

Could privatization policies improve the electricity generation capacity in Lebanon?

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Abstract

The aim of this thesis is to answer the question whether New Public Management-inspired policies like privatization could help with the problems the Lebanese electricity sector is currently facing. In order to answer this question, first the theoretical background of NPM is explained.

In 2002, a law was passed in Lebanon that allowed to privatize the electricity sector. However, this law was never implemented. This raises the question which context and content variables might influence such an implementation trajectory and what makes the Lebanese context unsuitable for such reforms.

According to this research, a wide range of obstructing factors stopped the implementation of the law. These include inter alia the lack of political will to implement, the content of the law, a lack in the administrative capacity, and generally the external and internal security in Lebanon. Overall, this means that NPM-reforms could potentially work in fragile circumstances like Lebanon but the specific conditions in Lebanon are currently not suited for such reforms.

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List of abbreviations:

CDR	Council for Development and Reconstruction, Lebanon
CEE	Central and Eastern Europe
CIA	Central Intelligence Agency
EDL	Electricité du Liban, [Electricity of Lebanon]
GDP	Gross Domestic Product
IGO	International governmental Organization
IMF	International Monetary Fund
LCRP	Lebanon Crisis Response Plan
MENA	Middle-East and North-Africa
MEW	Ministry of Energy and Water, Lebanon
NGO	Non-governmental Organization
NPM	New Public Management
OECD	Organization for Economic Co-operation and Development
PPP	Public-Private-Partnerships
SDG	Sustainable Development Goals
UN	United Nations
UNIFIL	United Nations Interim Force in Lebanon
UNDP	United Nations Development Programme
WTO	World Trade Organization

1. Introduction

1.1. Research problem

The problem addressed in this bachelor thesis is the current shortage of main-grid electricity generation capacity in Lebanon and the question which policy reforms can be suitable to solve this crisis. In order to find answers to this question, this thesis will describe what theoretical insights exist about increasing the success of public service delivery and evaluate how the government of Lebanon tried to address this issue in the last 15 years, and which factors hamper the reform attempts.

The electricity sector in Lebanon is currently not able to supply a sufficient amount of energy to the customers, mainly because of the destruction of generation facilities in various conflicts (see Hasbani, 2011: 7). This shortage is furtherly fueled by an increasing population (by domestic growth and influx of refugees from neighboring countries) and an economy with an estimated annual growth of the electricity demand of up to 8% (Dagher and Ruble, 2010: 915, also see Ibrahim, Fardoun, Younes and Louahlia-Gualous, 2013: 262). The war in Syria directly affected the Lebanese electricity system also in another way. Until 2011, Lebanon imported part of its power from Syria and Egypt. However, these connections were disrupted during the Syrian war and since then Lebanon has become “more like an energy island” (Bouri and El Assad, 2016: 1). Recent estimates by the Lebanese Ministry of Energy and Water (MEW) show that only 65% of the electricity demand in Lebanon is provided by main-grid power plants operated by the state-owned monopolist electricity enterprise *Electricité du Liban* (EDL) (see CDRⁱ, 2016: 10, also see Dagher and Ruble, 2010: 913). One major problem for the EDL is a lack on maintenance and the age of the current power plants that would require preventive maintenance to keep functioning (see Fardoun, Ibrahim, Younes and Louahlia-Gualous, 2012: 315). Depending on the location within Lebanon, the resulting power-cuts in the main power-grid can last up to 13 hours in one day (Ruble and Nader, 2011: 2472) and have led to a large off-grid diesel-generator sector that has many downsides, for example environmental and health issues (see Abi Ghanem, 2018: 37), and unaffordable prices (see Dagher and Ruble, 2011: 4315). Private businesses have to rely on their own power generation facilities which hampers the economic development of the country. Power cuts impact businesses in different ways; directly because during a power cut many means of production are not (fully) functioning, costs for off-grid diesel generators and fuel, and indirectly by the uncertainty that comes with the unscheduled cuts in energy provision.

The current electricity generation facilities in Lebanon are operated and owned by the monopolist EDL that controls the generation, transmission, and distribution of electricity in Lebanon (Dagher and Ruble, 2011: 4316). The EDL is operating under a legal framework from the 1960s (Ibrahim et al., 2011: 264) and a new legislation that would allow privatizations in this sector was passed in 2002 but never fully implemented (Ruble and Nader, 2011: 2472, also see Law No. 462). Slow attempts for privatization were recently undertaken under a provisional legal framework with temporary amendments to the Law No. 462 (see Torbey, 2016). Furthermore, three different Ministers of Energy and Waterⁱⁱ published policy papers with proposed reforms in the last 12 years (see Ibrahim et al., 2013: 270). To some extent, all proposals included ideas for the engagement of private actors in the electricity sector.

The recommendation to privatize public services has become popular since the 1980s and through spill-over effects and outside pressure such attempts are also used in Lebanon. This thesis seeks to find answers to the question whether privatization could be a suitable solution to decrease the problems in Lebanon described above. On an international level, there is a strong urge led by the International Monetary Fund and the World Bank for the privatization of public-service providers (Brune, Garrett and Kogut, 2004: 195). With the end of the civil war in 1990, Lebanon would now have the chance for development and at the same time with a very high foreign debtⁱⁱⁱ, there is pressure to follow the “Washington Consensus” and its promotions of the ideas of New Public Management (NPM) and liberalize the markets and privatize existing state monopolies (Brune et al., 2004: 200). A wide range of Economic and Public Administration studies supports the argument that privatization is the best-practice instrument for economic success because of “superior efficiency” of privately run enterprises (Larbi, 1999: 33) although the question remains whether such instruments are applicable under all circumstances and in all contexts and whether the potential benefits outweigh the risks involved.

1.2. Relevance

The access to “affordable, reliable, sustainable and modern” energy is one of the 17 Sustainable Development Goal (SDG) of the United Nations and according to many researchers a key for economic growth and poverty reduction (see El-Katiri, 2014, S. 296, also see Vera and Langlois, 2007: 876). Additionally, unequal or unaffordable electricity supply is not only a challenge for the impacted households but might even spark social clashes (see Ruble and Nader, 2011: 2472 and see Kraidy, 2016: 23). It should be noted that the SDG 7 emphasizes the access to electricity and the key indicator for the success of SDG 7 is the “Proportion of

population with access to electricity” (UNDP, 2017). However, this thesis will put more focus on the reliability of electricity delivery because access is not a major concern in Lebanon with an electrification rate of almost 100% (Ruble and Nader, 2011: 2468). Regarding the affordability, another major challenge should be considered here. The tariffs for the customers are relatively low in Lebanon due to massive subsidies which aggravates the governmental debt-problem (World Bank, 2009: 5). In the past, the Lebanese government transferred up to 25% of its primary expenditures to the EDL (see Hasbani, 2011: 12) which means that budget for over important field is unavailable.

Besides this societal relevance, this thesis also has a scientific relevance. Throughout the research for this thesis, it has become apparent that very little is known about the context that is needed for successful privatizations of public service delivery. This research gap that will be further addressed in the theory section (Chapter 2) of this thesis, exists because most studies in this field either focus on the Anglo-Saxon background (for example Denhardt and Denhardt, 2015) or on highly instable and war-torn countries (for example Brinkerhoff, 2010). The case of Lebanon lays somewhere in the spectrum between these two extremes. Both backgrounds do not fully fit the Lebanese background. Still, they provide a good starting point for the research of the requirements for successful privatizations.

This research will be able to provide new knowledge for the scientific community because it will look on the issue of energy supply in Lebanon from a Public Administration/ New Public Management perspective. This will be very helpful for Lebanon because it provides an insight whether the proposed market-based approaches are appropriate for a fragile yet economically medium-developed country like Lebanon.

1.3. Context

In the next section, the specific Lebanese context shall be described. The Lebanese Republic (short: Lebanon) is a small country at the east shore of the Mediterranean Sea with a diverse population of more than six million people. It borders with Israel to the south and with Syria to the east and the north and it has on-going border disputes with both countries in the Golan-heights. The general relationship with both neighboring countries is tense with a long history of clashes between Israeli Defense Forces and the Lebanese Shia-militia Hezbollah^{iv} and the recent influx of Syrian refugees. The situation in the border region to Israel is currently stable but tense and the UN-Mission UNIFIL is monitoring the situation between the countries (see

Sydow, 2018b). The Lebanese population is split on religious lines, with approximately 40% Christians which are further split into Maronite, Greek-Orthodox, and Greek-Catholic, and roughly 55% Muslims, with an even distribution of Shia and Sunni Muslims. A minority group with roughly 5% are Druze (see CIA World Factbook, 2018b). The exact ratio of the ethnic and religious groups cannot be estimated precisely because Lebanon did not conduct a census since 1932 (United States Department of State, 2001). Besides the local population, Lebanon is home of sizeable population of Palestinian and Syrian Refugees. Furthermore, Lebanon has a significant diaspora globally and more people that state to be Lebanese are currently living outside the borders of Lebanon than within (see Kechichian, 2015).

The country has a political system where power is shared among the dominating sects (see Krayem, n.d.). The current political system was outlined in the *Taif Accord*^v, ratified in 1989 in Saudi-Arabia (see Salem, 1998: 15). The Taif Accord marks the end of the Lebanese Civil War from 1975 and made significant changes to the Lebanese constitution. Since then, the seats in parliament are split evenly between Christians and Muslims and it was agreed upon that the three most important positions have to be distributed among the groups in a pre-defined way; it “requires the President of Lebanon to be a Maronite Catholic, the Speaker of the Parliament a Shia Muslim, and their Prime Minister a Sunni Muslim” (Vaughan, 2018: 2). In situations of agreement, the “Troika” (Salem, 1998: 18) is basically all-powerful. When an agreement in the Troika is not possible, the national approach of power sharing often results in a sectarian deadlock (see Vaughan, 2018: 2). In Lebanon, this system of long and complicated power-sharing mechanisms between the various groups is dominating the daily political process and is called *taifiyya* (see Mackey, 2008). Because of the long-standing history and tradition of power-sharing and compromise, some researchers call Lebanon a “Consociational Democracy^{vi}” (see Fakhoury Mühlbacher, 2009: 28).

With the Taif Accord in 1989, the political landscape stabilized and is now more balanced. However, violence keeps erupting, for example the assassinations of key political figures, including the Prime Minister Rafic Hariri in February 2005 and the violent street protests in 2008 (see Hasbani, 2011: 24). The “Cedar Revolution” that followed the assassination of Hariri is an exception to this circle of violence. This revolution ended peacefully the Syrian occupation of Lebanon (see Fakhoury Mühlbacher, 2009: 284). The anxiety about new tensions or even violence between the ethnic groups is so grave that the government kept on postponing the Parliamentary elections over years. Only in 2018, after 9 years, a new election was held but it is unlikely that it will end the political gridlock of the country (see Sydow, 2018a). However, a

street-level campaign in the Summer 2015 that become known under the name “You stink”, showed that political change is possible with pressure by the public. The protests were mainly concerned with the issue of garbage disposal, but the issue of power cuts was also addressed by protesters (see Kraidy, 2016: 23). As in all the countries in the MENA-region, corruption is a problem in Lebanon and it is currently ranked 143th out of 180 countries in the Transparency International Corruption Perception Index (2018).

In contrast to the strained security situation and political stalemates that destabilizes the country, the economy of Lebanon is well developed and considered an “open market” (CIA World Factbook, 2018b). In 2003, the German Federal Government declared Lebanon a “higher middle income country” in accordance with the UN Development Programme (UNDP) and stopped direct foreign aid (BMZ, 2018). The Human Development Index (HDI) ranks Lebanon at place 76 of 188 countries in the “High Human Development” bracket (UNDP, 2016). For the economic development, the strong banking sector is the “crown jewel” and there is a deep connection between the financial sector, the political system and regional actors (see Chaaban, 2016: 2). This makes Lebanon an unstable country with high external and internal pressure and at the same time a successful economy in the MENA-region.

