

**Economic and Social Commission for Western Asia (ESCWA)**Thirty-first session  
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**Governance of natural resources: extractive industries  
as an engine for sustainable development****Summary**

The Arab region is endowed with a significant portion of global extractive resources, and accounts for roughly 31 per cent of global exports of crude oil and petroleum products. The production and export of these raw materials have been the bedrock of economic development for many Arab countries. However, production and consumption patterns in the region remain unsustainable, with undesirable impacts on people and the planet.

The present document provides a comprehensive overview of the current status of extractive industries in the Arab region, and of the challenges and opportunities aimed at fortifying these industries as catalysts for sustainable development. It highlights disparities in the supply and demand dynamics of energy transition materials within the Arab region and, in response, presents a series of strategic pillars and policy recommendations designed to align the extractive industries with the region's energy transition objectives.

The Commission is invited to consider the contents of the present document and to comment on the proposed recommendations.

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## Introduction

1. Extractive industries exports remain the economic bedrock for fiscal revenues, and a valuable source of foreign exchange and surpluses to finance economic and social development in countries worldwide. However, the potential of extractive industries to contribute to sustainable development is mired by economic, environmental and social concerns.
2. Extractive industries recover raw materials from the earth, process them, and turn them into products and services for use by consumers. These raw materials may be fossil fuels (notably coal, oil and gas), minerals (such as bauxite, phosphate, potash, copper, gold, diamonds, and rare earth minerals), and aggregates (such as sand, gravel and clay).<sup>1</sup>
3. Governments have faced challenges in collecting adequate revenue from extractive industries for various reasons, including a lack of financial transparency that may promote corruption, siphoning of profits, and illicit financial flows, which may exacerbate political tension and conflict. Volatility in commodity prices is also a major concern for countries that are heavily reliant on extractive industries exports, as recurrent booms and busts in commodity prices tend to affect exchange rate stability, local industry activity and government finances, leading to the so-called “resource curse” for many extractive-dependent economies.
4. Moreover, the global energy transition is characterised by a rapid increase in renewable energy generation, replacement of energy carriers, penetration of energy-efficient technologies, large-scale electrification, and greater energy system flexibility. Renewable energy technologies, such as wind turbines and solar power systems, are mineral-intensive, leading to a surge in demand for minerals, raw materials and metals, known as “energy-transition minerals and metals” or “critical raw materials”, which constitute part of extractive industries.
5. Global trends indicate that demand for metals and minerals as part of the extractive resources required for the energy transition will multiply in the next few decades, potentially leading to a shortage and to increasing geopolitical competition that may delay the clean energy transition.
6. The production of critical raw materials and energy extractive industries could have a staggering impact on climate change by reducing dependency on fossil fuels, which account for over 75 per cent of global greenhouse gas emissions and nearly 90 per cent of all carbon dioxide emissions. According to International Monetary Fund (IMF) estimates, eliminating fossil fuel subsidies and adopting efficient fossil fuel pricing in 2015, for instance, would have lowered global carbon emissions by 28 per cent and fossil fuel air pollution deaths by 46 per cent.<sup>2</sup> Nonetheless, countries continue to subsidise fossil fuel production, thereby expanding their carbon footprints.
7. The extractive sector, if well managed, can play a positive role in promoting sustainable development and structural economic transformation. Critical raw materials are crucial for achieving Sustainable Development Goal (SDG) 7 on affordable and clean energy and SDG 13 on climate action, and have indirect impacts on several other SDGs in the local context.
8. In response to the [United Nations Secretary-General’s Call for Action](#), substantive work on extractive industries as an engine for sustainable development in the Arab region was undertaken by the Economic and Social Commission for Western Asia (ESCWA), with a focus on energy-transition minerals and materials, which are increasingly relevant for the global clean energy transition.

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<sup>1</sup> Claudine Sigam and Leonardo Garcia, [Extractive Industries: Optimizing Value Retention in Host Countries](#), 2012.

