in land use options, etc.). Accordingly, the GOV GP is seeking to increase its internal capacities to develop relevant analysis, guidance and inputs that are critical for the practice, for regional teams, and for the WBG as a whole.

As part of its activities in this area, EGVPI will be leading a report on political economy of climate change policy actions in FY24-25.

The expected outline of the report is as follows:

* Introduction: Why a PE perspective – what is the expected added value?
  + What has already been done? – including a brief summary of the CCG work completed in FY23
* Part 1: Framework for thinking about PE challenges & the role of states and markets
* Part 2: Political economy of mitigation (with a focus on LICs/MICs & selected issues)
  + Framework/how to guidance & focus on selected issues
* Part 3: Political economy of adaptation
  + Framework/how to guidance & focus on selected issues
* Part 4: A PE perspective on international incentives and actions to facilitate progress
* Part 5: Takeaways for action

Further detail can be found in Annex 1 below.

**Objective and deliverables**

The main objective of the consultancy is to work with the task team on the development and drafting of the report in FY24.

Deliverables will be the following:

* Identify relevant materials as well as knowledge gaps
* Identify, research and summarize relevant examples for the sections of the report
* Drafting sections for the chapters of the report in collaboration with and under the close guidance of the TTLs
* Developing and refining graphs
* As part of the task team, engage with internal and external stakeholders on the chapters of the report, including the organization of workshops and conferences
* Draft summary presentations as needed

**Expected qualifications**

* PhD in political science or similar type of academic qualification
* Strong understanding of climate change mitigation and/or adaptation challenges in low and middle income countries (as demonstrated through past/ongoing analytic work)
* Strong qualitative and quantitative research and analysis skills (or a combination of strong and well developed)
* Experience in writing policy relevant texts
* Excellent research and synthesizing skills
* Experience with developing basic or advanced visualization of information preferred
* Ability to manage time and to meet agreed deadlines
* Initial experience with research networks preferred
* Initial experience with organizing conferences preferred

**Annex 1**

***Methodological approach***

The substantive parts of the report will focus on (i) setting out a specific framework to outline how relevant policy actions can be analyzed, and (ii) summarizing country and policy issue examples of issues and potential solutions/approaches. For the latter, the report will mainly rely on existing analysis and evidence, available data relevant for selected adaptation actions (e.g. FAOStat for agriculture; RISE data for renewable energy), complemented by desk based research, and selectively, primary data and information for key sector and country examples.

To the extent possible, the report will outline typical ‘political economy challenge patterns’ for selected policy areas – e.g. for deforestation (mitigation) or public investments in infrastructure resilience (adaptation), outline the main drivers that shape the extent and level of difficulty of moving from the status quo/business as usual to stronger, wider or faster policy action, and suggest potential solutions/approaches with a higher probability of impact.

The workstream is expected to be structured into one main report and several associated policy notes to be developed over time. The main report will serve to provide one comprehensive source, summarizing the overall framework and selected specific policy areas. The associated notes will serve to summarize share findings for selected areas of interested. Some notes may be completed and published prior to the main report, while others will be completed subsequently.

***Brief description of planned sections***

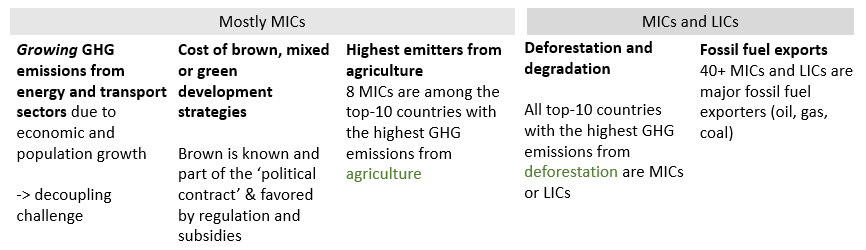
**For part 1, the report and notes will build on general political economy and related concepts and analytic approaches, extending them as needed given the high degree of multi-level governance involved in climate change policies** (supra-national, national, sub-national). In particular, the outputs will draw on the WDR 2017, the problem-driven approach to political economy and governance analysis, social contract frameworks, and the framework developed for CCG’s political economy report (see Additional Information below for further detail).