1.4. Research question

As described above, Lebanon has a major challenge in its electricity generation sector and various researchers have found positive effects after privatizations in the electricity sector. However, there is also a large body of literature that questions whether market-based approaches are suitable for fragile states and provides evidence that these approaches could have negative consequences for state- and capacity-building goals. Thus, the research question addressed in this thesis is:

To what extent can privatization policies improve the main-grid electricity generation capacity in Lebanon?

To answer this exploratory question, the following sub-questions will be addressed:

1. What institutional conditions can be identified in the NPM literature for functioning privatization policies in the electricity sector?
2. To what extent is Lebanon fulfilling the conditions from the New Public Management theories to implement functioning privatization policies?

The first sub-question is descriptive and will be answered in the conceptual framework for this case-study about the electricity generation sector and the institutional framework necessary for functioning NPM-policies. The sub-question will be answered using the literature from a variety of scientific background and cases studied. The next sub-question will then transfer this knowledge from the theories and the scientific literature and will empirically test to what extent the preconditions are currently met in Lebanon and therefore answer the main research question to what extent NPM-approaches could improve the current energy supply situation in Lebanon which would mean that the main-grid generation capacity would be able to supply enough energy to meet the demand.

1.5. Outline of the thesis

To answer the research question, this thesis will provide in Chapter 2 the needed theoretical insights and combines theories from various sources and backgrounds into a conceptual framework in Chapter 2.3. Then, Chapter 3 presents the here used methodology. Chapter 4 describes the used governmental documents which are the legislation, and policy and strategy papers. Chapter 5 analyses the documents in regards to the conceptual framework and the specific context and Chapter 6 closes this thesis with a conclusion.

2. Theory

In the course of this research, two main concepts are from utmost relevance and hence will be introduced and discussed in this section: the electricity sector with a special regard to the generation sector and the concept of New Public Management (NPM) as the body of theory that addresses the transfer of private sector methods and techniques to the public sector in order to improve efficiency. At the end of this chapter, also the criticism of NPM will be discussed. All these theoretical insights will be summarized in Section 2.3. to the Conceptual Framework of this thesis.

2.1. Electricity Sector

The first discussed concept is the electricity sector that is a critical part of the larger energy sector. The electricity sector has the task to provide electrical power to individuals, households, companies and the public sector. Modern economies consume a high share of their total energy consumption from electric energy. A better understanding of the electricity sector is possible by looking at the three distinct yet connected sectors generation, transmission and distribution. The combination of these sectors is an important part of the infrastructure of a country and therefore a main concern for the government and is normally regarded as a public-service. The Lebanese government regards the electricity sector as a “vital, strategic, and economical commodity” that is in its entirety a “public utility” (Law No. 462: Art. 3). The Electricité du Liban (EDL) is currently massively understaffed with 1720 staff-members in 2017, while the desired number of employees is 5020, meaning that less than 35% of the available positions are filled. The EDL is providing electricity to 1.4 Mio subscribers^{vii} (see EDL, 2017). In Lebanon, the whole electricity sector is state-owned and operated by the EDL with an existing (but still not implemented) legal framework that would allow privatization.

2.1.1. Electricity generation

Generation involves all activities for generating electricity from various sources. The generation sector in Lebanon is organized differently than in Anglo-Saxon and other highly developed countries. There is an important distinction between a main-grid sector and an off-grid sector. The main-grid generation sector works basically as the generation sector in developed countries. The crucial difference is that the main-grid power plants in Lebanon are not able to provide enough energy to meet the demand. The Ministry of Energy and Water (MEW) estimates that only 65% of the electricity demand in Lebanon is provided by main-grid power plants (see

Dagher and Ruble, 2010: 913). These power plants are mainly run with fossil fuels like mineral oil and natural gas or processed forms like diesel. Because Lebanon is currently not producing oil or gas^{viii} all these fuels have to be imported. This makes the economy vulnerable to fluctuations in the prices of fossil fuels and exacerbates the debts problem of the government. Only a small share comes from renewable energy, mainly hydro power and it also exists a “big potential for solar power” (Anderson, 2017) and wind power. To overcome the most severe shortages, Lebanon rented a Turkish “power ship”, a mobile diesel power plant mounted on a ship that was deployed in the harbor of Beirut (see Tisdall, 2013). All major power plants in Lebanon are owned and operated by the EDL. Any power-plant exceeding the capacity of 10 Megawatts has to be licensed by the MEW (see Law No. 462: Art. 5b).

The shortage in main-grid electricity means that electric power has to be rationed which leads to frequent power cuts that can last up to 13 hours during one day in some parts of the country (see Ruble and Nader, 2011: 2472). To compensate this issue many households, neighborhoods and companies bought small diesel generators that work off the actual main-grid (see Abi Ghanem, 2018: 37). The electric power provided by the off-grid generators is more expensive, causes more environmental pollution, and causes health and noise problems. Besides these issues, main-grid electricity generation in large power plants is more cost-effective because of economies of scale and in the case of Lebanon cheaper for the consumers because of subsidies for fuel.

Hence, this research will solely focus on the main power-grid activities because they will most likely replace the off-grid generators, as soon as enough electricity can be provided because the smaller neighborhood generators would become unprofitable. Off-grid generators are a vital part of some of the existing short-term strategy in Lebanon (see Bassil, 2010). However, they might turn into an obstacle for the long-term strategy because the owners and operators of these generators have economic interest in the status quo (see Hasbani, 2011: 20).

After the planned expansion of the main grid power plants to provide all the needed capacity, off-grid diesel generators will probably remain as a pure emergency tool^{ix} or as backup-capacity. The idea that main-grid power generation will replace off-grid diesel generators has also been a presumption by Dagher and Ruble when they simulate different scenarios for the electricity sector in Lebanon in 2011. While the reduction of off-grid diesel generators is a legit macro-economic and public health goal, the owners and operators of these systems have a substantial interest in preserving the current status of the Lebanese electricity system (see Sydow,

2018a). An additional problem for the EDL should be also kept in mind. The current electricity generation infrastructure is relatively old, but maintenance is drastically underfinanced (see Fardoun et al., 2012: 315).

2.1.2. Electricity transmission and distribution

In most economies around the globe, the transmission of electricity is organized in a “regulated monopoly” even in markets with competing generator and supply companies (Joskow and Tirole, 2000: 451). The transmission system of Lebanon originates from the colonial era and was damaged severely in the various conflicts. Besides smaller technical losses, the current transmission is in an acceptable status, although further investments are surely needed (see Ibrahim et al., 2013: 263).

The sector of electricity distribution is the last step in the chain of production and delivery. It consists of the relationship between the electricity customers and the suppliers. Crucial questions in this field are how the customers are metered, how they pay, and how the distribution company can enforce payments. Also, the relationship between generator and distributor is important. A development in this field is the introduction of prepaid-meters that automatically cut the supply when the prepaid amount of electricity has been used by the customer (see Bernier, 2018: 13). To enable competition on the market, the regulatory agencies should enable equal access to the transmission grid for different supply and delivery companies. Over the past decades, both the generation and distribution tend to get privatized in developed, stable, and even in unstable and fragile environments (see Bernier, 2018: 12) while the transmission sector normally remains in the public sphere.

Despite the undisputed importance of transmission and distribution efficiency or the development of renewable energy generation capacities, overall generation capacity is the foundation for every electricity system. With the currently insufficient energy generation capacity, efforts in other sectors can only have limited success.

2.2. Public Administration

Before introducing the theories of New Public Management (NPM), a few more general theories about the implementation of policy reform need to be addressed. Hence, they will be introduced at this point before continuing with NPM.

In 1995, Matland creates a two-dimensional matrix for the question how policies get implemented in four distinct ways. The categories that decide in which way policies are implemented are “Policy conflict” and “Policy ambiguity” (Matland, 1995: 160). Policy conflicts occur when interdependent actors have conflicting goals and it increases even further when “a perceived zero-sum element” (1995: 156) is present. Situations with a high potential of policy conflicts often result in a “bargaining process” (1995: 156) which might lead to a situation where no action is taken because no consensus could be established.

Policy ambiguity occurs in implementation processes in two different ways: “ambiguity of goals and ambiguity of means” (1995: 157). Ambiguity of goals indicates that the desired objective of a policy is not fully known and therefore confusion is prone to happen. However, ambiguity can also have positive effects in implementation processes because it can limit the conflicts and thus makes the passing of the legislation easier. Ambiguity of means naturally occurs in situations where the needed technology for the solution of a problem is not yet fully discovered or simply does not exist. It might also occur in complex situations where the (side-) effects of a certain solution cannot be estimated a priori because of interdependencies.

When low ambiguity and low conflict are present, one may expect an “Administrative Implementation”; low ambiguity and high conflict lead to “Political Implementation”; high ambiguity and low conflict lead to “Experimental Implementation” and high ambiguity and high conflict lead to “Symbolic Implementation” (Matland, 1995: 160).

A deeper understanding of policy implementation trajectories requires also a basic understanding of the principal-agent-theory or sometimes also called agency-theory. The base assumption of this theory is a “politics-administration dichotomy” and “that the relationship between elected leaders (principals) and civil servants or bureaucrats (agents) is hierarchical” (Frederickson, Smith, Larimer and Licari, 2016: 35). The principals attempt to govern the bureaucrats through legal obligations, while the agents strive for autonomy, discretion, and information advantages. In this simple model, one can assume that the principals have power over the agents. However, in complex systems with multiple principals and agents, the actual situation and power distribution can also be fully upside-down or in a mixed status. Moreover, the

relationship between principals and agents should be understood as “dynamic and evolving through time” and oftentimes the agents “have distinct informational or expertise advantages over politicians” (Wood and Waterman, 1994: 23). An important category for political control over the bureaucracy is (political) accountability. The ability to monitor the performance of agents thereby increases “the power of the principal over the agent” (Frederickson et al., 2016: 36). At the same time, too much control and too little discretion might lead to malfunctioning bureaucracies and red tape.

Throughout this thesis, the terms public and private are used. At this point, some more clarity concerning these concepts will be provided, although a clear distinction cannot fully be established because they are distinct but connected categories with an almost infinite number of “mixed, intermediate and hybrid forms” (Rainey, 2014: 57). With the developments in the public sector, the private-public distinction became more and more blurred and through reform programs like NPM, nowadays there are private organizations providing public goods and governmental/public organizations operating on private markets. Still, in various categories it can be attempted to draw such a clear distinction; these categories include among other the nature of the good delivered (rivalrous vs. non-rivalrous and excludable vs non-excludable) or the question of public/private funding and ownership (see Wamsley and Zald, 1973 and see Bozeman, 1987). In the electricity sector, a state-owned and (partly) state-financed provision company like the EDL in Lebanon is providing a product that is rivalrous and normally excludable and therefore falls in the private domain, or to put it in oversimplifying and dichotomous terms: a public organization is providing a private good. At the same time, many including the Lebanese lawmakers regard electricity as a public utility (see Law No. 462: Art. 3) which means that the provision is part of the public sphere. This would change after a privatization, because as the name already suggest, the public organization would then become a private company (with more or less state-subsidies) which is still providing a private good. The amount and type of change is a political decision that has to balance various considerations and trade-offs. It should be pointed out, that both for a public organization and a private company providing a public good, political accountability is an important guiding principle (see Rainey, 2014: 58) which is achieved by a varying amount of political control. A privatized electricity generation sector could be either be collectively or individually financed but would most definitely be delivered by private actors. The decision about the exact layout of the privatized sector fundamentally lies in the hands of the elected government officials. However, in many cases, there is also outside pressure on the government for more far-reaching reforms as will be later explained in Chapter 2.2.2..

2.2.1. Core ideas of NPM

This research is mainly based on the theoretical grounding of NPM so at this point, a critical understanding of the term New Public Management has to be provided. For this, this thesis will first introduce the general ideas and the history of NPM, followed by the description of core NPM-policies in general and in the electricity sector and will close the section with a brief summary of ongoing scientific debates about NPM and possible trade-offs and constraints.

