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ABSTRACT

The year 2020 saw limited progress towards more sustainable development trajectories in the Middle East. This policy paper takes stock of economic rescue and recovery efforts in the region in the first year of the COVID19- pandemic, with a particular emphasis on large, oil-producing Arab countries. It presents an overview of government rescue and recovery fiscal spending and policies and assesses their contributions to green, resilient and just recoveries. The paper concludes with recommendations on immediate actions that could help governments in the region make the economic recoveries truly sustainable.

Recovering Better from COVID-19: Middle East at the Crossroads

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INTRODUCTION Crunch Time

After a period of short-term support and stimulus measures, many economies in the Middle East are embarking on longer-term economic recoveries. There is both an urgent need and a strong case to adopt policies that revive economies from the impacts of COVID-19 while advancing the Sustainable Development Goals (SDGs) and the implementation of the Paris Agreement.¹ In order for this to happen, policies and spending should be targeted more at supporting clean energy, low-carbon transport, zero-energy buildings and more circular industries, among other things.

At the same time, COVID-19 and its related economic and oil price shocks have already caused setbacks in the Middle East in many areas of sustainable development, from health to food security to employment to economic diversification.¹ So far, governments in the region have announced few policies or strategies that would proactively seek to address these interrelated goals. Many have invested significantly in the immediate health response as well as short-term economic rescue and stimulus,² but a long-term perspective has been missing from both investments and policy discussions.



¹ The UN Environment Programme, for example, has demonstrated in its 2020 Emissions Gap Report how recovery measures can simultaneously support a rapid, employment-intensive and economically cost-effective economic recovery and a low-carbon transition. UN Environment Programme, Emissions Gap Report 2020 (Nairobi: UNEP 2020).

¹ UN, *The Impact of COVID-19 on the Arab Region: An Opportunity to Build Back Better*, Policy Brief (New York: UN, July 2020).

² OECD, *COVID-19 Crisis Response in MENA Countries*, 6 November 2020.

The region is at risk of missing a crucial one-off opportunity. The only way to achieve sustainable development is to ensure that policies and investments in the recovery phase lay the foundation for cleaner and more resilient, prosperous and equal societies. In the context of the region's major oil-producers, this means accelerating the major shifts needed in economic sectors and jobs, increasing mainstreaming of accounting for environmental costs and risks into decision making, and strengthening social protection and inclusion. Failing to correct course now could put these countries on trajectories of lower economic competitiveness in an increasingly carbon-constrained world, increase their vulnerability to external shocks, and lead to stagnating economic growth and higher unemployment.

This policy paper, which builds on an ongoing study at the MBRSG on the policies and investments needed for 'recovering better' from the COVID-19 pandemic, takes stock of the economic response of eight Middle Eastern oil producing countries to COVID-19 over the past year. The assessment covers the period from March 2020 through March 2021. Based on the assessment, the paper identifies emerging green, resilient and just recovery responses, and concludes with some recommendations on immediate actions that could help governments in the region make the economic recoveries truly sustainable.

The Three Objectives of 'Recovering Better'

The Middle East is diverse. Challenges shared by the entire region include economic and social inequalities, unemployment and unsustainable production and consumption patterns. However, there are significant differences due to countries' different levels of socioeconomic development. Some countries continue to suffer from conflict, fragility and occupation, which leaves them struggling

to meet the most basic needs of their people. But the region also hosts countries with some of the world's highest Gross Domestic Products (GDPs) and natural resource consumption per capita rates. Nevertheless, studies tracking countries' SDG performance have shown that no country in the region has yet managed to successfully combine economic, social and environmental sustainability in development outcomes.³

This paper zooms in primarily on the region's major oil-producing and exporting Arab economies, which share a number of specific challenges they will need to tackle alongside the COVID-19 recovery. The most pressing one is increasing their resilience to the global energy transition away from fossil fuels, including through economic diversification. While the oil producers' ability to respond to this challenge was partly hindered by low oil prices in 2020, the need to overcome the challenge is made more urgent than ever by the growing momentum worldwide to align economic development with the Paris Agreement's temperature goals. Beyond the moral imperative,ⁱⁱ the region also has a strong economic rationale to steer development to a more sustainable base.

Additionally, the region is considered a climate change hotspot where climate impacts such as extreme heat waves and sea level rise could significantly impact health, agriculture and biodiversity, among other things.⁴ It is therefore crucial for the region's countries to increase their resilience to future climate and environmental shocks while also ensuring that socioeconomic measures are in place to promote progress towards the SDGs and that no one is left behind.

Based on these common objectives, we have defined sustainable recoveries to include objectives in three areas:

- **Green:** aligning greenhouse gas (GHG) emissions with climate-safe trajectories and promoting circular economies;
- **Resilient:** boosting societies' resilience to climate and environmental risks, and social and economic

³ Mari Luomi, Grayson Fuller, Lara Dahan, Karina Lisboa Bå Sund, Eve de la Mothe Karoubi and Guillaume Lafortune, *Arab Region SDG Index and Dashboards Report 2019* (Abu Dhabi and New York: SDG Centre of Excellence for the Arab Region/Emirates Diplomatic Academy and Sustainable Development Solutions Network, 2019).

ⁱⁱ The debate over historical responsibility dates back decades. This study does not take a stance on the responsibility of Middle Eastern countries regarding climate change mitigation. It adopts a pragmatic approach that assumes that, while poorer countries will need international support for adaptation and mitigation action, it is in the region's countries' interest to contribute to mitigation to the best of their abilities since climate change is a global commons problem.

⁴ Zittis, G., Hadjinicolaou, P., Almazroui, M. et al., 'Business-as-usual will lead to super and ultra-extreme heatwaves in the Middle East and North Africa' *npj Clim Atmos Sci* **4**, 20 (2021). <https://doi.org/10.1038/s41612-021-00178-7>; Kulp, S.A., Strauss, B.H. New elevation data triple estimates of global vulnerability to sea-level rise and coastal flooding. *Nat Commun* **10**, 4844 (2019). <https://doi.org/10.1038/s41467-019-12808-z>

resilience to clean energy and production transitions; and

- **Just:** ensuring that no-one is left behind in the green transition, and promoting equity and decent jobs for everyone.ⁱⁱⁱ

A Year of Multiple Shocks

The COVID-19 pandemic has had devastating health and economic impacts on the Middle East and North Africa (MENA) region with over 9 million COVID-19 cases and almost 180 thousand deaths recorded by June 2021.⁵ In April 2021, the International Monetary Fund (IMF) estimated that the region's economy contracted by 3.4% in 2020.⁶ Alongside the direct impacts of the pandemic, Middle East oil producers' revenues in 2020 were impacted by both low oil prices and OPEC+ production quotas. In the GCC and Iraq, government revenues were estimated to have fallen by 54% and 69%, respectively, between 2019 and 2020. While the GCC countries were able to implement a total of US\$194 billion in overall stimulus, spending in countries with more limited fiscal space was dominated by health expenditures.⁷

Economic shocks were the hardest in the second quarter of 2020, which was marked by both stringent lockdowns in many Middle Eastern countries and record-low oil prices, resulting in a negative impact on both oil and non-oil economic activity.⁸ Measured by business confidence and mobility data, activity began picking up in the third quarter of 2020.⁹ Recovery in the hardest hit sectors – tourism, including related (air) transport, accommodation, wholesale and retail services – will take longer.

