Natural Resource Governance Institute

Energy Transition in the Middle East and North Africa: The Road to COP28

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Key messages

- Oil and gas producers in the Middle East and North Africa (MENA) must plan for the long-term impacts that the global energy transition will have on their fiscal systems and adapt public investment plans in the pursuit of long-term economic transformation.
- MENA countries seeking international climate finance to support energy transition must establish a track record of developing and implementing viable green energy projects.
- MENA governments must center energy transitions around justice, fairness and equity for all. A just energy transition process must include two types of justice: procedural justice, which relates to the extent to which people are involved in the process; and distributive justice, which represents the extent to which the positive and negative effects of energy transition are fairly distributed.
- Governments in the Global South must ensure that South-North cooperation for renewable energy production addresses domestic energy needs, before directing excess production to export.

Background and introduction

The ongoing global energy transition has deep implications for countries in the Middle East and North Africa (MENA), which face an array of new and multi-dimensional imperatives, challenges and opportunities.

Historically, the MENA region has contributed little to emissions, but now it accounts for about 30 percent of global oil production and 18 percent of natural gas production and hosts significant "transition mineral" reserves.[1] As the energy sector

contributes over 70 percent of the world's CO2 emissions, the region's fossil fuel production in the last decade has made it one of the regions with the highest per capita carbon emissions.

Within this context, a transition to green energy has become an inevitable reality for MENA countries, most of which drafted strategies and pledged to increase renewable energy production, reduce or capture carbon emissions, and increase energy efficiency.

While these commitments would benefit the environment if met, MENA countries' energy transition strategies are largely driven by economic incentives and challenges related to shifting domestic needs and global energy markets.

NRGI's online event series

With a view to exploring and contributing solutions to the range of issues related to just energy transition in the MENA region, NRGI launched an Arabic-language online event series titled "MENA Energy Transition: The Road to COP28." The series aimed to draw on the diverse knowledge and expertise of an array of MENA experts to produce actionable policy recommendations and priorities to advance a just energy transition in MENA, including specific recommendations for consideration within the COP28 context. The series sought to detail dimensions of a just transition that takes into consideration each country's capacities, resources and historical responsibility; based on creating economic growth rather than repeating past mistakes; leading to equitable, fair and just access to renewable energy for all; giving opportunities for cooperation and collaboration between the state, private sector and the people of the countries and the region.

This briefing outlines the key recommendations harnessed from the series. Readers seeking to gain more in-depth insight and background on the specific policy areas and topics discussed below are encouraged to watch the event recordings.

Countries across the MENA region vary widely based on economic make-up, levels of fossil fuel production and economic dependence on exports, or reliance on imports to satisfy domestic energy needs. Countries in the region fall into two broad categories:

1. Petro-states, most of which have struggled to various degrees to diversify their economies beyond fossil fuel export dependence and now face the prospect of reduced long-term value for their dominant product. Governments in these countries have largely resisted the idea of fossil fuel production declines and instead have focused their rhetoric on reducing in country emissions and investing in clean energy. Within this group there is variation in economic vulnerability and incentives for change:
    - Countries with cheap, plentiful reserves and ambitions to remain the "last ones standing" in oil and gas production, that have financial reserves in their sovereign wealth funds to help them navigate the transition. These include Saudi Arabia, United Arab Emirates and Qatar.
    - Other petrostates like Iraq lack financial reserves to fund transition and will likely face more serious troubles in a world of transition.
    - Countries with higher-cost reserves that are reliant on external partners for extraction and capital, such as Algeria and Egypt. These face more acute threats to the status quo, as the prospect of a long-term decline in global investment will make it harder for them maintain production levels on which their state budgets depend.
2. Fossil fuel-poor countries, with little or no oil and gas production, which are trying to address national energy and development needs. Countries in this group vary in their emphasis and strategy for clean energy:
    - Some, notably Morocco, are positioning themselves as global players in the clean energy space, seeking to accelerate clean energy investment and organizing "green partnership" deals with energy importing countries in the hope of becoming a green corridor toward Europe.
    - Others, such as Lebanon, which have to date failed to develop sound strategies for increasing clean energy access and whose citizens face severe blackouts. People in these countries are taking individual initiatives to "go green," such as through installing solar panels to address energy shortages.



