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GLOBALIZATION, PRIVATIZATION, AND PUBLIC ADMINISTRATION: A CASE STUDY OF LEBANESE STRUCTURAL ADJUSTMENT PROGRAMS AFTER PARIS III

by
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A thesis
submitted in partial fulfillment of the requirements
for the degree of Master of Arts
to the Department of Political Studies and Public Administration
of the Faculty of Arts and Sciences
at the American University of Beirut

Beirut, Lebanon
November, 2015

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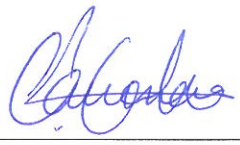

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Date of thesis defense: November 3, 2015

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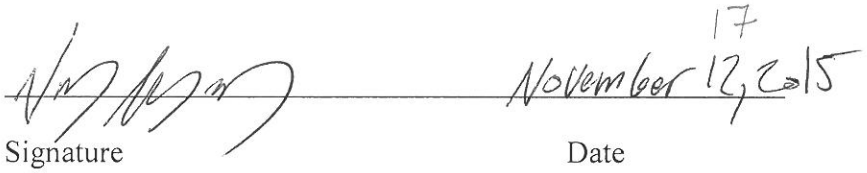

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ACKNOWLEDGMENTS

I am grateful for the constant help and support of my thesis advisor, Dr. Hiba Khodr, whose optimistic attitude towards securing interviews and analyzing data served as an inspiration for this research. I also appreciate the support and input from my thesis committee Dr. Tania Haddad and Dr. Carmen Geha.

I'd like to thank my family for all their support. My father's willingness to read 100 pages of unedited manuscript and provide feedback was an act of heroism. Finally, a special thank you to Noura whose constant support and positive attitude were invaluable throughout this process.

AN ABSTRACT OF THE THESIS OF

Nicholas Axelrod- McLeod for Master of Arts
Major: Public Administration

Title: Globalization, Public Administration and Privatization: A Case Study of Lebanese Structural Adjustments After Paris III.

Critics of globalization often point to the role of International Financial Institutions (IFIs) as a key component of the phenomena. To these critics IFIs use conditions embedded in development loans to force countries to adopt polices they otherwise would not have. One of the most controversial of loan condition policies is privatization of state owned enterprise.

Lebanon agreed to such conditions following the Paris III donor conference of 2007. Since then, though, the sate has fallen into noncompliance. This thesis uses a case study approach to test the assumptions of the power of IFIs in forcing policy implementation, asking what factors led to the noncompliance of the agreed structural adjustment reforms following Paris III? Lebanon is viewed as a single case with the proposed privatizations of the electric and mobile telecommunications sectors as units of analysis.

Utilizing a modified version of grounded theory methodology on data collected through key informant interviews, this research found that the ability of IFIs to force policy is limited and that the original loan conditions are often more collaborative than dictatorial.

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CHAPTER I

OVERVIEW

A. Introduction

The interaction between developing states and their donors has changed since the two U.S. based International Financial Institutions (IFIs) were created following World War II. During the 1980s and 1990s, a practice led by the International Monetary Fund and adopted by the World Bank and other IFIs was the introduction of loan conditionality. Unlike traditional conditions, such as repayment schedules or interest, conditionality was designed to promote repayment by fixing fundamental problems with the country, problems so fundamental, in fact, that they were typically part of the country's macroeconomic structure. Argued at the time as a good way to promote free-market ideas, it was also assumed that these policies would enrich the nations implementing them (Stiglitz, 2002).

While some critics of IFI conditionality (Farazmond 1999, 2002; Stiglitz, 2002) offer incisive criticism about problems that can result from conditionalities and the policy programs often implemented through them, others (Becher and Costello, 1998) see it as a an end to national sovereignty.

There remains a crucial issue these criticisms fail to address, and it inspired this research. . What happens when a country, in need of emergency development assistance, accepts the loan and agrees to the conditionality—then does nothing? It turned out it happens—frequently (IMF, 2001). It happens in Lebanon, and happened with two planned

privatizations of two major sectors agreed to as loan conditions during a multilateral donor conference in Paris in 2007.

B. The Lebanese Context

It is important to briefly examine the Lebanese political context and how power is shared in the Lebanese government. The discussion and theory discussed in later chapters are deeply enmeshed with a political system that dates to Lebanese independence in 1943. The Lebanese political system has always been undemocratic, based on religious affiliation rather than direct democracy (Al Hoss, 1984). This system, known as the confessional system, was formalized though never made official in 1943.

Known as The National Pact, political power would be spilt between the main sects, and positions would be determined based on the demography of the 1932 census. The Christian Maronite's were given a dominant role holding the majority of seats in Parliament and the Presidency. The Sunni sect of Islam was given the exclusive rights to the office of Prime Minister and the Shia sect was given the Speakership of Parliament. Sects with smaller portions of the population were also given specific offices in the government (Krayem, 1997).

The National Pact created deep political tensions that when compounded by external events, such as the Palestinian-Israeli conflict, eventually led to Lebanon's 15-year Civil War. In 1990 the remaining warring parties met in Ti'af, Saudi Arabia and signed The Document of National Accord, informally known as the Ta'if Agreement. This is the moment when Lebanese political history joins with current governmental dysfunction. The

Ta'if agreement was less a transformational document, and more a return to the system of the National Pact (Krayem 1997).

In fact, Ta'if served to ratify the National Pact which had heretofore been an unwritten agreement. While Ti'af did remove some of the executive power of the Presidency which had long-caused political strife, it also formalized the troika--the President was to always be Maronite Catholic, the Prime Minister was to always be Sunni, and the Speaker of Parliament was to always be Shia (Krayem, 1997).

As is covered in detail later, the political problems that have been created by a government of representatives that only has to answer to its own constituency created a system ripe for corruption and dysfunction.

C. Research Questions

What factors (political, social, economic, organizational) led to the noncompliance of agreed upon structural adjustment reforms following the Paris III funding conference, specifically the agreed upon corporatization and privatization of EDL (electric sector) and the mobile telecommunications sector? What is the status and future of these reforms?

CHAPTER II

METHODOLOGY

A. A case study

This research consisted of an explanatory case study of Lebanon's aborted privatization reforms of two key sectors: Electricity and mobile telecommunications, in the context of Lebanon's noncompliance with agreed to Paris III structural adjustments. Within the single case design, Lebanon, there will be two embedded units of analysis (Yin, 2009). The first is, covered in Chapter V is the mobile telecommunications sector. The second embedded unit of analysis is was EDL. These two embedded units exist within the single case of Lebanon (Yin, 2009). Data was be collected and analyzed from two main sources: contemporaneous documentation and key informant interviews.

This study employed a modified version of grounded theory methodology relying on both second-hand documentation and original interviews. A grounded theory analysis was applied to collected interview data both to answer my research questions and to build a theory stemming from an a priori theoretical framework explored in chapter IV.

Grounded theory is used to explain phenomena through analysis of evidence that emerges from the data. The emergent theory is therefore "grounded" in the data. In classic Grounded Theory theories are created through mixture of systematic data analysis and researcher creativity and are begun without a specific hypothesis in mind. However, as stated before, this research differs somewhat from classic grounded theory. I do employ

both a literature review and a theoretical framework (Chapters III and IV) which helped guide my research (Strauss and Corbin, 1998).

