ACTED

Circularity as a lifeline for MENA economies in distress

EXECUTIVE SUMMARY

In the past decade, the economic situation in the Middle East and North Africa (MENA) region has deteriorated as a result of continued instability driven by geopolitical, intra-religious conflicts, natural resource availability and stalled economic and governance reforms, resulting in political, institutional, and economic fragmentation. Though some shifts towards progress were noted in the wake of the Arab spring through popular mobilization, demonstrations and democratic aspirations, subsequent years also witnessed tension and conflict as a fallout of revolutions.

Key factors such as high unemployment, in particular for MENA's youth, costly and ineffective public services, as well as high energy subsidies, are preventing sustainable recovery, and many countries have slipped into particularly dire economic situations, with currency devaluation reaching record levels in Yemen, Lebanon, Syria and more recently Iraq.

The COVID-19 pandemic only exacerbated ongoing economic and financial crises, due to border closures, restrictions on individual movement and business operations and increased public costs from public health and containment measures, ultimately driving millions of the region's population into dependence on humanitarian assistance.

In this context, the effects of climate change and resource deterioration are acting as conflict multipliers in the region, exacerbating the aforementioned issues.

While environmental preservation is often deprioritized or considered as non-essential in times of dire economic crisis, this briefing serves to highlight how the current context of sharp economic decline in MENA has triggered numerous unique opportunities for promoting a circular economy and circular resource management which could have catalytic effects in economic recovery. In these contexts, **circular approaches have the potential to stimulate job creation, increase value extraction, increase productivity, reduce government expenditures and improve accessibility of public services.**

This type of market-based approach can contribute to a more sustainable economic recovery in these regions, in which natural resource mismanagement contributes significantly to budgetary expenditures and degrades existing livelihood opportunities, putting long-term livelihood prospects of these populations at risk. While structural and legislative reform are other necessary factors to veritably develop circular market systems, it is essential for the relief and development community to seize these immediate opportunities in order to accelerate economic recovery through sustainable production and consumption practices, while pursuing the integration of these reforms into longer-term development plans.

PRIORITY RECOMMENDATIONS

- PLACE CIRCULARITY AT THE CORE OF DESIGN OF ECONOMIC RECOVERY PROGRAMS, GIVEN THAT SUCH MODELS ENHANCE SUSTAINABILITY AND PRO-POOR NATURE OF RECOVERY ACTIONS.

- IN THE CURRENT MENA CONTEXT, FOCUS CIRCULAR RECOVERY PROGRAMS IN THE AGRICULTURAL, INDUSTRIAL AND MANUFACTURING, AND CONSTRUCTION SECTORS, WHERE THE MOST IMMEDIATE AND SUBSTANTIAL GAINS CAN BE ACHIEVED.

- IN THE AGRICULTURAL SECTOR, THERE ARE UNIQUE OPPORTUNITIES TO STIMULATE REUSE OF ORGANIC WASTE AND STIMULATE LOCAL JOB CREATION TO ENHANCE PRODUCTIVITY AND ULTIMATELY REDUCE THE COST OF LOCAL FOOD, ENHANCING FOOD SECURITY, AS LONG AS THIS IS ACCOMPANIED WITH IMPROVED RESOURCE USE STRATEGIES. THUS TECHNICAL SUPPORT ON FARM FOR CIRCULAR PRACTICES, SUPPORTING LOCAL ACTORS AND BUSINESS TO REPLACE NON-RENEWABLE INPUTS WITH LOCALLY PRODUCED BIO-BASED INPUTS, AND INVESTMENTS TO REDUCE POST-HARVEST WASTE WILL HAVE IMMEDIATE ECONOMIC GAINS.

- IN THE INDUSTRIAL/MANUFACTURING SECTOR, PROMOTING A RATIONAL SHIFT IN PRIORITIZING IMPORTS AND INVESTING IN LOCAL PRODUCTION, AS WELL AS ENCOURAGING ADDITIONAL VALUE EXTRACTION FROM AVAILABLE MATERIALS THROUGH SUPPORTING INFORMAL AND FORMAL MSMES INVOLVED IN REPAIR AND REUSE HAS THE POTENTIAL TO CONTRIBUTE SIGNIFICANT JOBS AND VALUE TO THE ECONOMY.

