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MAASTRICHT SCHOOL OF MANAGEMENT

Working Paper No. 2012/52

Business by Generator

The impact of fragility and hybridity on Lebanese entrepreneurship – A Case-Study of the Electricity Sector

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November 2012

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¹ Maastricht School of Management (MSM)



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Abstract

Governance is often treated as a ‘black box’ explanation for unproductive or destructive entrepreneurship. In order to improve our understanding of how governance structures influence entrepreneurship and innovation it is instructive to consider how entrepreneurs function under so-called fragile or hybrid governance. In this exploratory paper I provide an overview of the governance-entrepreneurship nexus in Lebanon. I argue that although Lebanese entrepreneurial attitudes appear to be very positive, entrepreneurial activities seem to be adversely impacted by governance challenges and entrepreneurial aspiration is underdeveloped. In-depth interviews with Lebanese experts show that Lebanese entrepreneurs face significant obstacles, often related to the political context and system. The paper highlights the issue of high utility – specifically electricity – costs as a case-study of how hybrid political governance affects entrepreneurship. I show how fragility and hybridity – through violent conflict and sectarian oligopolies – generate a protracted situation of high electricity costs that undermine competitiveness and innovation. I argue that this is insufficiently recognized in the overly technical literature on the Lebanese electricity sector specifically and Lebanese entrepreneurship generally.

1. Introduction

The relationship between governance and entrepreneurship has in recent years received increasing attention in the literature and in policy making circles. This is a result of the greater awareness of the importance of institutions, broadly defined, for economic development outcomes (Naudé et al. 2012; Ács and Naudé 2012; Guglielmetti 2010). Governance, however, is often used as a ‘black box’ explanation for explaining entrepreneurial developments – either approximated by limited outcome-type indicators (e.g. Kaufmann et al. 2010) or by creative but distant proxies (e.g. Acemoglu et al. 2001). In particular, the literature on entrepreneurship has, to my best knowledge, not dealt with the complex shapes

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² I thank Prof. Dr. Wim Naudé for providing continuous support and invaluable feedback throughout the project. I am grateful to all experts consulted for this paper whose generously shared visions have permitted the analysis presented. An earlier version of this paper was presented at the *Violent Conflict and Economic Development* conference in Aix-en-Provence, France (3-4 December 2012).

of governance in fragile or hybrid orders. The main reason for this is likely the lack of quantitative data. Indicators in, for instance, the World Bank's Doing Business survey do not deal with the relationship between hybridity and entrepreneurship (Guglielmetti 2010:2) and are very limited in capturing governance (Inman 2012). The Global Entrepreneurship Monitor (GEM) does not cover so-called 'fragile states.'

In this paper I attempt to unpack this black box of governance vis-à-vis entrepreneurship by considering how fragile or hybrid governance affects entrepreneurship. I focus on the case of Lebanon, where the duration of conflict, the hybrid nature of governance, and a history of entrepreneurial self-identification offers a rich set of circumstances from which to understand better the relations between governance and entrepreneurship. Using a qualitative empirical analysis based on 29 key expert meetings conducted in Lebanon in the summer of 2012, I illustrate these dynamics by zooming in on the governance of the Lebanese electricity sector.¹ This case-study allows me to investigate one concrete channel through which specific governance contexts and systems influence a particular entrepreneurial ecosystem, thereby going beyond the unspecified replication of pervasive discourses on clientelism and corruption that permeate many analyses on Lebanon's political economy.

Besides its governance setting, the case of Lebanon is instructive for two further reasons. First, despite its challenging context, it has witnessed a recent boom in initiatives supporting entrepreneurship and innovation. This offers an interesting opportunity to explore emerging aspects of the Middle Eastern entrepreneurship ecosystem. Second, Lebanon remains academically under researched when it comes to the political context for entrepreneurs (Welsh and Raven 2006:30).

The paper consists of four main parts. In section two I provide some background information on Lebanon's politics and economics. I present the main conclusions from my scoping study on the effects of fragility and hybridity on entrepreneurship in section three. Section four consists of a case-study of the electricity sector and discusses the causes and consequences of high electricity costs that are seen as a key impediment to Lebanese entrepreneurs. Section four concludes.

2. Lebanon

Mention Lebanon and three core connotations spring to mind. First, the country is often associated with conflict (most notably the infamous 1975-1990 Civil War and the more recent 2006 Summer War between Israel and Hezbollah). Second, it is a prominent example of a hybrid political order (an uneasy marriage between liberal democracy and traditional sectarian institutions). And, third, the country has been known for its considerable entrepreneurial acumen (from the legendary Phoenician traders to the renowned banking culture earning Lebanon the nickname of the 'Swiss of the Middle East'). While these three connotations may at first seem contradictory, as I show below, the relations between them are both mutually reinforcing and complex.

2.1. Sectarianism

Lebanese society is organized along the lines of 18 recognized religious communities (of which the Maronite Christians, the Sunni and Shia Muslims and the Druze have been the most politically influential) that each have their regional strongholds; political parties; social institutions like schools, clinics and charity organizations; and armed militias.ⁱⁱ Each sectarian group, moreover, has traditionally been backed by various international and regional coalitions (the Sunni, for instance, by the United States of America and Saudi Arabia; the Shiite by Iran and Syria; and the Maronites by the French). The central concept to understand Lebanon's society, then, is sectarianism, which signifies this division of society into religious, 'sectarian,' communities (El Khazen 2003; Faour 2007; Haddad 2002). Sectarianism corresponds with the polarization of social control between Lebanon's various communities. This fractionalization breeds a structural elitism: because society is organized along sectarian lines, citizens have historically depended on sectarian leaders for protection and provision. In turn, political players have "to show off their prowess by claiming allegiance of their communities" (Ziadeh 2006:173). Sectarianism manifests itself in a clientelist distributional logic under a system of *zuama*, local strongmen, and integrates political, militia, and business functions (Welsh and Raven 2006:30) – resulting in what Leenders (2012:232) calls an 'allotment state' wherein institution-building is highly contested and utilized for sectarian distribution.

Political organization in Lebanon institutionalized sectarianism politically. The Lebanese State was organized through a consociational political system centered on an inter-sectarian power-sharing formula that stipulates that the President of the Republic should be a Maronite Christian, the Prime Minister a Sunni Muslim and the Speaker of Parliament a Shia Muslim. The system included corresponding sectarian quota guiding the allocation of all public positions. The system was slightly adapted in the Taif Agreements marking the end of the Lebanese Civil War, but in essence Taif reinstated the sectarian logic (Stel 2009:41).

The post-war era was dominated by de facto Syrian occupation of Lebanon (Leenders 2012; International Crisis Group (ICG) 2005). After the ousting of the Syrians in 2005, Lebanese politics has been dominated by a polarized programmatic competition between two broad coalitions (Abdul-Hussain 2010). March 8 is led by Hezbollah and Amal, both Shiite parties and the Christian Free Patriotic Movement (FPM) and is considered pro-Syrian while March 14 is led by the Sunni Future Movement and various Christian parties and is regarded pro-Western.ⁱⁱⁱ

While being a vibrant parliamentary democracy, as a result of its sectarian nature, the Lebanese State is far from a neutral Weberian civil service bureaucracy. Rather, its entire structure is informed by the sectarian quota system and quest for inter-communitarian balance that results in endemic patronage and clientelism (Gebara 2007; Hamzeh 2001; Cammett and Issar 2010).^{iv}

2.2. *Lebanese governance*

For the purpose of this paper, I find it useful to approach Lebanese governance in light of two related but distinct concepts: fragility and hybridity. Fragility here refers to the broader governance context, whereas hybridity refers to the specific governance system. I use fragility

as a tool to describe a specific context rather than as an explanatory concept (as is done in the failed or fragile states paradigm).^v Hybridity is a slightly more complicated concept. First of all, confusion lurks in the often confounded but conceptually different hybrid regimes and hybrid orders. Hybrid regimes refer to the narrow political system, wherein hybridity is seen to lie in a mix of democratic and autocratic organization (Kenyon and Naoi 2010; Schmotz 2010; Roesler and Howard 2007). The emerging theory on hybrid regimes is in many ways a political economy counterpart of more sociological theories on clientelism, (neo-)patrimonialism and suzerainty (Boege et al. 2008:7). It lacks empirical substance on what these black boxes of hybrid regimes actually contain (rather, the tendency is to focus on the transitional potential of such regimes). The hybrid regime concept also suffers from attributing a sense of peculiarity to ‘hybrid’ regimes glossing over the fact that such hybridity of authority constitutes a historical norm rather than exception (Boege et al. 2008:2). This is further illustrated by the state-centeredness of the concept, disregarding non-state institutions governing socio-political life. Therefore, I opt to use the concept of the hybrid political order which refers to a more comprehensive governance system encompassing both state and non-state governance.

2.2.1. Fragile governance contexts

Based on Naudé et al. (2012) fragility can be conceptualized by means of four core characteristics: i) legacies of violent conflict and risk of recurrent conflict; ii) politicization of private life (civil society and private sector); iii) limited state capacity and institutional multiplicity; and iv) vulnerability to external shocks and donor dependency (see also Jones and Elgin-Cossart 2011:3 and Lund 2011:13). Lebanon is considered a fragile country in at least two of the five leading fragility indexes.^{vi}

Lebanon has faced several brutal violent conflicts. The most iconic and horrific of these was the Lebanese Civil War that took some 150,000 lives, wounded 200,000; displaced almost a fifth of the population; and left “most state institutions paralyzed or collapsed, its physical infrastructure largely destroyed at an estimate costs of US\$ 25 billion, and with an estimated fall in per capita income by two-thirds” (Leenders 2012:1; see also Fisk 1990 and Hirst 2010). The Civil War resulted in the Israeli occupation of South Lebanon and the subsequent emergence of a resistance led by Hezbollah that waged a successful guerilla war eventually liberating the South in 2000. Since then, the situation in South Lebanon, monitored by the United Nations Interim Force for Lebanon (UNIFIL), remained tense and skirmishes between Hezbollah and Israel continued and ultimately escalated in the 2006 Summer War between Hezbollah and Israel that caused widespread destruction and left almost 2000 Lebanese and more than 150 Israelis dead, 4,054 people injured and 262,174 displaced (Fatouch and Kolb 2006:97; ICG 2006).

As described above, through the mutually reinforcing dynamics of sectarianism and clientelism, Lebanese private life (business and civil society) is extremely politicized and polarized. The Lebanese state also has a relatively weak capacity due to state capture by sectarian elites. This is illustrated by its national debt constituting some US\$ 55 billion: 150.7 per cent of GDP in 2010 and the fourth highest national debt in the world (LTA 2011:11; CIA World Factbook). Limited state capacity might also be reflected in the booming social

entrepreneurship (Doumit and Chaaban 2012) and the “NGO-ization” of the country that was often referred to in interviews.^{vii} Lebanon’s vulnerability to external shocks is manifest in its economic set-up that is highly dependent on foreign investment and markets (WB 2012b:v). That Lebanon is vulnerable to external shocks is also a result of its polarized political affiliations with rival hegemonic powers – a dynamic that is currently extremely volatile considering the spillover of the raging Syrian war.^{viii}

2.2.2. *Hybrid governance systems*

A political order is the sum of institutionalized power and governance relations that one can empirically grasp at a given time and place (Hagmann and Hoehne 2009:44). *Hybrid* political orders signal a situation in which “diverse and competing authority structures, sets of rules, logics of order, and claims to power co-exist, overlap, and intertwine, combining elements of introduced Western models of governance and elements stemming from local indigenous traditions of governance” (Boege et al. 2009:17). The hybrid political order concept envisions the state as one among various societal actors engaged in governance (Migdal 2001).

To make sense of the idea of hybrid governance a useful metaphor is that of the ‘dual game’ (Cammatt and Issar 2010:383) which combines a formal political game, in which parties and groups aim to gain votes, with an informal game including economic, religious and cultural avenues to political power. The intuitive logic of the dual game corroborates with institutional overlap between state institutions and ‘traditional’ authorities at the heart of Boege et al.’s (2008) hybrid political order concept. Boege et al. (2008:7) describe how many ‘strongmen’ are simultaneously politicians and will hence face fundamental challenges. Often “bigmen must become politicians, as only then will they get access to state coffers which make it possible to distribute gifts to their kin, and politicians must first be bigmen, as only then can they rely on the support of a loyal and powerful kin based constituency” (Boege et al. 2008:7).

With regard to entrepreneurship, the most significant aspect of hybrid governance is public-private overlap or entanglement in which politicians and businessmen are the same individuals wearing different hats, caring not about making business in general better (through for instance government support for start-ups) but for making *their* business better (through for example oligopolistic arrangements). Because, in Lebanon, informal sectarianism distribution systems (with their intrinsic elitism and clientelism) are institutionalized – and even enforced – through the formal system, institutional control and sanctions are virtually absent and ‘corruption’ is institutionalized in oligopolies – a logic only aggravated by tendering and privatization processes (Leenders 2012).

In Transparency International’s 2008 Corruptions Perceptions Index (CPI), Lebanon scored three out of ten (on a scale from zero “highly corrupt” to ten “highly clean”) and ranked 102nd among 180 (LTA 2011:11). In my interviews, spokespersons of a civil society watchdog said that “if you know how to bribe well, you can do well” and signal “immense conflicts of interest between politics and business.” A diplomat described the Lebanese entrepreneurship climate as a mix between “19th century American brigand capitalism and Soviet steering.” Lebanese political analysts confirm that the political class is “embedded in the private sector”

as “most businessmen are former state officials and most politicians have some businesses.” Leenders (2012:223) evidences how because of their institutional weakness – their lack of a clear mandate governed by procedures and regulations with external checks and controls and a separation of public office from private interest – Lebanese public institutions have failed to prevent (and even facilitate) endemic corruption. This is manifested in chronic conflicts of between private interests of politicians and civil servants and the public institutions they lead or work for.^{ix}

2.3. *Lebanese entrepreneurship*

Lebanon is often described in terms its open, liberal and modern outlook with minimal state intervention (Denoeux and Springborg 1998:158; Leenders 2010:169; Lebanese Transparency Association (LTA) 2011:106; Marseglia 2004). One researcher emphasizes that private property has always had a special place in Lebanon: “we never had the socialist experience that the other’s had in the 1960s. Lebanon has always been a safe haven for private capital.”³ Indeed, the Lebanese economy can be characterized as ‘laissez-faire.’ Minimal state interference manifests itself in low income and corporate taxes; monetary policies testifying of a generally liberal regime; and the absence of significant state enterprise except for some public utilities (water, electricity, transport and communications) (Leenders 2004:173-174).^x Nevertheless, a more critical analysis of the Lebanese economic system shows that although Lebanon’s economy is dominated by the private sector, it is not market-based. It is, in fact, highly oligopolistic. The Lebanese Center for Policy Studies (LCPS 2011:7) shows that more than 50 per cent of the 300 markets are in the hands of a few companies and two per cent of companies take more than 50 per cent of the loans.^{xi} Leenders (2012) also meticulously documents the dominance of political elites in ‘regulating’ the Lebanese economy through a dissection of corruption cases referring to the Middle East Airlines (MEA); the Ministry of Industry and Oil; the port of Beirut; and Lebanon’s quarrying business.