Grounded theory calls for interview data to be collected and examined at the same time. The act of data collection is an important part of the theory-building process. There are practical values to the research in this process, allowing for the "constant comparative" technique; reviewing interview data over and over as new data became available. Additionally, review of documents proceeded concurrently with the interview process (Strauss and Corbin, 1998).

B. Documentary Review

Review of primary contemporaneous documents was an important aspect of this research for a number of reasons. As a case study of events that happened 8 years ago, many Interview Respondents, both representatives of IFIs and public sector employees, were either not part of the process at the time, or had hazy and inaccurate memories of the events. Aminzade and Laslett (2004) argue the usefulness of historical documents, stating that they can be used to "reconstruct the past from residues, to assess the evidentiary status of different types of documents, and ... determine the range of inferences and interpretations" (p. 336).

The interviews provided an invaluable theoretical insight, while the supporting documents helped clarify, fill in gaps, and provide a source for fact-checking the claims made by interview respondents.

Of especially notable importance were the 11 progress reports detailing the implementation of reforms in the two years following Paris III. These reports, drafted for an international audience, paint a surprisingly honest picture of Lebanon's fall into noncompliance with the agreed upon reforms.

C. Theoretical Sampling

Through a system of "theoretical sampling" the interview subjects were found and selected through publicly available information, e.g. an organization's website. Later potential individuals and organizations were suggested to me by interview respondents, unsolicited. This allowed for a constructive process of theory building as the data informed what further data was pertinent. Eventually getting to the natural end point of grounded theory data collection, data saturation, wherein no new pertinent information is gained and interviews simply cover previously collected data (Strauss and Corbin, 1998).

D. Ethical Considerations

Potential interview respondents were contacted using either email or the telephone. Both approaches used an IRB approved script (See Appendix IV). Of the 43 potential interview subjects contacted 18 agreed to be interviewed; and 16 ultimately were (for an account of why two interview subjects dropped out see Chapter V). Participants who agreed to be interviewed were asked to sign an IRB approved consent form (See Appendix III) and were given the choice of having the interview recorded or having the researcher take notes. All participants remain anonymous, except for their place of work, as specified in the consent document.

E. Interview data

Depending on the preference of the interview subject, interviews were either recorded or notes were taken. If recorded the recordings were transcribed following the interview. If only notes were available these notes were typed following the interview. The transcriptions and notes were then uploaded into MAXQDA qualitative data analysis software for coding.

F. Open Coding

As data collection and sampling continued, interview notes and transcriptions were open coded. This preliminary data analysis proceeded concurrently with both the documentary review and the interviews. Open coding of interview data was done using a line-by-line coding method. According to Strauss and Corbin (1998) line-by-line analysis is necessary at the beginning of a study to generate initial codes (also called categories). Line-by-line coding was at first slow and arduous; however, after the initial documents it provided many reoccurring categories (codes) to search for in further data. It also informed future theoretical data samples as the identities of new relevant organizations or individuals emerged through the data (Strauss and Corbin, 1998).

Codes were categorized and dimensionalized some categories were created “in vivo” (i.e., quotes or phrases from the raw data) while some were created from the theoretical framework. Through MAXQDA Codes have levels and sub-codes (or children codes). Explained by Strauss and Corbin, the layers of codes are similar to the color blue can having different many different shades that are all clearly recognizable as blue. It is important to note that theoretical framework provided a helpful roadmap, but did not

prejudice the theory-building process (Strauss and Corbin, 1999). For the complete list of codes following the open coding process see Appendix I.

G. Axial Coding

The second step of the coding process began following the completion of open coding. Axial coding is used as a comparative process, looking at the relationships between two or more codes. This exploration of the relationship between codes looked for causal conditions, central phenomena, strategies of addressing that phenomena, importance of context, interactions between actors, and the consequences implied (Strauss and Corbin, 1998). At the end of the process 63 unique open codes (Appendix I), comprising 1,376 different segments of text was distilled into 3 (See Appendix II) main axial codes. For analysis following axial coding please see Chapter VII.

H. Selective coding

The final step of the data analysis was identifying the selective code. According to Strauss and Corbin (1998) selective coding can include as many as three and still be useful for theory building. However, this research pointed to a highly concentrated single code that was primarily responsible to build the theory outlined in the discussion section, Chapter VII.

CHAPTER III

PRIVATIZATION AND STRUCTURAL ADJUSTMENT PROGRAMS

"Privatization is the sale of enterprises that no one owns, and whose value no one knows, to buyers who have no money." Jansuz Lewandowski, Polish Minister for Ownership and Changes, 1991.

A. Definitions

To answer the question: what is privatization, perhaps it is best to start at the beginning with a simple, dictionary definition of privatization: "to remove (something) from government control and place in private control or ownership" (Merriam Webster, n.d.). This is a good starting point; however, when examining the parenthetical "something," from this definition, the process becomes more complicated. According to Laux and Molot (1988) state owned enterprises (SOE) are differentiated from other government agencies due to certain unique characteristics. SOE use their own independent accounting system which exists outside of the rest of the government that supervises it. SOE work inside the market structure of a country by creating goods and services from which they derive revenue that covers all or most of their budgets. The fact that SOE already exist in the marketplace and generate revenue (instead of relying on tax revenue) are key aspects of the logic of privatization.

The logic of privatization reforms is based upon certain theoretical assumptions about the state's role in the ownership of its enterprises. Arguments in support of privatization are based on the assumption that SOE decreases internal and external

investment and that governments cannot commit to an organization's growth and success the way managers of a private firm can. The result is less innovative enterprises than comparable private-sector counterparts (Stiglitz and Roland, 2008).

Additionally, governments have many different objectives which can be seen as "fuzzy" when compared to the single motives of private enterprise (efficiency and the profit motive). Governments also tend to favor investing in well-performing sectors, while cutting the budget of failing public enterprise. This can create a trap wherein failing public enterprises must endure a cycle of neglect and poor management (Stiglitz and Roland, 2008).

B. Strategies of Privatization

There are different strategies governments can adopt once they have decided to privatize their SOE. Savas (1992) outlines the three main strategies for privatization: divestment, displacement, and delegation. The first, divestment, is "shedding an enterprise or asset either by selling it or giving it away as an ongoing business, or liquidating it (that is, closing the business and selling the remaining assets" (Savas, 1992, 574).

Divestment can occur through the sale to one of, or a combination of, the "five types of buyers:" 1) a single buyer; 2) shares can be sold to the public; 3) the enterprise can be sold to the existing managers; 4) or to the employees to create a collective enterprise; and 5) the enterprise can be sold to its customers. The fifth is most common when state-owned land is transferred to tenant ownership for agricultural purposes. Divestment does

not necessitate sale; all five divestment types can be utilized wherein the state gives away the enterprise instead of selling it (Savas, 1992).

