

# C.L.A.E.S.

## Canadian Lebanese Agreement for Economic Success

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## **Executive Summary**

To be implemented over a period of 5 years, the Canadian Lebanese Agreement for Economic Success (CLAES) is tasked with aiding in the economic development of Lebanon through the promotion of anti-corruption practices and cooperation between Canada, Lebanon, and other relevant stakeholders. The project consists of a preliminary, exploratory phase where CLAES will develop an enforcement mechanism to address corruption in Lebanon. This is followed by the implementation of various anti-corruption policies to enforce cooperation and dissuade corruption throughout the development of the Lebanese economy. Finally, the project will undergo ongoing monitoring and evaluation in partnership with multiple stakeholders to ensure its effectiveness. By addressing corruption within the state, the project is well positioned to serve as a reliable mechanism to help mitigate the economic stress placed on Lebanese businesses and society. Through the development of anti-corruption mechanisms, CLAES will ensure that cooperation and good-practices are upheld in Lebanon, allowing for well-developed, sustainable economic practices to continue in increasing the economic prosperity of Lebanon.

## RELEVANT STAKEHOLDERS

### Stakeholders/Partners

Those with a vested interest in the project include all major players in the Lebanese government, including the newly formed National Unity Government, the Hezbollah group, and various internal allies.<sup>i</sup> Civil society is also interested in this project as they view economic advancement as a way forward for overall prosperity. Regional and global players are also quite invested, as prosperity in Lebanon may lead to increased stability in the region. Naturally, oil and gas corporations such as Chevron, Shell, and Petrobas are heavily invested in the project, as well as various internal oil and gas development groups.<sup>ii</sup> Finally, various non-governmental organizations are well represented in the region and have a stake in overall development efforts. These include the Lebanese Oil and Gas Initiative, Transparency International, and Human Rights Watch, who are all invested in the development and prosperity of Lebanon as a whole.<sup>iii</sup>

### Internal Stakeholders

**Lebanese Government:** The newly formed National Unity Government is controlled by Hassan Diab and his party, the Hezbollah group, and various allies.<sup>iv</sup> This coalition-like government is a first in Lebanese politics, and has the potential to make positive impacts within the state. Although tensions exist, this government can lead the state into a well-functioning economic situation.

**Civil Society/Public:** The recent protests in Lebanon have greatly impacted tensions within the state. A major reason these protests exist is due to the lack of employment and economic prosperity within the state.<sup>v</sup> The public also exhibits increasing distrust in the government, claiming corruption to run rampant amongst the new regime. In order to lessen the strain on the public, the new government must act to improve the Lebanese economy, and strengthen relationships with the people.

**Oil and Gas Corporations:** Lebanese corporations have begun exploring domestic oil opportunities in the hopes of improving the economy.<sup>vi</sup> These players must be considered in order to improve the economy and properly explore all policy opportunities.

### External Stakeholders

**Regional Players:** Syria, Israel, and Iran all have a stake within Lebanon. Lebanon bases their foreign policy on these states, and each state has a history of both conflict and cooperation with Lebanon.<sup>vii</sup> The Lebanese economy can greatly benefit from regional involvement as well, therefore they must be considered in all policy discussions.

**Oil and Gas Corporations:** Multiple corporations are currently operating in the region such as Chevron, Shell, and Petrobas.<sup>viii</sup> Collaboration with existing companies will help to ensure all economic opportunities are being explored and that cooperation continues with all involved parties.

**NGO's:** The Lebanese Oil and Gas Initiative (LOGI) is an independent NGO operating within Lebanon to ensure transparency and accountability within the newfound industry.<sup>ix</sup> Other NGO's operating within the region (Transparency International, Human Rights Watch, etc.) all must be considered in the promotion of economic prosperity within the state.

