

Tuesday, March 11, 2014

Sustainable plans for Lebanon's oil and gas reserves

By: Sami Atallah



A view of oil giant Shell's oil and gas terminal on Bonny Island in southern Nigeria's Niger Delta. (Photo:Pius Utomi Ekpei)

In the coming years Lebanon could begin to reap the first fruits of its oil and gas reserves. Lebanon's natural resources could be worth tens of billions of dollars, which is particularly important in a country with a yearly GDP of no more than \$40 billion.

In other words, these resources have the ability to radically transform the Lebanese economy. However, the risks that oil wealth carries are secret to no one. Indeed, wherever oil and were discovered, many basic sectors in the economy soon lost their competitiveness, a phenomenon known as the resource curse. If Lebanon wishes to avoid this fate, then it must pursue a sustainable mode of development in accordance with a carefully thought out plan.

Of course this should have been expected since it is the habit of Lebanese politicians to focus on money. More importantly, Lebanon needs to decide on how it is going to spend its oil revenues. Article III of the 2010 Law on Petroleum Resources stipulates that net revenues from oil and gas should be deposited into a sovereign wealth fund (SWF).

Unfortunately the law fails to mention how this fund would be managed, only stating that it would be subject to a “special law” to be enacted later. This particular article, out of 77 other articles in the 2010 law, was the subject of a heated discussion in parliament when the law was put to a vote. Of course this should have been expected since it is the habit of Lebanese politicians to focus on money.

The SWF is essential for development in Lebanon. Proper management of this fund depends on the institutional arrangements that the Lebanese government puts in place. However, Lebanon’s record in managing funds is dismal.

Recall for instance the Fund for the Displaced that was constantly accused of graft and corruption. There was also the Council for the South, which could have helped develop one of Lebanon’s most deprived regions. It seems that more often than not, money in Lebanon evaporates before reaching its intended destination.

One of the countries that has successfully avoided the resource curse is Norway. The credit goes to its formidable and exemplary SWF that is the product of a long process of reforms that are still not finished.

Furthermore, successive administrations in Norway gave the fund a significant margin of freedom with sustainable growth kept in mind. The Norwegian government always sought to modernize its SWF, and thanks to a series of reforms, has become the world’s top SWF.

If Lebanon’s SWF were to benefit all stakeholders, then it should comply with the following four basic principles:

1. Setting specific and clear investment strategies, such as detailing the scope of the fund in terms of investment instruments such as bonds, stocks, and real estate in the local or international markets.
2. Developing clear financial regulations governing the use of the fund’s assets. Among the key issues that must be addressed here are the conditions that govern when the government can tap into the fund’s revenues. In the absence of clear criteria, politicians could use the fund’s assets to finance their personal or electoral needs.
3. Establishing an appropriate hierarchy that clearly defines the role of the government, governing bodies, and fund managers. The latter’s role in making investment-related decisions should be clearly defined.
4. Respecting the principles of transparency and accountability. Therefore, the fund must report on important items like its investment strategy, its accounting standards, and its credit rating. The fund must also regularly publish information on its assets, revenues, investment position, and cash flow.

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While these conditions are necessary, they may still be not enough. The fund must be appropriately integrated into public finances in order to streamline its management; otherwise, a flimsy financial management system would undermine the fund, even if it is managed well.

Meanwhile, politicians may end up using the fund to manipulate the budget and avoid necessary reforms. The fund could thus become a secondary or parallel budget that the government could use as collateral for debt, throwing Lebanon into the clutches of the resource curse.

Lebanon has a dark history in managing its public finances and has failed to pass a budget since 2005. Institutions responsible for the government's budgets display signs of corruption, such as duplicity in budgets, lack of auditing, and poor transparency. In the absence of the conditions mentioned earlier, this would mean that the Lebanese public would miss out on any benefit from oil revenues.

Lebanese politicians claim today that oil and gas resources are the cure for all the country's problems, but this should not be accepted too readily. If these resources are to be mismanaged, then corruption would only increase. Avoiding the resource curse must begin by reforming our financial institutions to ensure that Lebanon's SWF can serve the goal of sustainable development.

Sami Atallah is the Executive Director of the Lebanese Center for Policy Studies (LCPS)

This article is an edited translation from the Arabic Edition.