Second, privatization through displacement is a less structured type of transfer. The state owned enterprise is slowly replaced by private sector competitors. This process can be either planned or unplanned, usually through default or withdrawal. When by default the SOE are no longer capable of supplying the required demand and the private sector fills the gap and eventually edges the SOE out of the sector. Withdrawal takes the form of government ending subvention to failing SOEs, ensuring future failure if they cannot generate enough revenue to survive. This removal of subsidy with a coinciding exposure to the market is sometimes called marketization (Savas, 1992).

The last of Savas' (1992) main types of privatization strategy is delegation. In this type of privatization program a state will stop running an SOE and delegate service delivery to the private sector. However, unlike divestment and displacement the government plays an active role in regulating the delegated enterprise and ensuring proper service delivery. This can be done through a contracting system, where a private company takes over day-to-day operations of an SOE or through a franchise where the government awards the right to provide a service to a private enterprise. In a franchise system the private company can be given a monopoly or can be forced to complete with other franchisees. Delegation is often used as a stepping stone to full privatization.

Another type of privatization is what is known as "bottom-up" or "grass-roots" privatization. In this type of privatization the market either expands or is created to fill a gap or compete with SOE. This type of privatization can occur extra-legally, though cases

of wide-spread bottom-up privatization are usually spurred by sector deregulation or liberalization. This was one successful aspect of Poland's privatization transformation in the early 1990s (Rapacki, 1997).

C. Dangers of Privatization

The United Nations Economic and Social Commission for Western Asia (1999) advocates for privatization as a mechanism to speed economic growth and development. They also note the potential danger of privatizing too fast:

> "Rapid privatization, without enforcement of institutions, can threaten jobs and hence social control. In addition it can lead to corruption through the haphazard sale of State Owned Enterprises (SOEs) and through questionable exchanges in the stock markets" (ESCWA, 1999, 3).

Stiglitz (2002), too, argues that privatizing state enterprise too fast can create major problems. During speedy privatizations governments are often compelled to sell off their enterprises for less than market value to foreign investors or the wealthiest domestic investors. Following the collapse of the USSR—to take perhaps the most extreme case imaginable—a newly created oligarchy was formed from the massive public-to-private wealth transfer. As the Russian economy faltered the new class of oligarchs took their profits and invested it in safer, western governments and firms. This capital flight further undermined Russia's fragile economy.

Privatization has other serious risks associated with it. As is seen in Russia, privatization has a great deal of opportunity for corruption (Stiglitz, 2002; Stiglitz and Roland, 2008). Whenever there is a sell-off of public assets key decision makers in

government posts are in a position to decide who gets to invest in the newly privatized enterprise. While public ownership does not eliminate corruption, corruption is less prevalent in public enterprises on the whole (Stiglitz and Roland, 2008).

Nellis (2008) used Zambia as a case study. In 1998 the World Bank called Zambia's privatization program "the most successful" (Nellis, 2008, 119). However, four years later the Zambian government was on the verge of cancelling the privatization completely. The government argued that the program had been taken over by IFIs, that it had forced locally run Zambian businesses to close, that it had been a primary driver of unemployment, that it had increased corruption, and that it "benefited the rich, the foreign, the agile, and the politically well-connected" (Stiglitz and Roland, 2008, 199). The Zambian government thought that privatization had been forced upon them by the IFIs and the resultant social unrest seemed irrelevant to IFI leadership.

D. Examples of Privatization Programs

An illustrative case study of privatization is the privatization program under the Thatcher government in the United Kingdom (1979-1990). Critics saw it as policy overreach from a conservative government; supporters viewed it as a long-overdue divestment of public enterprises that the government had no business running in the first place (Heath, 1997). Problems in the program arose. The larger and more complex the public enterprise, the more difficult it proved to be to create private businesses that were capable of functioning with the same efficiency produced in the public sector. There is a subtle irony in this, of course. Proponents often point to the inherent efficiency borne out of

the profit motive that cannot be replicated in the public sector (Stiglitz, 2002). To achieve this outcome, however, competition within the marketplace is necessary.

Heath (1997) shows just how complicated it can be to take a sprawling public enterprise and privatize it in a way that ensures fair competition in a free market. In Britain the venerable public rail company was privatized. Twenty-five new passenger rail lines were created. Five new freight lines were created. And a separate enterprises were created to manage stations, scheduling, and operational safety. What followed was a tangle of hundreds of contracts, overlapping liabilities, and need for adjudication whenever a problem arose. Service suffered as legal disputes and their mediation created interruptions and delays (Heath, 1997).

Rail privatization in Britain serves to illustrate two points about privatization without necessarily making a value judgment on the process. The first, as Stiglitz (2002) points out privatizations of public monopolies should never be transformed into private monopolies. The rationale for privatization—mainly market forces will improve service delivery while simultaneously lowering prices—does not apply to a monopoly. In cases where monopolies have been created prices rise as service delivery either stagnates or worsens (Stiglitz, 2002; Heath, 1997).

Even a less complicated privatization program than British Rail, service delivery can suffer. Also in the UK, in 1995, after the rainiest winter since 1869 the privatized water company in Britain cut water supplies because they had refused to make new capital investments in water purification technology (Heath, 1997). This can be a side effect of

privatization: without proper oversight, the new private enterprise can forestall capital investment to insure higher short-term profits (Heath, 1997).

E. When and When not to Privatize

These problems lead to a simple question: when is it appropriate for government to privatize public enterprise? First, no privatization should take place unless competition will be present in the marketplace. However, when attracting foreign direct investment (FDI) selling off a monopoly is a lot easier than selling off an enterprise in a competitive field, or piece-by-piece to create sectoral competition (Heath, 1997). Second, a strong regulatory framework, with necessary enforcement mechanisms, must be created to ensure that monopoly (and other unwanted business practices) does not occur in the newly privatized sector. This framework should include workers' rights, operational transparency, and the appointment of nonexecutive board members (Heath, 1997). Third, peoples living in areas where providing service is unprofitable must be protected and ensured of service delivery (Heath, 1997).

Savas (1992) points to other challenges of privatization. When deciding who should own the newly privatized SOE, it seems that it would be most equitable for current employees to receive ownership. This can be problematic, as employee-owners are also less likely to make capital investments in the enterprise.

There are problems with selling the SOEs to internal investors. In many countries there simply is not enough private capital to purchase a newly private enterprise. This, along with the obvious problems that come with allowing international investors to purchase former SOEs leads to the type of solution adopted by Poland and other Eastern

European countries following the fall of communism—essentially giving the enterprises away to domestic operators. Savas (1992) argues that giving away all or the majority of shares of former SOE to domestic investors is the only sensible way to privatize SOE. This is especially true for SOE that are hugely valuable, like public utilities.

Woodward (1997) highlights the risks of using outside, foreign direct investment, to privatize SOE. Monopolies in small communities are both common and highly controlled. In a small community social pressures make monopoly operators unable to materially benefit from their position as monopoly suppliers. This is because as Pym (1985) points out social controls based on long-term personal relationships can be highly effective at regulating market actors' behavior.