### Pre-project Assessment

Lebanon's government has a history of corruption in its administration that has been the cause of domestic unrest and discouraged international investments in Lebanon's economy. In December 2018, the Lebanese

Parliament's Committee of Finance and Budget passed a bill that created a National Anti-Corruption Commission tasked with overseeing the application of future anti-corruption laws. This Commission has since been responsible for three anti-corruption laws, but as of 2019, authorities have failed to comply with these laws and the Commission does not have adequate enforcement mechanisms to ensure compliance.<sup>x</sup> There are several non-governmental organizations (NGOs) created to help encourage the fight against corruption, such as the Lebanese Transparency Association (LTA), the Lebanese Association for the Promotion of Transparency, and the Youth Against corruption Organization.<sup>xi</sup> With the formation of a new government in January 2020 under President Hassan Diab, Lebanon is currently poised to implement further anti-corruption legislation, which would be a necessary precursor to foreign investment in Lebanon.

Lebanon's economy is in debt, owing about 170% of its GDP to loans and in March 2020, the government defaulted on its debt.<sup>xii</sup> Lebanon also imports nearly all of its oil and gas and the government wants to end its foreign dependency on oil.<sup>xiii</sup> Its emerging petroleum sector could be a major source of jobs and income for the economy, but government transparency is also necessary to ensure this industry's benefits will be shared by the general population and not corrupt officials. There are several NGOs in Lebanon that could be empowered to monitor the project with the appropriate resources. The Lebanese Oil and Gas Initiative (LOGI) promotes transparency and the development of the oil and gas industry in Lebanon. The government of Lebanon has failed since 2009 to promote a long-term policy for the industry that promotes the establishment of contracts with capable oil companies.<sup>xiv</sup> In February 2020, off-shore drilling began with French company Total just off the shores of Beirut.<sup>xv</sup> Further financial and intellectual investment in NGOs like LOGI is necessary to further the development of Lebanese oil and gas.

The global COVID19 pandemic has contributed to the pressing economic instability of Lebanon. Lebanon has reported cases of COVID19 and has taken measures to encourage physical or social distancing, forbidding large public gatherings and restricting travel. These restrictions are particularly harsh on the estimated 1.5 million Syrian refugees in Lebanon. Two dozen municipalities in Lebanon have imposed curfews on refugees that do not apply to any other foreigners.<sup>xvi</sup> COVID19 has exacerbated Lebanon's high debt and unemployment rates. Central banks have restricted money flows to essentials like medicine, fuel and wheat only, virtually freezing non-essential personal or business-related withdrawals and cash flows.<sup>xvii</sup> The dual problem of low oil demand and low value of oil has mixed results so far. At least 20 percent of the offshore workforce has lost their jobs and most oil operators cannot break even since the Brent crude oil price is below \$30 per barrel.<sup>xviii</sup> As of March 30<sup>th</sup>, drilling operations have not been shut down, and travel restrictions have exempted the crews working these operations. It may be beneficial for Lebanon if the price of oil continues to fall because ultimately the indebted country will spend less on fuel purchases.<sup>xix</sup>

## **Operational Decisions and Monitoring**

### **Project Description**

The Canadian Lebanon Agreement to Economic Success (CLAES) will work in partnership with the Lebanese Oil & Gas Initiative (LOGI) to strengthening transparency and accountability and promote anti-corruption practices to develop inclusive sustainable growth practices, and increase Canada-Lebanon partnerships and prosperity.<sup>xx</sup> This project includes an integrated set of projects focused on disincentivizing corruption by supporting LOGI in their anti-corruption agenda, and to promote local enforcement to eliminate opportunities for corruption. The programme budget is \$250 Million over 5 years. The programme is led by the Department of Justice Canada and operational management will be the responsibility of Global Affairs Canada. Ongoing monitoring and inner-workings will take place within

Canada's Middle East Engagement working group in Global Affairs, that will be in direct contact with a Canadian-led working group in Lebanon.

Due to the complex multifaceted nature of corruption, no single intervention is likely to be successful on its own. Therefore, through an integrated and coherent set of targeted projects to address corruption, this programme has been designed to help selected regions and countries:

- Change behaviors and motivations
- Increasing transparency and accountability among major stakeholders and governing bodies
- Support local legislation that disincentivizes corruption and aid in the development of anti-corruption legislation
- The program will realize the above outcomes through implementing a set of interconnected projects as set out below.
  - Lowering barriers to developing legitimate businesses
  - Providing training of new technologies and sharing expertise among all stakeholders and LOGI
  - Monitoring financial flows from major stakeholders
  - Incentivizing legal business, with particular attention to the oil industry by allowing for preferential trade opportunities between Canada and Lebanon
  - Canadian support and adherence to anti-corruption legislation that will improve and promote a healthy business environment and improve investment in public services
    - This will ideally result in greater sustainable development; reduced poverty, gender inequality, increased flows of investment and ease of trade