As the term already indicates, where a *New Public Management* exists, there must have been an *Old Public Management*. Denhardt and Denhardt summarize that the Old Public Management was about “direct delivery of services” by government agencies; elected officials designed and implemented “policies focused on a single, politically defined objective” and supervised the public administrators that worked in “hierarchical organizations” with “limited discretion” (2015: 10). Furthermore, they emphasize that the Old Public Management is still serving the public today and should be regarded as a helpful tool to deal with manifold issues and despite the name, it is not outdated. However, since the 1980s, this approach is challenged by the New Public Management that is an almost hegemonic normative doctrine (Frederickson et al., 2016: 113) and a set of scientific theories about Public Administration. Simultaneously, NPM is a theory about the relationship between citizen/clients/customers and their government and administration and a guideline for organizing macro-economic processes. Besides these macro-economic NPM implementations, NPM is also used inside the public service, in reorganizing the civil service with special regard to cost-effectiveness. However, this thesis is mainly focused on the macro-economic NPM usage and will therefore disregard the other applications with the shared name.

The fundamental idea behind the NPM-approach is to lend ideas from the business administration and apply them in the context of public administration and governance (see Frederickson et al., 2016: 95f) for improved “efficiency, economy and effectiveness” (Larbi, 1999: 2). It is generally accepted that private entities have a competitive advantage over public bureaucracy in terms of efficiency. The concept was first introduced and used in Anglo-Saxon countries with the implementation of reform programs in “New Zealand, Australia, Great Britain and the United States” (Denhardt and Denhardt, 2015: 13). Well-known reform programs were drafted and implemented under Prime Minister Thatcher in the United Kingdom and under President Reagan (“New Deal”, see Verkuil, 2007: 79) in the United States, both policy programs were “antibureaucratic” (Frederickson et al., 2016: 34) and intended “to reduce the size of the state”

(Denhardt and Denhardt, 2015: 14), a process with the fundamental goal of a “small government”. Ronald Reagan expressed this view in his first inauguration speech in 1981 when he said about the by that time on-going economic crisis and the governmental responses: “Government is not the solution to our problem; government is the problem” (Reagan, 1981). Furthermore, not only conservative politicians implement NPM-policies as proven by the policies of the Democratic President Bill Clinton in the US and the Labour Prime Minister Tony Blair in the United Kingdom. President Clinton and his Vice-President Gore launched an initiative for an administration that “works better and costs less” (Denhardt and Denhardt, 2015: 17). This “more with less”-concept (2000: 2) is for Donald Kettl one of the core characteristics of NPM-policies, the others being “Marketization, Service Orientation, Decentralization and Accountability” (Frederickson et al., 2016: 229). In practice, these reforms are supposed to produce “cleaner, more efficient, and more professional government” (Frederickson et al., 2016: 113) but in contrast to their goal, they might also extend the size and costs of the government.

From the Anglo-Saxon starting point, NPM spread to Continental Europe and also to developing and more unstable regions of the world, promoted by change agents like consulting firms (e.g. McKinsey), the Organization for Economic Co-operation and Development (OECD), (see Frederickson et al., 2016: 112) and the IMF’s and the World Bank’s structural adjustment programs in the 1980-1990s’ (see Larbi, 1999: 5).

2.2.2. Washington Consensus

In 1989, John Williamson presented a paper on a conference of the Institute for International Economics, discussing the needed reforms in Latin America, from the viewpoint of the US-administration and the Bretton-Woods^x finance institutes that have their headquarters in Washington, D.C.. He therefore labelled his policy program the “Washington Consensus” which consisted of ten policies that “were desirable in just about all the Latin American countries” (Williamson, 2005: 196). This consensus contained policy recommendations concerned with the austerity of the countries and the openness of their markets for foreign investment. Williamson intended his consensus for the limited scope of Latin American countries, but soon other regional and international organizations adopted it and the consensus spilled over to other regions. Some policy advisers and researchers even go so far to call these policy recommendations “the ten commandments” (Williamson, 2005: 205) that would inevitably lead to economic growth all around the world. This optimism can be well explained by the historical context and the *Zeitgeist*, with the end of the Cold War, the *victory* of the neoliberal agenda of President Reagan,

and the hope for the “end of history” (Fukuyama, 1993). However, the development in most Latin American countries rejects the notion that the Washington Consensus is the universal cure for a wide range of economic issues, because the economies mainly stagnated and did not progress as expected. This leads advocates and doubters to the conclusion that the reforms did not work as intended but the two groups differ in the learned lesson and needed adoptions (see Rodrik, 2006: 973).

The policy recommendations of the Washington Consensus were often a major part of the conditions of the IMF and the World Bank for aid allocation, especially at the time when the focus of the donors was on economic growth as the main indicator for aid effectiveness; this focus shifted in the last decades to poverty reduction (see Morrissey, 2004: 154). In this instance, the World Bank can be understood both as a “bank” and as a “development agency” (Hopkins, Powell, Roy and Gilbert, 1997: 508). Moreover, the World Bank is coordinating its actions with the IMF to create a “coherent set of actions to promote economic development and poverty reduction” (Pineau, 2002: 1003). In addition to direct lending, the World Bank is also a broker between countries to connect donors and developing countries. Since the 1980s, lending of capital and aid allocation to developing countries is increasingly bound to policy reforms and the pledge to move towards “good governance” (Nanda, 2006: 269), an instrument the World Bank calls “conditionality” (see World Bank, 2005). The “good governance”-approach was established by Burnside and Dollar in 2000. They conclude in a highly influential article that the positive effect of foreign investments and aid on economic growth is highly dependent on “good policies” in the receiving countries and therefore aid allocation should be stronger bound to such “good policies” (see Burnside and Dollar, 2000). The result is that NPM-policies like privatization are not limited in their regional scope to Latin America but according to Morrissey got extended into other regions, for example Sub-Saharan Africa (2004: 155). In Lebanon, the World Bank, inter alia, was highly involved in the financing of the reconstruction after the Civil War and provided over 100 Million US-Dollar in the form of Grants and Loans in the period from 1992 to 2009 (see Hasbani, 2011: 9).

After explaining how the Washington Consensus spread the political ideas of NPM from Anglo-Saxon countries to developing countries, the next section will focus on the various policy and management reforms that are included in the concept of NPM.

2.2.3. NPM in practice

One of the most widely used NPM-approaches is “Managing by Contract”, sometimes referred to as “contracting out” (Frederickson et al. 2016: 119). Contracting out means that public services are not delivered directly from agencies that are owned, financed and operated by the local or national government but through contracts with profit-seeking enterprises. For Donahue, the key for a successful privatization is a well-run and evaluated contracting and procurement process. He names four key criteria. First, the content of the contract (“what needs to be done”) can be described precisely before the negotiations. Second, the goals and results can be measured and therefore evaluated. Third, if the contractor fails to deliver the goods or services in the expected quantity or quality, the company can be penalized and fourth, the contractor can be substituted by another tenderer (see Donahue, 1989: 79f). In practice, cases that fit all these requirements are rare, but the work of Donahue still provides a good starting point to analyze procurement processes. As a rule of thumb, large infrastructure projects have a tendency to fit these requirements (see Frederickson, 2016: 120). Kettl summarizes these requirements on the procurement process with the demand that governments need to be “smart buyers” (Kettl, 2002: 495). The findings of Donahue and Kettl point to an existing research gap. While there is plenty of research on the question how the procurement process should be organized, the requirements for the administration to actively manage this process remain unknown.

Besides contracting out, another form of privatization has become popular in recent years. This form is called “Public-Private-Partnerships” (PPP) and it involves public agencies forming networks with private actors to jointly provide public services (see Frederickson et al., 2016: 234).

A long-term consequence of these types of managing government affairs is that the administration might be incentivized and encouraged to cut costs which leads to a situation where fewer government officials have to manage an increasing number of contracts and thereby might loosen public control over the contracts. The oversight might get “gradually being hollowed out” and the government might fail to provide “for effective contract management” (Frederickson et al., 2016: 120). It becomes also apparent that NPM diminishes “the traditional roles and responsibilities of elected officials” (Frederickson et al., 2016: 231). While they are still expected to define durable strategies for their country, they are no longer the solely powerful actor on the political stage. Additionally, NPM-inspired forms of government have to deal with unclear responsibilities and thus decreasing political accountability. While in the Old Public Management, it was clear who was in charge as the principal and who had to deliver goods and

services as the agent, in NPM with hybrid forms and PPPs these lines are increasingly blurred (see Frederickson et al., 2016: 240).

This issue is even more severe in developing countries where the oversight and administration capacity of the government is generally lower than in developed states. With such effects, it comes as no surprise that not all privatization attempts have worked and that NPM-approaches could produce unintended side-effects. Especially the relationship between state-legitimacy, democratic responsiveness and NPM-policies in fragile and developing environments should be considered here (see Junjan and Torenlid, 2016: 321) because the shrinking influence of the elected officials and the civil servants might lead to a decreasing trust in the government. Furthermore, some researchers point out that NPM even under perfect circumstances and with no flaws in the process still has “trade-offs, balances, limits, dilemmas, contradictions, and paradoxes” (Pollitt and Bouckaert, 2017: 186). These dilemmas have to be balanced and decided in a political process with the assessment of various options on a spectrum, for example between improving the quality of public service and budget cuts or between improving organizational liability and improving effectiveness (see Pollitt and Bouckaert, 2017: 191). In contrast to the claim of superior efficiency of private service delivery, Donahue is convinced that private enterprises are not always the better public-service providers (1989: 215) because in some circumstances or in some sectors, there are legit reasons why public-service could be better provided in a regulated state-run monopoly than in a competitive market.

Concerning developing countries and fragile states, according to Brinkerhoff “capacity development” has to be accomplished before governments should attempt to privatize public services. Administrative capacity generally means the ability of the public administration to plan and execute the demanded tasks and services, for example in the public service delivery either directly through public entities or indirectly through contract management. Brinkerhoff also raises the question who is actually in charge of NPM-reforms, because he found that “donors, international and regional organisations and the neighbours of troubled states” (Brinkerhoff, 2010: 66) are involved in the capacity building and privatization processes which might undercut state sovereignty. As seen above, the World Bank is an international organization that is promoting reform programs and through instruments like conditional lending they also have the leverage to force countries into compliance. Studying war-torn countries like Timor-Leste, Afghanistan, Sierra Leone or Liberia, Brinkerhoff dismisses the idea that such countries could be easily helped by introducing private service delivery because the government lacks the necessary administrative capacity for such reforms and reforms introduced by outside actors

(NGOs and IGOs) could disrupt the needed state-building process. For long-term success, state-building through the development of a stable administrative capacity is more important than quickly delivered results by NGOs and private enterprises.

After introducing these general NPM-approaches, the next two subchapters will present how NPM-policies are intended to work in the electricity sector and how past implementations in other countries were done and evaluated.

2.2.4. NPM for the electricity sector

By analyzing the reform processes in the United Kingdom, De Oliveira and MacKerron provide a set of policy recommendations for developing countries and their electricity sectors. These recommendations are based on neo-liberal NPM-theories and give an outline of the World Bank's approach to this sector. Before discussing De Oliveira and MacKerron's analysis in detail, it should be considered that their work is now more than 25 years old and their and comparable work are under constant scrutiny of critics of NPM-approaches and even the World Bank has shifted away from some positions since the 1990s (see World Bank, 2016).