Civil society consultation in the Gafsa mining region in Tunisia • *NRGI*

Ensuring justice in MENA countries' energy transitions

These diverse contexts notwithstanding, MENA countries' energy transitions are largely underpinned by a macroeconomic incentive to reduce domestic oil and gas consumption, whether to maximize revenues from exports or to reduce heavy fossil fuel import and subsidy bills.

These economic considerations are paramount for social stability, especially considering the existing social contracts across MENA countries which in most cases heavily rely on the provision of affordable basic services by the state. However, this should not detract from the multilayered policy considerations necessary to ensure that countries' energy transition strategies promote justice and equity for all citizens and residents. Therefore, governments of MENA countries must reconcile the currently dominant economic approaches to their energy transitions with the need to ensure environmental and socio-economic justice and sustainability.

Governments can only facilitate a just energy transition by centering people, both as active stakeholders in shaping and monitoring visions and strategies, as well as responsible "prosumers" of energy, i.e., energy consumers, including residential

consumers, who start generating electricity for their own use following the advent of small-scale production technologies running on renewable energy sources.

Just transition also requires an enabling legal framework and financial incentives. This is especially challenging in the MENA context; given restrictions on civic space in various degrees across the region, citizens are often sidelined from decision making and unable to hold governments to account, especially in supposedly purely technocratic sectors such as energy.

Related, the region has a history of paternalistic citizen-state relations, whereby strong central states provide material benefits such as services, subsidies and employment in exchange for limited political participation and civil and political liberties. This has led to the erosion of citizenship, including perception among most citizens of themselves as mere passive, often irresponsible, consumers of heavily subsidized energy and goods provided by the state.

To overcome these historical and structural challenges, governments must base MENA energy transitions on people-centred policies, where environmental and socio-economic justice are front and center, and where youth and civil society voices are highlighted.

In Morocco, NRGI partner organizations are working on a participatory tool that evaluates the inclusivity of green projects in regions, with the assumption that higher inclusivity leads to higher acceptance of projects. Citizens are increasingly concerned that many green projects aim to serve European and foreign needs more than local needs; therefore, national and local authorities should include people at all levels of green project cycles to ease concerns and induce better collaboration among different affected stakeholders.

In addition, who finances the energy transition is a central issue in ensuring that it is just, globally. Transitioning energy systems from fossil fuels to green energy requires heavy investments in infrastructure, technologies and human capital. The amount needed globally is estimated at trillions of dollars. While local sources (e.g., state budget, individuals, private sector) can finance climate mitigation and adaptation, developed countries that have contributed the most to climate change should also finance climate response in developing countries.[2]

The MENA region should benefit from such international finance. This is because, while it is one of the regions most affected by climate change, MENA has not historically contributed to this problem as much as developed countries. But over

the last decade, the region received only 11 percent (including only 4 percent emanating from UNFCCC climate funds) of the estimated USD 570 billion required for the region's countries to meet their commitments ("nationally determined contributions") under UN climate accords.

Priorities and recommendations for just energy transition in MENA

Recommendations for all MENA countries

Promote the role of citizens as active stakeholders in the energy transition

MENA governments must center energy transitions around the key questions of justice, fairness, and equity for all citizens. A just energy transition process must include two types of justice: procedural justice, which relates to the extent to which people are involved in the process, and distributive justice, which represents the extent to which the positive and negative effects of energy transition are fairly distributed. In order to ensure this justice, decisions about energy transition must be bottom-up and not come unilaterally from the state. Renewable projects must also be place-based or context-sensitive

Therefore, community engagement is important for trust building and citizen acceptance. If this is successful, people will see these projects as benefiting them as well as the national interest. This requires concerted efforts by governments to establish and implement effective community engagement mechanisms. In addition, governments and civil society actors must break from the predominant paternalistic state approaches and enhance citizens' awareness of and active participation in the energy transition, both as oversight actors and as energy "prosumers."

