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MENA STABILITY IN A CHANGING CLIMATE A TRANSATLANTIC AGENDA ON PREVENTIVE INVESTMENT

TAYLOR DIMSDALE & NICK MABEY

Executive Summary

In 2013 after the Arab Spring uprisings E3G carried out an extensive medium-term stability analysis of the Middle East North Africa (MENA) region. We found that MENA was likely to remain highly exposed to increasingly likely food, energy and water shocks through to 2025. Yet external support packages were failing to systematically address these risks and GDP growth alone was unlikely to mitigate them. Countries would need to focus on directly building national resilience if the conditions for political stability were to be reliably maintained.

This follow up briefing takes stock of EU-US progress in improving resilience to resource and climate shocks in MENA. It is based on a systematic assessment of regional trends, risk factors, and economic and financial support packages. It has also been informed and substantially improved by consultation with experts including two high level workshops in Brussels and Washington, DC.

Stability in MENA continues to be a strategic priority for the EU and US for political, economic and security reasons. There was already evidence that climate and resource risks were drivers of instability in MENA. Our update finds that official threat assessments of the impact of these risks have worsened, including growing food insecurity, water scarcity and extreme weather. These risks, among other factors, have contributed to estimates of increased migration pressures on Europe. Higher risks are also seen to deter private sector investment.

Since 2013 a great deal of work has been done in the region and important progress has been made in supporting local governments and improving livelihoods. However, it is widely agreed by experts that **MENA's exposure to resource shocks and climate risk has not significantly improved**. Countries in the region are overwhelmed by immediate needs. Most external interventions have short term objectives and focus on conventional macroeconomic indicators. Relatively few projects seek to address longer term instability, and of those that do, few target resource and climate risks by



building resilience. Regional energy initiatives are fragmented and often inconsistent with decarbonisation objectives.

Improving resilience will require institutional reform and international efforts to move beyond the current crisis response framework and integration of climate and resource risks into conventional approaches to stabilisation. **A more strategic approach to investment focused on prevention and effective management of risks of instability is needed.** Critical decisions to respond to risks of instability require sustained long-term action and planning that is integrated across multiple disciplines and sectors. Examples of resilient interventions include demand reduction alternatives for new supply side investments in energy and water or projects that foster regional resource interdependence such as Ecopeace's Water and Energy Nexus. These types of approaches can build on existing efforts such as work that Mercy Corps is undertaking to demonstrate a return on resilience investments.

Several steps in the decision-support cycle for countries at risk of instability are under-resourced. Political will is not the main barrier. While there is uncertainty surrounding the transatlantic relationship, the continued focus on MENA particularly by the EU and international financial institutions is encouraging. Risk assessments can always be improved but they are good enough to inform decisions based on a preventive approach. Rather, our analysis suggests that **the main barriers to improving resilience in MENA are at the 'downstream' end of the decision cycle, specifically a lack of evidence on the effectiveness of resilience-based interventions and a lack of capacity of policy advisors to generate strategic options.** These problems are solvable. What is more concerning however is the lack of understanding at the political level of the importance of resource and climate risk as well as the phenomenon of 'risk overload' where the danger of climate and resource shocks gets lost in a pile of competing shorter term priorities.

For all its challenges MENA is ripe with opportunity. Transatlantic cooperation on a few priority areas can form the basis of a deeper set of international reforms. The EU already has an impressive suite of relevant strategies and financial instruments and faces greater material risk from instability in MENA. For some priority areas the EU should therefore take the first step and hope that the US will follow. In other cases, there is already enough common ground that there is greater scope for immediate cooperation. Finally, there are several equally critical but politically challenging issues that would benefit from early stage dialogue as a least-regret approach.

Where Europe should lead

1. Deliver existing EU strategies and investment plans
2. Launch a platform for climate and resource resilience in the southern neighborhood
3. Rationalise and review energy infrastructure investment in the region



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Immediate opportunities for cooperation

4. Launch a transatlantic dialogue on water security in MENA
5. Revitalise the EU-US platform for coordination on migration and refugees
6. Establish a policy dialogue on sustainability and stability with other major investors, such as China and Japan, active in developing critical infrastructure in MENA

Medium term challenges

7. Systematic evaluation of best practices in preventive investment
8. Joint assessment on the role of macroeconomic policy frameworks in improving resilience to natural disasters



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Context

In 2013 E3G conducted a medium-term stability assessment for the Middle East North Africa (MENA) region following the Arab Spring uprisings. That project was based on scenario analysis looking out to 2025 for Egypt and Tunisia as representative case studies. It used the “Analytical Framework for Instability” for understanding and structuring risk factors of instability¹.