- IT IS NECESSARY FOR ANY RECONSTRUCTION AND REHABILITATION EFFORTS TO INCORPORATE GREEN TECHNIQUES, AS THESE CAN HAVE A SUBSTANTIAL IMPACT ON GHG EMISSIONS WHILE PRODUCING JOBS AND IMPROVING RESOURCE USE EFFICIENCY. GREEN CONSTRUCTION SKILLS SHOULD BE INCLUDED IN TVET PROGRAMS IN COORDINATION WITH LOCAL GREEN BUILDING COUNCILS.

- INVESTING IN CIRCULAR SOLID WASTE MANAGEMENT (SWM) SCHEMES HAS BECOME MORE ECONOMICALLY RELEVANT. PROGRAMS SHOULD CAPITALIZE ON THE UNIQUE OPPORTUNITY TO EXPAND COLLECTION AND VALORIZATION OF SPECIALIZED WASTE STREAMS WHICH CAN REPLACE IMPORTS OR THAN CAN BE EXPORTED AT PROFIT, THROUGH ANALYSIS OF WASTE VALUE CHAINS, TECHNICAL SUPPORT TO MUNICIPAL SWM SCHEMES, AND SUPPORT TO INFORMAL AND FORMAL MSMES PARTICIPATING IN COLLECTION AND VALORIZATION.

- WATER AND ENERGY EFFICIENCY GAINS WOULD HAVE AN IMMEDIATE IMPACT ON ECONOMIC RECOVERY, AND ARE BECOMING MORE URGENT IN THE CONTEXT OF REDUCED STATE SUBSIDIES AND INTRODUCTION OF TARIFFING SCHEMES, IN PARTICULAR FOR HOUSEHOLDS WHOSE SOCIO-ECONOMIC CONDITION HAS ALREADY SUFFERED FROM THE CURRENT CRISES. PROGRAMS SHOULD THUS INTEGRATE TECHNICAL TRAINING, INFRASTRUCTURAL INVESTMENT, CONSUMER AWARENESS, ACCESS TO FINANCE AND SUPPORT TO LOCAL MSMES TO FACILITATE THIS TRANSITION.

- SUBSTANTIAL EMPHASIS IS REQUIRED ON IMMEDIATELY EDUCATING AND MOBILIZING LOCAL ACTORS SUCH AS CITIZENS, CIVIL SOCIETY AND THE PRIVATE SECTOR TO THE POTENTIAL GAINS, EXISTING SOLUTIONS AND INNOVATIONS, AND REQUISITE POLICY REFORMS TO FOSTER CIRCULARITY OF MARKET SYSTEMS. CAPACITATING THESE ACTORS TO CAMPAIGN FOR CHANGE TO GOVERNMENT POLICIES IS NECESSARY TO ENSURE A CIRCULAR RECOVERY AT SCALE.

- SOUTH-SOUTH COOPERATION BETWEEN GOVERNMENTS, CIVIL SOCIETY, RESEARCH INSTITUTIONS AND THE PRIVATE SECTOR MUST BE PROMOTED FOR KNOWLEDGE EXCHANGE AND CAPITALIZATION ON SUCCESSFUL REFORMS FROM COUNTRIES FACING SIMILAR ECONOMIC AND SOCIAL CHALLENGES.

MENA ECONOMIES UNDER PRESSURE

As highlighted above, the current economic picture in MENA is plagued by a number of structural and compounding issues. Though each country context is distinct and requires its own adapted roadmap to address these problems, the commonalities between them as well as the interdependence of MENA economies and regional natural resource transfers support the relevance of a regional analysis of potential solutions. This interdependence calls for enhancing South-South knowledge exchange around these issues, in order to capitalize on the capacities and innovations identified already in the region. The following provides a snapshot of the common issues MENA countries in crisis are facing.

Currency devaluation and rising inflation

Many countries are facing dwindling foreign currency reserves and liquidity crunches, resulting in substantial inflation notably in Lebanon, Syria, Iraq and Yemen. States lack the resources to combat inflation with fiscal measures. Countries experiencing the most significant currency devaluation include Lebanon, where the Lebanese pound depreciated by 225 percent against the USD in September, when compared with the beginning of the year.