Woodward (1997) argues that one of the problems with the ongoing debate about the intelligence of implementing privatization reforms is the unempirical arguments used by both supporters and detractors. There is less room to root out the finer points of whether programs are successful or not when "…debates on privatization/public enterprise have been conducted by graceless zealots on the grounds of faith, with evidence selected to support such faith" (p. 55).

Woodward (1997) ends his critique of privatization programs by asking the simple questions: "How do countries treat their old? How do they treat their young?" (p.56) This, Woodward argues, can be used as evidence of societal pathologies which extol greed. In his view, many less developed nations care more about their vulnerable populations then the developed economies. This is a problem that could be globalized and exported to developing nations through the use of privatization programs and foreign direct investment.

Heath (1997) concludes his argument by stating that the IFIs should be fully under the jurisdiction of the UN General Assembly and be more accountable to the needs and rights of vulnerable populations.

F. Privatization and Globalization

Farazmand (1999, 2002) is very critical of privatization in the globalized marketplace. He asserts that privatization is not a "haphazard" phenomenon, but a tool used to expand the reach of globalized capital. Throughout the previous discussion of privatization as a process, global capital can be seen as an implied force. Attraction of FDI to countries who have completed privatization reforms is a common argument for supporters of these reforms (Savas, 1992). While withholding judgment on the wisdom of capitalism and political ideologies that support it, it is fair to say that SOE is antithetical to the aims of free market capitalism.

Farazmand (2002) argues that privatization is the mechanism of a strategy. He calls privatization the "engine of globalization," and argues that it is used to subvert the power of governments and bolster the power and profits of multinational corporations (MNCs).

To support this argument, Farazmand (2002) argues that there are 11 functions of privatization, through his frame of privatization as a strategy to promote global capitalism. These include moving SOE into the private sector while eliminating regulation; lowering wages of previously well-remunerated public sector employees; a classic race to the bottom scenario wherein countries try to attract capital by lowering environmental and working standards; promoting a stronger state security apparatus to ensure strong reactions to domestic disturbances; an active promotion of individualistic, consumer-driven cultures; an

active campaign to move the elite in the countries into the sphere of the multinational corporations thereby shrinking the public-private dichotomy; and creating a culture of dependence, where countries constantly need support from IFIs.

While different countries may decide to privatize different sectors for different reasons, Farazmand's (2002) arguments to paint a compelling picture of the motives of at least some actors in the global community who support privatization as a key macroeconomic structural adjustment.

Be it a well-planned and executed strategy to expand corporate control and ensure growing capital as detractors like Farazmand assert (1999; 2002) or a necessary adjustment to improve faltering economies as supporters like Savas (1992) argue, it is clear that the mainstream view of many economists by the 1980s was to view SOE as a hindrance to the growth of developing economies (Chang, 2003).

G. Structural Adjustment Programs

Prager (1997) illustrates the usefulness of the principle-agent problem when examining privatization initiatives. The framework is widely applicable in any situation where the interests of a large group (principle) or of multiple groups are the responsibility of a single, smaller group (agent). When applied to this study the principle would be the IFIs and other institutional donors and the agent would be the recipient country who is responsible for implementing the reforms agreed to as loan terms with IFIs.

The problem arises when the country (agent) decides that the agreed upon terms (loan conditionality, for example) are no longer in the state's best interest. Oversight by the principle (IFI, in this example) is further complicated because there will necessarily be an

information asymmetry favoring the agent. This problem is especially difficult to avoid in a donor-state relationship as the donor has no choice but to leave the state its rightful autonomy over the implementation of programs.

Killick (1997) applies Principle-Agent theory to IMF structural adjustment programs. He argues that the conditionality in aid packages is contradictorily both ineffective and strongly encouraged by the international community. To put the Structural Adjustment Programs (SAPs) into context it is important to note that they were relatively uncommon prior to their widespread adoption by IFIs in the 1980s. By the 1990s the average number of conditions per Structural Adjustment Loan (SAL) in was 56, meaning there were, on average, 56 macroeconomic policy changes per loan (Killick, 1997).

While NGOs and other advocates for developing countries have been historically critical of SAPs, following the end of the Cold War new environmental and humanitarian conditionalities have been added to loans which have gained wide-spread support: "[B]ilateral donors have taken the lead in extending conditionality to the sphere of political systems, introducing stipulations concerning the observance of human rights and the rule of law, and progress towards multi-party democracy" (Killick, 1997, 484).

One of the problems that naturally arises when trying to measure the effectiveness of any structural adjustment program is the fact that there is no way to accurately tell what would have happened to a state's macroeconomic situation had it not implemented the SAP or had chosen a different set of policies: "assessment of the impact of adjustment programs is fraught with difficulty, particularly because we can only guess at the counterfactual" (Killick, 1997, 485).

There are two main typologies when IFIs design structural adjustment programs. The first are "hard-core" programs. These programs must be implemented prior to the disbursement of the loan, they are a prerequisite condition. The second are "pro-forma" conditions, conditions that must be implemented following the receipt of donor money. While "hard-core" conditions cannot be violated without losing access to needed funds, "pro forma" conditions can and, not incidentally, comprise the vast majority of instances of noncompliance (Killick, 1997).

Killick (1997) argues that implementation of these pro forma conditions is often weak and ineffective. More than half of the extended SAPs were "discontinued before the end of their intended life" (p. 486). Moreover only around 25% of Structural Adjustment Programs implemented between 1985 and 1993 through loan conditionality were successful.

Killick (1997) complied data on 21 countries with emerging economies who had agreed to Structural Adjustment Loans. In this case the principle represents the IMF and the agent the recipient country. The results were based on a rationalist idea of unitary government (discussed at length in Chapter IV). Implementation was correlated with whether or not the program would provide a net-benefit to the recipient country.

Killick's (1997) findings also showed that disagreements during the hard-core conditionality phase would more likely lead to noncompliance later on during the implementation cycle. Put simply, this evidence suggested that the more reluctant a government is to accept structural adjustments insisted upon by the IFIs the more likely

they are to violate the agreement in the future. The reluctance is often predicated on a basic disagreement about whether or not the SAPs will prove beneficial to the recipient country.

Ownership of the program also showed a strong correlation with implementation and success of the program. If the country's government felt that it was in charge of and "owned" the program and its related processes, than the success rate for the program was much higher than when they felt it was being managed by super-governmental organizations (Killick, 1997).

The dichotomy and asymmetry between donors and governments is likely to lead to a nationalistic backlash against IFIs who are seen as interfering with domestic economic policy. IFIs may see an opportunity for moral hazard,[1] whereas national governments may look at the choosing whether to comply or violate an agreement as an exercise in sovereignty (killick, 1997).

There is also a lack of evidence supporting one of the main premises underpinning conditionality: that external actors will see the government as more credible and be more likely to invest in the country. For their part, IFIs have been unable to design a functioning incentive structure to promote compliance. If a state has a different objective than the donor agency, any incentive structure is likely to fail (Killick, 1997).

Also, there is no real risk of punishment within this "policy for money" design. In the circumstances when there is a mechanism for punishment for non-implementation it is almost never used. When this is coupled with the characteristic under-funding of programs,

[1] Moral Hazard defined by Krugman (2009) as: "Any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly."

noncompliance in the form of abandoning flailing programs becomes a reasonable policy choice (Killick, 1997).