Our previous report found that resource and climate risks including food and energy price shocks represented a growing threat to stability and peace in the region. Yet financial support packages for MENA were failing to systematically address these vital areas for stability. We concluded that GDP growth alone was unlikely to mitigate these risks without a greater focus on building national resilience. The report offered a set of priority recommendations for policy and investment packages (see Box 1).

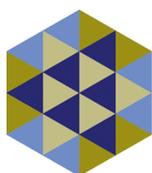
Box 1. Recommendations from E3G’s 2013 Stability Analysis

Our 2013 report *Underpinning the MENA Democratic Transition* included recommendations for a set of priority policy and investment packages:

- > **Improve resilience to shocks:** refocus investment to address immediate resilience challenges over food, water and energy.
- > **Economic diversification into resource efficient industries:** support new industries which are sustainable under future resource stresses and climate policy contexts.
- > **Build resilient infrastructure:** in the national and resource social context - including shifting from hard to soft infrastructure and developing more flexible resource management solutions.
- > **Rationalise external support on resource pressures:** focus current disparate avenues of external support on a few high impact stability and development objectives.

This briefing takes stock of transatlantic efforts towards improving resilience to resource shocks and climate impacts in MENA. It is based on a systematic assessment and update of regional trends and risk factors, economic support packages, and consultation with stakeholders conducted through two high level expert workshops in Brussels and Washington, DC. The expert workshops, held under Chatham House rules, have been vital in supporting our analysis. However, the analysis and conclusions drawn here are E3G’s alone and do not necessarily reflect the views of the participants.

¹ <http://webarchive.nationalarchives.gov.uk/+/http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/investing.pdf>



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Stability in MENA is a priority for the EU and US

The European Union and United States are investing heavily in MENA to fulfil political, economic and security objectives. While MENA has been a transatlantic foreign policy priority for decades, this goal has taken on new urgency in recent years.

From a political perspective, the EU and US have both sought to help build democratic institutions in MENA through diplomatic and economic interventions. Some countries, especially in the Persian Gulf, face challenges stemming from a ‘democratic deficit’ as their level of development is outpacing their ability to govern, leading to continued risk of social unrest². On the other hand, several of the countries in MENA that are considered relatively stable according to the Fragile States Index (FSI) including Saudi Arabia, Jordan, and Turkey, are critical for maintaining regional stability.

Economically the EU and US are two of the region’s largest trading partners and have pursued active trade agendas with various MENA countries, not only to improve economic ties but also with a view to enhancing regional security³. **MENA receives the largest share of US development assistance⁴ and it is the focus of major European funding vehicles** including the EU External Investment Plan.

From a security perspective, the EU and US have invested military, economic and diplomatic resources to resolving several crises in MENA, including the civil wars in Syria, Iraq, Libya and Yemen which threaten wider global instability⁵. The US and EU also have vested interests in preventing or at least mitigating other potential interstate conflicts, which has been ranked as one of the top risks for which the MENA region is unprepared⁶. The instability in MENA and particularly in Syria was a significant factor in the influx of migrants and refugees arriving in Europe in recent years, which has had widespread political implications for the EU and beyond⁷. Continued instability in the region, alongside the migration crisis, has influenced the development of the EU’s new Global Strategy⁸ as well as its Strategic Approach to Resilience. NATO recently declared that it considers stability in MENA vital to the Alliance⁹.

² https://www.dni.gov/files/documents/GlobalTrends_2030.pdf

³ http://carnegieendowment.org/files/cmec8_al_khour_i_final.pdf

⁴ <https://www.cgdev.org/sites/default/files/whw-middle-east-n-africa.pdf>

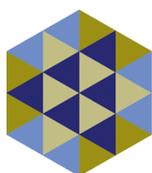
⁵ https://www.dni.gov/files/documents/GlobalTrends_2030.pdf

⁶ <https://www.weforum.org/agenda/2015/05/for-which-global-risks-is-the-middle-east-least-prepared/>

⁷ <http://foreignpolicy.com/2016/10/18/europe-wishes-to-inform-you-that-the-refugee-crisis-is-over/>

⁸ <https://europa.eu/globalstrategy/en/global-strategy-foreign-and-security-policy-european-union>

⁹ https://reliefweb.int/sites/reliefweb.int/files/resources/082_stc_17_e%20_food_and_water_security_in_the_middle_east_and_north_africa.pdf



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The EU and US are not alone in their interest in MENA. **Other major economies active in the region include China, Japan, Turkey, and Gulf Cooperation Council countries (GCC).** Despite short term competition, common interest in medium term stability means there should be opportunities for aligning interventions. The more actors that are operating in the region only increases the need for a common agenda and to set benchmarks for investment in resilience.

Resource and climate pressures are drivers of instability

As political attention on MENA has increased so has the evidence that resource insecurity and climate impacts are driving instability.

