TECHNICAL
NOTE

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APPLIED POLITICAL ECONOMY ANALYSIS FOR LAND-BASED CLIMATE CHANGE MITIGATION

This technical note describes how applied Political Economy Analysis (PEA) can help Missions gain deeper insight into the contextual barriers and opportunities facing Natural Climate Solutions (NCS) activities.

WHY PEA?

In programming activities, the U.S. Agency for International Development (USAID) strives to recognize contextual challenges and opportunities and respond effectively. Incorporating USAID's applied PEA methodology into activity design supports these efforts.[1] Applied PEA research investigates the underlying causes of current institutional arrangements, formal and informal rules governing citizen engagement, incentives of key stakeholders and powerholders, and current events, resulting in a better understanding of the dynamics that may enable or hinder NCS investments. A comprehensive view of these dynamics enables the alignment of key powerholders' incentives, which is required for NCS interventions to overcome political economic obstacles. Applied PEA helps Mission staff to systematically think and work politically to identify the incentives and understand how to navigate the political economy dynamics to design more effective NCS investments. For example, a PEA for a USAID NCS activity in Indonesia (LESTARI) focused on the economic drivers of deforestation, and revealed that formal policies aimed at reducing the impact of commodity production can be undercut by "rules of the game" such as informal or illegal land deals. As a result, LESTARI engaged citizen groups to improve their knowledge and capacity to pressure government officials through social accountability mechanisms rather than focusing on government capacity-building.

PEA ELEMENTS

Foundational factors are political and economic structures and systems, such as land and resource tenure arrangements, that are often informed by historical power relations and are slow to change. These factors are deeply embedded in historical national and sub-national structures that shape the character and legitimacy of the state, its political systems, and its economic choices. Those choices in turn influence forest and land management and natural resource use, such as the legacy of colonialism on land use laws and the exploitation of resource rights for mining, timber, agriculture, and ranching.

Rules of the game consider formal rules (such as laws and regulations) and informal rules and norms (such as how to pay bribes, and gender roles and relations). These also include formal and informal institutions, the legal framework (such as the constitution as well as common law), and cultural and societal norms that influence actors' behavior, incentives, relationships, and capacity for collective action to promote sustainable forest and land management that results in greenhouse gas (GHG) emissions reductions.

Here and now identifies key events such as a change in government, recent private sector investments, and global climate agreements that can influence the incentive structures of actors engaged in NCS and the relations among them. They are recent events and actions of individuals or groups that provide either opportunities or impediments to NCS programs.

Together, these elements reveal political economic **dynamics** that are likely to impact NCS outcomes, as shown in Figure 1. The figure analyzes how the foundational factors, rules of the game, and here and now influence prospects for NCS. The dynamics section of PEA often incorporates a stakeholder analysis and power matrices related to key actors and their incentives and disincentives for actions and changes: Who are the potential champions and spoilers? Are there examples of alliances and coalitions that can be encouraged to overcome resistance to change and promote reform?

POLITICAL ECONOMY ANALYSIS (PEA)