It is important to note that the IFIs certainly have the statutory power to influence international markets as well as the power to sanction countries who fail to comply with the terms of the SAPs. Noncompliance of SAP conditions remains common, despite the power that the IFIs have to attempt and force countries into complying. Between 1987 and 1999 only 45% of agreed upon privatization programs were implemented. The power that IFIs have to sanction is not necessarily stronger than a country's own political system (Dreher, 2004).

Svensson (2003) supports a more aggressive form of oversight from the IFIs. He argues that violators of conditional aid should have future aid restricted to ensure future compliance, however Killick (1997) contends that IFI conditionality simply does not work, at least not as "a means for improving economic policies in recipient countries" (p. 493) and therefore should not be enforced. Killick compares conditionality to sanctions. Whereas conditionality offers a generally positive incentive structure and sanctions are designed to be punitive, both are similar in that they are designed and implemented outside the power of the receiving country. They are also similar in their lack of effectiveness at changing policy.

Chapter IV

THEORETICAL FRAMEWORK

A. Two Main Theories

Much of the theoretical framework for viewing compliance and noncompliance of international agreements draws from International Relations theory. How to view the interactions between international actors, both state and non-state, has generated a huge body of literature. Compliance theories seek to explain why states do or do not follow through with various agreements. These range from bilateral treaties to, as this thesis focuses on, agreements with IFIs and other multilateral organizations. Much of the theory is conjectural as there is no single answer for why a state may choose to honor or violate their commitments. The theories can be divided into two broad frameworks of analysis, each using a different set of assumptions to describe and explain state behavior. These are: Rationalist (or rational choice theory) and Constructivist theory (Checkel, 2001).

According to Checkel (2001), Rationalist theorists see the decision whether to comply or violate an international agreement as based primarily on a careful analysis of costs versus benefits. Whichever decision, be it comply or violate, which results in the best net-gain for the country, that is the decision that will be taken. According to Rationalist theorists there is less room for normative rationales in explanations of state decision making.

Constructivists, however, focus on compliance rationales that are based upon "social learning, socialization, and social norms" (Checkel, 2001, 553). Legitimacy and rule

of law are important factors to Constructivist theorists. Constructivists contend that not only the ruling elite, but the state bureaucracy all have normative expectations about following agreements and the importance of rule of law. Because of this, compliance takes on a moral tone, as states see a normative imperative to comply with their agreements (Checkel, 2001).

The theories are not completely exclusive of one another and many authors move away from an orthodoxy (Chayes and Chayes, 1993; Hurd, 1999). The Rationalist school has made room for normative incentives as a partial explanation for compliant behavior. Furthermore, the assumptions are more useful for theory building than they are for explaining any specific case of noncompliance. This is reflected in the literature: any set of assumptions used are per se more useful as a theory-building tool than as an explanatory tool (Chayes and Chayes, 1993, 1995; Underdal, 1998; Hurd, 1999). Below is a greater explanation of the two dominant theories of compliance, as well as a brief examination of applying principle-agent theory to the phenomenon of noncompliance.

B. Rationalist Theory

The most important assumption that rationalist theories rely upon is that state governments are unitary actors (Chayes and Chayes, 1993; Killik, 1997). The following assumptions are impossible without the basic idea that the political process by which a state chooses to comply or violate international agreements exists within a sphere of total political control, or, at the very least, political unity when it comes to decisions related to compliance of international agreements. A state's foreign policy, in Rationalist theories, is a unified policy that enters the international sphere with a single voice (Hurd, 1999).

Underdal (1998) describes the unitary actor as fundamental to his "calculus of compliance" model. In this theoretical model the main assumptions are: "1) states are unitary, rational actors; 2) decision-makers carefully evaluate options in terms of costs and benefits and only chose the terms that will have a net-benefit to their nation; and 3) states are in full control of their societies" (p. 7). The purpose of these assumptions is not because theorists necessarily—or ever—believe a theory can accurately and fully explain decision making processes. Again, these assumptions are useful because they are conducive to theory-building (Underdal, 1998). Moreover, the nature of international agreements is that each actor must often act as though these assumptions are true, even if they know that they are not true, or are only sometimes true. Many of the assumptions can lead to smoother relationships in the international sphere (Underdal, 1998).

Using these assumptions can provide a useful tool for analytical modeling. Underdal (1998) argues that it is possible to forecast compliance rates based on a number of factors. Basic modeling can make the assumption that "…a party will comply if, and only as long as, its expected marginal abatement costs are lower than its expected marginal damage costs (and it may comply if the two are equal)" (Underdal, 1998, 8). This can be added to by including the costs that a state would assume through noncompliance, costs that can include non-monetary expenses such as reputational damages—a Rationalist take on normative ideas.

There are more factors that can be used in attempting to predict the likelihood of compliance. If the monitoring mechanism in place is weak or unlikely to spot noncompliance, than noncompliance is more likely (Underdal, 1998). If small actors are

involved in multilateral agreements wherein the smaller actors benefit from free-riding, noncompliance through free-riding is also more likely (Underdal, 1998).

Embedded within the research about compliance is a tendency to look at it as a binary phenomenon. A state either complies with its responsibilities under international agreements or it fails to. However, it is important to note that international agreements are often complex and long-term. Often, too, they have many facets and levels of agreements. Chayes and Chayes (1993) argue that statements such as "that countries generally comply with their agreements" or that "they violate them when it is in their interests to do so" are not empirically derived statements or even hypotheses, but rather they are simple assumptions that cannot be accurately tested. Chayes and Chayes (1993) argue that even though these assumptions are not provable, they are still useful. Compliance should be viewed in terms of overall performance eschewing the idea that states can either be in compliance or in noncompliance with international agreements (Chayes and Chayes, 1993).

Chayes and Chayes (1993) point out that the dichotomy between interests and commitments is largely an academic construction. Countries do not enter into international agreements without having a compelling interest to do so. Because of this it is more important to look at how interests can change over time. Whereas an agreement may have coincided with the interests of the country agreeing to it at the outset, by the time the country has fallen into noncompliance it is likely that the situation has changed and compliance is no longer tenable for whatever reason. It is also important to note that with any international agreement, and especially the type of agreement explored in this study,

the actors involved rarely enter into the agreement with power symmetry. Usually one side has more bargaining power than the other at the outset (Chayes and Chayes, 1993).

Another important aspect to consider is that state interests can, and often do, change from the agreement stage to the compliance stage. There are times when a different government entirely has to comply with an agreement made by the previous government. Temporal, social, financial and other societal changes may have occurred since the agreement was made. Additionally, international agreements are legal documents. Like all legal documents there is a wide range of interpretations and readings. States may honestly interpret their responsibilities differently or they may actively seek out loopholes in the legal framework to avoid compliance. Finally, the difference between intent and capacity must be analyzed. A country my fully intend to comply, going so far as to create the necessary legal framework to do so, but lack the financial or technical capacity follow through with compliance (Chayes and Chayes, 1993).