**A further important framing for the report is the issue of market versus state-based or public approaches to addressing climate change**. The intention is to have some priors but not to address this as an either-or choice, as both private and public action will be needed. Addressing climate change is a collective action problem that requires public decisions and investments. At the same time enabling private investments and efforts will be critical to achieve scale and speed of action. That said, the report will explore political economy challenges that can affect private/market-based as well as public/state-based solutions – which is important as either type of solutions often fall short of ideals.

* + **Markets**: How do markets function de facto and implications for public? What are incentives and relevant groups within the private sector (energy markets, opportunities for attracting investments, trade)? What opportunities are on the horizon?
  + **States**: What will self-interested politicians do, and what institutions are at their disposal? How do factors such as legacies and existing institutional structures influence evolving choices?
  + **Citizens**: What do citizens demand/expect/oppose/support (national and site specific)?

**Part 2 of the report (and associated notes) will focus on political economy aspects of mitigation – with a focus on low and middle income countries**. Table 1 below outlines the main mitigation challenges present in MICs and LICs. Given transition challenges (and associated financing and incentive problems) most countries have significant gaps between their NDCs and current actions to contain emissions growth and initiate low carbon development. Importantly, challenges are not static but are (highly) dynamic as key driving factors evolve – notably costs, investment opportunities, public opinion and demands for action as climate change impacts become increasingly visible and severe in many countries, as well as due to evolving actions by other countries and at the international level.

**Table 1: main sectors/sources of GHG emissions in Low and Middle-Income countries**



**This section of the report will seek to frame political economy issues and challenges in mitigation, and how policy action is shaped by politics, combined with offering a set of sectoral and regional/country examples.** Drawing on rational choice approaches and building on relevant literature, it will outline a broad framework of politicians – typically interested in re-election and/or output legitimacy (depending on the regime type) – and national level demand or support for greener or browner development (or neutral); as well as structural and institutional starting points or contexts, such as having or not having large scale fossil fuel based industries, including own fossil fuel sources (coal, gas, or oil).

**Given the importance of agriculture and forestry issues to mitigation in low and middle-income countries, the report will cover selected issues within these policy domains to illustrate how the type of factors play out**. This section will also review and seek to develop ideas of “what it would take” and how political economy obstacles to effective (and timely) action on mitigation could be reduced, addressed, or worked around.

**This section will summarize and build on the existing literature on political economy aspects of climate change mitigation efforts**. For examples, several studies (Guy et al. 2023; Hochstetler 2020; Steckl xxx) have shown that the importance of fossil fuel rents in an economy lead to lower ambition and performance on energy transitions. Some of the literature takes a normative approach – e.g. Mueller et al. (2021) in assessing approaches to energy transitions in 34 countries in Africa (northern and sub-Sub-Saharan). The analysis emphasizes the importance of including energy justice considerations into the regulatory framework to encourage RE expansion – e.g. through provisions on community development investments, job creation and training efforts, and ownership shares.[[1]](#footnote-1) In terms of political economy hypotheses and analyzes, the inclusion of community benefits could be explored as one factor enabling and allowing to sustain the envisaged rapid expansion of renewables. Hochstetler (2020) has outlined four distinct political economy aspects to energy transitions: (1) interests in climate change action (diffuse and concentrated), (2) industrial policy interests (concentrated winners in new green industries); (3) the political economy of energy distribution and consumption (the importance of energy pricing in general, as well as concentrated heavy energy users such as mining companies or other energy intensive industries); and (4) the political economy of siting new renewables projects – i.e. where such projects are sought to be established, the scale of such projects, and community involvement/benefits. Cheng et al (2020) have researched political economy determinants of (general) energy sector reforms across 20 Indian states. They find that concentrated opposition (agricultural interests and labor unions) on the one hand, and electoral threats to reform-interested incumbents (populist challenges by competing parties) hinders or stops energy sector reforms, and these factors are weaker in states with successful reforms. Lamb and Minx (2020) identify an ‘architecture of constraints’ – outlining a typology of how key macro-political variables (exposure to fossil fuel extraction activities, supply-side coal dependency, a lack of democratic norms, exposure to corruption, a lack of public climate awareness, and low levels of social trust) impact the likelihood of progress on energy transitions; with variations in how these factors combine and play out across different countries.