De Oliveira and MacKerron identify three major problems for the supply side of the electricity sector in developing countries: "Centralization and excessive size [...] monopoly position [...] and public ownership" (1992: 157). According to them, centralization can lead to inflexible structures, monopolies to exploitations of the market position and public ownership to excessive political control. They also stress that the electricity tariffs often do not reflect the actual economic costs of electricity because "social and political considerations led many governments in developing countries to reduce the impact of rising electricity prices on consumers" (1992: 154) and to increase the output legitimacy of the government. Together with problems caused by currency speculations and increasing fuel prices this leads to a situation of indebted service providers and governments and generally a malfunctioning power service delivery, both in access and amount of electricity provided. At the same time, demand is growing rapidly in developing countries (see 1992: 155). De Oliveira and MacKerron conclude that for a substantial and sustainable improvement "international capital and technology" (1992: 155) is needed. Their solution for the abovementioned set of issues has three main components; "institutional change", "financial arrangements" and "management review" (1992: 156 f.). Institutional change would include all arrangements that take the control over the electricity sector away from elected officials and hand it to technocrats, although they also observe that a certain

amount of political control will unalterably remain necessary. This trade-off is also described by Pollitt, van Thiel and Homburg who see an unresolvable goal conflict between “Increase (political) control of bureaucracy versus free managers to manage” (Pollitt et al., 2007: 7; also see Pollitt and Bouckaert, 2017: 191). Reforms of the financial arrangements would include that electricity tariffs would reflect the actual economic costs and an effective cut of government subsidies. Furthermore, they estimate a growing need for private capital because of a decline in foreign governmental development aid for developing countries provided by bilateral agreements and multilateral organisations like the World Bank. The management of electricity companies in developing countries should put more emphasis on “maintenance, rehabilitation and distribution” (De Oliveira and MacKerron, 1992: 157). According to them, the overall goal of the World Bank and bilateral donors should be to enhance competition on the electricity markets in developing countries and to foster private investment in the sector, or in their words: “privatization, competition and the consolidation of existing activities” (1992: 153). The analysis of De Oliveira and MacKerron also reflects the way NPM developed. They start their study at the privatization of the electricity sector in the United Kingdom and transfer their findings to developing countries, the same way NPM started in Anglo-Saxon countries and got transferred to developing nations. Additionally, De Oliveira and MacKerron also reflect a change in policy recommendation patterns that Rodrik identifies: “ ‘Governance reforms’ have become the buzzword for bilateral donors and multilateral institutions, in much the same way that liberalization, privatization, and stabilization were the mantras of the 1980s” (Rodrik, 2008: 100). He also makes clear, that such reform recommendations are normally regarded as universally applicable. However, the confrontation with reality normally proves this view wrong and the call for textbook approaches limits the possible “institutional choices available to reformers” in developing countries (2008: 100).

2.2.5. NPM in developing countries

A draft how such a reform package could look like in a developing country can be observed in Cameroon. Because of a financial crisis due to price drops in major export goods, IMF and World Bank ordered the government of Cameroon to introduce a reform for their electricity system. IMF and World Bank had the leverage for such an invasive step because they were the “main lenders to Cameroon along with France, Germany and other European Union (EU) countries” (Pineau, 2002: 1002). The broad reform program proposed by World Bank and IMF which was later accepted and passed by the Cameroonian government included promoting the private sector “through a reduction of the involvement of the Government in the economy and

market deregulation” (2002: 1003) and generally increasing efficiency and productivity through privatizing public service delivery companies. A main obstacle for the successful implementation of these reforms was a “high level of corruption within the ministries and the public companies” (2002: 1003). In the electricity sector, the reform’s objective was to “stimulating investments; developing competition and efficiency; and decreasing prices” (2002: 1004) which fits well the reforms advised by De Oliveira and MacKerron. Also, other proposals of them were included in the reforms. The Cameroonian government created a “Electricity Regulatory Agency” (2002: 1004) to limit the direct political control over the industry.

Although the Cameroonian government followed the reform advices of the World Bank and IMF very closely, Pineau remains skeptically whether these reforms are the best suited solution for Cameroon, while the long-term effects still need to be evaluated. For the course of this research, Pineau’s conclusion is even without the long-term evaluation relevant, because he identifies three flaws of the NPM-reforms in Cameroon. First, he observes the issue that the newly created regulatory body (the “Electricity Regulatory Agency”) will not be fully functional for some years, so in this time the privatized electricity company might exploit its monopolistic market position (see 2002: 1011). This is connected to the next issue that the reform did not include a disentanglement of the different sectors of the electricity sector (generation, transmission and distribution) which is called the vertical unbundling. In contrast, horizontal unbundling means to split up one sector in different competitive companies. According to him, “a horizontal unbundling would be essential to introduce competition in generation” (2002: 1005), with competition being the key for actual decreases in prices and increases in quantity and quality of service. At last, he questions generally, how effective privatizations of developing electricity sectors can be, because in the developed world, the electricity systems were first fully developed and built by public organisations and eventually only later privatized. In his opinion, electricity privatization might do more damage than it benefits developing country through improved efficiency.

In a meta-study from 2008 about the effects of privatization, competition and regulation on the electricity sector in developing states, Zhang, Parker and Kirkpatrick conclude that neither a good regulation nor a privatization alone can increase the productivity of the electricity sector significantly. It is the combination of a well-run oversight agency and privatization that produces promising results, although competition is far more important for an improved performance (see Zhang, Parker and Kirkpatrick, 2008: 173f). Thus, the observation of De Oliveira

and MacKerron can be confirmed that monopolies are a major obstacle for progress in the electricity sector (see 1992: 157).

That developing environments are not well-suited for broad reforms is the opinion of Rodrik. Generally, he suggests that a country might have more benefits from implementing reforms that work under the specific circumstance than to implement reforms directly from best-practice examples. He calls this approach “second-best institutions” (Rodrik, 2008: 100). The call for best-practice or “governance reforms” is normally externally articulated for example by “bilateral donors and multilateral institutions” (2008: 100) promoting the concept of good governance. On the one hand, the call for governance reforms is a reasonable idea in the attempt to promote development; on the other hand, the simple transfer from functioning institutional outlines from developed environments to developing countries is likely to fail. At some level, governance reforms will be inevitable, because “markets are unlikely to work well in the absence of a predictable and legitimate set of rules that support economic activity” (2008: 100). Furthermore, he describes that “desirable institutions provide security of property rights, enforce contracts, stimulate entrepreneurship, foster integration in the world economy, maintain macroeconomic stability, manage risk-taking by financial intermediaries, supply social insurance and safety nets, and enhance voice and accountability.” However, as mentioned earlier, such reforms bring along undesirable and/or unpredictable side-effects and the implementation normally involves deciding between a broad range of conflicting goals. Still, Rodrik also recognizes the need for reforms in various sectors in developing countries to enhance their economic and social development. In particular, he emphasizes focus on the judiciary. As in the other sectors, also in this one, there is no one-fits-all solution and it should be observed first, whether a weak judiciary and court system is an obstacle for economic development (see 2008: 101). Generally, Rodrik is in favor of incremental reform steps, in the judiciary he suggests that “early efforts at reforming formal contract enforcement institutions should focus on specific categories of firms” (2008: 101), for example companies from abroad. Later on, these reforms can get extended to other companies and sectors.

Rodrik also formulates a more general critique of the neoliberal agenda of free-trade and open markets. He points out that the economic success of countries like Taiwan and South Korea did not follow the World Trade Organization (WTO) textbook approaches of “eliminating quantitative restrictions and other administrative measures on trade and by lowering [...] import tariffs” (2008: 102). Taiwan and South Korea used subsidies on non-traditional export goods as their tool for economic success, while other countries like Malaysia, Thailand and Mauritius

achieved good economic development by creating “export-processing zones” (2008: 102). Simultaneously, none of the above-mentioned countries did actually lower their import tariffs or restructured their administrative system, while countries that had to do so because of conditional lending restrictions did not progress as well. However, in all these cases, a wide range of contextual variables outside the policy realm influence the economic development as well so that the actual impact of certain policies can only be roughly estimated.

2.2.6. Scientific debates about NPM

The scientific debate whether NPM reforms should be promoted in developing countries is currently still ongoing. This debate proves to be difficult because of the wide range of instruments that might or might not be labelled NPM and the various context and outcome variables that could potentially be used to estimate the success of such policy reforms. An example for such a scientific debate is provided by Dan and Pollitt’s meta-study about NPM-instruments in Central and Eastern Europe (CEE) (2015) and the following reply and criticism by Drechsler and Randma-Liiv (2016). Although, it is exactly the question of generalization of results that is core of the debate, some of the results from CEE of Dan and Pollitt should be at least considered to be used in the case of Lebanon. Their base for the research is a knowledge gap about the “conditions under which NPM instruments may or may not ‘work’” (2015: 1306), a question that is also essential for this thesis. Based on other research, they emphasize that NPM is not a tool for state/capacity/institution building but rather for reforms of existing and working public administrations and the success of such reforms is highly reliant upon the right contextual circumstances. Dan and Pollitt present a wide range of determinants including “underdeveloped competitive markets, developing democratic institutions and citizen accountability, the quality of the state of law, corruption, territorial fragmentation and lack of sufficient administrative capacity to design, implement, monitor and evaluate policy” (2015: 1307). However, also they are not able to determine which of these characteristics or which combination is finally decisive about success or failure of NPM-reforms. They then analyze 32 studies from various CEE-countries and group them in seven categories from “NPM reforms do not work regardless of administrative capacity and type of context” to “NPM reforms usually or always work”. Furthermore, their categories include also the various obstacles that might hamper NPM-reform success, including “insufficient administrative capacity” and “unfitting context” (2015: 1311). The wide range between these possibilities is also a good indicator for the ongoing debate, where some researchers would claim that NPM is inherently flawed and is therefore not able to produce any good results regardless of the context, while others see NPM as the main tool for

successful reforms and development. This fact is well reflected throughout their discussion of the theoretical framework, as well as in this theory section. On base of the 32 studies, Dan and Pollitt conclude that certain NPM-reforms can work in CEE and can provide “improvements in the organization or delivery of public services across the region” (2015: 1316).

Drechsler and Randma-Liiv answer directly to the meta-study of Dan and Pollitt and criticize certain methodological errors. Their points of criticism include that too many different and un-connected policies were considered to be NPM (Drechsler and Randma-Liiv, 2016: 1560). This has two direct implication, first, the conclusion that “NPM can and has worked” (Dan and Pollitt, 2015: 1316) is debatable because the NPM is not well-defined and second, this conclusion is too broad to have value as a recommendation for policy-makers. Drechsler and Randma-Liiv also argue that the categories used by Dan and Pollitt are ambiguous and misleading. The issue is that in all negative categories the negative effects must have already occurred while in the positive categories the effect might occur in the future (see Drechsler and Randma-Liiv, 2016: 1561). Drechsler and Randma-Liiv replicate the study and came to a completely different analysis and conclusion. Furthermore, they argue that the meta-study lacks cases from important CEE countries (they name Poland and Bulgaria that are not represented in Dan and Pollitt’s dataset) and also that the number of cases is too small to allow generalization for any circumstances (see 2016: 1562). According to Drechsler and Randma-Liiv, especially the recommendation of NPM for Least-developed countries is troubling, because they lack the needed administrative capacity for such reforms (see 2016: 1563). Overall, it can be concluded despite the question how accurate the analysis of Dan and Pollitt for CEE countries is, the transfer of the results to countries like Lebanon is questionable and the conclusion of Drechsler and Randma-Liiv that NPM-policies have to be applied carefully and context-related is more in line with the other discussed theoretical findings so far.

Additional scientific debates are about the question “whether the application of these principles is better government” (Frederickson et al., 2016: 113) and who benefits from these reforms. Larbi points out that the application of NPM often replaces the ability of a government to provide services to its citizens with “minimalist, economizing managerial standards” (Larbi, 1999: 33) focused on short-term success. Especially when NPM is implemented in fragile states in sectors of important infrastructure like public health, education, and energy, this can have severe consequences. Furthermore, NPM might contribute to the already growing issue of inequality (see Larbi, 1999: 34).

After giving a broad and detailed overview of the various aspects and debates surrounding the terms NPM and privatization, the next section will summarize the relevant aspects of all the above-mentioned theories and concepts and combine them in a conceptual framework.