Similar to the drivers of economic shocks, the driving forces of economic recovery in the Middle East are both external and internal: they relate to global oil demand (and in some cases international tourism), on the one hand, and domestic demand, on the other. Boosting the latter will largely depend on domestic government measures, including fiscal spending and economic and labour market policies.

Fiscal spending will be key to supporting longer-term economic recoveries. However, faced with the prospect of growing debt, governments could decide to reduce fiscal spending, or continue to allow for large expatriate outflows as a strategy to 'outsource' unemployment,¹⁰ which in turn could slow down recoveries. For 2021, there are uneven expectations for recovery: the UN has estimated that middle-income Arab countries will achieve the highest economic growth rates, of 4–5%. The GCC countries would grow by 2% and least developed countries only 0.5%, compared to 2020.¹¹ Some analysts have suggested that GCC economies might not return to pre-COVID-19 levels until 2023.¹²

Overall Rescue and Recovery Spending

Since the start of the COVID-19 pandemic in March 2020, the health response (i.e. health sector measures and restrictions of social activities) and the immediate economic aid and stimulus efforts have dominated policy responses in the region.

ⁱⁱⁱ These priorities also align with a report from July 2020, in which UN Secretary-General António Guterres defined regional priorities for recovering sustainably, including supporting economic diversification, and investing in green, innovative, circular, low-carbon economic sectors, and more productive and sustainable consumption and production patterns. The report also stressed the need to address underlying inequalities and gaps in social protections. UN, *The Impact of COVID-19 on the Arab Region: An Opportunity to Build Back Better, Policy Brief* (New York: UN, July 2020)

⁵ MEED, '14 June: Saudi Arabia confirms quota for Hajj 2021', <https://www.meed.com/latest-news-on-the-pandemics-economic-impact>, accessed 17 June 2021.

⁶ Akepaniditaworn, Klakow, et al., *Regional Economic Outlook: Middle East and Central Asia, October 2020* (Washington D.C.: IMF, 2020).

⁷ UN, *World Economic Situation and Prospects, 2021* (New York, UN, 25 January 2021).

⁸ IMF, *Policy Tracker – Policy Responses to COVID-19*, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S>, updated 5 February 2021, accessed 10 February 2021.

⁹ PwC Middle East, PwC 'Middle East Economy Watch 2020 Q3 - Recovery begins, but long term challenges remain', 8 December 2020, <https://www.pwc.com/m1/en/media-centre/2020/economy-watch-2020-q3-recovery-begins-but-long-term-challenges-remain.html>, accessed 12 February 2021.

¹⁰ S&P Global Ratings, 'Expat Exodus'.

¹¹ UN Regional Commissions New York Office, 'ESCWA: The Arab region faces two scenarios for 2021', 29 December 2020, <https://www.regionalcommissions.org/escwa-the-arab-region-faces-two-scenarios-for-2021/>, accessed on 13 March 2021.

¹² PwC Middle East, PwC 'Middle East Economy Watch 2020 Q3'

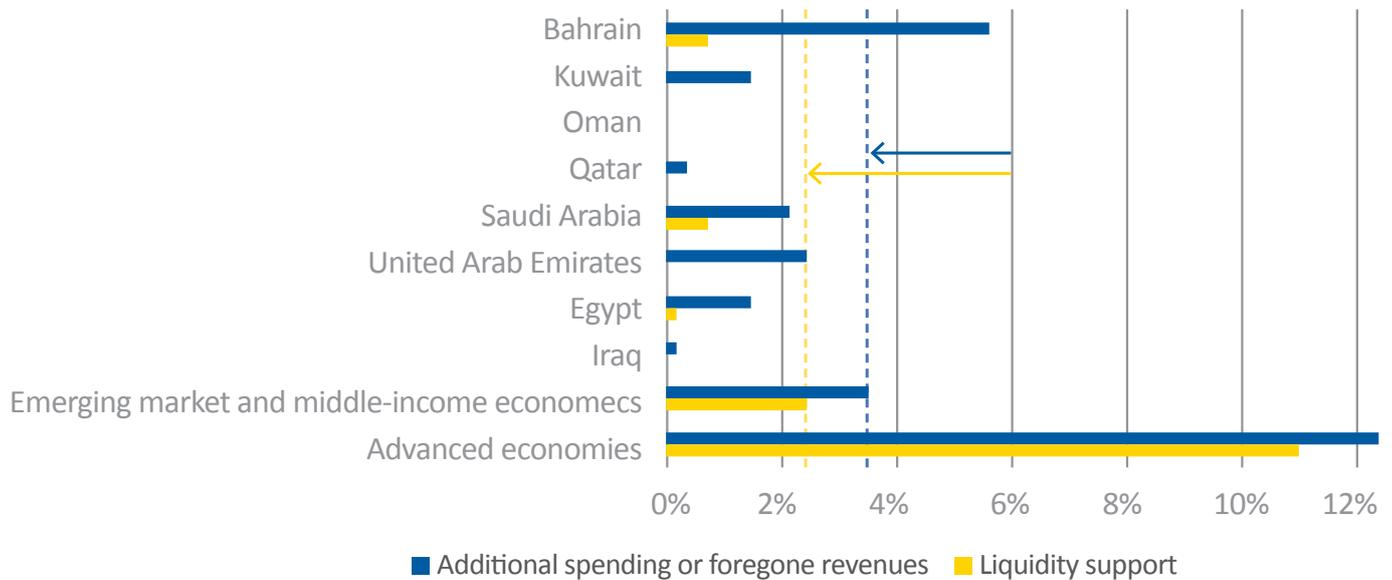


Figure 1. COVID-19 Fiscal Response in Selected Middle Eastern Countries (% of GDP, End of 2020, IMF)¹³
Note: When data is unavailable, the figure shown is zero.

However, on average, Arab oil producers' COVID-19 crisis fiscal spending as a share of GDP has been lower than that of other emerging economies and significantly less than advanced economies. By the end of 2020, emerging market and middle-income economies' additional spending and foregone revenue resulting from the pandemic was on average 3.6% of their GDPs, and equity, loans and guarantees 2.5%. For comparison, Saudi Arabia's spending in this period totalled 2.2% and 0.8%, respectively. Figure 1 illustrates IMF estimates on the fiscal response by the GCC countries, Egypt and Iraq.

Through 2020, economic rescue measures, rather than longer-term recovery policies, generally remained governments' main focus in the region.^{iv} Table 1 presents a summary of types of fiscal measures adopted and announced in the eight Arab oil-producing countries, based on the IMF's and KPMG's policy trackers, through February 2021.

