Main Messages

By adopting the Paris Agreement in 2015, 195 governments agreed to hold global warming at well below 2°C above preindustrial levels and pursue efforts to limit it to 1.5°C. Despite multiple pledges and commitments, the rapid progress in key technologies, and the many policies introduced to date, the world is not on track to meet this objective. Moreover, despite robust evidence that countries have opportunities to reduce emissions at no or even negative costs, the failure to seize these opportunities suggests that the main obstacle is neither economic nor technological. Rather, the political economy is proving to be the key barrier to progress.

This obstacle is not impassable: there are many examples of successfully implemented climate policies. For example, in 2014, defying political and economic challenges, the Arab Republic of Egypt’s Energy Subsidy Reform eased fiscal pressures and encouraged greater private investment in clean energy, with solar and wind generation growing almost threefold in the following five years. In Canada, the province of British Columbia introduced a carbon tax after the financial crisis in 2008, covering 70 percent of greenhouse gas emissions. That reform has reduced emissions and inequality, has raised growth and employment, and now has the support of a majority of citizens. Kenya reformed its power sector, a sensitive and important source of revenues and influence, thus improving efficiency, increasing cost recovery, and mobilizing private sector investments into renewable energy. The lesson from these case studies is clear—climate action with an impact is possible in the real world.

This book sets out why climate policies are successfully adopted in some cases but meet substantial opposition in others. Guided by the 4i Framework—covering four key components of the political economy: institutions, interests, ideas, and influence—it offers a framework to help policy makers replicate these achievements and effectively maneuver through a multitude of political economy barriers.

Climate change presents a unique challenge in that policy makers need to balance the speed and scale required to achieve global climate objectives with the time required to ensure political acceptability and social sustainability. To implement sustainable and transformative climate policies, policy makers can approach the design of their climate strategy and policies along four dimensions.

1. **Climate governance: strategically adapt the institutional architecture and embed climate objectives into a positive development narrative.**
   
   Institutions frame the relationship between actors and shape their influence, ideas, and interests. Policy makers can start by strategically using and adapting the institutional context for the climate transition, for instance, through climate change legislation, long-term strategies, or just transition frameworks.

   If climate change mitigation objectives are already widely recognized in public debates and polarization on climate policy is low, policy makers can build strategic climate institutions to help mediate interest groups and build consensus, facilitate and inform stakeholder engagement and alignment, foster supportive coalitions, and improve the overall institutional context. As demonstrated by the European Union’s Fit-for-55 plan, these kinds of institutions can create stability and predictability, reduce the likelihood of policy reversal, and help maintain a consistent and cost-efficient strategy, even if the political context changes.

   If climate change mitigation objectives are less consensual, governments can layer climate governance functions into existing institutional structures and policy objectives. For example, proactive climate-oriented entities have emerged within various Indian government ministries, achieving tangible outcomes by incorporating a climate perspective into existing organizational frameworks and aligning it with established priorities. Between 2014 and 2022, India’s renewable power generation capacity more than doubled, while energy efficiency improved, enhancing energy security.
2. **Policy sequencing: balance short-term feasibility and long-term ambition.** Because the political economy and institutional contexts are not static, policy makers need to follow a dynamic approach in designing and implementing reforms. Policy prioritization can be based not only on technical and political feasibility but also on the ability to actively build political support, increase capacity, and reduce the costs of future climate action. For example, policies that create interest groups that benefit from and support climate action can facilitate and enable further action, such as in China, where industrial policies in the mid-2000s supported renewable energy industries, thereby paving the way for the successful launch of an emissions trading scheme in 2017.

Because climate policy adoption is path-dependent, it is much easier to introduce policies that build on existing institutional capacity and know-how. With the help of the Climate Policy Feasibility Frontier—a tool to inform policy choices by considering existing and expected policy-making capacity—analysis finds that, for Türkiye, a legally binding climate strategy or binding emissions reduction target and an emissions trading scheme or a carbon tax would be feasible and most likely to build momentum toward further action.

Targeting tipping points—that is, rapid changes in social, technological, and political domains—through shifts in societal values and behavior, technology maturity and accessibility, or support for and implementation of policies can also help governments incentivize rapid and systematic change. Thanks to these tipping points, a well-sequenced approach does not need to be slow, making it possible to combine political feasibility with ambition and speed.

3. **Policy design: focus on people and manage the distributional effects of climate policies.** Policy makers also need to minimize, manage, and, if necessary, compensate for the distributional impacts of policies on the poor and vulnerable as well as on interest groups, sectors, and regions. New analysis for this book finds highly heterogenous impacts of climate policies across households, with a larger variance within than across income groups. These impacts depend not only on consumption patterns but also on factors like access to electricity or public transit. Poor people who do not consume much fossil fuel and cannot access modern transportation may not experience heavy direct impacts from climate policies, but ill-designed policies can make it harder for them to transition away from biomass or to access better-paying jobs. Near-poor and lower-middle-class households, who consume more energy and are highly vulnerable to price changes, experience larger and more visible immediate impacts from policy reform. New analyses in Cape Town, Kinshasa, and Rio de Janeiro show that higher transportation fuel costs have particularly large impacts on lower-middle-class households. While protecting the poorest and most vulnerable people is an imperative, political opposition is more likely to originate from impacts on well-organized or powerful interest groups, or from impacts that are concentrated on sectors or places that lack the resources or substitution options to adjust.

Possible and affordable tools for protecting poor and vulnerable populations include revenue redistribution and compensation, but it is important to consider practical challenges—such as lack of social protection infrastructure and of household data—to enable effective targeting and delivery. Active labor policies, reskilling programs, social protection systems, place-based policies, and green industrial policies form part of the toolbox policy makers can use to reduce concentrated impacts, facilitate the transition, and make policies more acceptable and sustainable over time.

4. **Policy process: use public engagement and communication to improve policies and their legitimacy.** Support for, or opposition to, a policy derives not only from people's interests but also from their perceptions of reform effects and the legitimacy of decision-making. Civic engagement can improve a policy's design, enhance legitimacy, foster compromise, and help identify unintended consequences early. Effective communication can make reforms more accessible to the public and increase support. In 2011, El Salvador's gas subsidy reform was met with opposition—particularly from lower-income households, although they were expected to benefit the most—driven by misinformation and mistrust in the government. As households started to benefit from the reform, however, their perceptions improved, and the reform eventually gained broad support. Experience from Indonesia also shows that opposition to fossil fuel subsidy reform is directly linked to local perceptions of corruption. When corruption is low, poor households are over two-and-a-half times more likely to support than to oppose fuel subsidy reform. Without public trust, even well-designed, well-intentioned promises of compensation and redistribution can lack credibility.

For a reform to be perceived as legitimate, it must involve transparent and participatory policy processes, and have outcomes that are desirable and acceptable for the public.

This book shows how appropriate governance frameworks, strong institutional capacity, well-designed policies with adequate compensation measures, and early engagement with all stakeholders are essential strategic elements to build consensus and momentum for transformative policies. By deploying these tools, policy makers can navigate the urgency of climate action and its political economy challenges to achieve their long-term climate goals and secure a livable planet.