Following Lebanon is Syria, with a 108 percent appreciation of the USD during the same period; while Syria's currency has been slowing losing value, its interdependence on Lebanon's economy has drastically exacerbated the devaluation in the past year. Libya, where the civil conflict continues and oil supply remains highly unreliable, will also see considerable stress on its currency and several parallel rates, with 58% appreciation of USD compared to the Libyan Dinar during this period , Similar dynamics are present in other conflict zones such as Yemen where multiple parallel rates operate. Though the Iraqi government implemented strict price control mechanisms in order to prevent runaway inflation, the dinar was devalued by 20% in December 2020.

This devaluation across multiple MENA countries represents a substantial increase in cost of living and cost of doing business for residents, which has pushed more and more families into unemployment and poverty and reduced accessibility/availability of critical goods and services. In this case, promoting circulation that is locally grounded can contribute to mitigating issues related to currency volatility and international financial regulations.

Import reliance

Currency devaluation coupled with instability and conflict have rendered imports less accessible as they were in the past, thus more MENA markets and governments are shifting focus towards local production/self-sustainability. However, **to veritably meet food security objectives for some countries in this context, this emphasis on local production must be accompanied with a sound analysis of the life cycle of local production.** If it is determined that local production

is viable, it is essential to improve productivity and resource use strategies to be sustainable and competitive. For example, given that 90% of the MENA region's water resources are used for agricultural production , scaling up production without addressing water usage in agriculture would thus have dire consequences on already strained water sectors. This highlights the necessity to nuance analysis and understanding of how **to direct investments to improve self-reliance and local production, as well as ensuring improved resource efficiency and optimization of yield through sustainable farming techniques** as an essential part of moving towards self-reliant food systems.

Only a few countries in the MENA region have strong potential to become a manufacturing hub for complex products, namely Saudi Arabia, UAE, Egypt and Turkey. For the other countries in the region, against the backdrop of declining national currency value, it is essential to invest in **expanding local manufacturing according to the complexity level suitable for the particular context** depending on what skills and resources are available. For materials/items unsuitable for local manufacturing, extending life cycles of and improving value extraction from imported materials is paramount. **Given that MENA has seen an important growth in imports of electrical products and equipment and optical, medical, and technical equipment over 2019-2020, particular emphasis could be placed on repair and maintenance schemes for such items.**

Coherent prioritization of national import priorities, enhancing resource efficiency local production, and supporting the extension of life cycles and value extraction of existing materials will thus be able to sustainable reduce import reliance with environmental and social gains.

Exacerbated unemployment and loss of income

Unemployment in the region continues to rise, with youth unemployment at 27%, higher than any other region in the world. The youth population bulge demands that MENA economies exponentially increase jobs opportunities each year, however social and political events of the last decade have only contributed to deepening economic decline, even prior to the emergence of the pandemic. Moreover, employment is hindered by skill mismatches, labor and product market rigidities, large public sectors, and high reservation wages.

In the aftermath of the global pandemic, the region's economy is expected to contract by 5.7 percent with the economies of some conflict countries projected to shrink by as much as 13 percent, amounting to an overall loss of US$ 152 billion An **additional 14.3 million people are expected to be pushed into poverty,** meaning that one quarter of the total Arab population, more than 115 million people, will be living in poverty overall. Employment prospects are lower than ever, with the ILO estimating losses equivalent to 17 million full time jobs in the second quarter of 2020

Remittances, which represent an important source of revenue for

the most vulnerable in the region, and are a primary source of revenue in Iraq, Lebanon, Yemen and Syria are expected to drop by 20% in the fallout of the COVID 19 pandemic, and up to 70% in Yemen. This has resulted in additional demand on state social safety nets and humanitarian aid programs. In such a context, **enhancing capacity of local markets to extract value, generate jobs and decrease the cost burden of essential resources on households is essential.**

