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**Extractive industries as a driver of sustainable development:
transition to sustainable systems****Summary**

The present document provides an overview of the status of extractive industries in the Arab region; and the outcomes of efforts to strengthen extractive industries as a driver of sustainable development, launched by the Secretary-General of the United Nations in 2020, including an online global round-table discussion held by the United Nations on 25 May 2021, and five regional round-table discussions held virtually between October 2020 and March 2021.

The present document also sets out the findings of the regional policy brief that the Economic and Social Commission for Western Asia (ESCWA) contributed to alongside other United Nations regional commissions, and the recommendations of the policy brief presented by the Secretary-General at the global round-table discussion.

The Committee on Energy is invited to review the present document and comment thereon.

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Introduction

1. The Arab region holds over a third of the world's known oil and gas reserves, and a wealth of mineral resources. It undertakes a significant share of global extractive resource production and supply, stimulating economic activity in many Arab low and middle income countries.
2. Extractive industries can be defined as operations that involve various activities, including mining and extracting raw materials from the earth and processing them, including hydrocarbons such as crude oil, natural gas or minerals (gold, iron and phosphates) and aggregates (such as sand).
3. Most Arab economies lack economic diversification, and some rely heavily on fossil fuels as a source of energy and revenue, with over 95 per cent of energy supplies derived from oil and natural gas.¹ Mining is a major sector in Jordan and Morocco and accounts for a large share of export earnings, while iron mining accounts for more than a third of export earnings in Mauritania.
4. Heavy dependence on extractive industries is considered a major economic, financial and environmental weakness in the Arab region, as revealed by the COVID-19 pandemic, making the region more vulnerable to the effects of climate change.
5. At present, the sector faces unknown prospects and many challenges, including its image as a minor sector, and its weak ability to attract the private sector and the human capital needed for innovation, and to keep pace with environmental and sustainability issues. The extractive industries must be developed, not only by enhancing their adaptation by continuing to meet global and regional demands, but also by ensuring that they remain a driver of sustainable development.

I. Challenges and opportunities in the Arab region

6. **Financing for development:** The decline in growth and loss of revenue owing to the recent global economic slowdown and the effects of the COVID-19 pandemic have contributed significantly to the narrowing of fiscal space for many countries. Financing for development, including financing for extractive industries, has become more difficult. In addition to weak private sector activity, all these factors have exacerbated the risks facing the achievement of the 2030 Agenda for Sustainable Development and the transition to sustainable energy.
7. **Natural resource management:** Governments have not always been able to collect adequate revenue from extractive industries for various reasons, including illegal and unregulated mining, which has been exacerbated by illegal financial flows and profit losses from regressive taxes.
8. **Governance:** The effects of poor governance, and a lack of economic diversification, social investment and long-term planning are of particular concern to export-dependent societies, as price volatility is an inherent feature of this sector.
9. **Mainstreaming the principles of social justice:** Although extractive industries provide ample job opportunities, they have direct and indirect negative effects at the social and demographic levels. They contribute to forced population displacement, exacerbate economic and social inequality, promote armed conflict, and increase gender inequality.
10. **Environment:** Extractive industries could have a significant effect on current and future generations. At the local level, low or non-existent standards can lead to deforestation, biodiversity loss, ecosystem erosion,

¹ ESCWA, Tracking SDG 7: Energy Progress Report Arab Region, 2019.

pollution and climate change, and could undermine human rights. At the global level, fossil fuels represent a high percentage of global greenhouse gas emissions, at 73 per cent.

11. Extractive industries provide valuable opportunities for commodity-dependent developing countries to use their mineral wealth as a basis for development. The ability to harness natural resources through suitable options for infrastructure, technology, transparency, good governance, economic diversification and sustainable management practices is essential for Arab countries, so as to create economic opportunities for young people and improve their living standards. It is also a major driver of social and economic development, social inclusion, gender equality and entrepreneurship, which are at the heart of efforts to drive long-term prosperity in the Arab region. These efforts also include the use of extractive industries to support a just transition to “leaving no one behind”.

II. Recommendations

12. The present section sets out the recommendations emanating from the ESCWA regional round-table discussion on extractive industries in the Arab region.