Due to a lack of diversity in their export sectors, many MENA countries remain highly sensitive to resource price shocks and volatility in the global oil markets. **From 2014 to 2016, oil exporting countries in MENA turned a fiscal surplus of \$128bn into a US\$264bn deficit¹⁰.** Trends in MENA export markets such as lower gas demand as well as the low cost of renewables also present severe macroeconomic risk, particularly for oil-exporters and gas producers¹¹. The proliferation and falling cost of clean energy technologies in the EU, China and the US means that MENA countries will need to diversify their economies to remain competitive¹².

As one of the world's most vulnerable regions to climate change and one of its largest food importers, MENA faces a future of severe water stress and food insecurity. Water scarcity remains one of the most pressing issues in the region. In the past 40 years, **regional fresh water resources have decreased by two-thirds.** Around 60% of regional water resources originate from outside national boundaries. Water shortages, therefore, have the potential to spark off (inter-state) conflict¹³.

Achieving and maintaining food security¹⁴ also represents a key challenge for most countries in the MENA region. Only a third of the region's 1.2bn hectares is suitable for agriculture¹⁵. Consequently, **all countries in the region are heavily dependent on food imports**, especially wheat (more than 50%), sugar (70%), and vegetable oils (80%). Their dependence on most of these products is expected to increase in the coming decade¹⁶.

¹⁰ <http://www.worldbank.org/en/news/press-release/2016/07/27/whither-oil-prices>

¹¹ <http://bruegel.org/wp-content/uploads/2017/08/Rapport-Towards-EU-MENA-Shared-Prosperity.pdf>

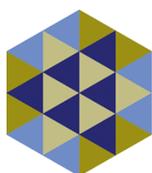
¹² Global Trends 2030 (2017) Atlantic Council.

¹³ <http://www.fao.org/neareast/perspectives/water-scarcity/en/>

¹⁴ "Food security exists when all people, at all times, have physical and economic access to sufficient safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life" (1996 World Food Summit, <http://www.fao.org/3/a-i6030e.pdf>)

¹⁵ <http://www.fao.org/docrep/019/i3591e/i3591e.pdf>

¹⁶ <http://www.fao.org/3/a-i5778e.pdf>



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MENA vulnerability to water scarcity and global food and energy price shocks is likely to exacerbate recent displacement and migration trends. Already, **25 million people have been displaced and almost 200 million have been forced to leave their homes due to extreme weather¹⁷ - more than by conflict or civil war.** North Africa is especially vulnerable, and projections show these numbers increasing by 2050. Growth rates in much of MENA are unlikely to be high enough to generate the resources needed to manage these critical risks - such as a tightening of the global food supply or future oil price spikes.

Regional resilience is not materially improving

A great deal of work has been done in the region since our original analysis and important progress has been made through the economic and financial support packages designed to support local governments and improve livelihoods. Some countries in MENA have implemented reforms and are making progress in sustainability and economic diversification. However, a review of regional trends along with the outcomes of expert workshops conducted as part of this project reveals that **the increase in development assistance and proliferation of regional initiatives are not translating into a significant improvement in resilience of most MENA countries to climate and resource risks.** Further, many of the key political, economic and social resilience indicators are getting worse, not better¹⁸.

There is no evidence that the risk of resource shocks has decreased. While shocks do not guarantee instability, if combined with other political and economic stress factors they do make instability more likely. Investment in climate resilience and water is inadequate, very sector based and focused on “hard” solutions. Integrated approaches are either ignored or viewed as unworkable. Meanwhile projections show that indicators of instability continue to worsen. **MENA is projected to see the worst regional increase in water deficit in the future¹⁹. Economic losses of 6-14% of GDP are predicted by midcentury²⁰. Food security has been declining²¹ and reliance on food imports expected to increase 64% between 2010-2030²². Energy price shocks have been rated as the second highest risk facing the region²³. There is enormous potential for renewable energy in MENA which could**

¹⁷ https://ec.europa.eu/epsc/publications/other-publications/10-trends-shaping-migration_en

¹⁸ <http://www.iai.it/sites/default/files/iaiw1737.pdf>

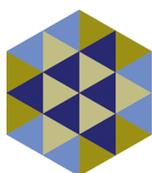
¹⁹ <http://www.worldbank.org/en/topic/water/publication/high-and-dry-climate-change-water-and-the-economy>

²⁰ <http://www.worldbank.org/en/topic/water/publication/beyond-scarcity-water-security-in-the-middle-east-and-north-africa>

²¹ FAO

²² https://reliefweb.int/sites/reliefweb.int/files/resources/082_stc_17_e%20_food_and_water_security_in_the_middle_east_and_north_africa.pdf

²³ <http://gulfnews.com/business/economy/fiscal-crises-greatest-concern-to-middle-east-countries-wef-survey-1.2158990>



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help limit the regions exposure to such shocks. This has led to efforts over the past decade to bolster Euro-Mediterranean energy cooperation and interconnection which has been supported by the EU through for example the European Neighborhood and Partnership Instrument (ENPI). Yet while energy initiatives in the region have proliferated, they have also suffered from fragmentation and the absence of a coherent overarching strategy. They have been limited by a lack of regulatory frameworks that would support energy efficiency and renewable energy in the region itself. At the political level, the Union for the Mediterranean (UfM) is still a promising venue for intergovernmental dialogue and clean energy funding is available through IFIs such as the European Investment Bank (EIB)²⁴. But largescale industry platforms including high profile initiatives like Desertech and MedGrid are either stalled or have not delivered to their potential.