Underdal (1998) uses a domestic politics model to try and frame the actions of different nations within the international space. Again, as with most Rationalist modeling the domestic politics model is necessarily predicated on the assumption of governments acting as unitary actors. It is a more explanatory model, as it leaves room for domestic political failure as an explanation of noncompliance. This leaves more explanatory power than some other models that simply rely on resource availability as the primary reason behind the decision to comply or not. This model offers a widely-applicable forecast as to whether compliance is (or is not) likely.

Applying Underdal's (1998) model for compliance, two factors make compliance most likely. The first is whether or not private interests within the signatory country can profit from compliance. Underdal describes societies as being made up of people all living around a center. This would be visualized as a series of concentric circles with society's elite closest to the middle. In this model business is close to the center, and therefore if compliance will help private enterprises' interests in a nation than compliance is more likely. Agreements that are more likely to benefit members of society that make up the outside concentric circles will have a lower rate of compliance (Underdal, 1998). However, if the public at large sees compliance as providing positive outcome than compliance is also more likely. Applying this framework, compliance is the most likely when it will benefit the society's elite while simultaneously providing benefit to the remainder of a society (Underdal, 1998).

An important feature of this model is that it rests upon an assumption of strong centralized state control is over its own territory. A state that has low control of its sovereignty and limited extractive capacity (power to implement and collect revenue in the form of taxation) are characteristic of states with limited centralized authority over their territory. In these cases compliance is highly unlikely as the state will not have the effective control to implement any international agreement (Underdal, 1998).

Chayes and Chayes (1993) also outline conditions that they believe have some predictive power in knowing whether or not a state will comply with its international agreements. Even though they are using a rationalist model, they accept that a government may not have access to all the information necessary to make the best choice at any given

time. Because of this they base their arguments in "bounded rationality," the idea that the access to information (and therefore the likelihood of making the best decision) is bounded by reality. A government cannot carefully consider all possible information and outcomes regarding a choice prior to making it (Chayes and Chayes, 1993).

Continuing with the assumption of government as unitary actor, rational choice theory[2] offers a number of useful assertions for why states would or would not comply with agreements. Hurd (1999) argues that there are three basic models of social control.

First, Hurd posits an updated version of Hobbesian ideas, foremost among them is that all law—be it domestic or international—is based upon some form of coercion. The coercion emanates from a centralized power that has a total monopoly on the use of force. Not only does this view discount normative state actions as a rationale for compliance, it dismisses ideological or normative rationales for compliance as merely coincidental. Agreement or disagreement with the law has no effect on the coercive capacity of the centralized power. Agreement, while a common phenomenon of normative social behavior is unnecessary for the efficacy of the coercive central power. The problem with depending on coercion for social control is that is both inefficient and difficult to sustain. To ensure future compliance future coercion must always, also, be ensured (Hurd, 1999).

Second, Hurd (1999) discusses deterrence, whereas coercion implies external restraint to ensure compliance, deterrence relies primarily on self-restraint. While deterrence is more efficient a method of control than coercion, it still primarily relies on a

[2] Scott (2000) defines rational choice theory this way: "Sociologists and political scientists have tried to build theories around the idea that all action is fundamentally 'rational' in character and that people calculate the likely costs and benefits of any action before deciding what to do. This approach to theory is known as rational choice theory, and its application to social interaction takes the form of exchange theory" (p. 1).

centralized power to create a deterrent force. However, there is room in the literature for deterrent forces to come from other sources—not just a centralized coercive power (Chayes and Chayes, 1995).

Finally, the third model is self-interest. Hurd (1999) argues that this is the most efficient and sustainable model for social control. Self-interest and deterrence can work together, but deterrence is not necessary for states to act in a way that will maximize their own net-gain.

Of course all three of Hurd's (1999) models are predicated on Rationalist assumptions. Clearly a state being coerced, a state being deterred, and a state acting in their self-interest is a state acting as a unitary actor. Even using a model of bounded rationality it is necessary to assume that the pressures factoring into the decision to comply are primarily external (Hurd, 1999).

Legitimacy, too, plays a role in state behavior within a rationalist framework. Legitimacy may begin as a state playing a normative role—a state feels compelled to comply with an agreement that is seen as legitimate. There are factors that work towards defining a framework of legitimacy. In a bilateral agreement assuming there is symmetry between costs and benefits between the two actors, states will view the agreement with a high level of legitimacy. This is Because of the perceived legitimacy of the nation-state, even in an instance where there is incentive to not comply, states will likely feel compelled to (Hurd, 1999).

Legitimacy can be a long-term result of coercion. Once the coercive force has been internalized, then a state has a strong normative, moral reason to comply (Hurd, 1999).

Normative motivations are an important aspect in some of the compliance literature with rationalist theorists often arguing it is important to take into account, at least as one possible explanation for compliant behavior (Hurd, 1999; Underdal, 1998). Chayes and Chayes (1993) go farther and outright dismiss the argument that states do not feel a normative obligation to comply with their agreements. This is in stark contrast to the pure realist view of compliance, normative rationales would be irrelevant in the cost versus benefit calculus that creates the decision of whether or not to comply.

The study of legitimacy has a great effect on any study of noncompliance. While Hurd (1999) dismisses research into why an individual state does not comply with a specific agreement as "a study of excuses" it seems impossible to know the reasons why a state would willingly ignore an agreed upon obligation without knowing more of the story. While quantitative data can illustrate which and how many states are in violation of their agreements, any study of why—such as this thesis—will necessarily have to be qualitative. As Underdal (1998) pointed out, there is a dearth of in-depth, qualitative research regarding individual cases of noncompliance. Hurd (1999) also acknowledges that finding out whether or not a state sees a bilateral partner as legitimate (be it another state or intergovernmental organization) is an important aspect of noncompliance theory and worthy of study.

The common comparison of the international community as anarchic (Hurd, 1999; Thompson, 2006) can be useful in examining how different actors participate and interact while competing for scarce resources. Perceived legitimacy can overcome the chaos inherent in a system without a strong centralized power. Some perceptions of legitimacy are

sacrosanct—when a one country disputes a long recognized border, for example, the offending country is engaged in what would be seen by the international community would as an unacceptable, transgressive, and dangerous act (Hurd, 1999). Internalization of norms by states and other actors can overcome the lack of centralized coercive power in the international community (Hurd, 1999).

Chayes and Chayes (1995) note the disparity between the idea of a coercive mechanism and the reality. Recently most nations entering into an agreement will want to ensure that the agreement has "teeth." That is to say that there are clear statutory repercussions for noncompliance along with an agreed upon enforcement mechanism. The problem with "teeth" is not their usefulness as a deterrence measure, but their usefulness if and when implementation of these coercive measures becomes necessary. The main issue is that the tools of coercion are quite limited in an international agreement.

The most notable and widely applied tool of coercion, sanctions, have limited effect are cannot with any accuracy be compared to the rule of law in a sovereign nation "since international agreements are unenforceable they are by definition not law" (Chayes and Chayes, 1995, 32). In international agreements the likelihood that sanctions will be included as a tool is unlikely from the outset. If, as in IMF agreements (IMF, 2001), one party is given the power to sanction it is unlikely that they will use it, and, if they decide to it is unlikely that the sanctions will prove effective (Chayes and Chayes, 1995).