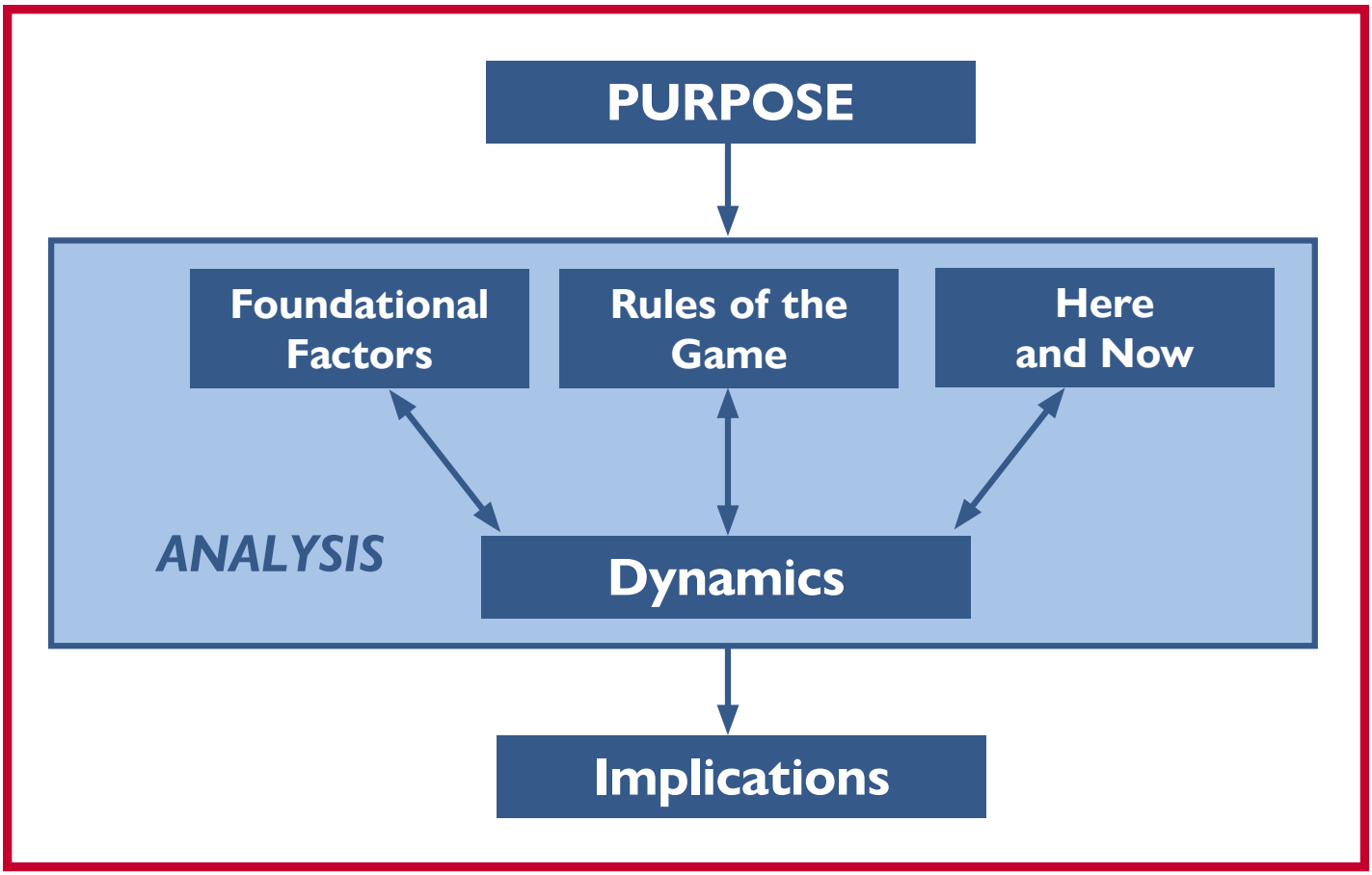
PEA is a structured approach to examining power dynamics and economic and social forces that influence development outcomes. PEA can help to operationalize the process of thinking politically to improve the effectiveness and sustainability of international development investments.

NATURAL CLIMATE SOLUTIONS (NCS)

USAID advances NCS through programs that promote the sustainable management of forest, agricultural, and other lands to improve livelihoods and resilience while reducing national and regional greenhouse gas (GHG) emissions from deforestation and land degradation.

[1] *USAID Guidance on Thinking and Working Politically through Applied Political Economy Analysis (2018)*

Figure 1: USAID's Applied PEA Framework



Source: "USAID Guidance on Thinking and Working Politically Through Applied Political Economy Analysis" (2018)

PEA PROCESS (STEP AND LOGISTICS)

Defining the **purpose** and **level** of the analysis is the first and most critical step in conducting a PEA. To define the **purpose,** the team should focus on the objectives of the NCS activity and structure core and supporting questions around those objectives. The NCS objectives will also inform the level of analysis (regional, national, sub-national, sector, or issue). The next step is to prepare a desk study to obtain preliminary answers to the core and supporting questions. Other steps include crafting an interview guide, populating the list of informants, developing the interview schedule, and preparing the researchers for the primary research phase. PEA researchers coordinate closely with USAID to ensure that questions meet their needs and to address any sensitivities of partners and stakeholders. The primary research involves conducting interviews and triangulating findings with the desk study and information from other sources. For more information, view the detailed step-by-step PEA process.