The Climate Impact of Rescue and Recovery Spending

Some studies have sought to estimate the impact of rescue and recovery spending on existing GHG trajectories in different countries, namely whether they support 'greener' recoveries or a continuation of business-as-usual or even a deterioration of emission trends. Worldwide, with the exception of Europe, the tally of 'brown' versus 'green' fiscal crisis spending has been heavily in favour of the former. Based on an estimate by Vivid Economics, the implementation of stimulus measures announced in Saudi Arabia and Turkey (the two Middle Eastern countries included in the tracker) by February 2021 would have a highly net negative environmental impact. Saudi Arabia, for example, which generates practically all of its electricity from natural gas and oil products,

¹³ IMF, *Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*, Excel file, <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>, accessed 9 February 2021.

^{iv} Based on Oxford University estimates, as of November 2020, total rescue spending as a share of GDP in Egypt, Iraq, Saudi Arabia and the UAE stood at 1.8%, 0.1%, 10.3% and 3.3%, respectively. Spending in recovery-oriented measures only totalled 0.3%, 2.3%, 0.5% and 0.0%, respectively. Oxford University Economic Recovery Project, Oxford Economic Stimulus Observatory, <https://recovery.smithschool.ox.ac.uk/tracking-spending-overview/>, accessed 8 February 2021.

	Short-term fiscal measures	Longer-term measures
Bahrain	Salary support to Bahraini citizens, utility support to Bahraini citizens and companies, fee and rent waivers for companies and industrial entities, liquidity funds to support SMEs, social benefits for lower-income families, reductions in government agencies' expenditure and delays in capital expenditure	-
Egypt	Increases in pensions, cash transfer programmes, irregular worker support, loans to citizens to incentivise consumption, mortgage guarantee fund, energy cost reductions for industries, tax relief and loan-related support to companies, fuel discount, stimulus financing and loans to aviation and tourism, Corona tax on salaries (1%) and pensions (0.5%) allocated to support hard-hit sectors and SMEs	Plans to increase strategic food reserves, low-cost financing for housing units, soft loans from banks at zero/low interest rates for replacing old cars with natural gas-powered vehicles
Iraq	Budget reductions in 'non-essential' sectors to fund the health sector, private sector cash transfer scheme, loan-related support to SMEs	-
Kuwait	Deferral of private sector social security payments, fee exemptions for selected sectors, unemployment support for Kuwaiti citizens, concessional loans to SMEs, increases in government agencies' budgets	-
Oman	Support to maintaining employment, loan rescheduling, fuel subsidies and utility payment deferrals for Omani citizens, utility payment postponements, exemptions of taxes, fees and fines for companies, loan-related support to SMEs	-
Qatar	Support to various hard-hit sectors, rent exemptions for SMEs, utility fee waivers, salary support to COVID-19-affected workers, cuts in non-Qatari government employee's salaries, customs duty exemptions for food items, among others	Easing of foreigner sponsorship rules, minimum salary, enhanced enforcement of labour protections
Saudi Arabia	Private sector relief, including concessional financing for SMEs, utility bill discounts for commercial, industrial and agricultural sectors, salary support to Saudi citizens, VAT and customs duties increases	-
United Arab Emirates	Government fee exemptions for the private sector, acceleration of existing infrastructure projects, utility subsidies, credit guarantees and temporary loan and rent deferrals for SMEs, reductions and suspensions in government fees and penalties	-

Table 1. COVID-19 Policy Responses in Selected Middle Eastern Countries, as of 8 February 2021¹⁴

reduced electricity payments for various sectors and halved the domestic price of petroleum.¹⁵

The Oxford University-led Global Recovery Observatory (GRO) tracks four Arab oil producers: Egypt, Iraq, Saudi Arabia and the United Arab Emirates (UAE). The observatory estimates the overall GHG impact of total fiscal crisis spending (rescue + recovery) in these countries, expressed

as a 'net GHG score', as of November 2020, as negative. In other words, their total crisis spending up until this point will increase the countries' emissions relative to a no-intervention baseline.¹⁶ Similarly, the observatory's net GHG score for the recovery-specific portion of crisis spending for most of the region's countries is negative, as of March 2021. Figure 2 illustrates these scores in a global context.

¹⁴ IMF, *Policy Tracker*; KPMG, *Government and institution measures in response to COVID-19*, Update 49, 2 December 2020. Note: Measures related to the health sector and monetary measures are excluded from the table

¹⁵ Vivid Economics, *Greenness of Stimulus Index*.

¹⁶ Oxford University Economic Recovery Project, Oxford Economic Stimulus Observatory, <https://recovery.smithschool.ox.ac.uk/tracking/>, updated 23 November 2020, accessed 8 February 2021.

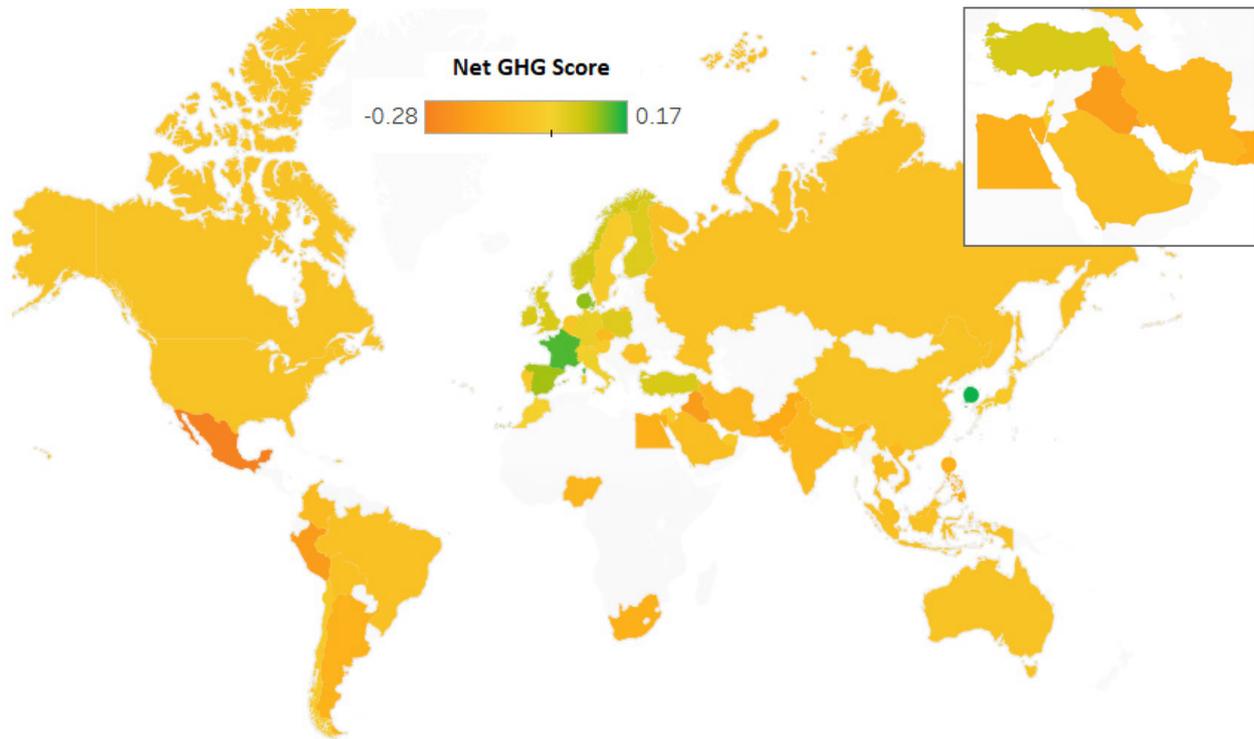


Figure 2. Net GHG Score of Recovery-related Fiscal Spending (March 2021, Oxford GRO)¹⁷

As of March 2021, the Oxford Observatory's database of large economies' major rescue and recovery measures¹⁸ contained 51 policies for **Egypt**, including 8 recovery policies.^v 'Dirty' rescue measures have included funding for aviation. A EGP3.5 billion (US\$ 224 million) natural gas pipeline extension project is also estimated to have a negative impact on the country's emissions performance.