All of this is a problem for a region that is facing a **\$100bn annual infrastructure gap**²⁵. Investment in MENA is far below what is needed to deliver clean energy and critical infrastructure²⁶. Even with international financial support, public funding will not be enough. The mobilisation of private capital will be critical but private investors face a range of challenges²⁷. For example, Foreign Direct Investment (FDI) has fallen to all-time lows due to the worsening risk assessments. The EU, US and IFIs can do more to lower these risks, and the region could benefit from emerging work on macroeconomic climate risk from the International Monetary Fund (IMF) as well as from the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). But the instruments and tools that are available must be targeted at projects that have the right (i.e. resilient) objectives.

Finally, **climate impacts are expected to worsen**. The majority of infrastructure and buildings in MENA continue to be at direct risk²⁸. Several of MENA's major coastal cities likely to see devastating impacts from sea level rise²⁹. MENA countries continue to subsidize water, food and energy, leading to unsustainable practices.

²⁴ <http://www.eib.org/infocentre/press/releases/all/2016/2016-275-new-support-for-green-energy-in-middle-east-and-north-africa-first-projects-secured-for-the-catalyst-mena-clean-energy-fund.htm>

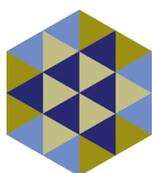
²⁵ World Bank (2012), Assessing the PPP Market in the Middle East and North Africa Region Post-Arab Spring, Public-Private Infrastructure Advisory Facility (PPIAF).

²⁶ <http://www.oecd.org/mena/mena-countries-need-structural-reforms-to-spur-trade-investment-jobs-and-trust.htm>

²⁷ https://www.oecd.org/mena/competitiveness/PPP%20Handbook_EN_with_covers.pdf

²⁸ Future Notes (2017) Middle East and North Africa Regional Architecture: Mapping Geopolitical Shifts, regional Order and Domestic Transformations

²⁹ <http://www.ocppc.ma/publications/climate-change-and-water-energy-food-nexus-mena-region#.WnsnYujwY2w>



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Current approaches are dominated by crisis response and conventional short-term stabilisation

Despite widespread acceptance and understanding that preventing a crisis is preferable and less costly than responding to one, this kind of approach has proven difficult to deliver in practice. Interventions in MENA since the Arab Spring have been no exception. Currently, **investment in MENA is overwhelmingly driven either by crisis response, which is short term by nature, or short term stabilisation-focused investment that is based on conventional macroeconomic indicators but which lacks a clear overall strategy**³⁰.

While there are exceptions, most of the financial support targeted at MENA, including the MENA Transition Fund which was set up by the G8 under the Deauville Partnership, does not directly address longer term risks including climate impacts or food and water insecurity. Examples of existing projects include more traditional development assistance such as encouraging public private partnerships, interventions to address youth unemployment, and technical support for small and medium sized enterprises and civil society. The dedicated climate funds that have been operating in the region focus almost entirely on mitigation projects in two countries, Morocco and Egypt³¹.

These are often necessary investments that address serious problems. However, focusing only on the short-term sector-based solutions is costly and self-reinforcing. Regional and international trends and modeling suggests that **resource and climate crises that have contributed to instability in MENA are likely to occur even more frequently in the years to come. Without a new joined up strategy that allows for targeted investments in longer term prevention based on integrated projects it will be impossible to break this cycle.**

Critical decisions to respond to risks of instability require sustained long-term action and planning. Prevention is fundamentally about effective management of risks of instability to reduce the occurrence of crisis³². This requires building or reforming the right institutions and alignment around strategic responses.

Enacting a preventive agenda that will have a material effect on stability takes time. Priority actions move from immediate humanitarian and macroeconomic crisis support in the early months, to contingency planning and preventive diplomacy, to strengthening governance and regional military cooperation, and finally to broad system change and institution building (see Figure 1). Decision-makers face a challenge in demonstrating the value of incremental changes over this kind of time-

³⁰ For example see: https://www.die-gdi.de/uploads/media/DP_5.2018.pdf

³¹ <https://www.odi.org/sites/odi.org.uk/files/resource-documents/11042.pdf>

³² <http://webarchive.nationalarchives.gov.uk/+/http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/investing.pdf>

scale. This points to a need for the development of better indicators of improving resilience.