2.3.2. *SMEs and family business*

Scholars agree that the predominance of SMEs^{xii} and family firms is one of the most defining characteristics of the Lebanese economy. Saidi (2004:5) notes that “more than 85 per cent of industrial companies have less than ten employees and 90 per cent of SMEs are individual or family owned.” According to Mehzer et al. (2008:35) SMEs make up 98 per cent of all the firms in Lebanon and employ 72.4 per cent of the total workforce. Fahed-Sreih et al. (2010:37) pose that family businesses constitute 85 per cent of the private sector, accounting for 1.05 million of 1.24 million jobs.^{xiii}

In light of the fact that the borders between firms and households in fragile states are often blurred (Naudé 2007:15) and Lebanese culture in which, as the truism goes, the family is the most important social entity, employment is often perceived as part of the family’s obligation and businesses are viewed as an extension of the family (Pistrui and Fahed-Sreih 2010:85). Pistrui and Fahed-Sreih (2010:115), conclude that “the ability to create and foster an entrepreneurial mindset across generations is a major element of family business continuity and longevity and is instrumental in effective strategic execution, innovation and growth.”

³ Author’s interview with policy expert.

Ahmed and Julian (2012:26, 30), however, acknowledge that family structures have allowed entrepreneurship through opening up informal funds, but also signal that family business structures can “divert resources to cover current expenses, and discourage risk taking, innovations or the delegation of authority.” This critique resonates with my interview findings. The high proportion of family firms in the Lebanese economy is sometimes seen as a factor hindering entrepreneurship.⁴ People recount meeting students not interested in acquiring any entrepreneurial skills because they “will just take over the family business anyway.”⁵

It thus seems that when high uncertainty and transaction costs characterize an entrepreneurial environment (such as during conflict), family businesses offer certain advantages. But in the (relatively) more stable hybrid political order emerging in a post-conflict setting, family businesses may obstruct entrepreneurship and innovation through the generation of ‘oligopolies of scale.’

2.3.3. *The entrepreneurship ‘buzz’*

Mohamad Hodeib speaks passionately about global expansion, stock options and the long, Red Bull-fueled nights spent drawing up the business plan for B-Com, his half-year-old start-up company that makes clothes with witty slogans. It’s not something you’d expect to hear from a 17-year-old high-school student from Deir al-Zahrani, Lebanon, a poor village in the Hizbullah-dominated South—nor, for that matter, anywhere else in the Arab world. Hodeib says he caught the business bug from a school project run by Injaz al-Arab, an organization that sends volunteers into schools to teach kids about entrepreneurship. (Theil 2007:1)

WEF (2011:9) estimates that 15 per cent of the Lebanese adult population is engaged in entrepreneurial activity, but warns that this is mostly necessity entrepreneurship that revolves around self-employment rather than job generation. This entrepreneurship level is not as high as Yemen (24 per cent) or China (19 per cent), but on a par with Brazil and significantly higher than the United States of America (eight per cent), Germany (four per cent) or Japan (three per cent).^{xiv} While there is no reliable sectoral break-down of Lebanese entrepreneurship available, the entrepreneurship seems to follow the broader Lebanese economic stratification. Lebanese GDP consists of eight per cent agriculture; 16 per cent manufacturing; nine per cent construction and 67 per cent services and commerce (Fahed-Sreih 2001:1). While experts stressed that the majority of Lebanese entrepreneurs should be expected to be small shop owners, the 20 most successful Lebanese entrepreneurs as identified by *Executive* magazine predominantly operated in the online marketing and internet (35 per cent); software (10 per cent); technology (15 per cent); media and design (20 per cent); and retail and consumer goods (20 per cent) (Sioufi 2012). This concurs with accounts from respondents.⁶

Currently, Lebanon is witnessing what respondents call an ‘entrepreneurship buzz’; a substantial increase (in both quantity and quality) of various types of initiatives to support entrepreneurship. While the perceived success and actual output of this new dynamic differ

⁴ Author’s interview with UN-ESCWA expert.

⁵ Author’s interview with entrepreneurship education expert.

⁶ Author’s interviews with real estate expert; diplomat; IDAL representative; and venture capitalist expert.

among respondents and have not been structurally evaluated yet⁷, its emergence is broadly acknowledged and embraced.⁸ Six components of the emerging Lebanese entrepreneurship ecosystem can be distinguished. First, there is a system of incubators. Some six years ago four incubators that were supposed to help entrepreneurs on the trajectory from idea to business were instigated with the support of the European Union (EU) (Delegation of the European Commission to Lebanon 2008; Lopez-Mencheró 2011). These EU initiated incubators are considered to have kick-started the entrepreneurship boom, with other donors later jumping on the bandwagon.⁹ Second, there is Kafalat, the widely applauded facilitator of entrepreneurship through the provision of subsidized and guaranteed loans. Third, there are some government initiatives, most notably the Investment Development Authority Lebanon (IDAL) seeking to enhance entrepreneurship through tax incentives and administrative reforms. Fourth, there are support initiatives by international organizations such as the United Nations Development Program (UNDP), the United Nations Industrial Development Organization (UNIDO), the EU and the World Bank. Fifth, there are some research and analysis oriented agencies – from the newly initiated Darwazah Center for Innovation Management and Entrepreneurship at the American University of Beirut and the Institute for Family and Entrepreneurial Business at the Lebanese American University to the *Al-Iktissad Wal-Aamal* and *Executive* business magazines. Sixth, there is a wide range of private sector and civil society projects, programmes and organizations helping entrepreneurs in many different ways (for instance Injaz that provides entrepreneurship education; Endeavour that seeks to support more mature entrepreneurs; and a wide range of microfinance institutions).

3. The Effects of Fragility and Hybridity on Lebanese Entrepreneurship: Main Findings

There seems to be an inherent paradox in the effect fragility and hybridity have on Lebanese entrepreneurship: while fragility brings with it volatility, uncertainty and insecurity (mostly related to conflict), hybridity brings with it deadlock and inertia (mostly related to clientelist oligopolies).

I synthesize the findings from the scoping study on the effects of fragility and hybridity on Lebanese entrepreneurship¹⁰ underlying this paper through Ács and Szerb's (2009) entrepreneurship triangle revolving around attitudes, activities and aspirations (schedule 1).

Entrepreneurial attitudes	Entrepreneurial activity	Entrepreneurial aspiration
<ul style="list-style-type: none"> • opportunity perception • start-up skills • non-fear of failure • networking 	<ul style="list-style-type: none"> • opportunity start-up • tech sector • quality of human resources • competition 	<ul style="list-style-type: none"> • new product • new technology • high growth • internationalization

⁷ Author's interview with policy expert.

⁸ Author's interview with business consultant.

⁹ Author's interview with UN expert.

¹⁰ This scoping study is presented in detail in the following working paper on the UNU-MERIT website: <http://www.merit.unu.edu/publications/wppdf/2012/wp2012-078.pdf>.

• cultural support		• risk capital
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Schedule 1: Ács and Szerb's (2009) attitudes, activities and aspirations

My interviewees suggest that in Lebanon, entrepreneurial attitudes are very positive. Lebanese are apt in recognizing and utilizing business opportunities; they do not just have a high skills perception but also have high post-secondary education rates; fear of failure seems to be relatively low in the sense that Lebanese are rather inclined to start their own business; Lebanese have remarkable networking skills facilitated by the socio-political diversity and the *wasta* (wheelbarrow) based access to resources and services; cultural support, finally, is abundant and 'societal status' was repeatedly mentioned as one of the main motivations for becoming an entrepreneur. There is, still, a shared conviction that the 'can do spirit' of the Lebanese will eventually overcome political challenges and that even modest reform and stability could provide an important boost to entrepreneurship.