In **Iraq**, among 22 policies (including 7 recovery policies),^{vi} two government-funded power sector projects valued at more than US\$1.2 billion will provide much-needed upgrades to the country's electricity infrastructure, but also perpetuate the use of fossil fuels in the power sector.

Saudi Arabia's 19 listed policies^{vii} include two recovery policies: a support scheme for e-commerce

and a US\$4 billion tourism development fund. None of these is expected to have an impact on the country's baseline emissions. Growth of the tourism sector obviously supports economic diversification, however.

In the **UAE**, for which the database lists 19 policies (including 6 recovery-related ones),^{viii} none of the measures is similarly estimated to impact baseline emissions.

There are currently no trackers that would survey or quantify the impact of rescue and recovery spending on the other areas of 'better recovery', namely circularity, climate and/or environmental resilience and workforce transitions. The databases reviewed for this study (IMF, KPMG, Oxford GRO and others)^{ix} contained few policies with related impacts for the region's countries.

¹⁷ Brian O'Callaghan et al. *Global Recovery Observatory* (Oxford University Economic Recovery Project, 2021), <https://recovery.smithschool.ox.ac.uk/tracking/>, updated 10 March 2021, accessed 13 March 2021

¹⁹ Brian O'Callaghan et al. *Global Recovery Observatory* – Excel file, <https://recovery.smithschool.ox.ac.uk/wp-content/uploads/2021/03/20210310-Global-Recovery-Observatory--publicv3.xlsx>, updated 10 March 2021, accessed 13 March 2021.

^v These policies cover a broad range of sectors, from healthcare sector relief to funding for energy infrastructure, social housing, the aviation and tourism sectors, and to cash subsidies and tax exemptions.

^{vi} Policies listed include a major port project, funding for medicines, and various emergency funding and aid schemes for individuals.

^{vii} Policies included in the database include various types of short-term support to businesses.

^{viii} The database lists stimulus packages for various sectors by Dubai, but it seems to omit many by other emirates and at the federal level.

^{ix} One additional database is the Platform for Redesign 2020 (<https://platform2020redesign.org/>). However, this is a voluntary database where countries submit the inputs without any further quality check. Additionally, no Middle Eastern countries are included (except Iran, Israel and Palestine which are beyond the scope of this study).

Among the few developments identified that support circularity, in January 2021, the UAE adopted the Circular Economy Policy 2021–2031, which mandates the development of circular public procurement policies, supporting access to sustainable finance and raising awareness on business models that support the circular economy, among others.¹⁹ The Egyptian government passed a waste management law that seeks to increase recycling rates and restricts the manufacture, import and export of single-use plastics.²⁰

Supporting climate resilience were the launch of a UNFCCC National Adaptation Plan (NAP) process in Iraq in September 2020 and the publication of the UAE's second Paris Agreement nationally determined contribution (NDC) in December 2020. The NAP process supports climate-resilient planning and the identification of adaptation priorities.²¹ The UAE submitted a new NDC in December 2020, which refers to a Climate Adaptation Program containing measures in various sectors.²² More broadly related to environmental resilience and biodiversity protection, Dubai announced in March 2021 its seventh urban master plan 'Dubai 2040 Urban Plan', which includes a goal to dedicate 60% of the emirate's land area to nature reserves and rural natural areas.²³

International Financing and Broader Policy Developments

In countries where the role of international technical and financial support is more pronounced, UN entities partnered with governments, launching programmes aimed at sustainable or green recoveries in a more holistic

manner. The NAP in Iraq is developed in partnership with UNEP and funded with a US\$2.5 million grant from the Green Climate Fund.²⁴ In October 2020, Iraq and UNEP also signed a memorandum of understanding (MoU) aimed at accelerating the implementation of environmental SDGs, which includes work to support the government's 'post-COVID-19 response [in] areas related to environmental sustainability'.²⁵ A month later, two externally-supported programmes totalling €220 million (US\$276 million) were launched in Egypt: one project will help small and medium-sized enterprises (SMEs) green their value chains by investing in advanced technologies and climate mitigation and adaptation solutions. The other provides financing to SMEs in various sectors to invest in energy and water-efficient and renewable energy technologies.²⁶

Some Arab aid donors have also contributed to supporting green and resilient recoveries in poorer developing countries. Qatar and the Global Green Growth Institute (GGGI) signed a three-year agreement totalling US\$9.9 million to support projects in the Caribbean, Pacific and Africa, focusing on green entrepreneurship and climate-smart agriculture.²⁷

In terms of broader policies, Egypt is the only major Arab economy to have explicitly announced economy-wide green recovery efforts, which include green bonds (see next section) and the introduction by the Ministry of Planning of environmental standards to mainstream climate change considerations into ministries' investment plans. The country's Prime Minister has also announced that a green recovery plan and a new environmental strategy are forthcoming, and the Ministry of Environment is reported to be working on both renewable energy and climate change strategies.²⁸

19 WAM, 'Transition to circular economy will enable UAE to unlock new sustainable economic, Belhaif Al Nuaimi', press release, 26 January 2021.

20 UNEP LEAP, 'Egypt: Waste Management Law No.202 of 2020,' <https://leap.unep.org/countries/eg/national-legislation/waste-management-law-no202-2020>, accessed 16 February 2021.

21 UNEP, 'Iraq launches National Adaptation Plan process for climate change resilience', press release, 21 September 2020.

22 UAE Government, *Second Nationally Determined Contribution of the United Arab Emirates* (December 2020).

23 Dubai Media Office.

24 UNEP, 'Iraq launches National Adaptation Plan'.

25 UNDP, 'Iraq's environmental sustainability prioritized in new UNEP/UNDP agreement', press release, 22 October 2020.

26 IISD, 'Two programs support green recovery in Egypt', *Sustainable Recovery 2020*, <https://www.iisd.org/sustainable-recovery/news/two-programs-support-green-recovery-in-egypt>, 13 November 2020.

27 GGGI, 'QFFD and GGGI conclude agreements on four projects...', press release, 10 December 2020.

28 Al Ahram, 'Between investments and the green recovery... The Ministry of Environment presents its plan to face the impact of COVID-19 (translation – original in Arabic)', 2 October, <http://gate.ahram.org.eg/News/2498063.aspx>, accessed 4 March 2021; Al Ahram, 'The Ministry of Environment presents to the IMF Egypt's steps towards a green recovery', 12 November 2020, <http://gate.ahram.org.eg/News/2527802.aspx>, accessed 14 March 2021.