Public fiscal mismanagement

Corruption and public mismanagement are widely recognized as major factors in stagnating economic growth and economic inefficiencies in the MENA region, with Lebanon, Iraq, Syria, Yemen, and Libya falling within the bottom quartile of the global corruption index. Moreover, public debt is expected to continue to rise in 2020 and 2021 for many countries in the region, including Egypt, Iraq, and Jordan Government deficits have faced a sharp increase with the global decline of oil prices, highlighting the **unsustainability of current public financing models.**

Inadequate management of resources

Inadequate consideration for natural resources and environmental impact is already affecting MENA economies and acting as a conflict multiplier throughout the region. Electricity reform remains an urgent and fundamental priority in the region, representing a major fiscal burden as it is subsidized by the majority of MENA countries. **The majority of countries in the region suffer from chronic imbalance between available water supply and rising water demand noting that the region is amongst the most water-scarce areas in the world.**

Population growth, increasing urbanization and industrialization, as well as a growing agricultural water use, have led to a sharp increase in water demands, but also exert influence on the quality of water resources. Insufficient wastewater treatment is partly responsible for water pollution and has, among other consequences, an impact on public health. Air pollution is another significant contributor to public health issues considering that MENA is home to several of the most air-polluted cities in world; annual labor income losses in the MENA region due to air pollution are estimated at over US$9 billion per year .Waste management systems in the region are largely linear and are not designed to maximize value extraction; as part of a 2020 study on Circular Economy in Lebanon, ACTED estimated more than 175 million USD in lost value annually from 3 waste streams alone (organic waste, e-waste, paper). **Putting circularity at the heart of natural resource strategies will thus result in improved availability of natural resources and enhanced value extraction.**

CIRCULAR SOLUTIONS FOR A GREEN RECOVERY

As highlighted by the World Bank, a green recovery strategy actually has higher economic multipliers than the alternative business-as-usual model of 'brown' growth. Moreover, it has been found **that «greening» is significantly related to poverty reduction, and is pro-poor, meaning that it benefits disproportionately poorer communities.**

Circular Economy models that propose the 'cascading' and return of materials, either to the soil or to industrial production systems, offer an important and sustainable means to address the current economic crises in a manner that **generates employment, maximizes value extraction from local resources, and improves sustainability of local markets.** Moreover, circular markets offer other fundamental benefits to societies in crisis; on the one hand, contributing to improving environmental resource protection and preservation by their very nature, on the other hand, fostering improved inclusivity and interconnectivity of market systems.

There are multiple factors to consider in the suitability of circular markets for the current context in these particular countries. With the sharp devaluation of currencies in a number of MENA countries, imports have become cost-prohibitive, rendering them inaccessible to a large majority of the population. Thus demand for local products and resources has increased; both producers and consumers showing a greater demand for recycled or repaired goods, measures to decrease household and business resource consumption, and greater willingness to participate in (incentivized) reverse logistics schemes.

This could take the shape of:

Supporting the broad scale adoption of circular agriculture practices, which includes:

- **Reducing the demand on water and energy in agricultural production, and building soil health through improved land management techniques** to increase water catchment and prevent run-off, enhancing soil productivity, integrating renewable energy and minimizing irrigation demand. Facilitating on-farm water harvesting and land management techniques to improve soil absorption and prevent runoff are important investments, as irrigation plays a major role in breaking the link between bad weather and negative impacts on the poor through reduced vegetation growth and soil fertility .

- **Facilitating a shift to locally produced bio-based inputs:** in many MENA contexts, farmers relied on imported soil amendments and fertilizers, which have subsequently become inaccessible with currency devaluation. Further, traditional fertilizers such as mined potash often come with high environmental costs. As reported through consultations with farmers engaged in ACTED's agricultural portfolio in the region, many farmers were previously unwilling to consider use of locally produced amendments due to their inferior quality and their own brand loyalty, however the current economic climate has made farmers **more receptive to locally-produced agricultural inputs and amendments** as long as quality for agricultural purposes can be as-

sured. Mapping of non-renewable inputs in current farming practices to determine locally suitable bio-based substitutes and stimulating local actors to produce these renewable inputs (farmers or local residents for simple inputs such as compost or bio-char, or MSMEs for more complex transformation processes such as production of bio-based fertilizers, pesticides or stimulants), would reduce cost of production for farmers while stimulating local job creation.