Figure 1: Impact Horizons for Efforts to Promote Stability



Source: UK Government: Investing in prevention

Stabilisation requires governance reform to address long term risks

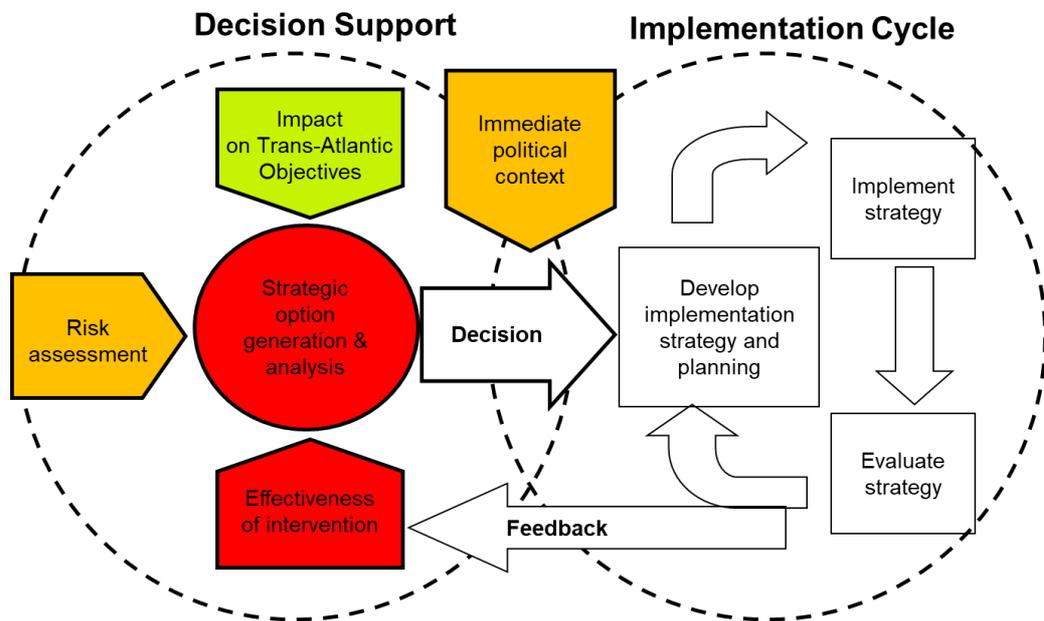
Improved long term resilience will not happen unless it is a strategic choice which is then supported by stronger governance structures and feedback loops. This is an “end-to-end” cycle and any broken links in the chain will impair the ability of governments to respond to instability.

Our analysis of barriers to preventive and resilient investment in MENA has been informed by the high-level expert panels and relies on the Countries at Risk of Instability (CRI) framework, developed by the UK Government. There was broad consensus that all steps in the decision-making process have room for improvement and several key elements are currently very weak. Figure 2 below illustrates the decision-making inputs and our assessment of the level of maturity of each component in the process. They are color-coded based on their level of maturity. Green means “mature”; yellow means “adequate”; and red means “weak”.



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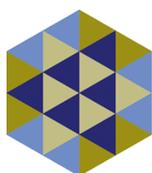
Figure 2: Elements of effective decision support for Countries at Risk of Instability



Source: UK Government, CRI Framework

- > ***Impact on transatlantic objectives:*** Mature. Growing instability in MENA is clearly a threat to EU and US foreign policy objectives. It is also clear that the degree of impact could be high if sufficient efforts are not taken to address underlying drivers of instability. On the other hand, alignment between EU and US objectives is already weakening and could pose longer term problems. While the EU has clear immediate energy and security interests in MENA, decreasing US reliance on oil from the Middle East and geographical distance means that the US increasingly sees MENA as less of a priority. The growth and spread of terrorism remains a key concern on both sides of the Atlantic.
- > ***Risk assessment:*** Adequate. The EU and US both conduct conflict assessments for countries at risk of instability and these include some degree of systematic accounting of environmental risk factors. The EU is also planning to strengthen its Conflict Early Warning System to include climate and environmental indicators. In short, **there is enough analysis to support decisions on preventive investment. However, there is still an urgent need for improvement.** The UN Security Council, for example, has emphasized the need for risk assessments and risk management strategies related to climate change by governments and the United Nations in the context of its strategy for West Africa and the Sahel region. The same is true for MENA³³. Also, the assessments do not adequately account for second and third order effects of climate impacts, including trade flows and wider macroeconomic risks.