In some countries, economic pressures have resulted in changes in government, potentially negatively impacting the prospects of sustainable recoveries. For example, in Oman's mid-2020 government consolidation, the Ministry of Environment and Climate Affairs was demoted to an environmental authority and its climate change affairs delegated to the Civil Aviation Authority.²⁹

In other countries, external events also drove positive changes in governance: in the UAE and Bahrain, climate change policy may receive more attention going forward with the nomination of new climate change envoys, in the wake of the US election victory of Joe Biden, who has indicated that climate change would be at the top of his agenda. As an initial sign of this, in May 2021, the UAE announced its interest in hosting the 2023 UN Climate Change Conference (COP 28). Signs of possible related changes in domestic policies, however, were not yet visible at the time of writing.

Energy-related Developments and Recovery Measures

Globally, the COVID-19-induced reduction in energy consumption was the primary factor behind the estimated 6.4% total fall in GHG emissions in 2020 compared to 2019.³⁰ On average, 81% of GHG emissions in the Middle East come from energy.³¹ Climate Action Tracker, which assesses emission reduction policies in key economies, estimates that GHG emissions in Saudi Arabia and the UAE

fell in 2020 by 3–6% and 6–9%, respectively, but notes that none of the fiscal spending measures announced in 2020 in either country directly addressed emissions.³²

According to the IISD's Energy Policy Tracker, by March 2021, 41% of energy-related recovery spending in the world's 30 major economies had been allocated to fossil fuels and only 37% to clean energy, on average. The database lists three policies for Saudi Arabia: in April 2020, electricity costs for commercial, industrial and agricultural sectors were reduced by 30%^x and payments for commerce and industries were postponed. In May 2020, fuel prices were reduced by 50%.³³ As shown in Table 1, various other countries across the region also reduced utility and fuel costs as part of their short-term relief and stimulus spending. In Egypt and the UAE, energy prices were reduced for the industrial and, in the case of the UAE, commercial sectors³⁴

Some scholars have suggested that lower oil revenues could translate into lower levels of investment in renewable energy in the GCC.³⁵ Overall, renewable energy projects already in the pipeline pre-COVID-19 proceeded largely as planned through 2020,³⁶ and the MENA region is collectively expected to add 4.12 GW of new renewables capacity in 2021.³⁷ Figure 3 shows the evolution of solar and wind energy generation in the six oil-producing countries pre-pandemic.

Government officials in Egypt, which has put in place a 42% renewables target for 2035, reported having approved close to 700 'green' projects in 2020, with a total investment value of

²⁹ Mari Luomi, *Gulf States' Climate Change Policies Amid a Global Pandemic*, Issue Paper 6 (Washington D.C., AGSIW, 25 September 2020); Aisha Al-Sarihi, 'Oman's Tradition of Environmental Protection Runs Into Economic Headwinds', AGSIW blog, <https://agsiw.org/omans-tradition-of-environmental-protection-runs-into-economic-headwinds/>, 27 October 2020.

³⁰ Tollefson, 'COVID curbed carbon emissions in 2020'.

³¹ Historical GHG Emissions, Average for 15 countries, with LULUCF, 2017. World Resources Institute et al., *Climate Watch*.

³² Climate Action Tracker, 'Saudi Arabia', <https://climateactiontracker.org/countries/saudi-arabia/>, updated 22 September 2020; 'UAE', <https://climateactiontracker.org/countries/uae/>, updated 27 November 2020.

^x The total cost of this was estimated at SAR 0.9 billion, or US\$240 million. Climate Action Tracker, 'Saudi Arabia'.

³³ IISD et al., *energypolicytracker.org*, <https://www.energypolicytracker.org/>, accessed 13 March 2021.

³⁴ New Climate Institute, *Overview of recently adopted mitigation policies and climate-relevant policy responses to COVID-19* (Cologne: NCI, October 2020).

³⁵ Ruba Husari, speaking at a webinar on 'After Covid-19: Economic Recovery in the Middle East', Middle East Institute, 2 November 2020.

³⁶ Luomi, *Gulf States' Climate Change Policies*.

³⁷ S&P Global, 'Commodities 2021: Middle East renewables on rebound after project delays', 11 December 2020, <https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/121120-commodities-2021-middle-east-renewables-on-rebound-after-project-delays>, accessed 15 February 2021.

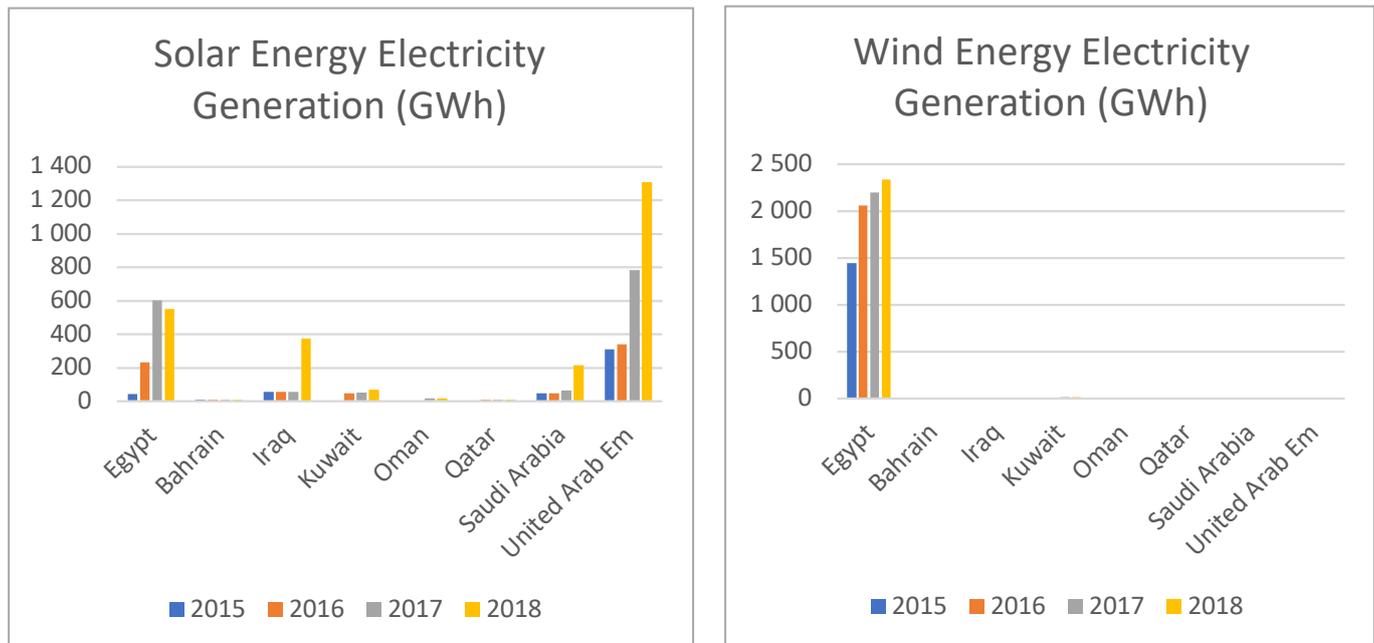


Figure 3. Solar and Wind Power Generation in Arab Oil-producing Countries in 2015–2018 (IRENA)³⁸