- Enhance post production flows of material with the aim to **reduce waste** as much as possible through initiatives such as improving cold chains for transport of produce or using wax coating on fruits to increase their shelf life.

- Along these three segments, it is essential to seek out and reinforce local production loops (for example, collection and transformation of agricultural organic waste into compost, reuse of grey water after treatment, supporting local neighboring beehive keepers to produce wax to be used in bio-based coating for apple farmers etc.)

This is an **essential step in shifting towards greater self-reliance** in food security for MENA economies, as without such shifts, local production will not be as competitive, profitable or sustainable.

Starting in 2018, ACTED supported Syrian camp residents to establish a collection scheme for unused bread to be transformed into agricultural fertilizer for Jordanian farmers in order to reduce waste in camp and generate income for the women involved in collection and transformation.

Stimulating circularity in the industrial and manufacturing sectors:

Supporting **the repair economy** is particularly important, as it can be an important **generator of blue collar labor** while having the **dual effect of improving accessibility of certain goods,** namely electronics and white goods, which are typically imported in the MENA region and have become inaccessible to many parts of the population in the current economic situation. Moreover, based on a local analysis of the manufacturing environment and product complexity, **providing technical and capital support to local businesses** to stimulate local production of products of a complexity level suitable for the particular context depending on what skills and resources are available.

Promoting a green reconstruction:

Given the extensive need for reconstruction in the region following a decade of instability and conflict, and the fact that the construction sector is responsible for 38% of annual CO2 emissions, it is essential for the reconstruction process to integrate green/circular construction methods. This will require **training of the local labor force** to ensure they possess the requisite skills to enable construction which is in line with **green building standards** (considering use of alternative building materials/sustainably produced concrete, insulation, renewable energy, resource efficiency), **retrofitting public buildings and institutions** and working with local governments and financial institutions to ensure **incentive schemes are established** wherever feasible.

Collection schemes for specialized waste streams,

in particular reusable materials such as standardized glass bottles or containers. Such schemes can **create employment** via collection and cleaning/treatment **while reducing packaging costs for local producers**. It is however important to consider the most resource efficient means of cleaning and sterilizing such packaging within the proposed scheme, integrating considerations for renewable energy and water efficiency wherever feasible. In certain markets where devaluation compared to the dollar is high, collection schemes which were **previously unprofitable may now be able to garner a relatively important profit from export of waste** compared to the current costs of reverse logistics (transport, labor), as was seen with plastics recovery in Lebanon.

Water harvesting:

In MENA countries where many households rely on private suppliers for potable water, traditional water harvesting systems installed at the household level can significantly **reduce the cost of potable water for vulnerable families.** Water harvesting can also **be used by institutions to reduce their operational costs,** benefitting from a wider surface area to also recharge underground storage tanks and tackling common issues such as salinity of over-extracted aquifers.

The installation of rainwater harvesting systems has allowed households to reduce their reliance on water trucking, saving them on average 335,000 LBP/month (equivalent to ~20% of the minimum expenditure basket) during summer months in impoverished villages of Northern Lebanon.

Aside from the direct economic benefits, circularity offers other tangible and important benefits which are highly relevant to the current MENA context. Circular economy by its nature offers increased opportunities for economic interaction between diverse market actors and increases inclusivity of value chains, in particular considering the important role that vulnerable migrants and informal laborers often play in waste collection and transformation. Strengthening and formalizing these schemes would thus offer additional employment opportunities and labor protections for these particularly vulnerable groups. Moreover, circularity can contribute to an increased sense of community, participation and cooperation within the sharing economy. These additional social benefits come in addition to, not at the expense of economic benefits.