³³ <https://www.un.org/press/en/2015/sc12147.doc.htm>



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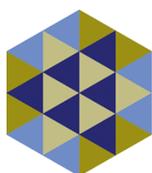
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- > **Political context: Adequate.** MENA attracts a relatively high level of political attention and financial support which means that **there is significant capacity and financial resources to address the challenges.** The scale of resource is not enough but it is higher than that of most other regions. However, the entrance of a new US administration has brought with it significant uncertainty around the transatlantic alliance including its collective priorities. As will be noted below, several of the ongoing EU-US dialogues that could serve as building blocks for a new approach are currently in limbo.
 - > **Effectiveness of interventions: Weak.** There is not enough evidence of what works in terms of investments designed to prevent crises and build resilience. There are few impact assessments, and resilience, if delivered, is generally a co-benefit rather than something that is factored into project planning or evaluation from the early stages. There are examples of successful regional or country level interventions both in MENA and elsewhere, but only limited understanding of why they worked. Mercy Corps has done work on demonstrating a return on resilience investments and has highlighted examples on capacity building efforts to manage shocks and stresses which could help inform future transatlantic efforts³⁴.
 - > **Strategic option generation and analysis: Weak.** Policymakers can't make choices without options and a political/institutional mandate to generate them. This requires having the capacity to turn underlying risk and other intelligence assessments into a set of options to manage and balance future and present risks. The EU and US both lack sufficient capacity for this function. Challenges include the need to think and work across disciplines and governmental agencies, as well as across countries.

The largest barrier to a preventive investment approach is usually a lack political will³⁵. Political will as understood here is an output of several key questions decision-makers ask: 1) Is the intervention feasible? 2) Can it be justified from a cost-benefit or risk assessment perspective? 3) Does it cohere with the broader political environment? Our analysis suggests that in MENA, while there is certainly room for improvement in the overall political environment and the evidence base for intervention, these elements are not the main sticking points. MENA remains a focus of political attention and a recipient of financial support packages, and risk assessments are being carried out and improved. **The key weaknesses in the decision support cycle are found in the 'downstream' elements that occur just before the decision stage -- specifically the ability to measure the effectiveness of interventions and the capacity to develop a menu of strategic options for decision-makers.**

While political will is not itself the key barrier to preventive investment, consultation with stakeholders did reveal two related challenges for security and development decision-makers in MENA. The first a **lack of understanding amongst many senior**

³⁴ https://www.mercycorps.org/sites/default/files/STRESS_Resilience_Mercy-Corps-2017.pdf

³⁵ UK Prime Ministers Strategy Unit. (2005). Investing in Prevention.



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political officials of the role that climate and resource risks play as drivers of instability. There is a clear disconnect between the research/risk assessments and the current political priorities. While political will for MENA stability exists, it needs to account for a wider range of drivers of instability. The second challenge is the phenomenon of ‘risk overload’. Even when they have a good understanding of resource and climate risk, **decisionmakers responsible for investing in MENA face so many risks that they lack the capacity to integrate climate change into their portfolio.** The urgent (short term) often trumps the important (long term) despite the understanding that one is closely related to the other, and both are necessary.

There was widespread agreement amongst experts on several other barriers to a preventive approach to investment in MENA. One challenge is **institutional fragmentation. Resilience requires the joining up of strategy across government agencies but also with a wide range of other actors including Multilateral Development Banks.** There are initiatives that are attempting to address this problem, including transatlantic dialogues, but there remains a high degree of fragmentation and some of these have stalled in recent months.

A second major challenge identified was the **lack of sufficient political economy analysis in the region. This means that EU-US decision-makers do not always understand the best entry points for these investments.** There is a need to increase strategic capability to produce clear options and choices based on richer information.

Box 2: Potential models for resilient investment

Mercy Corps has developed a Strategic Resilience Assessment (STRESS) methodology to help practitioners in preventing instability and as a way of “applying a resilience lens to strategy development or long-term project design”³⁶. STRESS is used as the first phase in developing a resilience-based portfolio of projects and involves the identification of root causes of shocks and stressors as well as assessment of the capacity of local actors to absorb or adapt to shocks. Assessments have been carried out in several countries with the goal of demonstrating the return on resilience investments.

As part of the “Water Energy Nexus” project **EcoPeace Middle East** is exploring the feasibility of a large-scale water-energy exchange whereby Jordan would provide solar energy for the Levant while Israel and Gaza would produce desalinated water. A pre-feasibility study has recently been completed which showed that the proposed water-energy exchanges are technically feasible and potentially offer significant co-benefits. These include lower cost and diversification of energy resources; improved water security; achievement of renewable energy and other climate objectives; and regional cooperation and stability.

³⁶ mercycorps.org/resilience



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Cooperation in MENA could be a model for other regions

In the face of a complex and evolving risk landscape there is a growing need for new models of global governance backed by strong multilateral institutions. This effort won't be successful without the integration of climate and resource risks into the institutional decision-making process so that investments are resilient over the longer term. Developing a coordinated framework will require greater alignment between and across different governmental agencies and ministries but also across donor countries. Lack of common or aligned strategic approaches is a challenge but can be solved with better systems for providing solutions to decision-makers.