**Some literature has focused on the effectiveness of different mechanisms that have been pursued to encourage mitigation efforts.** Cullenward and Victor (2020) look into political economy aspects of how carbon taxes and Emissions Trading Schemes (ETS) are designed and implemented (with a focus on high income countries only). They find that strong carbon pricing is too unpopular and that ultimately carbon prices and markets remain (too) weak; and argue that green industrial policy and regulation would be a more impactful route. Along similar lines, Furceri, Ganslmeier and Ostry (2021) show empirically for 34 countries (28 OECD countries and 6 emerging markets) that introducing stringent market-based policies – i.e. carbon taxes – leads to significant loss in political support; while non-market based policies (legislation on emission limits and R&D subsidies) do not trigger a loss of support.[[2]](#footnote-2) In contrast, Baranzini et al. (2017) reviewed selected political economy issues related to carbon pricing and offer arguments that they can be addressed.

The emerging literature on political economy aspects of reducing GHG emissions from agriculture and from deforestation – which are critical areas for MICs and LICs as set out above – is still smaller. Resnick et al. ([2023](https://www.brookings.edu/articles/the-political-economy-of-reforming-costly-agricultural-policies/)) consider why it has been difficult to shift large scale agricultural subsidies more towards supporting lower emissions and healthier foods production.

**Part 3 of the report will explore political economy issues in adaptation, again with a focus on low- and middle-income countries**. Generally, political economy aspects of adaptation have so far received (even) less attention than those of mitigation.[[3]](#footnote-3) While policy actions on adaptation are clearly critical and in the self-interest of countries in general, they also compete with other policies for attention, priority – and especially for investments, i.e. the allocation of scarce fiscal resources. While some adaptation actions are regulatory – e.g. rules about keeping new construction away from flood-prone areas – many actions will require public investments. Moreover, even regulatory actions create direct fiscal costs (implementation and enforcement), and political costs – e.g. loss of government popularity among those seeking to construct cheap housing.

**The part will start with identifying the extent of the problem of insufficient adaptation action – based on CCDRs and other sources**.[[4]](#footnote-4) Taking generally self-interested politicians, limited institutional capabilities, and limited fiscal resources into account, a general hypothesis for this section of the report will be that politicians will prioritize adaption actions that are visible, benefit key actors/voters, and that are feasible within given institutional constraints.

One particular challenge that the section will explore is potential distributional conflicts over allocation of funding for adaptation actions – especially those funded from domestic resources, and potentially also those funded from external sources. Distributional conflicts or tensions are expected to arise due to the fact that adaptation investments are ‘club goods’, i.e. goods that benefit some groups but not others. For example, investing in more irrigation and/or subsidizing the use of more drought-resistant seeds most directly benefit farmers – but fiscally involves a trade-off and possibly foregoing investment in other (urgent) adaptation measures such as spending on infrastructure resilience in urban areas.

**The final section of the report will sum up the implications and take aways from the report**. The key focus of this section will be on the following:

* + What to pay attention to and how?
  + What are likely recurrent obstacles/challenges (for selected policy actions)?
  + What are opportunities/ways to engage mindful of PE as well as technical & fiscal drivers and space for action?

Building on the last point, this section of the report will elaborate on the following:

* + The options space for developing ‘PE-smart approaches’ – i.e. policy and operational engagement that takes political economy constraints into account and seeks to achieve progress in ways that overcome or address these constraints – including a potential choice or prioritization of policy options or approaches that are more feasible and robust in the face of political economy constraints
  + Implications for supporting country transitions most effectively
  + Ways of making well-intentioned climate-policies more robust to rent-seeking, mismanagement and policy reversal risks.

As for other sections of the report, part 5 will include examples of relevant experiences to illustrate how political economy factors have been taken into account to illustrate what can be done and how.

1. E.g. a level of community ownership in a third of RE projects of 20-40 per cent is noted for South Africa. [↑](#footnote-ref-1)
2. They conclude: “Thus, using non-market-based measures—which overall are still efficient ways to reduce carbon emissions (IMF, 2019)—seem to stand a reasonable chance of escaping political blame (Weaver, 1986; Pierson, 1994) and thus of overcoming the political cost of CCPs [climate change policies].” [↑](#footnote-ref-2)
3. The report being developed by CCG on political economy of climate change does not cover adaptation and this was identified as a gap for further work – which this section of the planned report will start to address. [↑](#footnote-ref-3)
4. As UNEP’s adaptation gap report notes, there is no comprehensive data available on fiscal or other funding allocations for adaptation; data is available for international transfers. [↑](#footnote-ref-4)