A PEA research team incorporates a mix of expertise: typically PEA, NCS, and local system subject matter experts. USAID staff may also want to participate in the research and will bring a valuable perspective. Most PEA studies take between two and six months to complete. The complexity of the research questions affects the number of researchers, the time to carry out the study, and associated costs. PEA enables Missions to think strategically about the political and social conditions surrounding projects and activities. Through PEA, staff and partners can address development challenges in all sectors by adapting programming according to realities on the ground.

PEA FRAMEWORK AND NCS PROGRAMMING

This section shows how the elements of the PEA framework pertain to NCS programming, drawing from the literature on the political economy of tropical forest management.

FOUNDATIONAL FACTORS

Colonial Legacies in Governance: Regime types and governance systems influence the quality of forest management, with more transparent and accountable governance systems associated with improved forest conservation. Historical agreements that granted resource rights to agriculture, ranching, timber, and mining companies incentivized tropical deforestation and degradation, with implications for current land use patterns. Many post-colonial regimes followed colonial-era practices that favored granting large concessions to timber, agriculture, ranching, and mining companies to generate revenue for the government. For example, in the Democratic Republic of the Congo today, colonial-era forest management practices benefit commercial timber exploitation at the expense of rural landowners. Conversely, in Nicaragua and Honduras, the colonial legacy created a unique legal framework for the recognition of Indigenous peoples' land rights in some areas.

In Ghana, tenure rights over naturally occurring trees, even on private farms, are historically vested in the state, creating a disincentive for farmers and landowners to protect or cultivate trees as their rights to benefits and income generated by those trees are not secure.

RULES OF THE GAME

Formal Rules

Forest and Natural Resource Laws and Regulations: There have been some policy successes on the national level to limit deforestation and even spur net afforestation. India is one such example. While its forests face tremendous pressure from agriculture (which accounts for 43 percent of land use) and a dense population, India's National Forest Policy of 1988 made forest conservation a national priority. This policy focuses on decentralized joint forest management (JFM) programs between community groups and state governments, as well as limiting commercial timber. Despite these legislative successes, much of the afforestation occurs through tree plantations and India's natural forests are still facing degradation and decline.

The European Union and the United Kingdom are considering joining the United States in establishing demand-side trade regulation of deforestation-risk commodities. These commodities drive more than 2 million hectares (Mha) per year of forest loss and 1.2 gigatons of carbon dioxide equivalent ($GtCO_2e$) per year of emissions. Voluntary zero-deforestation commitments have failed to stop the rise in the conversion of forested lands to agricultural commodity production. Demand-side countries will need to partner with producer countries to implement stronger legal and regulatory frameworks around forest conservation and land tenure.

Customary Tenure: National and local governments play an important role in recognizing and enforcing customary tenure. Without clear tenure laws and assistance in enforcing the boundaries of communally-held land, Indigenous peoples and local communities' (IPLCs') territories are vulnerable to licit and illicit private sector land grabs and government expropriation. Well enforced customary tenure rights for IPLCs improves sustainable forest management and natural resource governance. For example, IPLC-managed lands sequester more than twice as much carbon dioxide as non-IPLC-managed. Enshrining customary tenure and communal governance does not guarantee better forest management, however. Formal rules governing community forestry can be major barriers to success. Local actors and government officials often have a role and vested interest in the current tenure situation. Reforms to allow for decentralization of land management result in political winners and losers, which can lead to conflict and confusion, creating de facto open access situations.