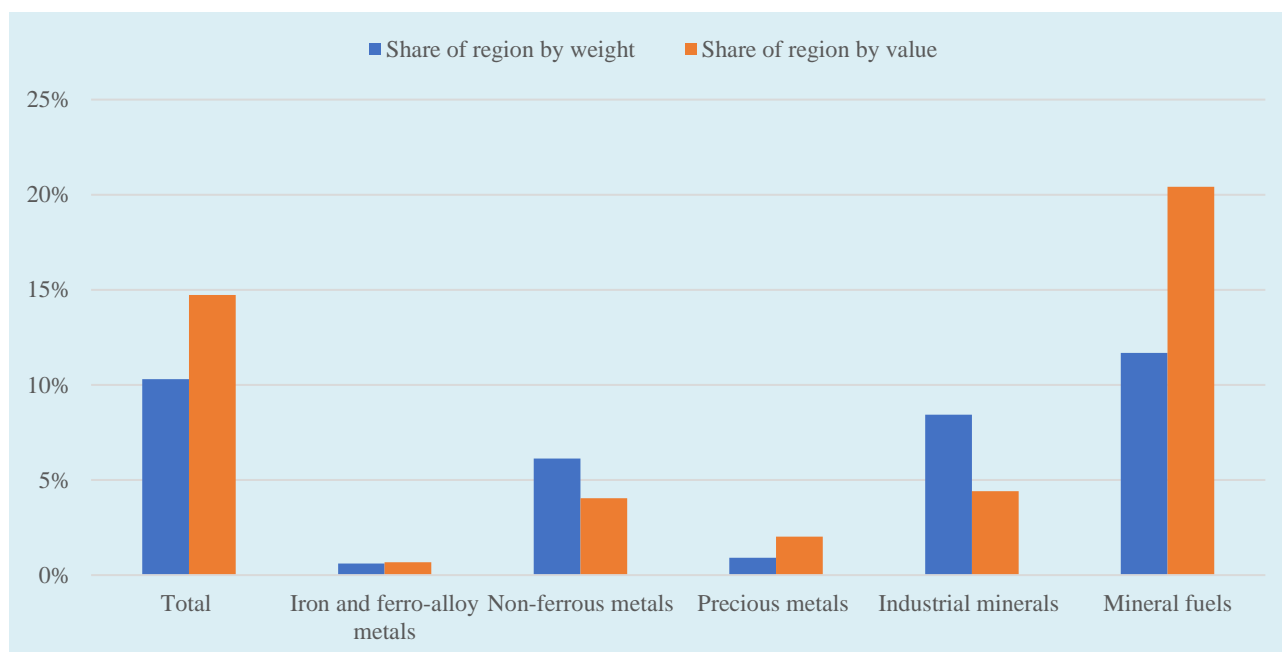
<sup>2</sup> David Coady and others, [Global fossil fuel subsidies remain large: an update based on country-level estimates](#), IMF Working Papers (May 2019).

9. Action taken in the extractives sector today could determine the capacity of many countries to achieve the SDGs and the Paris Agreement in the medium term, and determine the world's ability to secure a just transition to a net-zero future in the long term.

## I. Mineral resources in the Arab region

10. Arab countries possess significant resources, especially in the form of mineral fuels such as natural gas and petroleum. The total share of global mineral production in the Arab region is about 10 per cent by weight and 15 per cent by value. Mineral fuels constitute the largest share, followed by industrial minerals and non-ferrous metals.

**Global share of mineral production in the Arab region, 2020 (By weight and value)**



Source: C. Reichl and M. Schatz, [World Mining Data, 2022](#).

## II. Global supply and demand challenges and risks

11. The challenge of global supply and demand for extractive materials has widespread implications. As the world pivots towards renewable energy, demand is rising for minerals crucial to these technologies. This transition brings new challenges, including ensuring a stable supply chain, managing resources strategically, and identifying critical minerals. Balancing the need for energy and minerals with environmental and social concerns is a pressing global issue that requires practical governance and international collaboration.

12. The mineral intensity of electricity generated from renewable energy technologies is higher than that from fossil fuel-based infrastructure, and the rapid deployment of clean energy technologies implies a significant increase in global demand for minerals in the coming decades.

13. The vast scale of mineral reserves significantly surpasses current annual production levels. This abundance, coupled with intensified exploration activities and elevated mineral commodity prices, creates economic incentives for mining from existing reserves, thereby driving higher production rates. The challenge lies in ensuring that this economic viability does not lead to unsustainable exploitation, environmental degradation, and social injustices.

14. Unclear consensus on critical minerals is hampering efforts to address supply chain vulnerabilities. The global supply-demand gap for minerals may increase in the short term, emphasizing the need for governance that guides sustainable exploration and mine development to meet demand, while preventing long-term environmental and social risks.

### **III. Challenges in the Arab region**

#### **A. Economic sustainability and dependence**

15. The Arab region is endowed with a significant portion of global extractive resources, and accounts for roughly 31 per cent of global exports of crude oil and petroleum products. The production and export of these raw materials have been the bedrock of economic development for many Arab countries. However, production and consumption patterns in the region remain unsustainable, with undesirable impacts on people and the planet.

16. The high level of dependence on extractive industries is a fundamental vulnerability in the Arab region, economically, fiscally and environmentally, placing it among the most vulnerable to the impacts of climate change. At present, the sector faces several challenges and uncertainties, reputational damage, and an inability to attract the private sector and human resource capital needed to innovate and keep pace with environmental concerns and sustainability.