Ensure societal acceptance of and benefits from renewables and green projects

Community engagement is a central condition for a just energy transition. Societal acceptance is also necessary to avoid the repetition of historical extractive industry models, which often lead to producing communities, who bear the brunt of the negative impacts of extraction, rejecting and hindering projects. Advancing a just energy transition that guarantees benefits for all requires governments and companies to engage in community consultations which focus on dialogue, awareness raising and expectation management. An energy transition that leaves no one behind and gains public support requires governments to commit to clear benefits for local communities, including subnational development and job creation, both in the short term and in the longer term through economic linkages and diversification. Projects such as green hydrogen should not be the source of harm; therefore, governments and local authorities should raise awareness of the population on the importance of the projects for local and national benefits. Governments, local authorities, researchers and research centers should make sure to respond to people's concerns regarding the use of the new sources such as hydrogen, in a way to ensure that no harm will be done to societies themselves and to the environment especially to water that is already scarce in the region.

Address state monopolies and improve public-private partnerships for renewable energy projects

This is necessary to harness the important role played by the private sector in driving technological advancements and innovations necessary for renewable energy projects and the energy transition, globally and domestically. The private sector, in Gulf states and in many countries in the Middle East and North Africa, is not very competitive due to past histories of political system based on the state as the main provider of services and employment. This has left the private sector either weak or closely aligned with state institutions, which created monopolies that deserved the purpose of competitiveness among private sector itself or between the private and public sectors.

In order to improve the private sector's involvement and competitiveness, governments must convince the private sector of the attractiveness of climate projects, even on a financial basis. Governments must also create incentives for national and international private sector actors, financial and otherwise. Governments must advance improved legal frameworks and policies related to investment in general and in the energy sector in particular. MENA governments

would also benefit from creating partnerships between the private and the public sectors. This requires ensuring tight collaboration between states and their public entities on the one hand and the private sector on the other.

Ensure public sector involvement in the creation of an enabling infrastructure and regulatory environment for clean energy projects

The effective involvement of the public sector is key to ensuring effective governance (legal and institutional structures) and infrastructure (a stable power grid) for a successful energy transition. In addition to setting out a holistic vision against which private investment is sought and negotiated, public sector actors must also raise awareness among the public about the necessity of energy transition.

A key public sector gap across most MENA countries is the need for strong energy production regulation and regulatory bodies. Indeed, strong institutional frameworks and capacitated regulatory bodies are essential to attract international finance for megaprojects and to design and implement such projects. While securing international finance for energy transition projects is important, ensuring the effectiveness, utility, and oversight of these projects is even more crucial. In addition, regulatory must ensure the existence and implementation of frameworks governing potential conflicts between state-owned utility providers and private investors.

Improve regional cooperation

There are precedents for intra-regional cooperation in MENA. For instance, the Gulf Cooperation Council Interconnection Authority has as its mission to guarantee a resilient interconnection grid ensuring power security and economic benefits across the six members of the Cooperation Council for the Arab States of the Gulf (GCC) composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

However, region-wide cooperation is currently lacking in the energy and energy transition sector. Such cooperation could be especially beneficial between wealthy oil- and gas-producing Gulf states and non-fossil fuel rich MENA countries to help bridge the gap in financing energy transition in the latter. As Gulf countries such as

the UAE pledge billions in climate adaptation funding for Africa, it and the rest of the GCC should make similar efforts to provide debt-free climate finance to less wealthy MENA countries. The MENA region should prioritize investment in local knowledge production and robust scientific research. To bridge the gap, governments, research institutions and universities should collaborate on the creation of an ecosystem that translates research findings into practical applications, considering local contexts and regional research insights. This will lead to tangible and impactful outcomes in the region.