Scaling NCS Objectives: In the NCS context, scale is an important factor. If communal governance units are small-scale, deforestation pressure can move from one place to another ("leakage"), thus threatening national-level goals. Jurisdictional approaches to NCS may incorporate both community and government lands. PEA is essential to understand the dynamics of these arrangements. IPLCs' forest governance regulations and policies are often not codified in law or necessarily recognized by the government, leaving community forest management vulnerable to outside actors. These regulations and policies, which have been shown to be highly effective in multiple studies, include when and how to gather non-timber forest products, manage fire risk and water resources, and mitigate against pests and disease.

Informal Rules

Cultural and Social Norms: Cultural and social norms around gender are often a central barrier to women's full participation in forest governance. Empowering women in the forest sector can boost their income, increase their independence, and provide new work opportunities and business skills. Creating new opportunities for women in forest governance has spillover benefits for their households and communities in terms of food security, health, and education. Gender norms differ across societies; and interventions for forest conservation should take localized and context-specific gender norms into account. Patrilineal systems of inheritance, limited access to material resources for women, and gendered divisions of labor are some ways that socio-cultural norms regarding gender can limit women's engagement in forest governance. Work in Ghana suggests that providing child-care support can help empower women to participate actively in forest governance.

Incentives: There are few instances where positive incentives align among stakeholders at community, local, and national levels to manage tropical forests sustainably and equitably. Nonetheless, there is growing consensus among key actors that IPLCs are often the best and most cost-effective stewards of tropical forests to maintain and increase carbon storage, although keeping transparency and accountability in their forest management practices is still necessary. This "consensus" will need to be contextually understood and vigorously negotiated by interested parties to remove barriers and align incentives that provide sufficient mutually beneficial reasons to promote NCS for sustainable tropical forest management. One positive example comes from the Responsible Soy Project in the Amazon.

Sustainable forest governance requires a shift in incentive structures and ensuring that key actors' interests align. In many cases in which elites are profiting from forest concessions, they support the status quo and oppose reforms to improve the conservation of forests. Such a shift in incentives for governments has occurred in some areas with the realization that IPLCs are the most efficacious stewards of tropical forests, resulting in national governments recognizing the land titles of these communities and providing legal and physical protection in exchange for sustainable management of tropical forests. The costs of these transfers are often underwritten by foreign governments and international organizations concerned with solutions to land-based carbon sequestration. A good example is the Maya Biosphere Reserve in Guatemala, which is managed by the Association of Forest Communities of Peten (ACOFOP).

Pushback From Entrenched Interests: While these trends in improved governance are promising, there is pushback from entrenched interests, fueled and abetted by corruption, for control of valuable forests. This struggle may be internal to a community (as in the case of Suruí in the Amazon) or with external interests such as extractive industries. One indicator of this pushback from entrenched interests is the growing threat of violence to environmental defenders, 228 of whom were killed around the world in 2020 alone.

HERE AND NOW

The Paris Agreement and Global Climate Cooperation: The Paris Agreement in 2015 brought significant changes to the ways countries report and monitor their climate targets, including through Nationally Determined Contributions (NDCs). While land use often presents the most cost-effective solutions for climate mitigation, countries often do not make full use of the potential of forest solutions in their NDCs. Another avenue for cooperation is bilateral payment-for-performance agreements for forest conservation, which Norway has implemented with success in countries such as Guyana. Recent international initiatives provide the opportunity to advance NCS at the local and national levels. At the United Nations Climate Change Conference (COP26) in Glasgow, Scotland, five governments and 17 private donors pledged $1.7 billion to support forest conservation by putting IPLCs in charge of forest management, granting them tenure rights. COP26 also saw countries redouble efforts to end natural forest loss by 2030 and to restore at least an additional 200 million hectares of degraded forest lands through efforts including the US Plan to Conserve Global Forests and the Executive Order on Strengthening the Nation's Forests, Communities, and Local Economies.