Entrepreneurial activities in Lebanon, on the other hand, seem to be more adversely impacted by the governance challenges central to this paper and are characterized by a short-term, quick gain mentality. According to experts, there are equal parts of necessity and opportunity entrepreneurs in Lebanon, indicating a mediocre start-up opportunity; start-ups, moreover, are mostly in the service sector and less in technological potential sectors (although ICT could be becoming an exception); human capital, in terms of level of education, is high, but not always tailored to entrepreneurial needs; and competition, finally, is often hindered by the oligopolistic Lebanese economy.

Entrepreneurial aspirations, the component linking entrepreneurship to innovation, are also underdeveloped in Lebanon, to a large extent due to governance predicaments. Experts found that overall few entrepreneurs generate products or services customers consider to be new; cutting edge technology may be used enthusiastically by Lebanese entrepreneurs, but it is not developed in Lebanon; the persistent SME orientation of Lebanese entrepreneurs signifies a limited growth potential of entrepreneurs; and the absence of Research and Development (R&D) and intellectual property rights does not bode well for entrepreneurial aspirations either. Internationalization, however, is high among Lebanese entrepreneurs; and formal venture capital is increasingly available to add to the existing reservoirs of informal venture capital resulting from positive entrepreneurship attitudes.

Thus, fragility and hybridity predominantly affect entrepreneurial activities (and, to a lesser degree, entrepreneurial aspirations). Entrepreneurial attitudes seem remarkably resilient. Interviewed experts offer several explanations for this. Reference to politics is, by and large, seen as 'making excuses.' People related to business incubators and from private companies especially implicitly emphasize a 'just do it' component as the distinctive characteristic of entrepreneurship.¹¹

The political situation? That's all excuses; you can't wait for the situation to become perfect. Yes, there is a deadlock, but just go for it. Other people have done it, it can be done. The political things are impediments, but not reasons why. It makes life harder, but you still live.¹²

¹¹ Author's interviews with venture capitalist expert; IDAL representative; and Berytech representative.

¹² Author's interview with start-up consultant.

This mentality is seen to be part of a national identity constructed supposedly distinguishing the Lebanese from the Syrians.¹³ It celebrates Lebanese cultural diversity as a business asset. The fact that Lebanese business(wo)men have to “be able to co-exist with different parties and show different faces to for instance customers and patrons” is thought to demand a specific set of social and managerial skills – flexibility, adaptability, conviviality, cordiality, mood management and emotional intelligence – that is especially useful for entrepreneurs.^{xv} Another component often quoted as representative of the Lebanese entrepreneurial attitude is the resilience, flexibility and creativity bred by years of civil war. The experience of Lebanese with instability and destruction has, it is argued, altered their evaluation or interpretation or risk, creating a higher acceptance threshold for risk due to a culturally transmitted experience with resilient supply networks.¹⁴ Finally, the Lebanese entrepreneurial ecosystem indeed has several positive characteristics, most important of which are its affluent and well-connected diaspora (WB 2011; IMF 2011:63), leading an incubator director to muse that “the diaspora is our petrol;” its renowned education system (WB 2012b:45); and the abundance of development aid (UNIDO 2010).

4. Case Study: Electricity and Entrepreneurship

One of the main avenues through which fragility and hybridity affect entrepreneurial activities, respondents agreed, are high utility costs that make entrepreneurs uncompetitive – which is specifically dire regarding the small domestic market and increasing regional competition. A start-up consultant sums up that “of course things would be different if we didn’t have to pay for two electricity bills, two water bills, and crazily expensive internet.” These high costs are seen to be a result of oligopolies facilitated by political sectarianism. The remainder of this paper provides an analysis of the ways in which the specific nature of the Lebanese electricity sector shapes Lebanese entrepreneurship. This analysis serves as an illustration for the broader dynamics of fragile and hybrid governance and entrepreneurship described above and offers a tangible example of how the Lebanese political economy influences the entrepreneurial ecosystem.

4.1. The Lebanese electricity sector

The Lebanese electricity sector is built around *Electricité du Liban* (EDL), state-owned since the nationalization of the main private electricity company in 1954 (Abi Said 2005:6). EDL is responsible for electricity production, transmission, and distribution. It operates under the Ministry of Energy and Water. Considering the significant financial dependence of EDL on budget transfers, reaching 20 per cent of the state budget in 2009, Hasbani (2011:10) argues that the Ministry holds important leverage regarding investment decisions, especially since there is no additional regulatory authority. EDL has not been audited since 2003 and faces a US\$ 1.5 billion deficit, already amounting to 70 per cent of all EDL assets in 2000 (LCPS 2011:7; Badelt and Yehia 2000:41).

¹³ Author’s interview with policy expert.

¹⁴ Author’s interview with American University of Beirut (AUB) economist.

Lebanon has an electrification rate of almost 99 per cent and currently does not produce oil or gas and renewable energy sources are not utilized in any significant way (Abi Said 2005:6-7). In light of this, despite electricity imports from Syria and Egypt, EDL cannot satisfy all of Lebanon's electricity demand. Hasbani (2011:11) estimates that EDL supplies approximately 77 per cent of the country's electricity needs while private generators provide the rest (see also Jaber et al. 2010). It is therefore generally agreed that the sector badly needs reforms. The World Bank (2008:4) summarizes that:

The Lebanese electricity sector is at the heart of a deep crisis. The sector is unable to supply the reliable electricity needed by homes, offices and industry. It is a massive drain on government finances, crowding out more valuable expenditures on education, infrastructure, social protection, and health, and putting macroeconomic stability at risk. The sector accumulates huge debt with little to show for it, and those who are least able to provide for themselves suffer the consequences most. The state of the electricity sector symbolizes to the public Lebanon's profound challenges of governance, inclusion and accountability.

It should be considered that the electricity file has a significant symbolic political resonance among Lebanese as it has been a key pillar of nation-building efforts (Verdeil 2009:423; Kanaan 2011:7). President Fouad Chehab (1958-1964) extended the electricity network to the entire Lebanese territory and unified tariff schemes across the country as a guarantee for equal access to electricity for all citizens (Hasbani 2011:6). The success of EDL, according to El Khoury (2012), thereby strengthened the position of the government, "demonstrating its ability to carry out large-scale projects and its commitment to provide public services to all citizens." In a mirror development, the current situation of power shortages over the past few decades is generally seen to have contributed to undermining the government's authority (Hasbani 2011:1). Indeed, "power shortages are often used in the media as a demonstration of the government's weaknesses and its inability to provide public services, while diesel generators are frequently cited to support the argument that private sector initiatives can compensate for the weaknesses of governments" (El Khoury 2012). Mohsen (2012) laments: "What is the point of the state without an electricity distributor? Nothing. The TV screens where the statesmen appear, you see, do not work on candle light..."