2.3. Conceptual Framework

As seen, a wide range of literature exists on the topic of NPM and privatization. Still, no literature is perfectly fitting the context of Lebanon. As a reminder, the first sub-question of the research question was about the institutional conditions for functioning privatization policies in the electricity sector according to the NPM-theories. The hope of authors like Williamson was that almost no preconditions have to be fulfilled and therefore, NPM is universally applicable. With an increasing amount of implementation examples, this hope ceased to exist. This conceptual framework attempts to create a set of preconditions that fit the context of Lebanon by combining the research from various backgrounds. It incorporates the classic NPM-literature from the Anglo-Saxon background, NPM-implementations in Central and East Europe, and Sub-Saharan Africa, and theories about failed and war-torn states in a comprehensive framework. Additional insight will be provided by theories about general policy implementation and the wide range of criticism and potential downsides of NPM.

The categories created by Dan and Pollitt in 2015 provide a first indication how to check the policy reform attempts in Lebanon. Setting aside the category that NPM-reforms cannot work at all and considering the fact that the Lebanese government was not able to produce successful reforms in the electricity sector in the last 15 years, it becomes apparent that at some point in the reform process either the policy itself or the context obstructed a successful reform (see Dan and Pollitt, 2015: 1311). For the course of this research, the second possibility is of higher importance. The Lebanese government followed the advice of the World Bank when drafting the Law No. 462 (see Torbey, 2016: 5), so it can be taken for granted that the content of the law followed the textbook approach commonly accepted by the donor community at that time.

To answer the question, whether NPM-reforms like privatizations could improve the electricity generation facilities in Lebanon, every (governmental) reform plan has to fulfill some requirements. The first question is about the specific nature of the electricity sector. Can the reform plans be implemented and executed in a way that provides the benefits of the increased efficiency and market competition while ensuring a certain level of political control and service

quality? Especially, the procurement process is for this question from utmost importance. Summarized, the question is whether the government can be a “smart buyer” (Kettl, 2002: 495) in this field.

One of the other main question is whether the institutional context and the public administration are prepared for the tasks that come along with privatization processes. These two questions are in practice also intertwined, as will be explained in the following section.

The requirements for a workable and sustainable procurement process are described by Donahue (see Chapter 2.2.3). Following his advice, every government proposal for privatizations has to be checked whether the question “what needs to be done?” can be specified precisely before the contracting process; whether the outcomes can be well measured; whether the contractor can be penalized for non-compliance and whether other competitors could theoretically substitute a failing service delivery company (see Donahue, 1989: 79f.). Realistically, this is rarely the case and therefore, the task for the government is to create a certain amount of competition on the market to be able to “get the best product at the best price” while preserving or creating the ability for a “effective contract management” (Frederickson et al., 2016: 120). The observation that competition is more important for a well-functioning electricity sector than regulation and privatization is also shared by Zhang, Parker and Kirkpatrick (2008: 173f). It is also important that the regulatory agency that provides the oversight is political independent. De Oliveira and MacKerron observe that excessive political control is a major weakness of the electricity sector in developing countries (1992: 157). However, this independence has to be balanced with the need for accountability (see Pollitt and Bouckaert, 2017: 186).

As shown in Chapter 2.2.1, NPM-theorists like Williamson claimed that the ideas of market liberalization and privatization are (almost) universally applicable. However, already the first application of the Washington Consensus in the 1990s in Latin America proved this notion wrong because the implementation of the policy advices from Williamson did not produce the intended results. With the high scrutiny through conditional lending, it is safe to assume that the advices were implemented as suggested by the World Bank. Hence, the differing results cannot be explained by the poor quality of the drafted bills. It should be noted that there is no indication in the studied literature that the World Bank evaluates the implementation of the through conditional-lending imposed policies.

Teisman and van Buuren strongly reject the idea of linear and predicable implementation trajectories and emphasize that besides the content also the specific context has an important role (see Teisman and van Buuren 2007: 182) This view is strongly opposing the Washington

Consensus that was supposed to be universally applicable and argues for a more complex approach to NPM-implementation.

Other sources emphasize that the specific institutional context, quality and set-up play a decisive role. Donahue expresses this finding with his statement: “A culture’s capacity to get things done depends greatly on the quality of the institutions it develops to allow people to delegate tasks to others, or to undertake tasks for others, without fear of exploitation.” (Donahue, 1989: 39).

The main question still is, what characteristics of the institutional context produce a good environment for NPM-reforms?

After extensive literature review, it has become apparent that there is not an easy answer to this question which heavily contradicts the ideas of the Washington Consensus and Williamson. Also, some of the answers could be contradicting to each other or as Pollitt and Bouckaert point out, they might include “Trade-offs, balances, limits, dilemmas, contradictions, and paradoxes” (2017: 186). These trade-offs and dilemmas could mean that certain objectives are incompatible. To give two examples, they name “Increase political control of the bureaucracy/free managers to manage/empower service consumers” and “give priority to making savings/improving public service quality” (2017: 191). This implicates that governments have to make political decisions which of the conflicting objectives ought to be prioritized.

That the context of the country has to be considered before implementing reforms was also realized by the World Bank. Therefore, they began to create Partnership Frameworks that include indicators like “sociopolitical and institutional factors” and “government program and medium-term strategy” (see World Bank, 2016: ii) and generally brought more focus to the specific context.

This context is made up from a wide range of characteristics. For every business and investment external and internal stability and security is vital. This is especially true in the electricity generation sector because large power plants are long term investments that need time to produce profits. While a government can subsidize public service delivery that is not profitable to ensure the ongoing business, multinational energy companies and banks that are the most likely investors in energy sectors in developing countries (see Bernier, 2018) have to produce profits for their shareholders and need at least the prospect of long-term profits. Investors will differentiate between one-time payments for the construction of power plants and on-going costs for the operation. As a rule of thumb, it can be said that the construction costs are higher for renewable

energy (like hydro and solar energy) but they later cost less because of very low (if any) fuel costs (see Dagher and Ruble, 2011: 4319).

In fragile states, internal and external stability and security are endangered by several threats. While very limited actions are possible concerning external threats, institutional answers to internal threats exist. Most commonly, these answers are best-practices that were developed and successfully applied in developed countries. However, Rodrik points out that the well-tested solutions from Anglo-Saxon countries do not necessarily work in developing and fragile states. Hence, Rodrik calls for the use of “second-best institutions” instead of “best-practice institutions” (2008:100). His finding is that in fragile contexts the known approaches might do more harm than provide benefits. One example is the judiciary system. There is no doubt that a weak and unreliable courts system produces uncertainty and mistrust for citizens and companies. This leads directly to the issue of lacking contract enforcement. However, Rodrik notes that in most developing countries, companies and consumers started to use substitutions for the weak courts, for example “relational contracting” (2008: 101). Still, it seems safe to assume that a strengthened and reliable judiciary would increase the potential for long-term investments of (foreign) companies because it decreases the risks for them. Well-working courts and the reliable enforcement of the law would also directly benefit the already existing private companies because it removes uncertainties, for example concerning property rights and the threat of nationalization or socialization. A predictable, strong, and reliable judiciary would grant an easier access for foreign companies to the markets of the developing countries.

It is also clear that the civil service of a society has to change to provide a functioning framework for privatized public service delivery. In the classic Public Administration, the objective of the civil service was to provide public services directly to the citizens (see Chapter 2.2.1.). Thus, the employees of public service delivery companies were basically managers in a normally monopolistic environment and in many cases unproductive and inefficient. After privatization, contracting out, and the enforcement of competition in these sectors, the objective of the civil service is mainly to manage the contracts with profit-seeking service providers, manage the tendering and procurement processes, and enforce antitrust laws. “The day-to-day direction of activities, contacts with clients or customers, the organization of work, and the supervision and motivation of workers” (Frederickson et al., 2016: 121) gets transferred away from the civil service to private companies while the oversight duties remain with the public administration. A very common feature of NPM-reforms is to move the public administration towards “lean and highly decentralized structures” (Pollitt et al., 2007: 5) which often means to

decrease the size of the administration. This is what happened at the very beginning of the NPM-reforms in the Anglo-Saxon contexts. This often means in practice that the oversight gradually decreases which results in a decrease of “effective contract management” (Frederickson et al., 2016: 120). This also means that the overall administrative capacity decreases. According to Brinkerhoff though, this very capacity is important for the successful development (see 2010: 67). Also, Drechsler and Randma-Liiv state that the administrative capacity is needed for successful NPM-implementations (2016: 1563).

In the basic principal-agent theory (see Frederickson et al. 2016: 35ff.), the cuts in the civil service could be simply ordered by the political principals. However, depending on the context, the civil servants and other workers in the public administration might also have influence on the political principals. Therefore, they would try to deter such reforms from following their intended implementation trajectories. This leads to the conclusion that the more power the civil service has compared to the political principals, the harder it is to implement NPM-reforms. Another conclusion is, that the political will for reforms has to come from all entities involved, including the parliament as the political stakeholder, the EDL as the operating company and the MEW as the current oversight administration. Additional stakeholders are the customers, potential investors, and in the special case of the Lebanon the operators of private small scale off-grid diesel generators (see Sydow, 2018a).

The conclusion that all stakeholders have to be included in the implementation process leads directly to the theory of Matland about policy implementation. His theory is that the trajectory of a policy implementation is dependent on the two categories “Policy conflict” and “Policy ambiguity” (Matland, 1995: 160). Most likely, the reform of the electricity sector in Lebanon has a high policy conflict, because of the high number of stakeholders involved and the already existing tensions between them. The ambiguity could be either low or high, depending on the political will and whether ambiguity is used to decrease the policy conflict. This would lead either to a “political implementation” or a “symbolic implementation” (Matland, 1995: 168). For the political implementation, Matland notes that “implementation outcomes are decided by power” (Matland, 1995: 163), while for the symbolic implementation different professions will try to implement the policy in their favor by exploiting the vagueness of the policy.

For the political implementation and to a lesser extent for the symbolic implementation, the following points should be kept in mind. Either one group of actors is able to order other stakeholders into compliance or the groups have to seek a compromise. This means that obedience is not automatically achieved because the agencies involved might control essential resources

or information or might follow also conflicting orders of other principals. Overall, it can be noted that “the greater the implementer's authority to require agent action, the more likely it is that agents will comply with the principal's requests” (Matland, 1995: 164) and that the possibility of a successful implementation in case of privatizations increases with a well-run procurement process.

Besides these theoretical findings, important lessons can also be learned from other countries. Although it is debatable how far the results from such cases can be generalized and transferred this thesis will draw some conclusions from former studies.

A major hindering factor is identified by Pineau in his study about the reforms of the electricity sector in Cameroon: “The high level of corruption within the ministries and the public companies makes any structural change very hard to implement” (Pineau, 2002: 1003). Corruption impacts the process in two ways, first because it weakens the administrative capacity of a society and second because it impacts the effective contract management and lawful enforcement of contracts. Lebanon is a country that is impacted by a high level of corruption (see Transparency International, 2018). Pineau also emphasizes the necessity for vertical and even more important horizontal unbundling of and within the sectors. According to him, horizontal unbundling of the generation sector is very important to increase the competition, especially when no effective regulatory agency is established (see Pineau, 2002: 1005).

Drechsler and Randma-Liiv advise to be careful with promoting NPM-reforms in developing countries because it cannot fully be guaranteed that these reforms can work in these contexts.

As shown in this conceptual framework, the question of the fitting conditions for NPM-policy implementation are complex and diverse. Easy answers basically do not exist. To answer the first sub-question of this research, it can be summarized that the administrative capacity is one of the most important factors for functioning privatization policies. The capacity improves the ability of the government to regulate the sector, enforce competition and anti-trust laws, and provide the necessary contract management. Furthermore, a predictable and reliable judiciary branch would increase the potential for foreign investments that are also hampered by a strained security situation. Generally, it is more important that the institutions function as intended than to implement textbook best-practice solution that do not fit the context. In the case of electricity privatization in Lebanon, it is important that all stakeholders are involved in the drafting and implementation process, that these actors share the common goal of an enhanced service delivery, and that there is a consensus with which means this goal should be achieved.

After answering the first sub-question in this conceptual framework, the researcher will present the used methodology in the next chapter which will be used to analyze the case of Lebanon.