Even in a situation where sanctions would likely prove an effective measure of restoring compliance, it is still unlikely that they would be used. Sanctions refocus attention on the implementer of the sanctions and call into question their cost, their motivation, and

eventually their legitimacy (Chayes and Chayes, 1995). If, for example, the IMF was to sanction a country for noncompliance, the sanctions would necessarily hurt the beneficiary's economy fundamentally undermining the very purpose of the economic aid the fund provided in the first place.

While adopting the basic premise of a unitary actor that is fundamental to rationalist thinkers, Chayes and Chayes (1995) do not dismiss normative rationales for why countries may comply. They focus on an acceptable amount of overall compliance. The basis of their thesis is that modern sovereignty derives not from autonomy over a set territory but by being a member in good (or acceptable) standing within the international community. The authors dismiss, though not totally, Machiavelli's argument that "a prudent ruler cannot keep his word, nor should he, where such fidelity would damage him, and when the reasons that made him promise are no longer relevant'' (Machiavelli, 1988, 61-62).

Chayes and Chayes (1995) view this type of cost-versus-benefit-based, premeditated noncompliance to be unrepresentative of typical state behavior. While it has and will continue to occur in rare circumstances, the reasons for noncompliance are much more likely to be related to the three indicators of a states' propensity to comply: efficiency, interests, and norms.

Efficiency indicates that entering into a binding international agreement is not free. It is an expensive prospect requiring the use of scarce government resources. Oftentimes the mechanisms of compliance are built into the agreement. The normative behavior of the bureaucratic apparatus is set, from the outset, towards compliance. Since these agreements take one many of the formal aspects of law, it can be difficult and inefficient to persuade

noncompliance within the ranks of a bureaucracy. The stronger the state bureaucracy the more difficult it will be for policy maker to violate agreements, even if they would like to (Chayes and Chayes, 1995).

Due to the bi- or multilateral nature of agreements there was necessarily a compelling original interest in assenting to the agreement. While interests can and do change with time, economic, and political factors, it does remain more likely that the original compelling interest that led to the agreement in the first place will remain an important factor in continued compliance (Chayes and Chayes, 1995).

Finally, Chayes and Chayes (1995) point out that there are strong normative pressures to comply with agreements. The internalization of the most basic principle of both national and international law: Pacta sunt servanda[3] plays a strong role—equal to efficiency and interests—in determining a states' choice to either comply or violate international agreements.

C. Constructivist Theory

Checkel (2001) tries to bridge the gaps sperating the two main theoretical approaches—Rationalist and Constructivist. Social norms, socialization, and other social pressures can exist within the same framework as a unitary government choosing whether or not to comply based on a rational choice of which action will result in the greatest net-benefit for its citizenry, most compliance theorists tend to de-emphasize one potential aspect of compliance, while focusing on another.

[3] Agreements must be kept.

Much of the focus of Constructivist theories is based on observations of late-stage compliance. In this view social norms are internalized and normative behavior has become a "moral" issue bearing upon states when deciding to comply. This type of behavior is more commonly observed in the later stages of compliance stages. Less focus has been put on understanding how states internalized this normative behavior prior to it being ingrained as a social norm (Checkel, 2001).

This argument has been refined within a Constructivist principle-agent framework to focus more on the social learning that results from internal constraints and internal protests and mobilization movements as a main rational for compliance. The basic premise of this argument is simple: NGOs and other internal groups use external groups to deploy the same mechanisms as intergovernmental organizations. They channel external pressures, like international norms and laws to pressure domestic actors into compliance (Checkel, 2001).

Cortell and Davis (1996) are proponents of this argument as a way of explaining why states comply. They use two examples of late 20th Century American political actors appealing to international norms to try and coalesce domestic support for political programs.

This argument posits that international norms and rules affect every aspect of state behavior. Norms, such as sovereignty, free trade, and collective security, and rules (the specific applications of norms) constantly find their way into domestic political life. In one sense they determine normative state behavior. In another they are applied by particular actors who use them as leverage to achieve their goals (Cortell and Davis, 1996). "In sum,

the domestic impact of an international rule or norm is expected to be a function of two factors: the domestic structure affecting the policy debate; and the domestic salience of the rule" (Cortell and Davis, 1996, 458). Interestingly, as Evangelista (1995) showed, international norms affect policies in all types of governments, not just in democratic societies.

Cortell and Davis (1996) show how the American semiconductor industry focused the power of international norms to further their interests. By the late 1970s Japanese firms had superseded American manufactures becoming the best-selling makers of semiconductors. The Semiconductor Industry Association argued that Japanese firms were dumping their products onto foreign markets to get a larger percentage of market share. Dumping, prohibited under the General Agreement for Tariffs and Trade (GATT), is selling products for less than the cost of production.

The Semiconductor Industry Association pressured the Reagan administration and the United States Congress to pressure Japan in reforming the trade practices that the industry considered unfair. Initially the Semiconductor Industry Association petitioned a complaint under GATT's section 301. Later, with allies in US Congress, the Semiconductor Industry Association successfully pressured the Reagan administration to file its own GATT petition. Clearly the pressure from the executive branch was far more formidable than that created by a trade association. The Japanese government responded by initiating bilateral talks, culminating in the 1986 US-Japan Semiconductor trade agreement. When a monitoring mechanism set up as a component of the agreement detected dumping again, in

1987, the US implemented a 100 per cent tariff on all electronics utilizing the semiconductors (Cortell and Davis, 1996).

Cortell and Davis (1996) acknowledge that this same situation, when viewed the lens of a realist framework, could be explained by policy makers in the US seeking the most advantageous policy. However, the authors contend that the immense pressure put on the administration by the Semiconductor Industry Association, who initially filed the section 301 petition, is strong evidence that the Semiconductor Industry Association behavior represented an "appropriation of international trade rules in pursuit of its interest" (p. 464).

Moving away from policy actors working outside the government, Cortell and Davis (1996) show another example of using international rules and norms to try and bolster domestic support for a policy. Appealing to American citizens' respect for the international norm of collective security, the George H.W. Bush administration argued that the Iraqi invasion of Kuwait demanded a strong multilateral response.

In this case, the norms invoked by the administration were used both to sway popular support and win congressional approval for the United States' military action in Iraq (Cortell and Davis, 1996).

Checkel (2001) points out that these arguments, no matter how strong, can still be viewed through a rationalist framework. Viewing the same evidence through a different lens a researcher may draw different conclusions when analyzing the same events. Simply put: the constructivist pressures that manifest themselves through, as in the examples before, pressure groups or the executive branch could be just as easily explained as the

careful weighing of costs and benefits by rational policy actors. Even through a constructivist framework actors, using social movements do employ a means-versus-ends calculus, according to Checkel (2001). However, the ends may be non-material and include normative rationales.