A. Financing development, natural resource management and economic diversification

- Benefiting from international and regional financial institutions to build and diversify project development lines, by injecting liquidity into the system and increasing concessional financing. This will require debt suspension, the operation of a long-term debt swap mechanism (DSM), and a commitment to the environment, allowing countries to reallocate financial resources to sustainable development initiatives.
- Building fiscal buffers that reduce deficits and restore fiscal sustainability (prepared for shocks) for a more resilient economy. This includes developing the tax base, participating in value-added tax (VAT) reform, and establishing an income tax.
- Increasing coordination between the private sector, multilateral development banks and Governments to eliminate risks in investments and increase financing for projects in low-income countries and countries in conflict.
- Strengthening the judicial system and anti-corruption laws to address mismanagement of revenue and illicit financial flows.

B. Green circular economy, economic cycling, technology and innovation

- Accelerating the adoption of the circular carbon economy (CCE) framework, and integrating circular economy principles in nationally determined contributions (NDCs) to promote resource efficiency, eco-design, waste management and other measures of sustainable production and consumption, and the uptake of sustainable energy measures.
- Strengthening the supply chain through vertical integration to ensure that the value of each particle is maximized, requiring appropriate technology transfer to support carbon neutral goals.
- Addressing distorted price mechanisms through appropriate removal of energy subsidies, taxation of carbon emissions and incentives for clean technologies, such as renewable energy for oil extraction and carbon capture, use and storage (CCUS).
- Reconciling global and regional goals and building capacity to achieve common goals. Regional and public-private partnerships are needed for coordinated strategies, appropriate resource mobilization, appropriate technology transfer, knowledge sharing and institutional capacity-building for effective implementation.

- Enhancing global collaboration to realize breakthroughs and innovations in natural sciences and advances in their application (CCUS, hydrogen and synthetic fuels, manufacturing, artificial intelligence, data analytics) to reach ambitious neutrality targets.

C. Social and environmental sustainability and a just transition to sustainable systems

- Adopting a forward-looking approach that considers economic, environmental and social impacts, backed by financial initiatives to support small and medium sized enterprises, gender equality, and women's empowerment to improve their access to finance and more resilient green job markets that create opportunities for highly educated young people in the region.
- Governments should adopt ratings in accordance with their internationally recognized conditions, i.e., environmental, social and governance (ESG) standards that are transparent, encourage accountability, and are in line with the specificities of the Arab region.
- Developing sustainable consumption models and implementing regulatory frameworks that take into account the links between extractive industries and other sectors of the economy. Energy conversion financing is needed to target energy efficiency, renewable energy and sustainability to build a real economy with knowledge, research and development at its centre.
- Establishing a collaborative approach between investors and the Government, ensuring simplicity in financial design and financial stability to remove barriers to the private sector, encourage greater investment in technology and human capital needed for energy transition, and commit to achieving net (zero) targets.
- Addressing the rights of local communities by improving participation, access to information, accountability and transparency, and strengthening the capacity of countries with specialized and independent agencies to resolve disputes and protect the rights of local communities.

III. Way forward

13. The Secretary-General of the United Nations proposed the establishment of a task force on extractive industries to ensure that the outcomes of the extractive industries panel discussions and the recommendations set out in the policy brief for advocacy efforts at the highest levels are achieved and translated into tangible results at the policy level, and at the regional and national levels. The global working group will also oversee the proposed plans received by the regional economic commissions after the global round-table discussion on 25 May 2021.

14. ESCWA will establish a regional task force to support the work of the Group of Experts on Fossil Fuels and the ESCWA Committee on Energy, to implement the work procedures set out in the Secretary-General's Call for Action at the regional level and to support the global Working Group on Extractive Industries.

15. ESCWA will also establish a coordination platform on the risks of renewable energy and energy efficiency investments, whose role includes coordination between the private sector, multilateral development banks and Arab Governments to mitigate and eliminate the risks of sustainable energy investments.

16. ESCWA will implement a plan to build the capacity of government institutions by building on the Claned platform, to support retraining and reskilling programmes that empower women and young people through local green jobs; and utilize the Arab Centre for Climate Change Policies to support the circular carbon economy.

17. ESCWA will conduct a study on the implementation of the circular carbon economy to support ongoing transformation plans for the value chains of extractive industries, and to support member States in developing national sustainable energy strategies for the transition to sustainable energy.

18. ESCWA is contributing, with the United Nations Department of Economic and Social Affairs and the World Health Organization, to the preparation of a report on achieving the Sustainable Development Goals (SDGs) through inclusive and equitable energy transitions. The report will contribute to the development of an action-oriented roadmap to achieve SDG 7, and inform the High-level Dialogue on Energy in 2021.