17. Arab economies are vitally dependent on fossil fuels as a source of energy and revenue, with over 95 per cent of their energy supply derived from oil and natural gas.<sup>3</sup> In addition, mining is a major sector in Jordan and Morocco, and accounts for a substantial share of their export earnings. Moreover, iron mining accounts for more than a third of export proceeds in Mauritania.<sup>4</sup>

18. The Arab region is particularly vulnerable owing to a lack of economic diversification and the impending effects of climate change, which are exacerbated by a lack of effective natural resource management instruments.

19. Many countries endowed with extractive resources are overdependent on export revenues and lack economic diversification thus limiting government revenue sources, resulting in low resilience to commodity market shocks, and providing little room for the penetration of other sectors. Price volatility also increases the vulnerability of export-dependent countries to economic cycles and repeated downturns, leading to unplanned government deficits.

#### **B. Governance and transparency**

20. Trade and tax-based illicit financial flows, including those arising from trade mis-invoicing, tax base erosion, and other tax abuses (evasion/avoidance), constitute significant revenue leakages and pose severe structural, socioeconomic, governance and security complications for Arab economies. The incentive for illicit financial flows has been amplified owing to numerous cases of instability and conflict in the Arab region, including proxy wars, sectarian conflict and terrorist networks.

21. Governments have not always been able to collect appropriate levels of revenue from extractive industries, a problem further compounded by a lack of financial transparency which limits the scope for accountability, and significantly weakens regulatory compliance, judicial systems and anticorruption laws.

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<sup>3</sup> E/ESCWA/SDPD/2019/3.

<sup>4</sup> Ibid.

22. Developing countries' lack of expertise in the extractive sectors inhibits the detection of illicit financial flows through transfer pricing and trade mis-invoicing that, according to ESCWA estimates, exceeded the combined aggregates of both official development assistance and foreign direct investments flowing into Arab countries in 2015. Moreover, extractive operations often take place in remote areas, which makes public scrutiny difficult.

23. Extractive industries, such as the gas, minerals and oil sectors, are particularly affected by bribery and corruption owing to their size and complexity and to the number of actors involved, including from Governments and third parties. Moreover, many countries unnecessarily offer tax incentives, which have little weight in investment decisions, and are often abused, leading to illicit flows of funds from established multinationals.

24. In addition, market distortion owing to continuous under-pricing of energy and water and irrational subsidies in the domestic market have contributed to inefficient and unsustainable natural resource use.

### **C. A just transition**

25. The Arab region lacks effective environmental, social and legal frameworks, and suffers a disconnect between sectors, resulting in weak coordination in addressing environmental concerns, including loss of biodiversity and ecosystems. Furthermore, global economic and legal systems have not yet found adequate responses to the problems of pollution, environmental destruction and emissions in origin countries, while the products that cause this destruction are being consumed elsewhere.

26. Extractive industries can result in displacement of populations, worsening economic and social inequality, armed conflict and gender inequality. They also have negative effects on human rights, including on health, livelihoods, water and sanitation, culture and a healthy environment, which disproportionately impact vulnerable groups.

27. Mining for critical minerals can have a significant environmental impact in resource-rich areas, including habitat destruction, water pollution, air pollution, land degradation and waste generation, often exacerbated by poor management.

### **D. Policies and investment**

28. Lack of long-term planning results in poor infrastructure development, higher dependency on other countries for minerals, risk of higher environmental degradation, negative social impacts, higher economic inefficiency, and high legal/regulatory challenges, which can result in missed opportunities for economic growth and development.

29. Lack of clarity or stability in government policies and regulations affects the feasibility and attractiveness of extractive industries, particularly mining projects. Moreover, price volatility varies across commodities, potentially destabilising commodity-dependent countries. Both policy uncertainty and price signals can deter investment in sustainable mining projects.

30. The absence of a regional or multilateral legal description of what constitutes illicit financial flows holds severe consequences, not least for asset recovery and for prioritizing policies, instruments and regulations needed to root them out from intra- and inter-regional settings.

31. A lack of social investment and long-term planning is contributing to already unchecked demand, owing to weak energy efficiency in both energy and associated energy use, and to distortionary energy prices. In addition, an absence of mineral and petroleum policies puts countries in a disadvantaged position, where they have to negotiate contracts that promote short-term company interests over long-term national interests.

### **E. Natural resource planning and governance**

32. The need to better manage natural resources and strengthen governance is a prerequisite to tackling many challenges and benefiting from the opportunities the sector presents, so as to ensure its transformation to an engine for sustainable development.

