KEYNOTE INTERVIEW

The emerging markets multiplier effect

It is possible to generate competitive returns in emerging markets alongside outsized impact, from social outcomes to the energy transition, say Shami Nissan at Actis and Sumit Barat at portfolio company BluPine Energy

Emerging markets have long been flagged as key to achieving impact investing goals, particularly when it comes to the energy transition. Yet emerging and developing economies, excluding China, account for less than 15 percent of global clean energy investment, according to the International Energy Agency.

Emerging markets specialist Actis has backed and built multiple renewable energy companies to help address this challenge for over 20 years, including establishing BluPine Energy in 2022, a renewable wind and solar power generation and storage business in India.

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For Actis partner and head of sustainability Shami Nissan, not only are emerging markets investments a critical component in the journey towards net zero, they also provide opportunities to play an outsized role in generating broader impact outcomes, while delivering financial returns.

Here, Nissan is joined by BluPine Energy's chief sustainability officer, Sumit Barat, to discuss the scope of the opportunity and how impact can be achieved in practice.

Q Why is emerging markets impact so important?

Shami Nissan: It is possible to achieve an outsized magnitude of impact when investing in emerging markets. First, that is because 85 percent of the world's population live in emerging markets, per the International Monetary Fund, and this is also where we will see the greatest population growth and often higher levels of poverty, unemployment and inequality. So when it comes to social impact, emerging markets is certainly the place to be investing. It is important to remember, however, that emerging markets are by no means homogeneous.

Secondly, there is a lack of critical infrastructure and essential services. Investing in infrastructure that is sustainable, resilient and inclusive will support economic growth and deliver considerable social good. There is a multiplier effect at play in terms of delivering impact per dollar, contributing greater direct and indirect positive outcomes and stimulating local economies.

Q Where are you seeing the most compelling opportunities in terms of investment themes?

SN: The energy transition is a huge theme globally. We have seen many transition-focused funds coming to market recently, reflecting demand from asset allocators for sustainable investment vehicles focused on climate. We see opportunities in renewable energy generation and battery storage to help drive a net-zero future.

Industrial decarbonisation – the so-called greening of the brown – is a big theme, as is energy efficiency. There are also compelling opportunities to invest in the enabling infrastructure to the energy transition, in terms of grids, distribution and transmission networks.

Another sector that interests us is digital infrastructure, and data centres in particular. Demand for data centre capacity is exploding, as is electricity demand to power the data centres. The IEA states that data centres' total electricity consumption could reach more than 1,000TWh in 2026 (equivalent to the electricity consumption of Japan). There are significant investment opportunities at the nexus of data centre infrastructure demand and the generation/supply of clean power.

Q Are there any geographical markets that stand out for their investment opportunities?

SN: We are seeing interesting opportunities around renewables and green and blue hydrogen in the Middle East. Mexico is benefiting from supply-chain repositioning with the US, leading to growing exports. Vietnam benefits from the China Plus One strategy. We also see opportunities in Central and Eastern Europe and Asia.

India stands out in a slow-growth global environment. The country is an example of a market that we have been investing in for a long time, particularly in the context of the energy sector. We invested in a renewables company called Ostro Energy out of our third energy fund nine years ago, which we have since exited, and then a company called Sprng Energy out of our fourth fund, which we sold to Shell.

BluPine Energy is an investment from our fifth fund, the third iteration of the same story. We have institutionalised the success factors in those earlier deals and replicated them in later investments, right down to the fact that we have put the same sustainability policies in place, which has meant each of these companies has been recognised for the exceptional sustainability credentials and social impact they are having.

Sumit Barat: Renewable energy in India is growing at a rapid pace. Current capacity stands at 200GW, but the target is to reach 500GW by 2030. It takes an average of 2,500 skilled workers to construct every additional GW, and a further 1,000 skilled workers once that generation capacity is operational. At BluPine Energy, we are contributing to that rapid scale of progress by constructing new facilities to

Q How do you build climate resilience into the assets you acquire?

SN: I think it's important we take the physical risk resulting from climate events seriously as an industry. There continues to be an escalation in extreme climate events around the world, not only in emerging markets. These events are impacting our cities, infrastructure and societies. That is why we, as a firm, have undertaken a major piece of work involving our entire portfolio, which is being carried out by AXA Climate.

