

Lebanon's future gas revenues: How to make them work for everybody?

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Lebanon is getting closer to becoming a commodity producer. In its first legislative meeting in early January, the council of ministers passed two long pending decrees to pave the way for offshore oil and gas exploration, creating significant expectations of future riches. But for now the size of Lebanon's oil and gas resources remains uncertain and possibly limited in size and duration: under reasonable assumptions, gas revenues could reach around 4 percent of GDP by the end of the next decade (to put things in context: interest payments on public debt exceeded 9 percent of GDP in 2016). Overall, though, there is no doubt the oil and gas sector could be a game changer for Lebanon: if well developed and well managed, it could create more economic activity, more jobs, and more revenue for the government.

But how can the government make sure the oil and gas sector holds its promise? The International Monetary Fund (IMF) has been actively providing technical assistance and policy advice to the Lebanese authorities on various fiscal aspects of the oil and gas sector's management, building on its experience with other commodity producers. Our key messages have focused on how Lebanon needs to get ready to become a commodity producer by: (i) designing proper terms of engagement with the oil and gas investors; (ii) developing a framework for fiscal policy; and (iii) strengthening the institutional framework.¹

- First, the fiscal regime, namely the terms for investors to explore and develop the sector, should strike a balance between ensuring that the government receives a fair share of the resources and providing investors with appropriate incentives. The fiscal terms will be defined as part of the bidding and awarding of contracts, a process in which the government will need to apply proper procedures and openness to public oversight.
- Second, resource revenues need to be managed responsibly so that future generations (not just the current one) can benefit. The government could set fiscal targets to use a constant share of revenues every year to preserve resource wealth over time.
- The third pillar is sound public financial management. The starting point is to report resource revenues in a transparent and comprehensive way and properly integrate them in budgets with a medium-term focus. This will ensure a responsible use of resource revenues to address Lebanon's social and infrastructure needs, while pursuing a strategy of debt reduction (public debt is estimated at over 140 percent of GDP at end-2016). There has also been some talk about establishing a Sovereign Wealth Fund (SWF), where

¹ See also <http://www.imf.org/external/np/ms/2014/050914.htm> and <http://www.imf.org/external/pubs/cat/longres.aspx?sk=42414.0>. For a version in Arabic, see <http://www.institutdesfinances.gov.lb/english/assadissa.aspx?pageid=6347>.

proceeds from commodity revenues are initially saved.² Of course, an SWF could be considered but would not substitute for a fiscal consolidation and debt reduction strategy.

The legislation passed early this year is a start. Ultimately, however, the crucial point is that oil and gas resources belong to and are for the Lebanese people. Experience in many oil producers shows that becoming a commodity producer comes with opportunities for growth and development, but also abuse and corruption. These risks can only be managed if the right policies and institutional arrangements are in place, with proper accountability and transparency.

The institutional capacity to fully and properly leverage the oil and gas sector in Lebanon needs to continue to be built upon (and needless to say, the Fund stands ready to cooperate). Such a unique opportunity to secure a better future for all segments of the Lebanese population, current and future, should not be squandered.

² SWFs are typically established in countries with significantly larger endowments of natural resources than Lebanon (such as Norway and the UAE). For more information on SWF best practice principles, see *Sovereign Wealth Funds: The Santiago Principles* (2008), available at www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf.