



Energy Transition in Emerging Markets



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For an economy to transition from traditional fossil fuel energy to renewables it requires structural shifts in supply and demand. However, emerging markets (EMs) face supply and demand constraints. At RPA, we believe this will result in the majority moderating the pace and extent to which these transitions will happen. We expect this moderation to become evident over the coming years through policy shifts in nationally determined contributions (NDCs).

A NDC is a policy document which outlines how a country plans to manage climate change, and transition its economy from traditional sources of energy to renewables. Countries are required to update and submit these plans every 5 years, with the next submissions due in February 2025.

For simplicity, we characterise EMs as economies transitioning from lower income and lower standards of living, to higher income, industrialised ones. These economies are less resilient to climate risks and will be disproportionately impacted by the negative effects of climate change. As such, energy transition matters.

However EMs today encounter headwinds which constrain the pace and extent to which they can transition. These include:

1. Challenges attracting foreign investment to fund renewable energy projects. This is due to heightened geopolitical risks, inflation, and higher return requirements from investors. This makes increasing renewable energy capacity of a country (supply) more difficult; and
2. Consumers who are unwilling to pay for, or unable to access renewable energy sources, either due to its higher costs or lack of availability. This makes generating sufficient demand for renewable energy more difficult.

Due to the first point, it is unlikely the trillions of \$'s needed to help EMs transition will materialise in the short to medium term. So far, United Nations Climate Change COP meetings have not been effective addressing this gap.

To address the first point we expect NDCs will increasingly gear towards:

- **Supply side policies** to encourage foreign direct investment (FDI). This is likely to include measures which deregulate energy markets, relax foreign ownership restrictions and regulatory reforms making the approval and development of renewable energy projects easier. The Philippines is one EM which adopted some of these policies in recent years.

To address the second point we expect NDCs will increasingly gear towards:

- **Demand side policies** to stimulate growth in their economies, and make renewable energy more affordable via subsidies and allowances. India is one EM which adopted some of these policies in recent years.

Understanding NDCs can signal the policies EMs are likely to implement in the coming years. Thereby enabling companies and investors to better manage energy transition risks and opportunities.

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