3. Methodology

The following chapter will provide a suitable and workable guideline for the methodology used to analyze the institutional context and the electricity sector of Lebanon which will provide answers to the research question. First, the research design will be introduced, then the case selection and data collection explained, and at last, this chapter will provide insights on possible limits and constraints of the used methodological approach.

3.1. Research Design

To answer the research question, this thesis will use a longitudinal research design. Since the underlying question is which contextual variables influence the implementation success of privatization reforms in Lebanon, a longitudinal research is the natural selection. Ployhart and Vandenberg explain that this research design provides a deeper understanding for the question when to “expect certain outcomes given certain inputs” (2010: 96). This research attempts to examine why certain policies or policy plans did not have a successful implementation process and thus did not produce the intended results. Furthermore, Ployhart and Vandenberg state that “descriptive longitudinal research seeks to illustrate how a phenomenon changes over time” (2010: 99).

Instead of a classic causal-process observation, the research method used here will be Process Tracing, a “strategy of qualitative analysis” (Collier, 2008: 828). The key for a well-executed process tracing is the accurate observation of the same situation at different points in time (see Collier, 2008: 824) which enables the researcher to describe underlying processes in the given timeframe and “the form of change” and whether it is “linear or nonlinear” (Ployhart and Vandenberg, 2010: 99). In this thesis, the timeframe will be from 2002 onwards. This selection occurs natural because in 2002 the Lebanese Parliament passed the Law No. 462 that was designed to enable the privatization of the electricity sector. Over the years, the government passed various amendments to Law No. 462 (see Torbey, 2016) and published policy papers (see Ibrahim et al., 2013). Each of these events can be considered as another point of observation.

3.2. Case selection

Being a case study, the case selection is highly important. Blatter and Haverland have identified “accessibility” as the “overarching criteria for selecting cases” (2012: 102). The researcher has access to the major legislative documents and to some of the used policy papers. For the

documents which were not accessible, secondary data exists, for example Torbey, 2016 in the cases of the amendments to the legislation, and Ibrahim et al., 2013 in the cases of the inaccessible policy papers. Thus, the case Lebanon is overall satisfying this criterion although the data limitations in terms of legislation and policy papers is not ideal. As another criterion, Blatter and Haverland highlight that “practical relevance and social importance” (2012: 102) are well-suited arguments for a case selection in a small-N study. The case of Lebanon might provide new insights to the general question under which circumstances NPM-approaches are suitable and provide benefits for societies (also see Chapter 1.2.).

Lebanon is a deviant case which may be used to “disconfirm a deterministic argument” (Seawright and Gerring, 2008: 297). Deviant cases are selected based on a general understanding of the topic, the case, and the underlying theories. Based on these prerequisites the deviant case produces “a surprising value” (Seawright and Gerring, 2008: 302). In contrast to extreme cases that are identified by an outlying value for a specific variable, deviant cases are more generally different in contrast to other cases. By studying deviant cases, the desire is to find new explanatory factors and causal relationships that might also indicate how other cases function. In the context of this research, the desire is also to find out why the alleged universally applicable NPM-reforms failed in the case of Lebanon and what the answer to this question can tell theorists and practitioner about the application of NPM in other contexts. Focusing on a deviant case raises by design the question of “representativeness” (Seawright and Gerring, 2008: 303). Since this thesis is not aiming to provide a general model for NPM-reforms and therefore does not generalize results from Lebanon to other countries, this question should be a minor concern.

Studying the case of Lebanon can be understood as a first step towards a better understanding under which circumstances NPM-reforms can be applied for the benefit of the country in question. The case of Lebanon provides new insights because it combines characteristics from already studied cases in a unique way. Furthermore, this study might shed light on existing research gaps. These gaps mainly exist because most studies either focus on highly developed (often Anglo-Saxon) countries or on highly fragile cases. The wide range of intermediate cases have to be studied individually because they do not find such binary the categories.

As seen above, NPM-advocates argue that such reforms produce almost universally economic growth and improved service delivery. However, the case of Lebanon shows that legally adopting a NPM-reform is not enough to produce the intended results. Furthermore, the theory section of this thesis discussed studies from various contexts, including the Anglo-Saxon countries,

countries in Central and East Europe and the case of Cameroon in Sub-Saharan Africa and fragile post-war states.

From a scientific view, Lebanon is a unique case for several reasons. On the one hand, there is the special economic situation. Lebanon has a well-developed economy which is generally described as an open market (CIA World Factbook, 2018b). The economic success heavily relies on the banking sector which provides domestic capital for private investments. At the same time, the country has the 3rd highest foreign debt. The economic development is currently hampered by the lack of public service delivery which is not limited to the electricity sector. On the other hand, there is the political situation with an almost decade-long political gridlock. The political framework requires unanimous decision-making which is currently almost impossible. Additionally, the external security is constantly endangered. All these factors make Lebanon a fragile state which struggles politically but prospers economically.

3.3. Data Collection

The research was conducted fully as a desk research without expert or field interviews. Hence, it is based on secondary data. Taking the existing literature about the electricity sector and its reform process as the starting point, it became quickly apparent that the Law No. 462 is the main document that has to be analyzed. Beneficial for this research is the fact, that this law exists in the English language (unlike some other documents). Furthermore, there is already an extensive research concerning the implementation of this law and its amendments that can be used for the analysis (see Hasbani, 2011, see Torbey, 2016 and see Machnouk, El Housseini, Kateb and Stephan, 2017). Torbey also provides insights on the amendments of the law in the time from 2006 and 2014 (2016: 12). The researcher was unable to find these amendments, so this research relies on the analysis of Torbey and Machnouk et al. in this instance.

Besides legally adopted policies, another important source will be various policy papers that were published by the Ministry of Energy and Water in the timeframe from 2005 to 2010 and presentations of the MEW about the future strategy from 2017. All these papers have in common that they provide insights about the plans and the strategy of the Lebanese government which is facing massive problems in the electricity sector.

The data collection was conducted almost naturally by selecting the existing governmental documents about policy reforms and future plan in the electricity sector in Lebanon since 2002. Because of their small number, no documents had to be excluded.

3.4. Limits

Because of the used research design and the case selection certain limits cannot be avoided. This research is solely based on secondary and no expert or field interviews were conducted. This means that innerworkings and internal motivation for implementation and compliance with the legislation of key figures of the Ministry of Energy and Water or in the service delivery company EDL cannot fully be estimated. Furthermore, in some cases, the studied documents were not retrievable and thus this research is based on summarizes and interpretations of the documents. This issue of data access problem could be connected with the language barrier. The researcher is not able not speak or read Arabic. However, the website of the Ministry of Energy and Water and other potential sources are only available in Arabic. The website might contain some of the studied policy papers that were not retrievable. Additional sources were checked to find the missing policy papers but without success. It is also possible that these policy papers only exist in Arabic.

It should be kept in mind that the here used research design is not intended to produce results that could be transferred to other cases without adoptions. Such a generalization is not the aim of studying a deviant case like Lebanon (see Seawright and Gerring, 2008: 297). Still, a unique case like Lebanon can produce insights about the existing research gaps that were pointed out in Chapter 1.2. and throughout Chapter 2.2..

One might be wondering how a process-tracing can work in a case where the striking feature is that almost nothing happened over the past 15 years. However, the factors which lead to this situation of a stalemate are in this case from utmost relevance and will be studied here. In this context, it should be also noted that just because no implementation happened, this does not automatically mean that no processes were conducted.

Keeping the conceptual framework in mind, this methodology will be used to describe (Chapter 4) and analyze (Chapter 5) the presented documents.

4. Documents

As shown in Chapter 3.3., the documents analyzed in this thesis are the laws and their amendments, and policy and strategy paper published by official governmental sources. Some of the documents were not retrievable because they either do not exist in electronic form or only in Arabic. In this case, this research relies on secondary data, mainly studies and scientific reports and grey literature that summarize the content of the documents in question. The first step will be to provide an understanding of the existing legal framework, namely the Law No. 462 from 2002 and its amendments, the Law No. 775 from 2006, Law No. 288 from 2014 and its temporary extension, the Law No. 54 from 2015. Following up, the policy papers about the electricity sector from 2005, 2006, 2008 and 2010 will be described and as the last step, a range of governmental strategy papers will be presented. After a detailed description of all documents in this chapter, it will also be evaluated to what extent they were implemented and if not, what obstacles hindered the implementation in the next chapter.

4.1. Law No. 462 and its amendments

The Law No. 462, officially the “Law of Electricity Sector Organization” was published at the 5th September 2002. The process to introduce a new legislation in the electricity sector started 1998 and took several attempts and drafts till its passed version (see Hasbani, 2011: 22). The objective of the law was to disentangle the different electricity sectors, open them for private investments through public-private partnerships and privatization, and create an “independent electricity regulator” (Hasbani, 2011: 10, also see Torbey, 2016: 6).

Article 2 of Law No. 462 sets the scope as follows:

“This law sets up the rules and principles governing the Electricity sector, including the role of the Government in this sector as well as the rules and principles organizing it, and the basis of transferring the mentioned sector or its management, totally or partially to the Private Sector.”

Thus, the (partial) privatization of the electricity sector is the objective of this law. The hope was that privatized companies would improve the quality and quantity of service and relieve pressure from the government by decreasing the amount of subsidies. Generally, the plan was that after a decree of the Council of Ministers within two years after passing the legislation, the EDL would be split up into different companies, still owned by the Lebanese government. Afterwards, the government could decide to sell shares of these companies, initially a maximum of 40% to create strategic partnerships. After a transitional period, the government could decide

to sell also the rest of the shares to “an investor in the private sector enjoying the expertise, the specialization and reputation in the electricity sector” (Law No. 462: Art. 5a; see Torbey, 2016: 7f). In article 5a, the process of an “international tender” is mentioned as the process in which a suitable investor is chosen. However, the exact nature of this process is not described any further. As in other countries, the transmission sector will in any case remain publicly owned and controlled (Law No. 462: Art. 5c, also see Joskow and Tirole, 2000).

The other major plan of the Law No. 462 was to create an independent regulatory agency. The full name of this agency is “National Regulator for the Electricity Sector Organization” (Law No. 462: Art. 7), throughout the law it is referred to as the regulator.

The regulator was intended to have a wide range of tasks, including the organization and control over the whole electricity sector independently from the Ministry of Energy and Water, the ability to grant licenses to private enterprises to build power plants exceeding the current limits of 25 Megawatts, and publish and provide information about the budget and the status of the electricity sector. Still, this agency has not yet been established mainly because of political reasons (see Machnoug et al., 2017: 259). The law also provides mechanisms to limit the issue of corruption, because suspicious activities by the regulator are addressed in the law: “Preferential treatment and imposing uncodified restrictions on the provision of services is explicitly prohibited by Law 462” (Machnoug et al., 2017: 259, also see Article 19, Law No. 462). In Article 3, the independence of the sectors generation, transmission and distribution is emphasized in respect to functionality, administration, and finances.

Because of the limited implementation success of the Law No. 462, the Lebanese Government and parliament passed some amendments to this law in the following years. The first amendment was passed 2006. The major change included in Law No. 775 gave the Council of Ministers the ability to grant licenses and permits for private power plants, a task was originally designated for the independent regulatory agency (see Torbey, 2016: 12). The law contained a sunset-clause and expired after one year. A similar amendment was passed in 2014, the Law No. 288. This new law granted again the Council of Ministers the ability to give out licenses for a period of two years. It was extended in 2015 with the Law No. 54 until April 2018. Some minor steps towards private main-grid electricity generation were identified in this research. In March 2018, the MEW published a “Call for Expression of Interest (EOI) to Participate in Proposal Submissions to Build and Operate Hydroelectric Plants in Lebanon” (MEW, 2018: 1) and the opening of three windfarms in Akkar in 2017 with a capacity of 250 Megawatts (see Alieh,

2017). Clearly, this can only be a first step, but it is a sign that attempts towards more private power production are currently undertaken.