Recommendations for oil- and gas-rich MENA countries

Reduce the emissions intensity of ongoing production

Greenhouse gas emissions from oil and gas production, processing and transport are a significant contributor to climate change; according to the IEA and Our World in Data, they are responsible for around percent of global greenhouse gas emissions.[3] Many MENA oil and gas producers have ambitions to be among the "last producers standing." The emissions intensity of their production interacts with these ambitions in important ways. Most notably, reducing production emissions—including through reducing flaring, venting and leaks and potentially using renewable energy to power oil and gas operations—can have a major impact on the overall emissions profiles of these countries and the effectiveness of their climate ambitions. This will influence the competitiveness of their hydrocarbon sectors—and therefore their longer-term revenue profiles—as the world increasingly enacts policies to privilege "low-intensity" barrels in the marketplace. It will also lessen the negative effects of pollution from oil and gas extraction on health and the local environment.

Overcoming technological and regulatory hurdles to using cleaner energy-generation mechanisms for extraction, reducing flaring, and lowering emissions will be important for oil and gas exporting MENA countries seeking to continue to export fossil fuels in an increasingly constrained global market.

Conduct rigorous scenario analysis on the investments of national oil companies and reduce "risky bets"

Not every MENA oil and gas producer is well positioned to be the last producer standing. The pace of the global energy transition is uncertain, but the IEA has indicated that a sustained scenario of high oil demand is unlikely. Countries with higher-cost reserves, such as Egypt, Oman and Algeria, should take heed of the growing possibility that long-term oil and gas prices will be lower than those to which they have become accustomed, and to avoid investing huge sums of public revenues via national oil companies in high-cost projects that depend upon perpetually high oil prices to break even.

Plan for long-term transition impacts on their fiscal systems and adapt public investment plans for economic transformation

MENA oil and gas producers are "addicted to fossil fuel revenues stemming from exports." Some MENA producers are well situated to continue to generate major revenues from the sector for years to come. All producers, however, should adjust their long-term public investment and expenditure plans to become more robust to potential long-term declines in oil and gas rents. Public investment in transforming economies and decreasing dependence on the sector is today more important than ever, especially for countries that already face budget deficits and lack large sovereign wealth funds on which they can draw. These countries must also increase efforts to free up funds and attract investment in renewables.

The challenge of economic transformation has long been difficult for MENA countries, and NRGI's online event series did not produce easy answers but underscored the importance of significant additional research and attention from governments and non-governmental actors alike. In countries like Iraq, with great reserves but no spare financial reserves, governments are betting big on gas as a way to transition and to continue generating revenues for the fossil sector. In these countries government agencies and non-governmental entities should collaborate and cooperate on the future of gas to be used internally or to be exported.

Adopt a holistic view of energy transition that marries economic incentives with a domestic transition-focused policy agenda

Despite emission reduction pledges, Gulf countries remain reliant on fossil fuels domestically in electricity, transport and all energy needs. This partly contributes to the high per capita CO2 emissions in the Gulf and hinders the right to a clean

environment for residents in those countries. Just transition should be sought through a concerted government focus on environmental and social issues in addition to macroeconomic interests.

Oil-exporting countries should acknowledge their environmental impact and commit to responsible practices within a circular economy framework. This entails minimizing negative ecological effects associated with oil production and refining, and continuing to invest heavily in new technologies that will result in cleaner products.

Recommendations for non-oil- and gas-rich MENA countries

Adopt a win-win approach to energy transition between governments and investors

Countries lacking reserves of fossil fuels must ensure a healthy balance between addressing domestic energy deficit and local benefits on the one hand and South-North partnerships promoting renewable energy production for export on the other. For such financially challenged countries attracting foreign investment is necessary to afford renewable energy products. Many have pointed to the risk that foreign investment in the energy transition can perpetuate "green colonialism" and an extractivist model, due to strings attached and the subjugation of the recipient countries to the interests of foreign (public or private) investors.

For countries in need of foreign investment to ensure a win-win approach, governments accepting foreign investment must ensure that funded projects advance benefits at the national and local levels, specifically for the energy sector and energy transition, as well as add overall economic value. Such benefits can include the transfer of technologies and retraining of labor with a view to ensure a pool of skilled human capital at the national level. Governments should also leverage foreign investment to increase electrification while establishing corporate social responsibility obligations for foreign companies and ensuring that they are met.