4.2. *Entrepreneurs' electricity*

According to the World Bank (2012b:35), getting an electricity connection in Lebanon requires five procedures and takes 75 days, a better 'doing business score' than the regional average. The problem for entrepreneurs, however, lies not in getting the electricity connection, but getting the electricity. Due to the shortage described above – EDL produces 1,500 megawatts per day with consumption exceeding 2,400 megawatts (Daily Star 2012a) – Lebanese face extensive electricity cuts. It is not exceptional to have merely four hours of electricity a day (especially outside Beirut) (Dagher and Ruble 2011:4315).¹⁵ Such electricity cuts are compensated for through private, and expensive, generator networks. Abi Said (2005:4) concludes that despite generous subsidies, "the electricity tariffs remain higher than in neighboring countries." The Lebanese consumer "currently pays the highest electricity bills, while unfortunately, experiencing the most unreliable and lowest quality service in the

¹⁵ Author's interview with microfinance expert.

region” (Dagher and Ruble 2011:4315). In 2004, Verdeil (2009:427) estimates, Lebanese spent 13 per cent of their revenues to electricity. But electricity use is asymmetrical, as “the top half of consumers use about 77 per cent of the electricity while the bottom half uses a mere 23 per cent” (Hourri and Ibrahim-Corfali 2005:759). Aggregated annual costs for generator used are estimated by Hasbani (2011:1) at US\$ 1.3 billion.

These high costs in itself are a setback for business and entrepreneurship as “reliable and reasonably priced electricity is a main driver for growth, employment and competitiveness around the world” and, according to the World Bank (2008:4), has a proven correlation to GDP growth. Lebanese firms report substantial losses from power interruptions and voltage fluctuations (with the average firm losing seven per cent of its sales value due to these interruptions) that might be as high as US\$ 360 million per year (WB 2008:20; see also Abosedra et al. 2009; Dagher and Yacoubian 2012; and Kanaan 2011).^{xvi} According to Abi Said (2005:9), the transportation sector consumed 45 per cent of total energy consumption, with the industrial and commercial sectors taking 25 and 30 per cent respectively (see also Fardoun et al. 2012:311). The lack of reliable electricity prevents the development of major manufacturing industries in which energy supply is a critical pre-condition. The July 2008 closure of the production plant of Uniceramic, Lebanon’s largest ceramics factory, partially as a result of mounting electricity costs, is often quoted as an example.¹⁶ Electricity also undermines internet-based enterprises that demand a continuous and strong connection that is threatened by power cuts.¹⁷ Hasbani (2011:25) concludes:

Thus, clearly, the burden of electricity outages negatively impacts the competitiveness of the Lebanese economy. In the Global Competitiveness Index 2011-2012, Lebanon ranks 89th surpassing only Egypt (94th), Syria (98th), and Yemen (138th) amongst other Middle East/North Africa (MENA) countries. The accompanying report lists underdeveloped infrastructure, including electricity supply, as one of the key challenges to improving Lebanese competitiveness.

Bearing in mind the SME and family-run nature of Lebanon’s economy, the electricity situation results in a ‘double hit’ for entrepreneurs. On the one hand, as noted above, high utility costs lessen businesses’ competitiveness and income.¹⁸ On the other hand, high utility costs lessen households’ investment budget for business.¹⁹ A micro-finance expert emphasized the fungibility between household and business budgets for many necessity entrepreneurs and explains that “high costs of production mainly affect people’s personal life as their expenses are very high; the money they spend on these utilities might have been injected in their businesses.” The World Bank (2008:20) notes that while larger firms are better able to compensate for power failures, small firms report losing as much as eight per cent and medium-sized firms about six per cent.

4.3. *Fragile electricity*

¹⁶ Author’s interview with Lebanese American University (LAU) professor.

¹⁷ Author’s interview with UN expert.

¹⁸ Author’s interviews with policy expert; ministry consultant; LAU professor; and start-up consultant.

¹⁹ Author’s interviews with microfinance expert; and social entrepreneurship pioneer.

High electricity costs in Lebanon are directly related to both fragility and hybridity.^{xvii} Costs are high partially due to outdated and damaged infrastructure. This, in turn, is to a large extent due to war-time destruction.²⁰ During the Civil War, Lebanon's physical infrastructure, including power plants and electricity networks, was largely destroyed (Leenders 2012:1). Moreover, the War also undermined the managerial, financial and technical capacity of EDL (Hasbani 2011:7). Israeli bombing during the 'Liberation War' (1996-2000) only aggravated this (Verdeil 2009:425; Kanaan 2011:9). The 2006 War "destroyed 28 'vital points' (airports, ports, water and sewage treatment, electrical plants etc.)" (Fatouch and Kolb 2006:98). This resulted in stringent electricity rationing throughout country (Hasbani 2011:12). On top of destruction by previous wars, looming future wars generate a lack of investment incentives to rebuild and improve electricity infrastructures (even if significant reconstruction funds became available) (Verdeil 2009:424; Hasbani 2011:9; Abi Said 2005:14).

4.4. *Hybrid electricity*

High electricity costs are not merely the result of fragility (in the form of conflict), but also of hybridity. First, Lebanon's political system seems unfit to develop and implement the reforms that might decrease costs.²¹ The elitist sectarian system does not "allow for [popular] grievances to find their way through the political system," which means that the mounting popular dissatisfaction²² with utility service quality and quantity is unlikely to affect voters' or policy-makers' behavior (Hasbani 2011:27). A ministerial advisor noted that "the Lebanese political system is geared towards blaming each other for problems, not towards solving problems." Moreover, "electricity reform requires political consensus," which is extremely scarce as a result of the polarized March 8-March 14 struggle and the short duration of governments (averaging two years) (Hasbani 2011:28). Many of my respondents see the electricity issue as being used as a bargaining chip by political actors. An advisor to the Ministry of Economy and Trade states: "there is political blockage; it's all political and personal; trying to share the cake and get your favorites nominated: 'If I don't get my judge, I won't accept your electricity law'." Hasbani (2011:28) confirms this, noting that Lebanon's complex system of political deal-making results in existing agreements constantly being called into question and thus obstructing progress on policy issues (as was the case with the 2002 Electricity Sector Decree). It leads one business journalist to conclude that "Lebanon is the best governed country, but it is governed for the wrong purposes."

Second, costs are kept high through an oligopolistic organization of the sector. While EDL has the official national monopoly on electricity production and distribution (Fardoun et al. 2012:310), it operates through a system of sub-monopolies – oligopolies – granted via maintenance, administration and consultancy contracts related to businessmen from the various sectarian communities.²³ These oligopolies and the related corruption – Sulahian (2004:23) states that in Lebanon only 2.4 per cent of the US\$ 6 billion worth of government projects are formally awarded by the Administration of Tenders; the rest of the contracts are

²⁰ Author's interviews with industry expert; polling expert; diplomat; and real estate expert.

²¹ Author's interviews with microfinance expert; and AUB economist.

²² Author's interview with industry expert; and ministry advisor.

²³ Author's interviews with corruption experts; UN expert; and IDAL representative.

awarded to the company paying the highest bribe – have their roots in militias’ interference in the electricity sector during the Civil War (Verdeil 2009:424). This oligopolistic logic was further entrenched during the Syrian occupation, Leenders (2012:183) argues, when the doling out of electricity and oil contracts to Syrian allies was institutionalized. Leenders (2012:187) cites various local media reports from the 1990-2005 period describing politicians colluding with major importers and strengthening their market control. Abdelnour (2003) notes:

That Lebanon’s political elites are so protective of a state enterprise that ranks as one of the world’s least profitable companies may seem puzzling to outsiders, but the reason is not difficult to discern. In addition to being the country’s primary conduit for electricity, EDL has been a conduit for distributing billions of dollars in kickbacks to pro-Syrian political figures in Lebanon over the last decade. As public uproar over the blackouts intensified in August, some of those involved in this embezzlement have leaked new details of the scandal to local media. What emerges is a tale of corruption and brazen disregard for the public good that is astonishing even by Lebanese standards.

Sulahian (2004:22) adds:

The Lebanese electricity sector, with its complex mix of public and private actors and often enshrined centers of monopoly power, is prone to corruption. This sector generates substantial cash transactions compared with other infrastructure sectors, mainly in both small and large capital-intensive investments as some projects are awarded “de gré à gré”, With EDL having a long history of weak monitoring, low transparency, and inadequate civil service pay, it represents the ideal place for nurturing and creating opportunities and incentives aimed at illicit gain.

