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Background briefing

Transitioning away from fossil fuels: delivering the transition in low- and lower middle-income fossil fuel producing countries

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Contents

Key points

- Following the commitment at COP28 to transition away from fossil fuels, it is imperative that countries set out robust plans to deliver a shift towards clean energy systems and away from fossil fuels production and consumption.
- Depending on their natural resources and economic make up, low and lower middle-income countries will have to deliver an economic and a just transition, alongside an energy transition.
- These countries face significant challenges to shifting their energy systems and realigning their economies, including limited access to finance and weak governance.
- A larger scale, more programmatic approach to finance that goes beyond traditional climate finance is needed to enable low and lower middle income fossil fuel producing countries to address these multiple transitions.
- An approach known as Data to deal can help ensure the next round of Nationally Determined Contributions provide a credible plan and effectively signal investment needs to the international finance community.

A rapid move away from fossil fuel production and consumption is vital to meet the Paris Agreement temperature goal, as highlighted in the latest IPCC assessment.

With the adoption of the first global stocktake under the Paris Agreement at the 2023 climate conference, known as COP28, countries have signed up to a commitment to transition away from fossil fuels. Following that high level commitment, the expectation now is for countries to set out concrete plans to make the transition a reality. This briefing looks at what the transition will entail for low and lower middle-income countries that are current or emerging fossil fuel producers.

What does the transition imply for low and lower middle income fossil fuel producing countries?

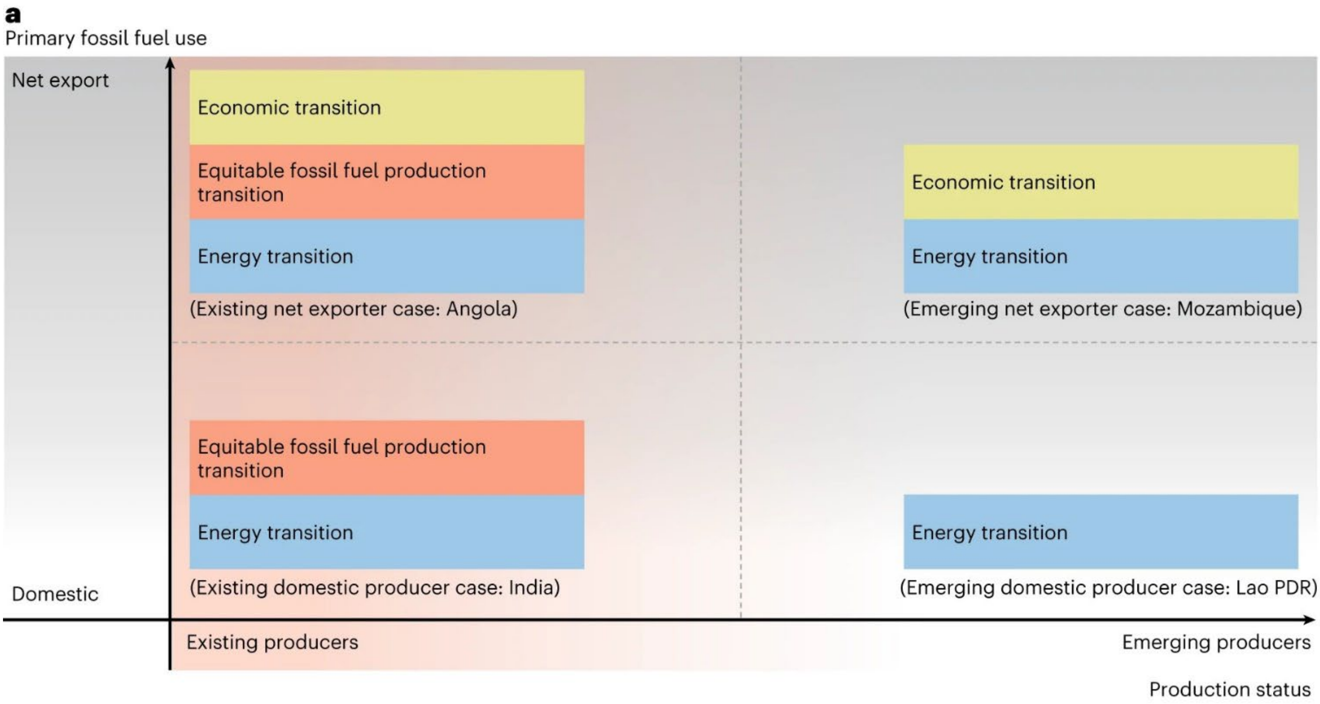
All low and lower middle income fossil fuel producing countries will have to grapple with an **energy transition**. This will involve shifting their power generation to renewables and other net zero compatible alternatives, electrifying sectors like transport, buildings and parts of industry, and switching fuel supply to clean alternatives such a green hydrogen – all of which will involve significant investment and is expected to pose both financing and delivery challenges.