Governments in the South must ensure that South-North cooperation for renewable energy production addresses domestic energy needs, before directing excess production to export. When MENA countries do consider export-focused

interconnection projects, such as the ELMED project connecting Tunisia and Italy or the Xlinks project connecting Morocco and the United Kingdom, they must demand an emphasis on national benefits, such as funding to improve national grid infrastructure.

Establish a track record of developing and implementing viable green energy projects

Governments seeking climate funding must ensure a suitably "enabling environment." This primarily requires good governance, which includes transparency and democratic values such as oversight and citizen participation, empowered and capable financial and administrative institutions, and above all a clear vision and strategy for the country as it pursues energy transition goals.

Recommendations for civil society organizations and activists

Seize the negotiating opportunities presented by forums such as COP climate conferences to highlight citizen voices and needs

The presence and voices of civil society actors and environmental activists in international spaces such as COP is necessary to balance the weight of oil and gas interests which continue to dominate debates, and to shift these debates to be more citizen- and community-centered. At COP28, taking place in Dubai in December 2023, civil society organizations (CSOs) should seek to influence debates about climate financing and obligations related to the loss and damage fund for vulnerable countries. As the establishment of the loss and damage fund was agreed during COP27, COP28 will host important debates and negotiations around the actual mechanisms and scope of this fund. It is therefore crucial for CSOs to be involved. Overall, CSOs and oversight actors must more vigilantly monitor progress toward achieving the many pledged climate finance goals.

Support governments' citizen awareness-raising efforts while ensuring the development of equitable and consultative energy transition

As mentioned above, CSOs can precipitate a move away from established paternalistic citizen-state relations by asserting demands for inclusion in decision making while shifting citizen attitudes and behaviors related to energy consumption and production. This requires CSOs to coalesce to maximize their advocacy power for inclusion in the shaping of and monitoring of energy transition policies. In addition, CSOs specialized in climate issues and energy transition must harness their knowledge and mobilization power for awareness-raising campaigns targeting citizens.

As and when governments seek to establish community engagement mechanisms to promote citizen-centered energy transition, CSOs can play important roles as mediators. For instance, CSOs can ensure that community demands seek to draw benefits from the projects, through electricity access, subnational development, and employment, while also remaining realistic and not coming at the expense of citizens in other regions. CSOs can therefore ensure that community engagement ensures that projects benefit the local producing communities as well as other communities in the country.

In oil- and gas-producing countries, CSOs have a critical role to play in the evolution of the social contract to help citizens understand that the energy transition will require transformations in the economy and therefore changes in the way governments provide services, offer employment and manage finances; and at the same time help governments to understand what citizens would need to accept the changes and a share of the costs of the transition. Therefore, CSOs should advocate for orderly transitions that will see governments making the necessary changes mainly in enforcing a stronger governance based on transparency and accountability, creating enabling environments for investments and for people to grow and be able to build their skills for a future built on a new energy world.

Recommendations for international donors at COP28

Advance viable alternatives to address shortcomings in the current climate finance system

As mentioned above, international climate finance is a key condition guaranteeing a globally just energy transition. However, the current international climate finance situation falls short, both in terms of funds deployed compared to international commitments, as well as the mechanisms for funding.

For instance, the majority of climate finance funding is provided in the form of concessionary loans to governments for large projects. These loans burden already indebted countries. Donors must better understand the needs of each recipient country and avoid a one-size-fits-all approach.

Climate finance will be a central issue of debate during COP28; these debates must include the advancement of more sustainable financing options, including:

- financial guarantees to reduce the risk for investors
- national financial institutions and banks as potential investors
- a wider range of investors, such as pension schemes (which are always looking for long-term investments)
- mechanisms like green bonds that are specific to investors not only looking for financial returns but also positive climate impacts
- debt swaps, whereby lenders waive parts of existing loans in return for indebted countries implementing climate projects (a possible alternative for politically unstable countries)

Major project funding is important, but donors and green funds must also think beyond these projects. Mitigation and adaptation efforts can also include smaller projects by small and medium enterprises which don't require much funding, and which can also benefit from climate financing.