As a telling example, Abdelnour (2003) recalls how Druze leader Jumblatt told reporters that the electricity crisis was the making of ‘the Baroudis’ in the Ministry of Electricity and Water. Jumblatt was referring to Rudy Baroudi, a senior advisor to the ministry since the early 1990s, and Ahd Baroudi, an entrepreneur whose company was contracted to carry out maintenance of power-generating equipment. A local newspaper followed up Jumblatt’s revelation by quoting sources close to Ahd Baroudi as saying that he has been paying millions of dollars in kickbacks to influential Lebanese politicians to keep his maintenance contract. In addition, the sources said that Baroudi acted as a go-between in a US\$ 750 million contract for the purchase of power-generating equipment in the early 1990s that was not commensurate with the price paid by the state (Abdelnour 2003).

The conflicts of interests of Lebanese politicians-cum-businessmen do not merely concern sub-contracting and outsourcing practices of EDL (Hasbani 2011:18), but also the lucrative generator sector.²⁴ Abi Said (2005:13) euphemistically notes that “the anarchical development” of the generator sector leads to “complex administrative, technical, environmental and judicial problems.” Socio-political implications come on top of that. Considering that many politicians are associated with generator businesses existing by the grace of EDL’s mal-performance, their interests cannot be expected to lie in improving EDL functioning. Reliance on generators in Lebanon is growing. In 2008, 58 per cent of all households used some form of self-generation whereas this was only 36 per cent in 2004 (Hasbani 2011:13). Moreover, 100 per cent of large and medium-size entrepreneurs surveyed declared they depend on generators (WB 2008:20). Given that each neighborhood usually has

²⁴ Author’s interviews with UN expert; microcredit expert; and AUB economist.

only one generator operator (or several generators that offer an agreed upon price) this provides generator businesses with significant leverage as they have a de facto monopoly in terms of setting prices (Hasbani 2011:20; Kanaan 2011:15). Thus, El Khoury (2012) describes, “the parallel network of private generators which was first seen as a temporary solution to a deficient supply of electricity, gradually turned into a formalized system and became part of the country’s energy landscape.” Local generator monopolies, moreover, are seen as linking up to national sectarian oligopolies as “it is said that some of them [generator businesses] have political backing and others have tribal backing” (Mohsen 2012). Mohsen (2012) surmises:

The absence of the “state” has massively expanded their business. Now, no one gets in their way. They are able to resolve internal differences by mutual consent. No one encroaches on another’s area of influence and no one rebels against the electricity “godfather.” No one would dare. There is no alternative to the “godfather,” who sets the price according to his whim. “If you like it, then welcome, if you don’t, then go to Gebran Bassil [the electricity minister].”

In some areas, local media have accounted, electricity distributors ran for municipal seats and won the first round of elections because “their electricity was excellent” (Mohsen 2012). Indeed, an economist from the American University of Beirut (AUB) muses that “the government used to shut these generator businesses down, but this stopped,” suggesting that this might be “because they bought into them.”

Related to this, a third aspect of the impact of hybrid governance on the Lebanese electricity sector is the way the sector functions as a job distribution mechanism along sectarian-clientelist lines (Verdeil 2009:426). The Lebanese sectarian quota system effectively working as an official mechanism to ‘divide the pie’ of state jobs among sectarian communities, was mentioned as the core problem by my respondents. “Politicians put their people in the administration and now even the public companies are divided.”²⁵ Current tensions and strikes within EDL, for instance, stem for a large part from the tendency of the Speaker of Parliament to dole out EDL jobs among his party’s followers to the extent that it is seen to breach the quota guidelines in the eyes of other political groups.²⁶ Echoing popular sentiments, Abdelnour (2003) hypothesizes that one of the reasons why EDL has run such massive deficits is that the company “has a bloated staff of administrators who earn astronomically high salaries and obtained their jobs through connections to senior politicians.” Hasbani (2011:18) discusses the phenomenon of ‘phantom personnel,’ people registered in EDL’s accounts but never showing up for work – a situation the Ministry is well aware of as its own policy paper states that “EDL employs around 2000 contractual and daily workers, many of whom are *political appointees and unqualified workers*” (Hasbani 2011:18, original emphasis). In light of this, Badelt and Yehia’s (2000:40) observation that “whereas employees in Lebanese power plants produce 2.32 GWh, the international benchmark amounts to 8.23 GWh” is hardly surprising.^{xviii}

Fourth, hybridity does not merely affect the electricity sector through job distribution, but also through direct resource distribution, often as a mechanism to win votes or reward loyalty

²⁵ Author’s interview with ministry advisor.

²⁶ Author’s interviews with diplomat; and LAU economist.

(Verdeil 2009:424; Leenders 2012:249; Sulahian 2004:14-15).²⁷ Verdeil (2009) argues that the response to practices of fraud and non-payment related to electricity vary dramatically per region and reflect local political power plays. He proposes that the distribution and management of electricity reflects and reinforces spatially manifested sectarian segregation (Verdeil 2009:422). Abdelnour (2003) shows that political elites use EDL to distribute free electricity to their constituents. He suggests that around 55 per cent of EDL bills are not collected and that around 45 per cent of electricity generated by EDL is not even billed (estimates confirmed by Ghajar and Khalife (2003:26); Hasbani (2011:1); Badelt and Yehia (2000:42) show that the EDL deficit results largely from ‘inefficient’ billing and high non-collection rates). Abdelnour (2003) quotes the head of the parliamentary Energy and Water Committee as saying that “many of those who get electricity free enjoy ‘political protection’” and emphasizes that “those who do not enjoy political protection, on the other hand, are obliged to either pay the highest price for electricity in the Middle East or bribe EDL bill collectors.” Hasbani (2011:26) also uncovered systematic ‘preferential treatment’ of certain areas by EDL. Such ‘preferred customers’ are individuals, businesses, or institutions that benefit from guaranteed electricity supply.

A habitant of one of Beirut’s neighborhoods explains that “the street where my building is located gets cut off when a high level official living in a parallel street needs to use an elevator in his building.” It is also reported that some neighborhoods in Beirut, normally subject to three hours of electricity blackouts per day, benefit from continuous 24-hour access to electricity since they house high-profile residents. (Hasbani 2011:26)

Thus, while experts agree that the majority of entrepreneurs is disadvantaged by the current clientelist and oligopolistic set-up of the electricity sector, some Lebanese businesses reportedly benefit from the lack of transparency in the electricity sector. Despite this being a minority of entrepreneurs, it reduces the urgency of reform, particularly for those who can afford generators and can hence get along without reliable public service, like “Lebanese political and business elites who benefit from privileges that are usually inaccessible to most of the population” (Hasbani 2011:20).

5. Conclusions

The Lebanese electricity file shows the dual game logic underlying hybrid governance, with services being provided through formal government channels – EDL – but via an informal, clientelist logic – national companies subcontracted by EDL based on a sectarian oligopolistic rationale (and their local generator clients). By utilizing the electricity sector as a distribution mechanism for political bargains, contracts, jobs and resources – often along sectarian lines – there seems to be a varied collection of vested interests in maintaining the status quo. This obstructs the potential for the reforms experts deem necessary to make electricity more reliable and affordable (and business more competitive).