4.2. Policy Papers

The policy papers that will be discussed in this section were published in the time from 2005 to 2010. The first paper was written by Chafic Abi Said, a Former Director of Planning and Studies at EDL. Unlike the other policy papers, that will be discussed after this, it was not written and published by a government official but by an independent researcher. He created the document together with the Global Network on Energy for Sustainable Development. After carefully assessing the current economic situation of Lebanon and the especially the electricity sector, he provides a list of conclusions and recommendations. These recommendations include technical issues, for example the reduction of technical and non-technical losses in the transmission, and administrative issue, like collecting on all outstanding bills to increase the revenue of the EDL. In the political arena, Abi Said suggests that the government, the private sector, and the independent regulatory agency should perform their assigned task independent and without “unwarranted interference” especially from politicians (Abi Said, 2005: 16). He favors the Law No. 462 and emphasizes that its implementation would be substantial for success in the energy sector. Furthermore, he suggests that the “Electricity law” and the “Electricity regulatory body” should be widened in their scope and therefore be replaced by an “Energy law” and an “Energy regulatory body” (2005: 15).

Ibrahim et al. study different policy papers and provide a table and a description about the recommendations included in these papers. This analysis will focus on the recommendations linked to the generation sector and will leave out other recommendations concerned with transmission or distribution.

According to Ibrahim et al., the policy paper of Minister Alain Tabourian from 2008 is the least comprehensive paper among them. His plan contains the plan to “Rehabilitate or upgrade existing plants” and to “Diversify energy sources” by building new oil or gas power plants. Furthermore, he recommends installing additional (small-scale) generators as a short-term solution. Their summary of Tabourian’s policy paper is that it “mainly highlighted on the electricity generation issue” (Ibrahim et al., 2013: 271). For this research, this policy paper is only of minor interest because it has only limited content or recommendation about the privatization of electricity generation facilities.

In contrast, the 2006 published policy paper by Minister Mohammad Fneish and the 2010 policy paper of Minister Gebran Bassil are providing recommendations about privatization in the electricity sector. Apparently, the 2010 policy paper is based on the recommendations from 2006 (see Ibrahim et al. 2013: 271) which is not surprising because both politicians are coming from the same political block^{xi} (although they are members of different parties) (see Hasbani, 2011: 17).

Fneish recommends building new power plants, opening the market for private generation, and developing renewable energy sources. Furthermore, he stresses the importance of increasing the administrative capacity of the EDL and the MEW, and amending Law No. 462. Fneish recommends ratifying the Kyoto Protocol^{xii}; a proposal that was directly executed by the Accession to the protocol a few months later (see United Nations Treaty Collection, 2018: 2) and is therefore no longer included in the 2008 and 2010 policy papers.

Bassil who published in 2010 as the Minister of Energy and Water a policy paper, includes all major recommendation of Fneish in his paper. He proposes to build and renovate diesel, oil, and gas power plants with private and public resources. He also calls for a strengthened capacity concerning human resources and computer technology, and amendments to the Law No. 462. However, his recommendations in this regard remain vague: “Introduce the necessary amendment on Law 462 to make it applicable after correcting its deficiencies and contradictions” (Bassil, 2010: 15). He specifies neither the necessary amendment nor the deficiencies or contradictions. Though, he calls for the implementation of Law No. 462 concerning the establishment of the regulatory agency and stresses that the implementation and amendment process should not distract from EDL’s main task to provide “adequate electricity supply” (Bassil, 2010: 16). Distinctively, he recommends an additional law “for the new power plants with all possible technologies and encourage all forms of Public Private Partnership” (Bassil, 2010: 16).

Bassil’s policy paper is comprehensive and very practical because it provides for every proposal an estimated budget and at least one possible finance option. Some researchers regard the policy paper from 2010 as the “turning point” in Lebanon’s energy policy, although “the Lebanese electricity sector still requires long-term reform” (Machnouk et al., 2017: 256)

4.3. Strategy papers

In 2017, the Ministry of Energy and Water presented two strategy papers. At the beginning of the year, Suzy Hoayek who is the Coordinator for the “Lebanon Crisis Response Plan” (LCRP) at the Ministry presented a strategy for the timeframe from 2017 to 2020 and later that year

Minister of Energy and Water César Abi Khalil presented the vision till 2030. These plans provide additional insights for this analysis because they are the first official documents analyzed here that were published after the beginning of the Syrian crisis. Therefore, they are the only papers that include the additional challenges from this situation in their recommendations.

Hoayek's presentation focusses on "Priority interventions" to improve the situation in the electricity sector immediately. In the sector of generation, she recommends an increased usage of renewable energy sources in small-scale projects, for example "Solar Water Heaters for Residential Facilities" or "Solar Powered Pumping for Public Wells" (Hoayek, 2017: 9).

Minister Abi Khalil's plan could be regarded as the execution of Abi Said's demand to view the electricity sector as an integral component of the larger energy sector. He presents such an inclusive approach combining "Electricity, Water, and Oil & Gas" to a "Energy Strategy" (Abi Khalil, 2017: 2). His vision even goes further because his plan is to add the "Integrated Energy Vision" to the "Integrated Economic Vision" (Abi Khalil, 2017: 4). In the generation sector, he wants to improve the "indigenous and diversified" energy production to decrease Lebanon's dependency on imported energy and fuel. Furthermore, he is also focused on the legal framework because he proposes to "adopt good governance and transparency practices in the regulatory framework" and to "enforce specific accountability measures" (Abi Khalil, 2017: 5). At this point, the question whether these recommendations will be or are already executed cannot be reasonably answered.

All policy and strategy papers highlight the severe condition of the electricity sector in Lebanon and emphasize the need for action. Overall, the intended actions are similar in the papers. Almost all papers recommend to some extent new power plants, and the renovation and maintenance of the existing ones. Also, most papers call for an improved administrative capacity and recommend changes in the legal framework.

In the next chapter, the recommendations will be evaluated through the lenses of the theories discussed in Chapter 2.2. and 2.3., and regarding the specific Lebanese context. The key question coming from the research question is whether the proposed or used policies

5. Analysis

In this section the conceptual framework (see Chapter 2.3) will be used to look at the legislation, and the policy and strategy papers described in the last chapter.

Beginning with the content of the policies, it is noticeable that Law No. 462 is a typical NPM-policy that includes many elements favored and demanded by NPM-theorists. As in Cameroon (see Chapter 2.2.5.), the legislation was drafted and passed in close cooperation with World Bank (see Torbey, 2016: 5) which had a leverage in the negotiations because of the high foreign debt of Lebanon.

The objectives and the measures of the law fit well in the NPM-concept. The law is supposed to disentangle the electricity sectors, open the generation and distribution sector for privatization or public-private partnerships, and create an independent regulatory agency. The overall goal is to improve the competition of the whole electricity market and use the enhanced efficiency of private service delivery for better quantity and quality of service.

Most likely, the disentanglement of the sectors and the measure to improve the competition would be favored by De Oliveira and MacKerron as they see “Centralization and excessive size [...] monopoly position [...] and public ownership” (1992: 157) as the biggest issues for the electricity sector in developing countries. If implemented as intended, the Law No. 462 would have addressed all these major issues. Zhang et al. find in their study that competition is the most important contributor for improvements in the electricity sector in developing countries (see Zhang et al., 2008: 173f).

The law would have improved the competition and the market mechanisms in two ways. First, the law would have removed the EDL-monopoly in the generation and the distribution sector. In the generation sector, the intended way was to sell the existing generation company to a private investor with a transition period as a PPP (see Law No. 462: Art. 5a,) and grant new licenses to build and operate power plants to other investors, as described in Article 5b. This can be seen as a vertical unbundling for the sectors. Second, the newly created regulatory agency would have ensured a fair competition between the newly established generation companies, also by controlling the transmission sector in a “regulated monopoly” (Joskow and Tirole, 2000: 451). However, the law did not specify whether the generation company would be split up in different generation companies. If not, the competition in the new market would be skewed towards the company which consolidated the former EDL generation sector and new emerging companies with licenses to build and operate new power plants might struggle to

compete. Currently, the EDL controls over 90% of the electricity generation in Lebanon (see Machnoug et al., 2017: 260) and horizontal unbundling would create more competition but is not explicitly a part of Law No. 462. Horizontal unbundling is even more important in the absence of an effective regulatory agency (see Pineau, 2002: 1005). Until the full liberalization of the market, the prices and tariffs are fixed, and set by the EDL which hampers drastically the competition (see Machnoug et al., 2017: 263).

A point that is highly important for the success is how the procurement and tendering process would be designed. However, the law does not provide a substantial indication of the organization of this process. According to Donahue, this is one of the main deciders whether privatizations and contracting out can be successful (see Donahue, 1989: 79f). The only clue about the process is that it is supposed to follow “a tender document prepared by the supreme council of privatization after consulting the regulator and ratified by the council of ministers” (Law No. 462: Art. 5a). To what extent the conditions of Donahue described in Chapter 2.2.3. would be fulfilled in this tender document, cannot be estimated. Generally, contracts for the construction or maintenance of major infrastructure projects tend “to meet these criteria” (Frederickson et al., 2016: 120) although perfect cases are rare. In this case, especially the question whether a contractor can be penalized and substituted in case of non-compliance is troubling because there will be only a limited number of suitable contender in the first place.

Following NPM-theories, the decrease of centralization, the disentanglement of the monopolies, and the decrease of political control would have made Law No. 462 a useful step towards better public service delivery in the electricity sector in Lebanon. However, the implementation did not proceed as intended. The reason for this will be analyzed in the next section.

The issues with the stalling implementation have reasons in the content of the law and in the institutional context. Matland helps to understand the issues with the content of the law and how the combination of a high policy conflict led to policy ambiguity which was not resolved. As described earlier, the Lebanese electricity sector has a high number of stakeholders involved including inter alia the EDL, the MEW, the Ministry of Finances, the rest of the government, the banking sector, IGOs, customers, and the operators and owners of private diesel generators. Therefore, the potential for goal and policy conflict is high, for example: the staff of the EDL probably do not favor private electricity company because that policy is likely to make them unemployed while customers are mainly concerned with having an improved electricity delivery at an affordable tariff. This improved service delivery could damage the business model and the profits of private diesel generators (see Sydow, 2018a). Another conflict of interest

exists within the government between the goals to improve the service delivery through privatizations and the goal to stay in charge of affairs and remain in political control (see Pollitt and Bouckaert, 2017: 191). Therefore, it could be suspected that the planned independency of the regulatory agency is a concern for Lebanese lawmakers who do not want to lose power. Furthermore, the political parties and blocks might simply disagree politically on the question whether privatization is the right way for the EDL, and which of the methods is the right to achieve “corporatization, unbundling, and potential participation of the private sector” (Hasbani, 2011: 17).

The various policy conflicts lead to a law with high ambiguity, a process that is often observed in situations with high conflict because “one of the ways to limit conflict is through ambiguity” (see Matland, 1995: 158). The ambiguity of this law can be identified in many articles, whenever certain aspects of the implementation are left open to a “Decree of the Councils of Ministers” for example in Art. 4 and 5a of Law No. 462 or in the cases when the detailed implementation is done by the (still not created) regulatory agency. The already existing high policy conflict combined with the resulting high policy ambiguity lead to a “Symbolic Implementation” (Matland, 1995: 168) because neither the conflicts nor the ambiguity were resolved.

The various amendments of Law No. 462 all dealt with the regulatory agency and its ability to grant licenses to operate private power plants with a capacity exceeding 25 Megawatts. All amendments recognized the need that arose from the absence of the agency and gave the power to grant licenses temporally to the Council of Ministers. This can be seen as an attempt to remove a part of the policy conflict because the Council of Ministers is more likely to agree to amendments when they remain in power.

Potentially, Rodrik would really like this way to deal with the issue because it exemplifies his idea of “second-best institutions” (Rodrik, 2008: 100) in contrast to best-practice solutions. Surely, the used solution is not ideal because the needed oversight will be unavailable. The issue is not entirely resolved, but the passed amendments are a suitable short-term solution with an expiration date and an existing plan to get to the best-practice solution someday.