The challenge of addressing instability in MENA is matched by opportunity. EU-US cooperation on delivering a strategic preventive approach to investment could serve as a model for other vulnerable regions in the future that may not currently be the focus of as much political attention or investment.

The EU has already made significant progress in integrating climate resilience into its internal and external policies. The new EU Global Strategy recognizes that managing climate change risk is essential to Europe's security and prosperity³⁷. The European Commission has also released a Joint Communication outlining a strategic approach to resilience in the EU's diplomacy efforts. This highlights the need to work with local authorities in third countries to develop governance systems that promote resilience to climate change, the sustainable management of natural resources, and for integrating the resilience approach in EU programming and financing of external action. The Commission's recommendations also recognize the need to include climate and environmental indicators in conflict early warning systems.

These strategies are supported by a range of instruments including the Civil Protection Mechanism, which promotes the development of risk assessments and the financing of prevention and preparedness, training and exercises; extensive research undertaken through Horizon 2020 funding; and the 2015 review of the EU Neighborhood Policy (ENP). The next EU budget, or Multiannual Financial Framework (MFF), will be agreed in May and will have a significant impact on its ability to deliver resilient investment in the European neighborhood.

The EU is also a member of the Union for the Mediterranean (UfM) which aims to promote stability through intergovernmental dialogue and cooperation between countries in the region. Sustainable development is one priority area and expert groups have been launched on climate, water and environment, with the UfM helping to identify strategic priorities and having already supported projects on climate action, renewable energy, transport, urban development, food security, environment and water. There is an opportunity to enhance the ongoing work around regional economic integration and infrastructure investment, including the regular review on strategic infrastructure and working directly with the IFIs on investment priorities. The UfM Member States have to date endorsed three specific projects on renewable

³⁷ <http://europa.eu/globalstrategy/>



energy production and professional training, aiming to mobilise €1 billion worth of investment³⁸.

EU-US cooperation can also build on existing efforts across several key international venues. The G7 Working Group on Climate and Fragility is assessing the risks posed by climate change to the stability of fragile states. Recognising the potential of sovereign risk insurance products to enhance stability, the G7 has also pledged to increase access of climate risk insurance to 400 million people in the developing world, alongside providing support for early warning systems for extreme weather events³⁹. In the G20, under the Chinese Presidency in 2016 the Leader's Communique included recognition of the need to scale up green financing⁴⁰. The G20 launched the Green Finance Study Group to support the strategic goal of strong, sustainable and balanced growth; with a mandate to “identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilise private capital for green investment”⁴¹. On migration, the EU has joined with the African Union and the United Nations on a EU-AU-UN task force to save and protect lives of migrants and refugees. The EU is supporting this effort in part through the Emergency Trust Fund for Africa to tackle the root causes of migration⁴².

Building on these existing efforts, below we offer a set of emerging recommendations for priority interventions that could serve as the basis for a preventive approach to investment in MENA. This is only a first step towards deeper international governance reforms that will require cooperation with other major stakeholders including the UN and IFIs. While this briefing is based on a regional assessment it is critically important that any interventions are done based on local context and in collaboration with local authorities.

MENA stability is a politically existential task for the EU -- hence the creation of new regional stability instruments and prioritisation of infrastructure investments including through the Union for the Mediterranean (UfM) platform. This suggests there are some areas where EU should lead. In other cases, the interests of the EU and US are already closely aligned, and a transatlantic approach is possible in the near term. Finally, some of the most difficult issues would benefit from efforts to find common understanding and prepare the groundwork for collaborative efforts in the medium term.

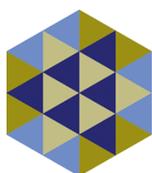
³⁸ <http://ufmsecretariat.org/towards-a-new-energy-model-in-the-mediterranean/>

³⁹ <https://www.scientificamerican.com/article/g7-to-support-climate-insurance-for-poor/>

⁴⁰ G20 Leaders' Communique Hangzhou Summit

⁴¹ http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_EN.pdf

⁴² http://europa.eu/rapid/press-release_IP-18-1143_en.htm



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Recommendations for priority interventions