### **Operational Limitations**

Given the political unrest and the high-profile stakeholders that may oppose an anti-corruption policy, this project carries some significant risk. The un-demarcated maritime border with Israel and the unpredictable spread of COVID19 may present significant challenges to anti-corruption enforcement. However, these risks may be moderated by supporting LOGI in their local initiative and to aid the National Anti-Corruption Commission (NACC) to enforce anti-corruption compliance. The development of an enforcement mechanism must be freely accepted by the government of Lebanon and all major stakeholders, particularly the NACC and those within the resource industry; the success of this project relies on full commitment.

#### ▪ **Timeline**

Research and evaluation: 6 Months

Mandate development: 2 Months

Enforcement mechanism development: 6 months

Institutionalisation: 6 Months

Project function: 5-7 years (depending on progress and funding)

Post Project evaluation: 1 year

#### ▪ **Budget**

Research and evaluation: \$400,000

Mandate development: \$100,000

Enforcement mechanism development: \$1million

Institutionalisation: \$6 million

Project function: \$240,000,000

Post Project evaluation: \$500,000

Miscellaneous needs funds: \$2 million

## **Monitoring and Evaluation**

The overall program will be monitored in partnership with LOGI and by the Department of Justice Canada and operational management will be the responsibility of Global Affairs Canada. Ongoing monitoring and inner-workings will take place within Canada's Middle East Engagement working group in Global Affairs, that will be in direct contact with a Canadian-led working group in Lebanon.

The Research and Development stage will be imperative to developing the goals and guidelines of the project. Ongoing communication and official bi-annual meetings with stakeholders will take place to ensure goals are being met and anti-corruption measures are being followed; these meetings will aid in ad hoc adjustments to the program as necessary.

## **Post-project Impact**

Lebanon's long-delayed quest for offshore gas and oil is scheduled to start on February 27, 2020 with the outcomes from its initial exploratory well anticipated in the subsequent two months.<sup>xxi</sup> As Lebanon starts its nascent gas and oil sector, the nation's future depends on its capacity to change its source windfall into long-term wealth.<sup>xxii</sup> Producing natural gas could potentially fix some problems, like Lebanon's chronic electricity shortage. Lebanon's power plants currently run on imported fuel and their capacity is so stretched that even Beirut's more upscale neighbourhoods see government-supplied electricity cut for three hours a day. Outside the capital, power is even more sporadic. Moreover, shaky infrastructure irritates residents and dissuades foreign investment. From 1975, when Lebanon's civil war broke out, the nation was without a functioning rail network, and potential oil and gas earnings are being vaunted by the Ministry of Energy and Water as the solution for the construction of the transportation network.<sup>xxiii</sup>

Furthermore, exploration and production activities face many challenges in the Levantine Basin, in general, and the Lebanese offshore in particular. Water depths, mostly below 1,500 meters, present serious technical complications, which will translate into extra investment in infrastructure and technical skills. Examining the risk of corruption in the energy sector, new legislation, and the creation of the Lebanese Petroleum Administration, are positive signs that strongly suggest awareness of the complex issues at stake. However, what has been done up to now in attempts to increase transparency and liability is far from ideal, let alone corruption-proof.<sup>xxiv</sup>

While the opportunity could significantly improve Lebanon's economy and the welfare of Lebanese citizens, high corruption, weak rule of law, and limited technical expertise, constitute the highest risks to Lebanon's oil and gas sector. Like we saw in many resource curse cases, easy resource revenues eliminate a critical link of accountability between government and citizens, by reducing incentives to tax other productive activity and use the revenue to deliver social services effectively. The same revenues also generate staggering wealth that facilitates corruption and patronage networks. Collectively, they combine the power of regime supporters and deep-seated elites, quelling political reform and deepening income inequality.<sup>xxv</sup>