Another explanation for the symbolic implementation is thinkable although more speculative. Lebanon drafted the Law No. 462 in close cooperation with the World Bank, partly to keep having access to financial aid directly by the World Bank and Western governments that would have been otherwise restricted because of the “conditional lending”. This approach can be perceived as an infraction of the highly valued good of state sovereignty. To pass the law without implementing it, could be regarded as a way to deal with this infraction while maintaining

access to the financial aid. It is clear that this explanation is difficult to verify because the Lebanese government is unlikely to admit the allegation. As long as the World Bank and comparable institutions only check the legal adoption of legislation but do not evaluate the implementation, such behavior remain possible and thinkable.

Considering the principal-agent theory (see Frederickson et al., 2016: 35, also see Chapter 2.2.), one might suspect that the political principals, in this case the Council of Ministers or the Ministry of Energy and Water, could simply order the agency, the EDL, to follow the legislation. That this is not the case here does not falsify the principal-agency theory because apparently the EDL has substantial leverage and power which enables it to not follow the orders. Furthermore, the MEW could be regarded as an intermediate actor between the superior Council of Ministers and the EDL that has an agenda on its own and also its own leverage and powers. It should be always kept in mind that these relationships between Council of Ministers, the MEW, the EDL, and the not yet established regulatory agency are not static but evolving and changing, and all actors seek for power, control, and accountability (see Frederickson et al., 2016: 36).

Besides the content of the laws, a major factor for the implementation trajectories of legislation is the political and institutional context (see Teisman and van Buuren, 2007: 193f.). The political landscape of Lebanon is currently in a state of a gridlock and it remains to be seen whether the election in June 2018 can fundamentally change that (see Sydow, 2018a). Generally, the political system is strongly consensus-oriented and designed to balance the different ethnic and religious groups. This complicates any attempt to pass and implement (large-scale) reforms. Hasbani summarizes the issues with the political system as follows: “The failure [of the Law No. 462] is in fact linked to Lebanese political conditions, which are not favorable to the formulation and implementation of a long-term reform process, particularly with policy formulation having political consensus as its prerequisite.” (Hasbani, 2011: 28).

Additionally, an attempt to remove the gridlock in negotiations in the time after the Cedar Revolution between the stakeholders coincided with the military clashes between the Hezbollah and Israel in June 2006 which immediately stopped this process again (see Hasbani, 2011: 23). Besides blocking the political process, the war also damaged important infrastructure in the South of Lebanon. This means that in the last 15 years all attempts to move towards the effective implementation and enforcement of Law No. 462 stalled.

The crisis of June 2006 points towards another challenges for privatization attempts in Lebanon. With the instability and the ever-looming risk of internal turmoil or a military confrontation with Israel (see Sydow, 2018b), Lebanon is a risky environment for long-term investments. The

current situation in Syria with the involvement of Hezbollah forces in the war there makes this risk even greater. As mentioned earlier, big investment projects like power plants need time to produce profits and therefore security and stability is a major factor. However, in this field the Lebanese government has only limited control over the affairs.

The current status of the EDL also decreases the chance that it can attract an (international) investor and partner. The financial situation is severe and economically the EDL is only held alive by massive state subsidies (see Hasbani, 2011: 12). Furthermore, the EDL lacks technical know-how and manpower. The infrastructure and power plants are old and need maintenance which means that large investments are required to make the EDL profitable. That the Lebanese government might become bankrupt adds to this problem. International investors could enter the electricity generation market in two ways, first they could buy shares from the current EDL generation entity after the Council of Ministers decides to start the privatization process or second, they could apply for licenses to build and operate their own power plant. Even in this case, they would rely on the EDL for transmission and distribution and the system of “feed-in tariffs in cogeneration” is not yet established (see Machnouk et al., 2017: 263). Another point is that the Lebanese market is comparatively small with 4-6 Million customers and export to neighboring countries is basically impossible in the nearer future (see Bouri and El Assad, 2016: 1). Overall, this means that the risks for investors might heavily outweigh the potential profits and therefore, many investors will not regard it as a viable option.

To end this section, one should keep in mind that the situation in Lebanon is far from hopeless. The potential for a political compromise exists and most likely increases as long as the situation in the electricity sector stagnates or worsens. A street-level movement, similar to the “You stink”-protests in 2015 (see Kraidy, 2016: 19) appears to be possible concerning the electricity sector and would pressure the key political figures to find a workable consensus. Some recent projects indicate that private electricity generation is slowly increasing with a call for bids for hydro-electric power plants by the MEW (2018: 1) and licenses for wind power parks that will produce 200 Megawatts, so by far outreaching the 25 Megawatts limit for which licenses are required. According to Pierre Khoury, Chairman of the Lebanese Center for Energy Conservation, “this is the first time [...] for the private sector to sell power to the state” (Alieh, 2017).

6. Conclusion

As shown in the Conceptual Framework, the early notion that NPM-policies are universally applicable cannot be confirmed. Many factors contribute to the success or failure of NPM-policies, inter alia the content of the policy, the political will to actually implement it, the power of the principals to enforce agencies to execute the policies, and the right type of specifications in the procurement process. Furthermore, the institutional context is highly important, especially regarding the administrative capacity for contract management, regulatory supervision of markets, the judiciary system, and corruption.

At the beginning of Chapter 2.2., it was presented how the Washington Consensus expanded the geographical scope of NPM-policies from Anglo-Saxon countries first to Latin America, and later made NPM a globally used approach to reform governments and public service delivery. This meant that NPM-approaches are now extensively used in fragile contexts, also in the electricity sector in Lebanon.

This sector is currently facing severe problems. The state-owned monopolist electricity company *Electricité du Liban* can only supply 65% of the demand, is highly understaffed, needs major investments in the infrastructure, and is worsening the debt problems of the government through state subsidies. Although the law is far from perfect, a successful implementation of the NPM-inspired Law No. 462 could have been a major step towards better quality and quantity in electricity delivery for the Lebanese people and businesses. However, over 15 years after passing the law, it is not even close to be implemented as intended. The amendments that were passed throughout the years helped with minor issues, but the major obstacles remain untouched.

It was shown in the conceptual framework (Chapter 2.3.) that privatizations and other NPM-policies are more likely to be successful when a wide range of contextual preconditions are fulfilled. These conditions include the administrative capacity, the ability to create an effective competition in the energy market, a predictable judiciary branch, and generally stability and security. Best-practice solutions can be helpful to fulfill these conditions but also have to fit the specific context. In order to successfully implement the passed legislation, a shared goal among the stakeholders and clarity on the used means is necessary. All these aspects answer the first sub-question what institutional conditions can be identified in the NPM literature for functioning privatization policies in the electricity sector?

The analysis in Chapter 5 has shown that Lebanon is only partly fulfilling these conditions. This can explain why Law No. 462 was not implemented and the reform process stalled. Especially policy conflict and ambiguity are an obstacle for the much-needed reforms. As seen, the political and institutional context of Lebanon make it very difficult to pass or implement large-scale reforms.

Answering the main research question: NPM-approaches like privatization can be a useful tool for Lebanon to improve the current situation in the electricity generation sector. However, under the current circumstances, it is unlikely that NPM-reforms will work immediately without prior changes in the context. A successful implementation of the Law No. 462 or of an amended version would require the intrinsic desire of political leaders and of the public administration to fully implement it and even then, other contextual variables could obstruct it. After all, the motivation to pass and implement NPM-reforms has to be intrinsically located within the government. Because of the political system of the Lebanon, this political will has to be consensual.

For Lebanon, incremental steps would be better-suited. However, they have the inherent weakness that they take a longer timeframe and the successes will be smaller. Licenses are an appropriate tool to extend private service delivery and create competition on the market. Minor steps in this direction are currently executed. A more effective way to create competition would be the horizontal disentanglement of the EDL generation utility. Overall, all these approaches have to be balanced and regular evaluations should be conducted. At this point, it is impossible to predict whether Lebanon will improve their electricity generation sector soon.

Throughout this research, existing research gaps were identified. Naturally, this thesis can only be a first attempt to fill the blanks. The question which factors contribute to what extent towards the success of privatizations might be answered in a large-N, cross-country analysis. Additionally, more research on the specific context of Lebanon would be useful, especially concerning the administrative capacity and the ability for effective contract management. These factors could be then used to advise the Lebanese government on administrative reforms.

In reference to Dan and Pollitt, the overarching conclusion of this thesis is: “NPM can work”, but ... and it is exactly this “but” that is more important than anything that stands in front of it because it decides about success or failure of NPM-reforms.

Endnotes:

ⁱ Council for Development and Reconstruction, a Lebanese governmental organization, established 1977 as an advisory body

ⁱⁱ Mohammad Fneish in 2006, Alain Tabourian in 2008 and Jebran Bassil in 2010

ⁱⁱⁱ 3rd highest measured in % of GDP according to the CIA World Factbook, 2018a

^{iv} The Hezbollah (meaning: “Party of God”) has an ambivalent role in Lebanon’s political landscape. On the one hand, it is an armed Shia militia that is also responsible for the attacks on Israel that led to the war in 2006, on the other hand it is an important political player and with seats in parliament and ministers in the government. Hezbollah fighters take part in the Syrian Civil War on the side of the Assad regime. The Hezbollah is supported by Iran and the USA and the EU regard it as a terrorist organization

^v Officially Document of National Accord; sometimes also Taif Agreement

^{vi} The term consociational democracy was originally used by Lijphart in 1969 to describe various political system in Europe. Fakhoury Mühlbacher uses it to describe Lebanon.

^{vii} The term subscribers in this context does not provide information about the number of individuals. It is safe to assume the number of individuals that get their electricity from EDL is nearly equivalent to the population of Lebanon.

^{viii} Natural gas is suspected to be off-shore in the Mediterranean Sea but is currently not exploited.

^{ix} Diesel generators are also in use in developed countries in emergency situations and as back-up solutions in high-reliance systems, for example in hospitals or airports.

^x The Bretton-Woods institutions refer to the place of founding of the international monetary institutions IMF and World Bank which significantly shaped the international trade and finance relations after the Second World War.

^{xi} Lebanon’s political landscape is dominated by two major blocks, the March 8 and the March 14 movement.

^{xii} The Kyoto Protocol is an international treaty that commits the member states to reduce their greenhouse emission, first signed in 1997.

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Data Appendix

Documents used in the Analysis

Title	Publishing Institution or Person	Year	Remarks
Law No. 462	Parliament	2002	
Law No. 775	Parliament	2006	Amendments to Article 7 of Law 462/2002, (see Torbey, 2016: 12)
Law No. 288	Parliament	2014	Amendments to Article 7 of Law 462/2002, (see Torbey, 2016: 12)
Law No. 54	Parliament	2015	Temporary extension of Law No. 288 (see Torbey, 2016: 12)
Electric Energy & Energy Policy in Lebanon	Consultant of the government and former Director of EDL, C. Abi Said	2005	Worked out in cooperation with Global network on energy for sustainable development
Policy Paper	MEW Mohammad Fneish (Minister)	2006	It is a reference in Ibrahim et al., 2013, references no. 45, the study provides a summary of the paper, not retrievable
Policy Paper	MEW Alain Tabourian (Minister)	2008	It is a reference in Ibrahim et al., 2013, references no. 46, the study provides a summary of the paper, not retrievable
Policy Paper for the Electricity Sector	Ministry of Energy and Water (MEW), Gebran Bassil (Minister)	2010	
Energy Sector Strategy LCRP 2017 -2020	MEW, Presentation by S. Hoayek at the Energy National Coordination Meeting	2017	Plan for period from 2017 to 2020. Part of the Lebanese Crisis Response Plan
A National Energy Strategy For Lebanon	MEW, Presentation by Minister C. Abi Khalil	2017	Plan for 2017-2030.
Call for Expression of Interest (EOI) to Participate in Proposal Submissions to Build and Operate Hydroelectric Plants in Lebanon	MEW	2018	