Where Europe should lead

1. **Deliver existing EU strategies and investment plans.** The EU has produced an impressive suite of foreign policy strategies, initiatives and stability funds many of which recognise the importance of resilience. Collectively this could go a long way towards addressing MENA (as well as other regional) instability. But fragmentation across these efforts remains and there is work to be done to ensure the ambition on paper is matched by the capacity to translate strategy into integrated projects on the ground. Arguably the most important step the EU could take in improving long term stability in its neighborhood would be to fully implements its strategic, policy and financial plans.
2. **Launch a platform for climate and resource resilience in the southern neighborhood.** A resilience platform could be modeled on the Platform for Coal Regions in Transition that was recently launched by the European Commission⁴³. It could be led by the High Representative for Foreign Affairs and working groups could focus on several key tasks, including: analysis of the evidence of interventions in promoting stability; development of a practical toolkit for use by policymakers; political analysis; and generation of strategic options. A team could then be responsible for developing high value integrated proposal based on EU instruments and structural funds.
3. **Rationalise and review energy infrastructure investment in the region:** There have been several large-scale energy initiatives in the EU neighborhood that could in principle improve MENA stability. But the goal of energy security has suffered from too many competing projects and lack of a coherent strategy. Geopolitics has to date overwhelmed strategic decision-making as the focus has been on access to the region's natural gas and oil. The EU should work through the UfM to produce an over-arching approach to energy interdependence in MENA that is aligned with decarbonisation objectives.

Immediate opportunities for cooperation

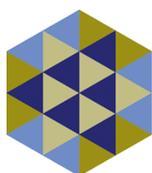
4. **Launch a transatlantic dialogue on water security in MENA:** Water scarcity is arguably the most pressing challenge facing MENA. The issue is also timely as the US has recently released a global water security strategy which includes a call for more diplomatic engagement⁴⁴. The technical solutions for better water management are well known⁴⁵ and there is evidence that improving water security and water management reforms improve stability and that lack of reform can lead to conflict⁴⁶. There are country-level

⁴³ http://europa.eu/rapid/press-release_IP-17-5165_en.htm

⁴⁴ https://www.usaid.gov/sites/default/files/documents/1865/Global_Water_Strategy_2017_final_508v2.pdf

⁴⁵ <https://reliefweb.int/report/world/beyond-scarcity-water-security-middle-east-and-north-africa-enar>

⁴⁶ https://www.cna.org/CNA_files/pdf/CRM-2017-U-016532-Final.pdf



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success stories, for example in Jordan and Tunisia, that can also serve as case studies for collaboration.

5. **Revitalise the EU-US platform for coordination on migration and refugees:** In 2016 the European Council on Foreign Relations (ECFR) gave ‘Relations with the US on migration and refugees’ a grade of ‘C+’, citing the divergent approaches of countries within the EU as well as a toxic US domestic politics⁴⁷. The status quo is a risk for both the EU and US. Migration is complex and driven by many factors, but climate change could eventually be the biggest driver of migration⁴⁸. Migration can be managed but doing so will take international resolve and cooperation. There is an urgent need for better transatlantic dialogue to define priorities, strengthen data analysis and discuss potential policy responses. The platform should be joined up with other initiatives such as the EU-AU-UN migration task force.

6. **Establish a policy dialogue on sustainability and stability with other major investors active in developing critical infrastructure in MENA.** Transatlantic efforts to build resilience will be wasted if other major actors in the region are building liabilities that will increase vulnerability to climate and resource risks. On the other hand, aligning international investment towards similar objectives will vastly improve resilience outcomes. The US and EU need to work together to align short term competition with mutual interest of ensuring medium term stability.

Medium term challenges

7. **Systematic evaluation of best practices in preventive investment:** Case studies of investments that have had an impact on longer term resilience are scarce; but they do exist. Examples that were highlighted during expert workshops included the Caribbean Energy Resource Initiative (CESI) and Ethiopia’s resilience in the face of weak commodity markets and prolonged drought. The EU and US could collaborate on a comprehensive review of preventive investment and synthesis of best practices. This can build upon existing literature including USAID’s ‘Climate-Resilient Development: A Framework for Understanding and Addressing Climate Change’ and Mercy Corp’s Strategic Resilience Assessment (STRESS) methodology.

8. **Joint assessment on the role of macroeconomic policy frameworks in improving resilience to natural disasters:** The release of the G20 Financial Stability Board’s Taskforce on Climate-Related Financial Disclosures (TCFD) has focused attention on the financial and macroeconomic risks climate change poses to countries and companies. Low income countries are hit especially hard by extreme weather and have a more difficult time recovering but there is evidence that sound policy and institutional frameworks improve resilience to temperature shocks⁴⁹. The EU and US

⁴⁷ <http://www.ecfr.eu/scorecard/2016/usa/56>

⁴⁸ http://ec.europa.eu/epsc/sites/epsc/files/epsc_-_10_trends_shaping_migration_-_web.pdf

⁴⁹ IMF (2017). World Economic Outlook. The Effects of Weather Shocks on Economic Activity: How Can Low-Income Countries Cope?



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should work with the IMF to assess various macroeconomic policy approaches for investing in risk reduction including assessment of economic resilience and stability⁵⁰.

⁵⁰ IMF (2016). Staff Report: Small State's Resilience to natural Disasters and Climate Change - Role for the IMF.