Natural Resource Governance Institute

Resource Governance Index

2021
Resource Governance Index
Lebanon

Oil and Gas

Assessed for the first time, Lebanon's governance of its nascent oil and gas sector scored 53 out of 100 points in the 2021 Resource Governance Index. While Lebanon is not yet an oil and gas producer, its government has begun to establish an institutional framework to govern the sector before production begins. Lebanon received a "satisfactory" score of 73 points in terms of its ability to realize value from its sector according to the RGI, with the Lebanese Petroleum Administration (LPA) displaying signs of best practice in terms of extractive sector transparency. Nonetheless, "weak" revenue management and a "poor" enabling environment are causes for concern for the future of Lebanon's resource governance.

- The legal frameworks governing the licensing process and social and environmental impacts show evidence of best practice. Authorities have disclosed contracts and environmental and social impact assessments.
- National budgeting merits attention, especially due to the absence of fiscal rules governing public spending, which the government of Lebanon should establish before production begins.
- Although rules and laws governing the sector are often in place, authorities do not always enforce them. A 17-point implementation gap highlights the need in Lebanon to ensure compliance and enforcement of existing and future laws and regulations.
- Lebanon's poor enabling environment, an assessment of general governance, stems from "failing" scores in the corruption and political stability subcomponents, both of which threaten the future success of the governance of the oil and gas sector.

Lebanon oil and gas: 2021 Resource Governance Index and component scores

PERFORMANCE BANDS

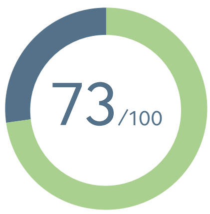
GOOD Scores over 75

SATISFACTORY Scores 60-74

WEAK Scores 45-59

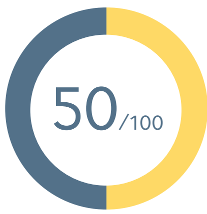
POOR Scores 30-44

FAILING Scores under 30



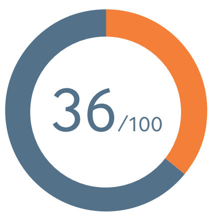
VALUE REALIZATION

Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises



REVENUE MANAGEMENT

Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds



ENABLING ENVIRONMENT

Measure of the general quality of governance in the country

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

The value realization component shows signs of adopted best practice, but revenue management and the enabling environment must be addressed

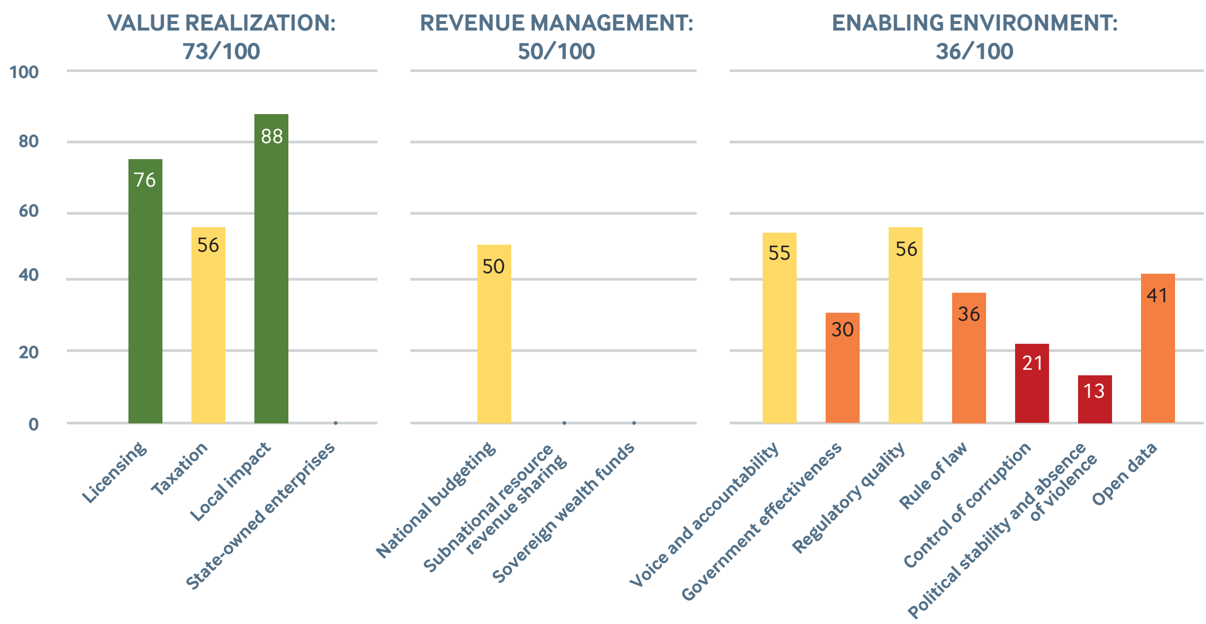
The Lebanese Petroleum Administration (LPA) was established by decree in 2012 as the institution responsible for the licensing, planning, supervision and management of the nascent offshore oil and gas sector. While Lebanon's reserves might only be confirmed after further drilling, the government and LPA signed agreements for the first offshore oil and gas exploration and production agreements for Blocks 4 and 9 with a consortium composed of Total SA, Eni International BV and JSC Novatek in 2018. In 2020, the first exploratory well drilling revealed traces of gas, but no major gas reserve was found.