Agricultural Commodities: Major economic drivers of deforestation include large-scale production of high-demand commodities such as beef, palm oil, and soy. In many parts of the world, this commodity production pushes into forests, peatlands, and wetlands, reducing their potential for carbon sequestration. NCS approaches to lessen the impacts of these industries include policy change for concession allocation, land use planning, land rights for IPLCs, and private sector partnerships to green supply chains. A Center for International Forestry Research infobrief on oil palm in Kalimantan, Indonesia cautions that "Green growth does not always provide a win-win strategy, and is not simply a matter of providing market incentives. It should first and foremost be approached with strong political commitment based on a long-term perspective and concern for the interests and wellbeing of communities in concession areas."

Voluntary Private Sector Initiatives: Market demands for sustainability have put pressure on the private sector to align with environmental and social criteria. In response, the private sector is increasingly searching for ways to finance forest conservation. Through one such initiative, Lowering Emissions by Accelerating Forest finance (LEAF), governments and the private sector have designed a high-integrity platform for companies to buy emissions reduction credits to meet their net-zero commitments, while at the same time channeling billions of dollars into tropical countries to help fight deforestation. Tropical Forest Alliance similarly brings together government agencies, local stakeholders, and the private sector to transition toward deforestation-free commodity supply chains for agricultural and timber products. However, poorly-aligned incentives, weak regulatory enforcement, and corruption pose barriers to the implementation of initiatives like LEAF and the Tropical Forest Alliance.

Forest certification for timber is another example of a tool by which the private sector can support improved forest governance and conservation. If designed carefully, forest certification has the potential to serve both conservation and economic interests by encouraging responsible use through market incentives. However governments and forest industries may oppose forest certification in cases where it conflicts with their entrenched interests. In addition, corruption, cost, and lack of benefits to the private sector present challenges to forest certification.

National and Sub-National Initiatives: Changes in government policy can weaken enforcement and normalize deforestation. After a decade of falling deforestation rates in Brazil, deforestation skyrocketed between 2019 and 2020 to the highest rate in 15 years. Changes to the Brazilian Forest Code in 2012, the weakening of deforestation enforcement by the Ministry of the Environment, disregard for climate change policies, and the potential normalization of illegally-grabbed public lands have contributed to this spike. Despite signing the COP26's pledge to prevent deforestation, Brazil's government has chipped away at forest protections in pursuit of high timber commodity prices, mining opportunities, and expanded agricultural land. In Indonesia, deforestation rates have decreased substantially through a combination of lower palm oil prices, "no deforestation" commitments, and the government's deforestation moratorium. However, projected increases in palm oil prices could renew deforestation pressure on Indonesia's forests.

Technological Advances and Transparency: Technological advances in carbon mapping are opening up new avenues for monitoring forests and for transparency in supply chains. Global Forest Watch is an example of a powerful tool deployed to help investors and decision-makers reduce deforestation. Innovations in mapping technology, such as lidar, provide new opportunities for forest monitoring and transparency. The growth in datasets around forests and land use has spurred hope for improved transparency in supply chain governance. When designed effectively, supply chain transparency systems can compensate for the gaps in state governance, but these systems often lack information on power dynamics between investors and vulnerable communities, the distribution of economic benefits, and the effectiveness of activities on the ground.

DYNAMICS

The dynamics section of the PEA analyzes how Foundational Factors, Rules of the Game, and Here and Now come together. USAID/Indonesia's LESTARI project provided an early example of how PEA can inform program design to strengthen forest governance. The LESTARI project used PEA to enhance the technical capacity of Ministry and local government officials to improve land use planning, titling, permitting, and enforcement processes. The PEA was conducted mid-way through the project period to test the theory of change. The PEA found weak policy implementation, government accountability, and enforcement to be the main political dynamics impeding forest conservation. To address the lack of political will of government officials to enforce forest protection laws, LESTARI engaged citizen groups to improve their knowledge and capacity to pressure government officials through social accountability mechanisms. Within the project team, it recommended advocacy training and advocacy strategies for any project activity where political economy dynamics were likely to underpin a "lack of political will."

NEED FURTHER ASSISTANCE?

If you are interested in an NCS PEA, please contact the DRG Center's Policy, Coordination, and Integration (PCI) team at ddi.drg.pci@usaid.gov.