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Conclusion

MENA countries, like others, are under pressure to deliver on pledges made during COP21 in Paris. Deep-pocketed oil- and gas-rich MENA countries are betting more cleanly produced oil and gas and an increase in green energy production. They seek an orderly transition that suits their timeline to ensure a secure transition for their people, but at the same time they are securing seats as important players shaping the transitions agenda globally to advance clean energy.

No country is alone in the fight against climate change, none has the ultimate solution, and none can rely on one solution and neglect others. The solution lies in international collaborations that bring together countries with advanced technologies and those with limited resources to work together for a just transition. Genuine partnerships should be forged to expedite the development and implementation of practical solutions through research and innovation that benefit all.

Above all, governments and institutions in the Middle East and North Africa should invest in scientific research so that the region's youth can contribute to the global quest for solutions to global problems. They should incentivize innovation and business models that would create the right ecosystems for the youth of the region to thrive and play a role in their countries' economic growth. Energy transition in the region could be the key for many other transitions that could usher in much-needed peace and prosperity.

Online events

COP and the prospect of a just energy transition
25 May 2023
Featuring:

- Hamza Hamouchene, North Africa Programme Coordinator, Transnational Institute (TNI)
- Nadim Abi Lama, International Energy Agency (IEA)
- Jessica Obeid, Energy Policy Consultant
- Hajar Khamlichi, Co-founder and President of Mediterranean Youth Climate Network

MENA's resource-rich countries and energy transition

26 June 2023

Featuring:

- Manal Shehabi, Public Policy Consultant and Energy Development Expert, Oxford University
- Ali Neema, Member, Iraqi Transparency Alliance for Extractives Industries

MENA national oil companies and energy transition

27 July 2023

Featuring:

- Carole Nakhle, CEO Crystol Energy, NRGI Board Member
- Omar Al-Ubaydli, Director of Research, Bahrain Center for Strategic, International and Energy Studies

Energy transition and climate finance in MENA

31 August 2023

Featuring:

- Hala Al Hamawi, Climate Finance Expert, Global Green Growth Institute
- Abderrahim Assab, Economic and Financial Analyst, University of Edinburgh Business School

Just domestic energy transition in MENA

28 September 2023

Featuring:

- Khaled Draouil, Deputy Director of Renewable Energy, Tunisian Ministry of Industry, Mining, and Energy
- Marc Ayoub, Non-resident Fellow at the Tahrir Institute for Middle East Policy; Associate Fellow, Issam Fares Institute of Public Policy and International Affairs, American University of Beirut

New technologies and energy transition in MENA

26 October 2023

Featuring:

- Abdulla Al Abbassi, Energy Research Expert, Bahrain Center for Strategic, International and Energy Studies
- Essia Zanouda, Professor, National College of Engineers (Tunis)

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Notes

1 "Transition minerals" are minerals that are expected to be in high demand for producing technologies linked to the energy transition.

2 This is in line with the 1992 UN climate convention and the 2016 Paris agreement principles. The main two principles are: 1) the responsibility of developed countries to support developing countries in mitigation and adaptation (more an ethical than legally binding responsibility); 2) equity in responsibilities in addressing climate change.

3 Authors' calculations based on Hannah Ritchie, Pablo Rosado, and Max Roser, "Greenhouse Gas Emissions," *Our World in Data*, 2020. And "Oil and Natural Gas Supply," IEA, 2022, www.iea.org/reports/oil-and-natural-gas-supply. Quoted in African Natural Resources Management and Investment Centre, *Minimising Greenhouse Gas Emissions in the Petroleum Sector: The Opportunity for Emerging Producers* (Abidjan, Côte d'Ivoire: African Development Bank, 2022), 14, www.newproducersgroup.online/wp-content/uploads/2022/11/Minimising-Greenhouse-Gas-Emissions-in-the-Petroleum-Sector.pdf.

Cover image

Santiago Urquijo / Getty Images

About NRGI

The Natural Resource Governance Institute is an independent, non-profit organization that supports informed, inclusive decision-making about natural resources and the energy transition. We partner with reformers in government and civil society to design and implement just policies based on evidence and the priorities of citizens in resource-rich developing countries. For more information visit www.resourcegovernance.org

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