Given the infancy of the sector, some of the questions assessed in the RGI are marked as non-applicable, meaning they are not used to calculate the overall score. Despite the lack of proven reserves and very few revenues stemming from the oil and gas sector, NRGI believes that the results of this assessment will help the LPA, the authorities and civil society to maintain the positive trends and gains achieved so far, and to push for further best practice in the transparency and accountability of the sector.

Lebanon's 2021 RGI results show disparities between the three components needed for strong resource governance. Value realization in Lebanon scored 73 points, placing in the upper end of the satisfactory performance band, demonstrating that best practice has been adopted in the management of the oil and gas sector by key actors, including the LPA. Nonetheless, revenue management is firmly in the weak band with a score of 50; and Lebanon's enabling environment receives a poor score of 36, with various subcomponents classified as failing. Both are necessary for strengthened resource governance but involve a broader range of domestic actors to be involved in order to spur change.

The potential of significant revenues from offshore oil and gas extraction means that the Lebanese government must avoid falling prey to the presource curse, wherein economic growth declines even prior to the start of production, mostly due to poor governance structures. This is particularly worrying in the case of Lebanon where decades of political crises, combined with the ongoing economic collapse, have led to a poor enabling environment and overall governance. Therefore, strong legal frameworks and effective fiscal and financial management systems must be firmly established and enforced by the relevant authorities by the time production begins to enable Lebanon to translate resource gains into sustainable economic development.

Lebanon's 2021 Resource Governance Index subcomponent scores



VALUE REALIZATION

Lebanon's licensing and local impact frameworks signal strong governance standards, but areas for improvement remain

Lebanon scored a satisfactory 73 points out of 100 in the RGI's value realization component, driven by good scores for the licensing and local impact subcomponents. The Offshore Petroleum Resources Law and Law 84/2018 on Enhancing Transparency in the Petroleum Sector established firm qualification criteria and rules governing the licensing process, as well as rules on disclosure of participants, winners and final areas allocated. The second licensing round had previously been postponed due to the coronavirus pandemic, with calls by the new minister to restart it in the near future. If the government does decide to hold a second licensing round, it is crucial to adhere to best practices already exhibited in the first licensing round, and to prevent any backsliding in terms of transparency and accountability.