However, two further issues will shape the transition away from fossil fuels:

- Are they are established or emerging fossil fuel producers?
- Are fossil fuels mainly used for domestic consumption or directed towards export markets?

As outlined in the graphic below, countries that are established producers will have to deliver a just transition, ensuring that workers and communities affected by the shift are adequately protected and supported in transitioning to alternative employment opportunities. For example, while coal mining currently accounts for up to 10% of GDP in some states in India, effectively scaling up solar power in those regions could deliver net employment and health benefits to local communities.

On the other hand, countries that rely on fossil fuels for export revenues (whether through current or prospective production) will also have to deliver an economic transition – realigning their economies towards net zero compatible goods and services and boosting alternative sources of export revenues and employment. For example, this is the case for emerging net exporter countries like Mozambique, which has parts of the country's public debt tied to future fossil fuel revenues from recently discovered reserves, as well as established exporters like Nigeria or Angola, for which their whole economic model would come under threat given that fossil fuel rents can amount to as much as 30% of GDP.



What kind of support is needed?

Countries' ability to grapple with these different types of transitions will be shaped by local circumstances such as access to finance, natural resource endowments as well as local skills and capabilities. However, it is expected that low and lower middle income countries will face significant challenges on all of these fronts.

To address these challenges and support the shift away from fossil fuels, action is needed to strengthen countries' plans for the transition, as well as through a significant step up in finance and capacity building.

Making national climate plans investible

Countries are due to submit the next round of national climate plans, known as Nationally Determined Contributions, ahead of COP30. These will play a vital role in setting out countries' plans on the energy transition and signalling investment needs. Emerging approaches such as Data-to-deal can provide an effective route to building a robust investment case. This involves a combination of securing high level political support, alongside institutional capacity building, technical analysis and stakeholder engagement, and has already been successfully applied in Costa Rica, Cyprus and a growing number of Latin American countries.

The international community can engage with low and lower middle income country stakeholders to empower them to determine their own consensus based and nationally owned decarbonisation pathways, supporting capacity building to ensure national plans are credible to climate finance providers.

Boosting access to finance and capacity building

Crucially, tailored support, including a larger scale, more programmatic approach to finance, will be essential to ensure these countries can successfully transition away from current production and avoid locking in further fossil fuel extraction.

Climate finance will play an important role in supporting the energy transition, and COP29 will be an important moment for the international community to chart a way forward to address both the scale and quality of finance that developing countries can access.

However, support for an economic transition will additionally require scale up of more traditional forms of development finance designed to support economic diversification and alternative sources of export earnings, while financial and multilateral institutions are beginning to consider ways to support the just transition, for example through finance support for coal mine closures and reskilling.

Initiatives such as the Just Energy Transition Partnerships, which have been agreed with countries including South Africa, Vietnam and Senegal, could also provide a viable route - although shortfalls, including heavy reliance on debt finance and challenges around mobilising private finance, amongst others, would need to be addressed to ensure effectiveness. These initiatives so far have also largely focused on the energy and just transitions, while placing less emphasis on fostering an economic transition.

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Further reading

- Foster, V., Trotter, P., et al. (2023). How can the global community support LLMIC fossil fuel producers through the climate transition? Climate Compatible Growth Programme COP28 Policy Brief Series.
- Foster, V., Trotter, P.A., Werner, S. et al. Development transitions for fossil fuel-producing low and lower–middle income countries in a carbon-constrained world. Nat Energy 9, 242–250 (2024). https://doi.org/10.1038/s41560-023-01440-3
- Luscombe, H., Foster, V., Howells, M., Quiros-Tortos, J., and Jaramillo Gil, M. Data-to-Deal: An Emerging and Effective Approach to Supporting Countries in Climate Transition. Climate Compatible Growth Programme COP28 Policy Brief Series.

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