The above leads me to two final reflections. First, while entrepreneurship and innovation are often seen as interchangeable, this might be less the case in fragile and/or hybrid settings

²⁷ Author’s interviews with policy expert; and ministry advisor.

where dialectic volatility and deadlock might enhance necessity and opportunity entrepreneurship, but undermine innovation entrepreneurship (WEF 2011:8; Schoar 2010:57). As already recognized by Baumol (1990), fragility or hybridity does not so much affect the quantity of entrepreneurship, but it decisively shapes the quality of it (see also Peschka 2011). Although containing abundant intuitive logic, this disconnect between entrepreneurship and innovation and the distinction between necessity, opportunity and innovation entrepreneurship was not structurally recognized by representatives from Lebanese government agencies and incubators I spoke with. They continue to advocate the generic job-generating capacity and innovativeness of entrepreneurship at large.

Second, in general, but perhaps even more so in fragile or hybrid settings, it is misleading to distinguish between internal – inter-company – and external – institutional, political and distributional variables outside the company – components of entrepreneurship systems (Mehzer et al. 2008:36; Ciarli et al. 2009).^{xix} Company processes are shaped by larger cultural and social structures; management skills are related to educational opportunities; and product quality depends on availability and affordability of resources (Guglielmetti 2010:2; Peschka 2011:11). In line with this, it does not seem advantageous to separate ‘political’ or ‘governance’ issues from ‘technical’ or ‘administrative’ entrepreneurship issue.

With reference to the electricity sector, Hasbani (2011:4) notes that the problem “has been addressed by a number of academic and applied studies,^{xx} which provide technical recommendations for its reform; however, little analysis has been undertaken concerning the reasons behind the failure to reform and the conditions that could facilitate it.” The study by Badelt and Yehia (2000:39) which exclusively devoted to “a set of technical and financial efficiency indicators” is a case in point. It talks about ‘Lebanese decision-makers;’ ‘change management;’ and ‘independent regulatory bodies’ without any reference as to the possible reasons for the ‘inconsistent data;’ ‘limited industrialization;’ and ‘low labor productivity’ they note as well. Abi Said (2005:4), too, concludes that the Lebanese “electric sector is suffering from combined technical, administrative and financial problems,” failing to mention any political, governance or institutional challenges. Similarly, in their study on a new meter system for EDL, Ghajar and Khalife (2003:26), limit themselves to technical and economical feasibility at the expense of political viability. Verdeil (2009:431) shows that the World Bank seems to devote disproportional attention to financial and managerial reforms, practically ignoring the policy implications of underlying political incentive structures – even if the Bank is aware of these dynamics as evidenced by sections in its 2008 report (WB 2008:16). The IMF (2009:12) also maintains – in stark convergence with my own qualitative findings – that “it is interesting to note that the corruption, regulations, and transport constraints are statistically insignificant in explaining growth performance.”^{xxi}

The significance of the political and governance components for entrepreneurship has important consequences for planned World Bank and IMF driven privatization plans – in particular Law No. 462 (9 April 2002 – Organization of the Electric Sector in Lebanon) (Abu Said 2000:4; Sulahian 2004:42). The Law follows World Bank advise to “regulate and restructure the sector and activate the participation of the private sector” (Abi Said 2005:6). It stipulates:

[...] the unbundling of the vertically integrated single monopoly sector, at first, into three state owned joint-stock separate companies, denominated “Privatized companies” (one for generation, a second for transmission, the third for distribution). Within two years, a maximum of 40 % of the shares of generation and distribution companies will be sold to private investors, while the transmission company remains permanently state-owned. At a later stage, the remaining shares owned by the Lebanese State shall be offered to investors from the private sector. (Abi Said 2005:15)

In light of the above sketched dynamics (see especially Leenders 2012), it is not hard to imagine how privatization through management contracts, leasing, concessions or divesture is fraud with risks towards further elite-capture, oligopolization and clientelist stratification of the electricity sector (Sulahian 2004:136). The envisioned control of collection contracts and concessions (Badelt and Yehia 2000:43-44) by means of “an independent sector regulatory body” (Abi Said 2005:15) is likely to become a farce, just like the establishment of “independent business units.”^{xxii}

Beyond the electricity sector, the impact of fragile and hybrid governance on entrepreneurship also holds implications for the budding Lebanese entrepreneurship support system. The current entrepreneurship ‘buzz,’ namely, is remarkably de-politicized. Despite the reigning enthusiasm among interviewees, Abdo and Kerbage (2012:72) list several features of the current Lebanese entrepreneurship support structure that provide a less euphoric picture.^{xxiii} They note that the impediments obstructing entrepreneurship “are often constructed as constraints on individuals, and only rarely are structural or systemic concerns analyzed or addressed” (Abdo and Kerbage 2012:72). This paper demonstrated why such an approach will ultimately be unable to generate the vibrant and innovative entrepreneurial ecosystem desired by the experts consulted.

The key to enhancing innovative entrepreneurship should be sought in the Lebanese political system rather than its economy. As Makdisi and Marktanner (2010:14) have keenly noted: “As Lebanon is famous for its economic entrepreneurship, it remains to be hoped that political entrepreneurship will eventually follow to resolve Lebanon’s trap of consociationalism.”

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Endnotes

ⁱ Respondents were selected based on preliminary stakeholder mapping and subsequent snow-ball sampling. Considering the exploratory nature of the scoping paper, priority was given to accessing a broad and diverse group of experts (from civil society, academia, journalism, the private sector, government and the international donor community) rather than a targeted and representative group of businessmen and entrepreneurs.

ⁱⁱ In one of the most recent researches into the demographic issue, Faour (2007:912) estimates that in 2005 the Maronites made up 19 per cent of the population, the Shia 34 per cent and the Sunnis 21.3 per cent.

ⁱⁱⁱ The March 14–March 8 dichotomy is, in fact, coined by March 14 and only grudgingly subscribed to by March 8. The terminology links the distinction between the two political blocs to the dates of the anti- (14 March) and pro- (8 March) Syrian manifestations.

^{iv} Leenders (2012:163) characterizes the post-Taif political system as follows: “Five interrelated features of the political settlement stood out in shaping the process of decision making in the Second Republic: (1) an extreme dispersal of power and associated quasi-permanent gridlock in the decision-making process; (2) the predominance of the troika [President, Prime Minister and Speaker of Parliament] and the politics of *muhassasa* [allotment]; (3) continuous attempts to circumvent the built-in stalemates of the political arrangement laid out in the Ta’if Accord; (4) extremely weak popular support for political elites, exposing them to confessionalist strategies and narrow, local agendas; and (5) the overriding role of the Syrian leadership’s interests in Lebanon, its manipulation of the country’s differences, and its growing resort to authoritarian interference.”

^v The fragile state concept is extremely broad, implausibly sweeping all struggling countries on one big pile; static in assuming an end-state of institutional development to be measured; utterly state centric; unable to distinguish between causes, effects and characteristics; and by now too closely associated with normative policy frameworks (Di John 2011; Patrick 2006; Duffield 2007; Chandler 2006; Reinert et al. 2007). It has been challenged and refined by more analytically rooted concepts (such as Boege et al.’s (2008, 2009) ‘hybrid political order,’ Menkhaus’ (2006) ‘mediated state’ and Lund’s (2006) ‘twilight institutions’ (Overbeek et al. 2009:24 in Stel et al. 2012:26). In a rudimentary sense, however, the concept of fragility is useful to direct attention to the role of the state in wanting socio-economic development by referring to ‘the existence of persistent, systematic, significant and interrelated social, political and economic uncertainties’ (Binzel and Brück 2007:5 in Guglielmetti 2010:1).

^{vi} Namely: the *State Fragility Index* at George Mason University; the *Fragile State Index* of the Country Indicators for Foreign Policy Project at Carleton University in Ottawa; the Failed State Index of the Fund for Peace in Washington; the *Peace and Security Ledger* of the Center for Development and Conflict Management at the University of Maryland and the *Index of State Weakness* of the Brookings Institution.