The government and LPA have also publicly disclosed contracts signed with oil and gas companies, which enables citizens and key stakeholders to understand what governments and extractive companies are doing with the nation's natural resources. Rules regarding disclosures have also been matched in practice, with comprehensive publication of all pre-licensing terms in the country's Official Gazette and on the LPA website, including the exploration and production agreements signed for Blocks 4 and 9. The LPA has also disclosed many of its suppliers' beneficial ownership data, demonstrating adoption of international best practice in the transparency around subcontracting in the oil and gas sector.

Lebanon scores 88 points in the local impact subcomponent, with rules requiring companies to commission environmental and social impact assessments and environmental mitigation plans. The LPA has adequately made these documents public on its website, with the EIA for Block 4 already disclosed, and assessments for Block 9 currently in the development stage.

Nonetheless, key areas for improvement remain. Despite the Offshore Petroleum Resource Law requiring the establishment of a cadaster, no comprehensive registry of licenses is yet available on the website of the LPA or on other governmental portals. In line with best practice, a comprehensive cadaster should be established in order to enable civil society, oversight bodies and private sector to understand what rights exist.

REVENUE MANAGEMENT

Fiscal rules and strong sovereign wealth fund governance should be adopted to build trust in the government's handling of the oil and gas sector

Lebanon's national budgeting subcomponent scored 50 out of 100 points and placed in the weak performance band. While the country attained good scores for the timely and transparent disclosures of the national budget and national debt, it is imperative that the Lebanese government submits its budget on time and parliament passes the budget on time, and that relevant agencies have oversight of spending. The Lebanese government should utilize the period before oil and gas production starts to ensure that fiscal rules are in place to govern public expenditure. Once resource revenues start flowing into government coffers, fiscal rules are key to ensuring governments do not misuse periods of high commodity prices for unrestrained spending and contribute to long-term responsible financial management.

While Article 3 of the Offshore Petroleum Resource Law stipulates that a sovereign wealth fund (SWF) shall be established, the Lebanese parliament has not passed any laws regulating the future SWF. If the government wishes to establish a SWF that is perceived by civil society and key stakeholders to be legitimate, this process must be underpinned by a clear economic vision and energy strategy, and be open, transparent, and consultative. Prior to the commencement of production, citizens must be able to trust that robust rules regarding deposits, withdrawals, investment, and reporting will safeguard resource revenues.

ENABLING ENVIRONMENT

Perceptions of corruption and absence of political stability threaten Lebanon's resource governance

Lebanon's enabling environment scored 36 out of 100 points, placing it within the poor performance band. While all subcomponents classify as either weak, poor, or failing, a score of 21 in the control of corruption subcomponent highlights the perceptions of systemic and widespread corruption across the Lebanese state and economy. The 2021 RGI found an absence of requirements for public officials to comprehensively disclose financial holdings in extractive companies and a lack of audits of key financial bodies, which increases the potential for corrupt practices.

Strong resource governance is dependent on the health and stability of the broader governance system, and the effects of Lebanon's ongoing political crisis and deep recession threaten the potential of the nascent oil and gas sector to contribute to Lebanon's economic and social development. If corruption is not controlled and political stability ensured, there is a risk that Lebanon's current ills will be mirrored in the nascent oil and gas sector. This will undermine citizen trust in the potential of the sector to contribute to development.