33. Without proper governance and management of natural resources, the region is likely to fall behind on efforts to meet SDG targets by 2030 and beyond.

34. Better environmental and natural resource planning will help balance decision-making and combine the protection of environmental resources with community goals, including economic development, improved government efficiency, and enhanced quality of life. Moreover, better government planning and reporting will augment transparency, build public trust, and make Governments more accountable, thereby limiting the scope for corruption and illicit financial fraud.

### **IV. Recommendations**

35. The ability to harness natural resources through transparency, good governance, economic diversification, and sustainable management practices is key for Arab countries, so as to create economic opportunities for young people and improve their living standards. The Commission is invited to consider the following recommendations:

(a) Build fiscal buffers to enhance resilience and restore fiscal sustainability, including by developing a tax base, engaging in value-added tax (VAT) reform, and creating income tax to reduce dependence on revenues from extractive industries and to diversify economies into sectors of the future;

(b) Make fiscal regimes more progressive and transparent, simplify administrative procedures, and avoid tax breaks on profits and incentives that cause a race to the bottom, thus limiting State benefits from royalties and related instruments. The Arab region should reassess how extractive industries are taxed, and consider ways to effectively tax capital gains and reduce overlapping deductibles or tax arbitrage;

(c) Address distortionary price mechanisms through the appropriate removal of energy subsidies, and through the introduction of carbon emission taxes and incentives for clean technologies;

(d) Strengthen the judicial system and anticorruption laws to tackle revenue mismanagement and illicit financial flows;

(e) Introduce effective internal controls relevant to revenue collection, management and spending, implement data extractive transparency initiatives, promote due diligence, and ensure proactive compliance with companies that countries work with;

(f) Harmonize national standards to regulate all companies, including foreign, local and small artisanal operations that lack oversight, so as to create clear country-specific regulatory frameworks and tax regimes;

(g) Apply more effective rules, adequate enforcement, and independent monitoring, including by civil society actors;

(h) Provide more technical and capacity-building support and incentives to help countries combat tax evasion and illicit financial flows, and encourage all countries to sign up to the Extractive Industries Transparency Initiative (EITI) and the International Council on Mining and Metals (ICMM);

(i) Initiate more granular assessments based on the [Conceptual Framework for the Statistical Measurement of Illicit Financial Flows](#), so as to identify potential gaps and target policy efforts, noting that illicit activities are often intertwined, as when bribery or corruption is linked to extractive industries and trade mispricing;

(j) Address the rights of local communities by improving participation, access to information, transparency and accountability, including stronger State capacity through specialized and autonomous agencies to enforce dispute resolution processes, thus protecting the rights of local communities;

(k) Ensure international tax cooperation to promote information exchange in extractive industries and build the capacity of tax administrations, especially in audits;

(l) Invest in capacity-building and training programmes to enhance the understanding and skills of stakeholders involved in the mining sector, including mining companies, local communities, civil society organizations, Governments and regulatory bodies, thereby supporting the implementation of sustainable and responsible practices;

(m) Provide legal and technical support to ensure that existing and new environmental and mining laws are clear, implementable and enforceable;

(n) Adopt forward-looking approaches that consider economic, environmental and social impacts, underpinned by financial initiatives that support small and medium enterprises and gender and community programmes;

(o) Implement the circular carbon economy framework within the extractive and mining sectors, based on the 4Rs (reduce, reuse, recycle and remove), so as to drive the transition to sustainable resource management. This includes deploying advanced technologies for mining, promoting the reuse and recycling of materials, substituting critical resources, and efficiently collecting and recycling products at the end of their life cycle;

(p) Encourage Arab Governments to adopt taxonomies aligned with their circumstances, by integrating credible international environmental, social and corporate governance criteria. This would ensure transparency, encourage accountability, and address the Arab region's specific circumstances;

(q) Strengthen governance structures, transparency and accountability by reinforcing regulatory and legal frameworks, establishing stable tax regimes, and implementing ethical business practices. This approach facilitates the traceability of mining revenues, ensures government accountability, and promotes increased transparency in contractual agreements through strict adherence to corporate governance standards.

(r) Encourage Arab Governments to work with regional organizations to shape national strategies, industrial policies and accompanying financing strategies, so as to secure a just energy transition, create new decent job opportunities in the green economy, and attain a circular and inclusive economy aimed at achieving the SDGs.

(s) Forge global partnerships for reliable, secure and sustainable critical mineral supply chains, so as to mitigate supply chain risks, promote economic benefits, and contribute to achieving the SDGs. Improved coordination and coherence in the global mineral market are vital for a clean and just energy transition, addressing environmental, social and governance risks, and promoting sustainable and equitable economic growth.

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