^{vii} In 2000, there were 5000 officially registered NGOs (Hillenkamp 2005) and it is generally assumed that this number might have doubled since then.

^{viii} The impact of the war in Syria on Lebanon suggests that it might be particularly the politico-institutional spillover that further cements state paralysis. The sometimes intense fighting in North Lebanon between Sunnis and Alawites instigated by the Syrian conflict comes at a high human cost and puts local politics on edge (Farell and Safwan 2012). The large refugee flow has also strained the Lebanese economy and, in some cases, societal stability. It seems to be the political spillover of the conflict, however, that both lays bare and aggravates Lebanese fragility. The affiliation of Lebanon’s two political camps with the rival Syrian and regional powers – March 8 with the Syrian regime and Iran and March 14 with the Syrian rebels and the Saudi-American axis – has resulted in a political sphere so apprehensive that the Syrian elephant in the room is discussed but not responded to in any clear sense (Daily Star 2012b) – as evidenced by kidnappings in mid 2012 and the shocking bomb attack that killed general Wissam al-Hassan and rekindled civil war memories (Samaha 2012; Botleho and Abedine 2012). The ominous reality that if Lebanon is dragged into the crisis, the Syrian conflict would inevitably become a regional one has paralyzed Lebanese agency in responding to the Syrian crisis.

^{ix} Some observers even linked the absence of medium sized enterprises to this, reasoning that while small businesses are not lucrative to extort from and big businesses are owned by politicians, the segment in between is rewarding to bribe, which could be a disincentive for small businesses to grow. Clearly, relations between private sector, public sector and civil society differ per sector and that politicization only occurs when there is significant money to be made, such as in the construction sector.

^x The state has never nationalized or expropriated privately-owned firms and owns just two mobile phone networks, the electricity utility *Electricité du Liban* (EDL), flag-carrier Middle East Airlines (MEA) and the Intra Investment Company that owns the Finance Bank, Casino du Liban and real estate assets (LTA 2011:106).

^{xi} This is particularly well illustrated by accounts of the Hariri era and the concomitant reconstruction process in which oligopolistic structures became increasingly visible and institutionalized (Denoeux and Springborg 1998:160; Leenders 2004; Hockel 2007).

^{xii} The Lebanese Ministry of Industry categorizes SMEs by the number of employees. It defines micro-enterprises as those that employ fewer than four people, small enterprises as those that employ between five and 19 employees and medium enterprises as those that employ between 20 and 49 employees (Mehzer et al. 2008:39).

^{xiii} This preponderance of SMEs and family businesses has been ascribed to Lebanon's legacy of war, specifically to import restrictions during the civil war, which stimulated the rise of a large number of small-scale industries that aimed to meet the demand for previously imported goods. The absence of taxes and government control during the war as well as the wartime depreciation of the Lebanese pound and the consequent significant decline in labor costs, also contributed to SME environment (Mehzer et al. 2008:41).

^{xiv} In their profile of the average Lebanese entrepreneur, Pistrui and Fahed-Sreih (2010:83-84), paint a picture of a 41-year old, male, highly educated person with seventeen years of work experience. They distinguish between an existing "deep-rooted entrepreneurial class and an emerging new group of dynamic female entrepreneurs." In Lebanon, one can open four types of ventures: a non-profit organization; a for-profit (limited liability) enterprise; a for-profit personal enterprise; and a civil company (Feghali et al. 2012:8). The registration process is not complex, but it is expensive, requiring a lawyer and costing between US\$ 1000 and US\$ 5000. According to the World Bank (2012a:15-16, 20), starting a business in Lebanon requires five procedures, takes nine days, costs 67.1 per cent of income per capita and requires paid-in minimum capital of 35.3 per cent of income per capita. Lebanon knows three bankruptcy scenarios: "depending on the type of bankruptcy, one may a) see all his or her possessions and assets seized and be prohibited from working for ten years, b) face between three months and three years in jail, and c) face up to seven years in jail" (Feghali et al. 2012:8).

^{xv} This is related to another Lebanese feature, that could perhaps be called the 'regional flag store function,' namely the idea that Lebanon – not in the least place due to the large amounts of Arab tourists it (usually) attracts – serves as some sort of advertisement display for the rest of the region which would make it an attractive place to start up new initiatives. The experts interviewed felt that "in the Arab world, people really look up to the Lebanese - not the fighting Lebanese, but the authors, the media, the businessmen" (author's interviews with BIAT representative; and Berytech representative).

^{xvi} Following a 2010 IMF study, Apikian (2010) concludes that if electricity constraints in Lebanon are reduced to the world average, this would lead to an improvement in the country's real per capita GDP growth of one per cent; if such obstacles are reduced to OECD levels, then the countries real per capita growth could gain 1.9 per cent annually.

^{xvii} This 'double hit' dynamic in itself might be related to fragility – in the sense that family businesses are often seen as a mechanism to cope with the instability generated by conflict (Pistrui and Fahed-Sreih 2010:115) – and hybridity – as some experts suggested that entrepreneurs prefer to keep their companies small/medium to minimize their interest for rent-seeking elites (author's interview with LAU economist).

^{xviii} An economist working for the LAU, moreover, opts that such job distribution might not only dent entrepreneurship via high electricity costs but could also directly undermine entrepreneurship as "this system creates incentives to rely on such channels of employment, rather than – for instance – starting a business."

^{xix} There have been several academic studies into the challenges facing entrepreneurs in Lebanon. Ahmad and Julian (2012:35) claim that internal factors are critical in deciding the success or failure of Lebanese entrepreneurs, with innovation, flexibility, product quality, human resources and venture capital being the core limitations. Mehzer et al. (2008:34) similarly argue that business failures of Lebanese firms are mainly due to internal controllable factors including lack of innovation and flexibility, inferior product quality, the lack of experience of owners/managers in the sectors, an unfavorable personality, conflict between business partners, the failure to establish a market niche, the excessive withdrawal of cash by owners, inventory problems and bad communication skills. Leenders (2004:175), in contrast, points out that "when asked about which factors they held responsible for their failures and/or successes in business, entrepreneurs very rarely pointed at market dynamics in the pure sense." He refers to a 1995 World Bank survey among entrepreneurs that revealed that participants were much less troubled by market factors (such as domestic or foreign competition or lack of

demand), than by a high cost business environment due to erratic government policies, corruption, complex procedures, and delays on customs as well as a stifling state bureaucracy at both central and municipal levels. A 1999 cross-sector survey of businessmen's views on which Leenders (2004:175) reflects cited similar external factors (corruption, government procedures and informal competition) to be the biggest obstacles to doing business. A 2006 Foreign Investment Advisory Service (FIAS) survey of more than 450 Lebanese enterprises also found corruption to be the main obstacle to investment (LTA 2011:107).

^{xx} A study contracted by Ministry in 2007 stated that more than 60 reports were prepared for this purpose (Hasbani 2011:9).

^{xxi} See Dagher and Ruble (2011), Fardoun et al. (2012) and Dgaher and Yacoubian (2012) for further examples of the depoliticized approach towards electricity sector reform in Lebanon.

^{xxii} Some interviewed experts also advocated privatization, although mostly as a 'less bad' alternative to nationalization (author's interviews with ministry advisor; and real estate expert). Other experts stress that privatization would not generate significantly different dynamics in the sector or lower electricity prices (author's interview with LAU economist)

^{xxiii} They discuss women's entrepreneurship, but in light of the interviews taken for this study, their remarks seem to be relevant to the wider entrepreneurship ecosystem as well.