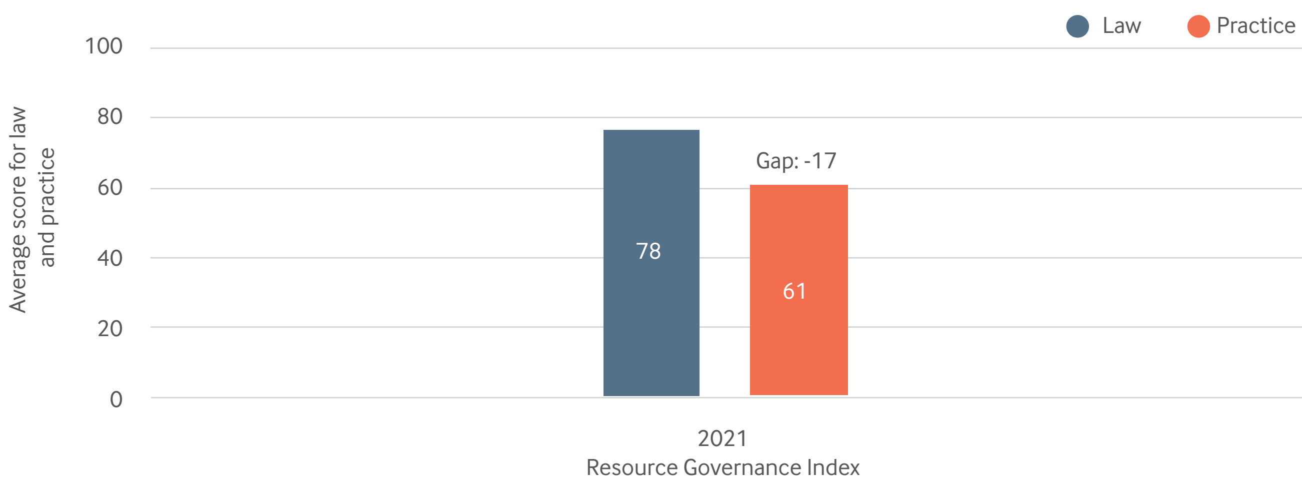
LAW AND PRACTICE SCORES

While a legal framework governs some key areas, better compliance and enforcement is necessary

In the assessment of established rules and institutions related to the oil and gas sector, Lebanon's law score of 78 indicates that a good legal framework is in place, especially regarding licensing and taxation regimes. Nonetheless, the authorities responsible do not always enforce these laws.

The Lebanese oil and gas sector features a 17-point implementation gap, a difference between scores concerning laws on the one hand and compliance on the other. While appropriate laws are passed, they are not always adhered to. Rules established under Law No. 84/2018 on Enhancing Transparency in the Petroleum Sector require disclosures of payments from extractive companies to the government, the authorities have not disclosed revenues and fees obtained from pre-qualification applications. Additionally, the Lebanese Court of Audit has not conducted a comprehensive audit of the Ministry of Finance since 2005, as accounts have not been submitted for auditing. The Lebanese government must ensure the enforcement of existing rules to prevent the implementation gap from growing wider and undermining effective accountability in the sector.

Gap between law and practice in Lebanon



RECOMMENDATIONS

NRGI recommends the following courses of action for the improvement of oil and gas sector governance in Lebanon:

1. Resource governance can only thrive if grounded in a strong overall governance system. This requires the **Lebanese government** and **Lebanese Petroleum Administration**, along with key policymakers and stakeholders, to work to build transparent and accountable systems that earn the trust of Lebanese citizens. If general governance deteriorates, the oil and gas sector may well suffer a similar fate.
2. **The government** must include civil society organizations in consultations regarding the role that oil and gas can play in the Lebanese economy, and the future of energy systems in light of the climate crisis. Additionally, the government must be involved in and adhere to key initiatives, such as the Extractive Industries Transparency Initiative, to show its determination in building a more accountable system.
3. **Parliament and key ministries** must strengthen public official asset disclosure and beneficial ownership disclosure requirements and must establish and implement robust auditing processes related to all institutions responsible for the oil and gas sector.
4. **The government** must make good on its promise and establish and maintain an up-to-date registry of licenses.
5. **The Ministry of Finance** should set numerical fiscal rules before oil and gas production begins to prevent poor, shortsighted fiscal management of resource revenues.
6. When relevant, the **LPA** must ensure transparency regarding reserves, production, and exports, as a crucial step to pushing towards transparent and accountable management of the sector.
7. **The government** should follow best practices in the creation and operationalization of a sovereign wealth fund by establishing a strong legal framework and ensuring that transparent and accountable practices prevent the siphoning of resource revenues or financial mismanagement.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.

Natural Resource Governance Institute

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.

Learn more at www.resourcegovernance.org

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