US\$28.6 billion, which include renewable energy projects, an electric train project and a green hotel certification programme.³⁹ In September 2020, the Egyptian government issued its first green bond, totalling US\$750 million, to finance clean transport and renewable energy projects.⁴⁰ In 2021, an Egyptian automaker announced plans to start manufacturing electric vehicles (EVs) in collaboration with a Chinese manufacturer.⁴¹

Saudi Arabia sustained rhetoric around its goal of generating 50% of electricity from renewables by 2030, originally announced in January 2020.⁴² The country's smart city project NEOM also announced a US\$5 billion renewable energy-powered green hydrogen plant project in July

2020.⁴³ However, according to industry sources, due to falling regional solar prices and related price (re)negotiations, the country failed to commission any new solar energy projects in 2020.⁴⁴ In January 2021, Abu Dhabi announced a hydrogen alliance among three state-owned enterprises, aimed at accelerating production and consumption within the country and positioning Abu Dhabi as an exporter.⁴⁵ Oman too floated plans for an industrial-scale green hydrogen plant.⁴⁶

The UAE's second Paris Agreement NDC, announced in December 2020, includes its first economy-wide emission target, for 2030. Most of the efforts towards the UAE's NDC will come from the power sector. Climate Action Tracker's ambition

³⁸ IRENA, *Renewable Energy Statistics 2020* (Abu Dhabi: IRENA, 2020).

³⁹ Rania Al-Mashat and Sérgio Pimenta, 'Greening Egypt's economy and what it means for the MEA region', *FDI Intelligence*, 27 January 2021, <https://www.fdiintelligence.com/article/79361>, accessed 14 February 2021.

⁴⁰ Davide Barbuscia et al., 'Egypt becomes first Arab country to issue Green bonds with \$750 million deal', *Reuters*, 29 September 2020.

⁴¹ Ahram Online, 'Egypt signs framework agreement with China's Dongfeng to produce electric cars', 18 January 2021, <https://english.ahram.org.org/NewsContent/3/12/399091/Business/Economy/Egypt-signs-framework-agreement-with-Chinas-Dongfe.aspx>, accessed 2 March 2021.

⁴² Matthew Martin et al., 'Saudi Arabia Aims to Become Next Germany of Renewable Energy', *Bloomberg Green*, 27 January 2021, <https://www.bloomberg.com/news/articles/2021-01-27/saudi-arabia-aims-to-become-the-germany-of-renewable-energy>; Joanne Serrieh, 'Saudi Arabia, other G20 leaders emphasize importance of clean energy, sustainability', *Alarabiya News*, 22 November 2020, <https://english.alarabiya.net/News/gulf/2020/11/22/G20-G20-leaders-global-organizations-emphasize-importance-of-Circular-Carbon-Economy->, both accessed 14 February 2021.

⁴³ Air Products, 'Air Products, ACWA Power and NEOM Sign Agreement for \$5 Billion Production Facility in NEOM...', press release, 7 July 2020.

⁴⁴ Max Hall, 'Saudi Arabia commissioned no solar projects last year', *PV Magazine*, 11 January 2021.

⁴⁵ Mubadala, 'Mubadala, ADNOC and ADQ form alliance to accelerate Abu Dhabi Hydrogen leadership', press release, 17 January 2021.

⁴⁶ Conrad Prabhu, 'Oman's first major green hydrogen project proposed in Suhar', *Oman Daily Observer*, 3 November 2020, accessed 21 June 2021, <https://www.omandailyobserver.com/article/8437/Business/omans-first-major-green-hydrogen-project-proposed-in-suhar>.

assessment, however, continues to rank the NDC as ‘highly insufficient’.^{xi} At the time of writing, no other Middle Eastern oil-producing countries had announced enhanced NDCs since the start of the pandemic.

Aviation and Tourism Developments and Recovery Measures

Aviation has been one of the sectors hardest hit by the pandemic. The industry group ATAG estimates that the direct and indirect (including tourism) contribution of

aviation to employment and economies could at least temporarily be reduced to half of its pre-pandemic levels of 3.4 million jobs (4.5% of all employment in the Middle East) and US\$213 billion (7.6% of the Middle East region’s total GDP)⁴⁷.

Some of the Middle East economies are particularly dependent on aviation and tourism. In 2019, tourism contributed between 5–13% of these economies’ GDPs.⁴⁸ Figure 4 shows the World Travel and Tourism Council’s (WTTC) estimates for the direct, indirect and induced contributions of tourism to the GDP in selected oil-producing economies in the region pre-COVID-19 and the change due to the pandemic.