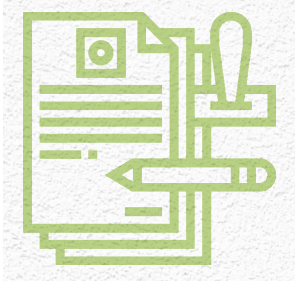
While it is important to seize the aforementioned opportunities to not only immediately contribute to supporting livelihoods for the most vulnerable, they are **paramount in demonstrating to governments, the broader population and market actors in the region the feasibility and efficacy of such approaches to allow for further adoption, investment and expansion.**

POLICY CHANGE TO FURTHER PROMOTE CIRCULARITY AND ECONOMIC RECOVERY

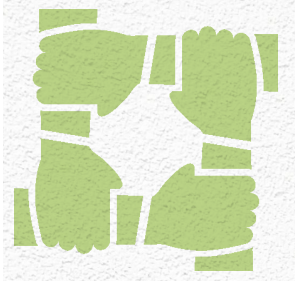
In particular, in this time of economic crisis, broad-scale and sustainable impact require policy change and legislative reform to address the fundamental inhibitors of a green recovery. The requisite changes can take the form of i) **incentives** for industries/producers/service providers to integrate circular approaches, such as the introduction of tax rebates/reductions for industries integrating waste or producing biodegradable products, subsidies for farmers utilizing regenerative practices, ii) **penalties** via taxes on imports or on use of virgin materials and/or extended producer responsibility ("producer-pays") policies, iii) **investments** in circular R&D, infrastructure, and demand generation iv) **regulation** of quality standards to enhance feasibility and profitability of circular market systems, such as de-inking standards to promote recycling of paper, warrantee policies for repaired goods, and recyclability and additive standards.

Such measures directly affect the ability of the above proposed solutions to have an impact at scale. More efficient natural resource consumption must go along with regulation and tariffing measures which incentivize smarter consumption and ensure a more equitable allocation of resources, notably in light of impending subsidy cuts in a number of countries where consumption is not metered. Governments can play in an important role in incentivizing reuse and repair through measures such as introduction of tax incentives (for example reduced VAT on repaired/reused items) and supported insurance/warrantee schemes. In addition, energy efficiency standards for buildings, and minimum performance standards for appliances, such as air conditioners and refrigerators, hold high promise in MENA. Recovery plans must seek to integrate these green policy reforms as an economic imperative.

Such reforms will require the commitment and engagement of residents as well as the private sector in MENA countries. Thus civil society organizations, academic institutions and private sector actors will have an important role to play in education, micro and meso behavior change and revision of business practices. Moreover, if policy changes and reform measures are partial or inadequate, these actors will need to be mobilized and capacitated to effectively call for further action and propose the introduction of concrete measures to ensure sustainable recovery in their respective areas. Thus facilitating and structuring dialogue, exchange and learning, notably through South-South cooperation, for both civil society and governmental actors around these topics and the potential policy solutions, is a fundamental step of the regulatory transition necessary for a broader and sustainable economic recovery.



Policy Change



Stakeholder Mobilization

South-South Cooperation

We want a 3Zero world: Zero Exclusion, Zero Carbon and Zero Poverty.

Zero Exclusion
Because no one should be left behind

Zero Carbon
Because we only have one planet

Zero Poverty
Because the poor have wealth within them

ACTED in MENA

Created in 1993, ACTED is an independent, private and non-for-profit Non-Governmental Organization (NGO) headquartered in Paris. With a string apolitical and impartial mandate, ACTED operates in more than 40 countries around the world in accordance with the guiding principles of non-discrimination and transparency.

ACTED has been present in the MENA region since 2003, and is currently operating in Iraq, Lebanon, the occupied Palestinian Territory, Jordan, Libya, Yemen, Syria, Turkey and Tunisia, where we provide a multidimensional response to the issues that plague the region, addressing the most pressing humanitarian needs while concurrently deploying a systemic approach to tackling root causes of these issues. ACTED represents the willingness to reimagine catalytic action within marginalized and crisis-affected communities: by investing in local potential and expertise, by favouring holistic and multi-sectoral interventions, in order to best meet the needs of our beneficiaries.

We believe that humanitarianism and rehabilitation must serve as a catalyst for:

Respond to the poverty challenge through inclusive and low carbon growth

Build upon the capacities of every human being and developing human capital

Accelerate access to social and technological innovation to solve the carbon/poverty dilemma

ACTED's 3Zero vision in action in the MENA region:

165

projects ongoing in the region

162M

EUR annual budget

1,979

staff

Collaborating with

130

national partners

Approximately

9.8 M

individuals provided with assistance, including 4.6M women and girls

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