We started with a top-down review of the climate risks faced by each of our assets. This involved sharing more than 220 GPS data points for every project to undertake a climate hazard assessment and scenario analysis. Using sophisticated climate models, the outputs demonstrate which climate hazards each asset is most exposed to and under which warming scenario.

We are now going through the process of understanding each portfolio's level of resiliency, and enhancing resilience and future-proofing of the businesses where necessary. Some of our assets have begun more localised research on the back of the initial findings and others are already taking action. In fact, some have started to reap the benefits in terms of reduced insurance premiums. For example, one company that invested in wildfire prevention and response management systems has been able to secure insurance at reduced fees.

Overall, I would say the climate resilience piece doesn't always receive as much attention as the investment opportunity in climate solutions does, but from a value preservation point of view, it should be a critical consideration.

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>
> **SHAMI NISSAN**

generate renewable energy, as well as the upskilling of the workforce.

We currently have 1.7GW of contracted capacity, 31 percent of which is already operational, with plans to grow that to 4GW over the next few years. We supply utilities, but we also supply commercial and institutional customers, including data centres. Once we have all 4GW in operation, we will be avoiding 6.8 million tonnes of carbon emissions, thereby having a substantial impact on the fight against climate change.

Q How much risk is associated with investing in emerging markets, and how can that be mitigated?

SN: The biggest concern that investors tend to have when considering investments in our markets is FX risk, but we believe this risk can be managed. Our risk mitigation investment approach is encapsulated by the measures in our HILDAH acronym – with hard currency, inflation-linked, local debt, diversified, macro-risk analysed and hedged investments.

The other risk I would point to involves the social licence to operate. Social issues can be a risk. Our infrastructure is often located in rural areas and, as long-term owners of assets, we develop intimate relationships with those communities. It is critical we get our relationship with local communities right, creating shared value and alignment of interest, so that everyone is invested in the success of the project.

While these risks are real, there are also effective mitigants that we can put in place. All our companies implement community investment programmes for this very reason. Those programmes are part of a de-risking strategy that allows us to complete projects on time and on budget, but they also deliver intentional and meaningful social benefit.

The supply and demand dynamic between capital and opportunities in our markets is also a key mitigator, with the primary product we are selling – electricity – in short supply relative to developed markets. This means that there is less competition for power purchase agreements and, as a result, more certainty around off-takes.

It is important to emphasise that emerging markets are highly diverse. We do not take a binary view, and through our Actis Atlas taxonomy we have developed a more nuanced lens through which to assess the 80-plus emerging markets, rather than as a single monolithic group. This approach means we are better able to balance portfolios and risk criteria across multiple geographies.

Q Can you give an example of how these initiatives work in practice?

SB: At BluPine, many of our projects are in areas where the neighbouring communities are comprised of low-income households and many of those people are living below the poverty line. When a project arrives in their village, they expect economic benefit, but they often lack the necessary skill sets to capitalise on the opportunity. That is why we have focused our social investment on developing skill sets linked with the renewable energy sector in the local communities. These initiatives have been very well received.

One example is our skills development programme providing training on utility-scale solar, and wind power installation and operation. This is a six-month programme, targeting local youth in Gujarat. To date, 140 people are enrolled, of whom 50 are female. It's a fantastic programme that plugs a skills gap, economically empowers local communities, and in particular women, and deepens the social licence to operate. It is highly impactful for each one of the beneficiaries.

Q What does the concept of a Just Transition mean for you, and how do you incorporate that into your strategy?

SN: Sumit's example above of training up a new generation in technical skills required for renewables is a great illustration of the Just Transition in action. We need societal support to achieve a whole economy transition to a net-zero future. It is critical that everyone on a supranational, national and local level is appropriately incentivised and has access to the opportunities that the energy transition can bring.

The shift from fossil fuels to renewable energy requires a specialised workforce and the lack of skilled talent is a significant barrier to the energy transition. According to the International Renewable Energy Agency, 2023 saw the highest ever increase in renewable energy jobs, from 13.7 million in 2022 to 16.2 million, but there is a long way to go and those jobs are disproportionately distributed globally with most in OECD countries (China being an outlier).

Individuals whose livelihoods have come from traditional energy industries can be retrained so they can contribute to the new economy. In an emerging markets context, with growing populations, younger generations and unemployment, it is about investing in skills development. ■