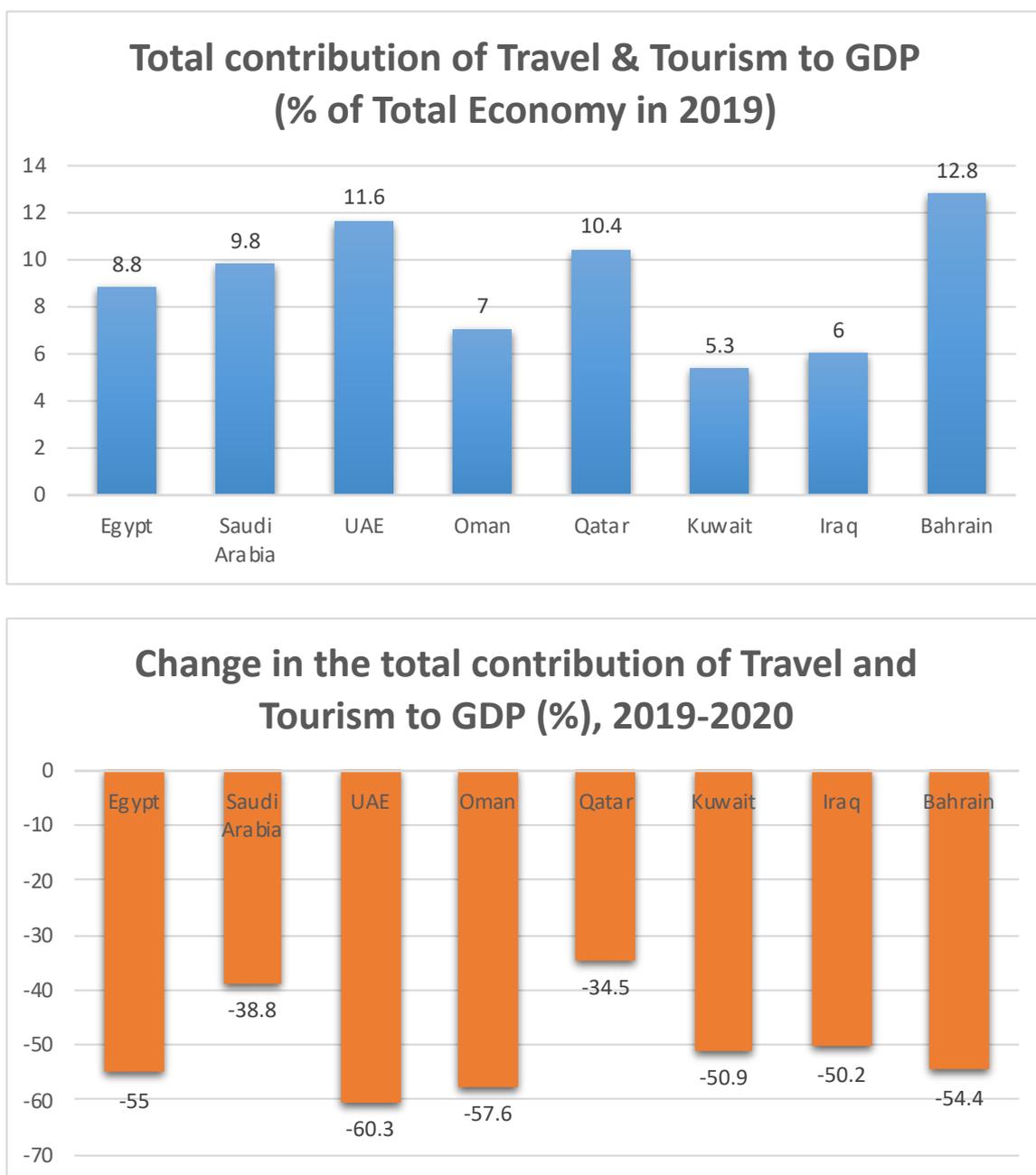


Figure 4. Contribution of Travel & Tourism to Selected Arab countries’ GDP in 2019 and Change in Travel & Tourism GDP between 2019 & 2020 (WTTC)⁴⁹

While domestic aviation is in most Middle Eastern countries only a minor contributor to GHG emissions, many host some of the world's major airlines. In the absence of technological alternatives, emissions from aviation have been expected to grow two to four-fold by 2050, making the sector one of the few sources of rapidly increasing emissions in the world, if left unabated.^{xii}

While tourism too has important negative environmental impacts (through its impact on nature and its natural resource use), aviation's contribution to climate change was significantly more debated during the pandemic in many countries, most prominently in Europe. In the Middle East, however, there were few calls for environmental conditionalities from environmental groups or consumers to be attached to airline stimulus and rescue spending.⁵⁰

Through 2020, various Middle Eastern countries announced sizeable stimulus and rescue packages for airlines. In Egypt, for example, EgyptAir was granted a EGP2 billion (US\$128 million) loan, and the price of aviation fuel has been reduced at least through the end of 2021.⁵¹ GCC governments announced financial support to local airlines, but the amounts have not been disclosed. Press reports suggest the aid could be in the range of several billions of US\$.⁵²

Total redundancies have also not been fully disclosed by the region's airlines. Similarly, there is a lack of transparency on possible conditions attached to the airline bailouts, but it can be assumed that the support has not included environmental conditions,

as governments in the region are generally keen to publicise any environmental measures they take. In a clearly 'brown' move, in Egypt, a 'Enjoy Winter in Egypt' initiative aimed at supporting domestic tourism included discounted domestic flight tickets.⁵³

Declining volumes of foreign air travel have severely impacted tourism in a number of Middle Eastern economies. The Egyptian government, for example, announced a EGP 50 billion (US\$3.2 billion) stimulus for the tourism sector, and Saudi Arabia continued its drive to develop its tourism sector by launching a US\$4 billion tourism development fund.⁵⁴ Many governments sought to boost domestic tourism, which is generally considered to be environmentally more sustainable given the shorter travel distances. The UAE, for example, launched a campaign titled 'World's Coolest Winter', which included the development and promotion of several natural and ecotourism sites across the seven emirates, along with related job training and investment promotion.⁵⁵

Emerging 'Better Practices'

Despite some short-term positive impacts on environmental metrics, such as a drop in air pollution during the lockdowns and lower emissions from the transport sector, the analysis above shows that Middle East governments' rescue and recovery measures in the first year of the COVID-19 pandemic were neither designed with environmental priorities in mind, nor are they likely to move the needle on the region's

xi While several gigawatts of solar and nuclear energy are in the pipeline, a large (2.4 GW) coal-fired plant is expected to come online in 2023 which, if not equipped with carbon capture and storage, would negatively impact the country's power sector emissions footprint. Climate Action Tracker, 'CAT Climate Target Update Tracker, UAE', <https://climateactiontracker.org/climate-target-update-tracker/uae/>, updated 29 December 2020.

47 ATAG, *Aviation Benefits Beyond Borders* (Air Transport Action Group, September 2020).

48 WTTTC, *Economic Impact 2021 Country Reports*: <https://wttc.org/Research/Economic-Impact>, accessed 23 June 2021.

49 Ibid.

xii The share of international aviation of global CO2 emissions was estimated to be 2.5% in 2018. The ICAO has projected that fuel consumption from international aviation could grow 2.4–3.8 times between 2015 and 2050. International aviation has accounted for approximately 65% of global aviation emissions. Gregg G. Fleming and Ivan de Lépinay, 'Environmental Trends in Aviation to 2020', *Environmental Trends in Aviation to 2020* (Montreal: ICAO, 2019).

50 Mari Luomi, *EU and GCC Aviation and Tourism: From a Historic Crisis Towards a Sustainable Recovery* (Brussels: Bussola Institute, October 2020).

51 Brian O'Callaghan et al., *Global Recovery Observatory* – Excel file.

52 Luomi, *EU and GCC Aviation and Tourism*.

53 Ahram Online, 'Reviving the tourism industry: Warm up in Egypt', 19 January 2021, <https://english.ahram.org.eg/NewsContent/50/0/399214/AIAhram-Weekly/0/Reviving-the-tourism-industry-Warm-up-in-Egypt.aspx>, accessed 13 March 2021.

54 IMF, *Policy Tracker*; Arabian Business, 'Saudi Arabia starts \$4bn Tourism Development Fund', 21 June 2020, <https://www.arabianbusiness.com/travel-hospitality/448453-saudi-arabia-starts-4bn-tourism-development-fund>, accessed 25 February 2021.

55 UAE Office of Public & Cultural Diplomacy, 'The 'World's Coolest Winter' in UAE', 14 December 2020, <https://youtu.be/CNv0Qf615bU>.

environmental performance and resilience or support just transitions. Rather, the policies and measures focused on containing the spread of the virus and on ensuring the continuation of economic activities as they existed prior to the pandemic, to the extent possible.

However, some recovery-related green, resilient and just fiscal measures and policies, can be identified, which constitute good examples and could serve as best practices for various countries in the region. These are listed in Table 2.