Consequently, transparency, accountability, and decent governance will be critical in preventing these risks and preventing the resource curse.<sup>xxvi</sup> In order to help Lebanon maximize the economic and social benefits

of its oil and gas wealth, the impact of CLAES will be evaluated in three areas: institutions & governance, job creation & skill development, and infrastructure development. The indicators are regional Unemployment Rate (where CLAES applied), Infrastructure Investment, the Corruption Perceptions Index (CPI), the Worldwide Governance Indicators of the WB on good governance (consisting of Government Effectiveness (GE.EST), Control of Corruption (CC.EST), Political Stability and Absence of Violence/Terrorism (PV.EST), Regulatory Quality (RQ.EST), Rule of Law (RL.EST), Voice and Accountability (VA.EST).<sup>xxvii</sup>

Our Project CLAES is a sustainable stabilization strategy by backing UNSCOL's demand on Lebanon for structural political and economic reform.<sup>xxviii</sup> Oil and gas resources can radically transform the Lebanese economy. However, political gridlock has kept Lebanon from making the most of its reserves for a long time, and if these resources are to be mismanaged, they can only benefit political elites while the Lebanese public would miss out on any benefit. By building up LOGI's capacity, on the one hand we want to make sure that the oil and gas sector will not be politicized, on the other we want to promote collaboration and cooperation between civil society, the government, energy companies and other stakeholders. This is to ensure that oil and gas resources are a cure not a curse for Lebanese predicament.

## **COVID19**

The COVID19 pandemic has not peaked. Recovery depends on developing vaccines, containing the virus, and stopping re-infections after the first wave. The impact of low demand and decreased value of oil may give the offshore oil industry a boost following the outbreak when demand increases again since oil prices could be projected to recover their recent losses. However, companies want to cut costs by increasing investments in technology platforms that support the efficient management of plants, existing operations, as well as working remotely. Technologies associated with asset performance management, subsurface and mining applications will set the bar for the way in which the industry may function once the present pandemic has passed, according to industry specialists.<sup>xxix</sup> This makes training for know-how and technology even more important.

## **Post-Project Assessment**

After five years of implementing our project CLAES an independent evaluation team will evaluate the overall effectiveness of the CLAES project; its successes and challenges. The assessments will be conducted through gathering statistical data to examine if the economic indicator of Lebanon has improved, as well as the political stability of the country. Measurements will examine the long-term progress of the economy after exploiting oil by enabling Lebanon to become an energy independent. Moreover, the assessment will focus on how the project generates access to jobs and stimulates the petroleum industry. The assessment will also gauge how the project affects Lebanon's exports revenue and GDP growth.<sup>xxx</sup> Additionally, the measures will examine the effectiveness of the National Anti-Corruption Commission (NACC) enforcement mechanism in promoting good governance principles and eradicating corruption.<sup>xxxi</sup> As a result, there will be a considerable estimation of how responsive the Lebanese government is to the public frustration, and how it maintains stability and eliminates violence. This will help to determine if the project was effective enough to incentivize the Lebanese government to implement anti-corruption measures in exchange for the developmental assistance offered by Canada through the implementation of CLAES project.<sup>xxxii</sup> Following the conclusion of the assessment a report will be produced for the Department of Justice Canada, the Global Affairs Canada and local Lebanese stakeholders.

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- <sup>ii</sup> “Lebanon Gas and Oil - HOME PAGE,” accessed April 3, 2020, <http://www.lebanongasandoil.com/index.php/>.
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- <sup>iv</sup> BBC News. “Lebanon Profile – Timeline.” Accessed February 3, 2020. <https://www.bbc.com/news/worldmiddle-east-14649284>.
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- <sup>xv</sup> <https://www.timesofisrael.com/lebanon-starts-drilling-first-offshore-oil-and-gas-exploration-well/>
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<sup>xxvi</sup> Logi-lebanon, The Lebanese Oil and Gas Initiative (LOGI), Logi-lebanon.org, Accessed March 29, 2020 from [https://logi-lebanon.org/uploaded/2018/2/MZ7OF4MU\\_LOGI-Whitepaper-en-20180122.pdf](https://logi-lebanon.org/uploaded/2018/2/MZ7OF4MU_LOGI-Whitepaper-en-20180122.pdf), 2.

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