Short-term Steps for Longer-term Sustainable Recoveries

As demonstrated above, rescue measures in the region in 2020 supported business-as-usual trajectories, and most countries have not yet actively promoted green, resilient or just longer-term recoveries. Yet, such policies will be imperative

Economy-wide plans	<p>Egypt: A green recovery plan was announced in October 2020, which includes mainstreaming sustainable development metrics in the national economic plan.</p> <p>UAE: The Circular Economy Policy 2021–2031 was launched in January 2021, which targets four priority areas – green infrastructure, sustainable transportation, sustainable manufacturing, and sustainable food production and consumption.</p>
Energy supply and demand	<p>Egypt: Green sovereign bonds, valued at US\$750 million, were introduced in September 2020 with the aim of financing renewable energy and clean transport projects. Additional government measures include supporting waste to energy projects and soft loans at zero-to-low interest rates from banks for replacing old cars with natural gas-powered vehicles.</p> <p>Egypt: Ministry of Public Business signed an agreement in January 2021 to start manufacturing EVs as part of a project meant to reduce emissions and limit the use of fossil fuels.</p> <p>UAE: In January 2021, Mubadala Investment Company, The Abu Dhabi National Oil Company (ADNOC), and ADQ (formerly Abu Dhabi Developmental Holding Company), announced the signing of a Memorandum of Understanding (MoU) to establish the Abu Dhabi Hydrogen Alliance to build a substantial green hydrogen economy in the UAE. Ministry of Energy and Infrastructure later announced joining the alliance. In March 2021, the government approved a hydrogen vehicles system and energy efficiency programmes for the transport, industry and construction sectors.</p> <p>KSA: Air Products, in conjunction with ACWA Power and NEOM, announced the signing of an agreement for a US\$5 billion world-scale green hydrogen-based ammonia production facility powered by renewable energy.</p> <p>Oman: Sohar Port and Freezone announced a plan to set up the country's first industrial-scale green hydrogen plant at the industrial port on the Batinah coast.</p>
Circularity	<p>Egypt: A new waste management law was introduced to reduce the manufacture, import or export of single-use plastics</p>

Table 2. Selected Best Practice Examples of Better Recovery Measures in the Middle East ^{xiii 56}

^{xiii} This report covers policy developments from March 2020 through mid-March 2021. After this, some plans and initiatives were announced that either are directly intended to support sustainable recoveries or have potential to support 'better' development trajectories over a longer time frame. These include, among others, Saudi Arabia's Green Middle East and Green Saudi Initiatives, which were announced in April 2021 and contain pledges to plant 10 billion trees and generate 50% of electricity from renewables by 2030 in Saudi Arabia. Other examples include plans by Abu Dhabi's energy company Taqa to expand the share of renewable energy generation in its portfolio from 5% today to 30% in 2030, and a UAE-wide energy and water demand management programme, which contains energy efficiency measures for the three most energy-intensive sectors.

⁵⁶ Al Ahram, 'Between investments and the green recovery...'; WAM, 'Transition to circular economy'; Ahram Online, 'Egypt signs framework

Resilience	UAE: Dubai announced a new urban masterplan for 2040, which includes a target to preserve 60% of the emirate's land area.
International cooperation	Egypt: The European Bank for Reconstruction and Development (EBRD), the European Union (EU), and the Green Climate Fund (GCF) launched two programs to promote green finance in an attempt to support a green recovery for the Egyptian economy. The programmes supported will offer sub-loans by local banks to businesses for green investments in energy, water, and resource-efficient solutions. Iraq: The government signed a Memorandum of Understanding (MoU) with the UNEP Regional Office for West Asia and the UN Development Programme (UNDP) to advance progress towards the 2030 Sustainable Development Agenda in the country, and particularly its 'environmental SDGs'. The MoU aims to place environmental sustainability at the lead of Iraq's COVID-19 response.
Institutions and governance	UAE: The government launched a project titled 'Designing the Next Fifty Years Project in the UAE', which included a call for public e-participation: public and private sectors and, citizens and residents were invited to share their future aspirations and recommendations across different sectors.

Table 2. Selected Best Practice Examples of Better Recovery Measures in the Middle East ^{xiii 56}

for achieving sustainable development in the region and for ensuring welfare for its people in the future. Even before the pandemic, progress on sustainable development in the Middle East had already been uneven.⁵⁷ Unless intentional action is taken to align recovery efforts with the 2030 Agenda, the region is unlikely to meet the SDGs.

Longer-term recovery policies must place people and jobs at their heart. At the same time, the climate and biodiversity crises demand that governments seek to align their investments in job sustenance and creation more closely with positive environmental outcomes, as environmental security is a basic component of human security. As outlined earlier in the paper, recovery policies in the Middle East should seek to tick three boxes: they should be green in that they help reduce emissions across the economy. They should be resilient in that they boost both societies' resilience to climate change-related shocks and economic resilience to the global clean energy transition. They should also be just, ensuring that no-one is left behind in the recovery and the green transition.

There are several policies and measures that Middle Eastern oil producing countries' governments

could consider adopting immediately, building on the emerging best practices from the region identified above. Below, we propose a brief list of initial measures, which builds on these measures, as well as expert consultations conducted as part of the broader study at the MBRSG on policies and investments for 'recovering better'. These short-term measures are only the start, but if adopted without delay, they could help ensure that the window for green, resilient and just recoveries is not closed.

1. Ensure an economy-wide approach to sustainable recoveries by taking the following steps:

- Adopt a high-level sustainable recovery vision for the country that targets the next five years and is led from the top (head of state of government);
- Develop an understanding of the budgetary implications of different sectoral recovery policies, including how green policies can support the economy in the short and long term;
- Empower the whole of government to

agreement'; UNEP LEAP, 'Egypt: Waste Management Law'; Mubadala, 'Mubadala, ADNOC and ADQ form alliance'; Jennifer Gnana, 'Hydrogen vehicle strategy to help UAE achieve its clean energy targets', The National, 22 March 2021; Air Products, 'Air Products, ACWA Power and NEOM Sign'; UNDP, 'Iraq's environmental sustainability prioritized'; IISD, 'Two programs support green recovery'; UAE Government, "Designing the Next 50'...", <https://u.ae/en/about-the-uae/the-uae-government/2020-towards-the-next-50/designing-the-next-50>, updated 22 October 2020; Prabhu, 'Oman's first green hydrogen project proposed'.

⁵⁷ Luomi et al., *Arab Region SDG Index and Dashboards Report 2019*.

- implement sustainable recoveries, including through green earmarking requirements for budgets and ensuring institutional capacity to develop sustainable sectoral recovery plans;
- Develop detailed implementation plans with clear milestones, and engage the private sector and other policy stakeholders in related planning and monitoring processes;
 - Implement data collection, monitoring and evaluation systems, which are transparent and enable tracking of progress towards announced clean energy and other targets;
 - Consider introducing environmental and social metrics alongside the GDP for measuring progress in the COVID-19 economic recovery.
2. Prevent a rebound in emissions by employing the following measures:
- Reverse any economic incentives introduced in the short-term rescue phase that have a harmful impact on emissions and the environment as soon as possible. These include first and foremost temporary reductions to fuel and utility prices.
 - Make any further support to airlines and other high-emission industries conditional on aligning spending and activities with the SDGs and the Paris Agreement's goals.
3. Target government support to sectors that generate sustainable jobs, including by implementing:
- Economic incentives for businesses, such as loans for green investments (e.g. energy efficiency retrofits or solar energy installations);
 - Government led initiatives such as green public procurement and sustainable tourism initiatives; and
 - Mandates to national oil companies and other high-emitting industrial players to develop strategies that align with net-zero emission pathways, helping ensure business sustainability and job creation in the long term in these vital sectors.

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