Social learning has also been posited as an alternative Constructivist theory towards compliance. Egeberg (1999), for example, focused on the integration of European states in the European Union. Egeberg argued that roles and responsibilities of public officials change as state power becomes subsumed by supra-governmental organization. Eventually state bureaucracy feels a strong allegiance to the supra-governmental organization, in this case the European Union, at the expense of the national government. This idea was expanded by McElroy (1992) who suggested that moral significance of decisions can play a decisive role in decision making at the top-levels of government. This becomes more important when moral (or normative) factors originating from international norms become important factors when choosing policy. Nye (1987) also suggested that bureaucracies can develop a moral attitude towards following the norms of international agreements.

Checkel (2001) uses the example of the German citizenship law in 1992. Foreigners demanded a pathway to citizenship and based their social movement on international norms. Protesters used the council of European norms as a way of "shaming and pressuring European elites." The German nationality law was eventually changed in 1999. Checkel argues that the constructivist approach is the best for explaining "preference" change. That is how preferences for certain policies over another change overtime, when actors inside a country coopt international norms to further their aims.

D. Administrative theory

Another illustrative theory is Waldo's (1948) argument that politics and administration are inherently linked. This politics-administration dichotomy, or lack thereof, was seen in this research. In an ideal state the implementation of policies would remain totally apolitical. However, reality is much more complicated has the political tends to overlap with the administrative functions of the state.

E. Thesis Framework

The framework used in this research will draw primarily from rationalist theorists' arguments most notably Hurd (1999), Underdal (1998), and Chayes and Chayes (1993; 1995). However, some aspects of constructivist arguments are present too, mostly from Checkel (2001). These theorists provide the theoretical underpinnings of the operationalized framework.

Using this framework I will search for the following emerging themes in the data: 1) Acceptable compliance and Levels of compliance. Chayes and Chayes (1995) point at that compliance is not a black versus white, on/off, phenomena. 2) Intention versus capability, is there evidence of intention to comply? If so, can aspects of noncompliance be explained through lack of state resources or technical knowhow (Chayes and Chayes, 1995)? 3) Is there evidence that any of the decisions based on fear of a coercive force? If not, was lack of a coercive force a factor in noncompliance (Hurd, 1999)? 4) Perceptions of legitimacy (Checkel, 2001); 5) is there evidence that financial, social or temporal changes impacted decisions to comply (Chayes and Chayes, 1993; 1995); 6) Interest, is there evidence that

self-interested actors, or actors believing that the structural changes were not in the interest of the interest of Lebanon (Hurd, 1999). A detailed discussion of how the findings are viewed within this framework is presented in Chapter VII.

CHAPTER V

THE CASE OF MOBILE TELECOMMUNICATIONS

A. Introduction

During the first five months of 2014, surplus cash transfer from the two Lebanese mobile telecommunications operators, Touch and Alfa, provided the government with $523,730,310 (Ministry of Finance, 2014a). This figure provides a good example of just how much government revenue the mobile telecoms are responsible for generating. According to The IMF (2015) the "exceptionally high" mobile telecom transfers were primarily responsible for the government ending 2014 with a small primary surplus. These numbers hardly tell the whole story, but they provide a good starting context by which to frame the ongoing debate over privatization of the two cellular networks—a debate that is now 15 years old, and remains as controversial and as polarizing as it was in 2000.

Despite the service improvements (Interview Respondent 16, 2015) and the amount of revenue the mobile telecom network operating licenses are generating for the government, there are still actors inside and outside of Lebanon who see the full privatization of these networks and the liberalization of the sector as a necessary reform. The most prominent voice inside the government is arguably coming from the Higher Council for Privatization (HCP). I will go into more detail on the formation and role of the HCP in the attempts to privatize the networks later, for now it may be illustrative to note that the only privatization reform listed on the HCP's website of current projects is mobile telecom, also worth noting is that the website was last updated in 2007 (HCP, 2007).

Outside of the government the International Monetary Fund also still insists that the privatization and liberalization of the mobile telecommunications sector is a necessary step towards attracting more investment into Lebanon (IMF, 2014). To try to untangle the competing information and arguments about whether or not the privatization of these networks a necessary reform it is useful to look at Lebanon's history with mobile utelecommunications and how the current situation came to be.

B. The History of Mobile Telecommunications in Lebanon

In 1993 the Lebanese government offered the first operating contracts for mobile telecom operators, the two contractors were given the legal right to use two networks known as Mobile Interim operating Company one (MIC1) and Mobile Interim operating Company two (MIC2)[4] (TRA, 2010) on a build-operate-transfer basis (a BOT contract). In 1994, the two companies awarded the MIC1 and MIC2 BOT contracts were LibanCell, a Lebanese company with backing from Finnish telecom company, Telecom Finland International (LibanCell, N.D.a); and Cellis, a subsidiary of France Telecom (Noueihed, 2001). The contracts were intended to last 10 years, at which point the government could choose to renew, take ownership of the networks, or put the two mobile telecommunications network operating contracts up for tender.

Even early on there were problems between LibanCell and Cellis and the Lebanese government which would eventually lead to a total deterioration of the relationship. One of

[4] The two licensees are currently Egyptian telecom company Orascom Telecommunications (MIC1; DBA Alpha) and Kuwait based Zain (MIC2; DBA Touch) (TRA, 2010).

the earliest issues was the financing scheme, explained in detail by Interview Respondent 16 (2015):

> "They made the subscribers pay an entrance fee of $500 per subscription, front end. And this amount covered their initial investment. So did they did not put one cent in, actually. At that time the basic price of minutes it was—we did not have at that time yet the prepaid stories and things like that. So initially it was 5 cents a minute plus $25 monthly flat fee. 5 cents then it later on increased to 7 cents. Out of these the government was receiving 20% of the gross revenue as revenue sharing. This 20% in the contract was supposed to go up to 40% in the last 2 years of the contract, beginning in 2002."

Moreover, as early into the relationship as 1997 the government was accusing both LibanCell and Cellis of breaching terms of that contract (Noueihed, 2001). The main complaint by the government was that both companies increased the number of subscribers to more than was allowed under the BOT agreement (Habib, 2002a). In 1998, the two mobile operators tried and failed to change their 10-year BOT contracts into 20-year licenses—a move that would have been tantamount to privatization.

In June 2001, the BOT contracts fell apart completely. The Ministry of Telecommunications under the direction of President Emil Lahoud unilaterally canceled both BOT contracts, citing breach of contract terms, and set a new tender to find new operators for both networks (Habib, 2002a). The government also alleged that LibanCell and Cellis owed the treasury over US$600 million in unpaid taxes (AFP, 2002). LibanCell and Cellis rejected the government's interpretation of the BOT contracts, refuted the other accusations, and entered international arbitration with the International Chamber of Commerce (ICC) (LibanCell, N.D.b).

Interview Respondent 16 (2015) argues the logical action for the government to take would have been to allow the BOT contracts to expire, instead of canceling them so close to their expiration:

> "Over the period between 1994 and 2001 the two private companies had exactly, exactly the same prices and the same services all the way along so it was a pure cartel. In 2001, just at the eve of the increase of the revenue sharing from 20-40% the government renounced unilaterally the two contracts and we went into arbitration, litigation. […] Then each of the companies got, to make the story short, $350 million compensation. While if they were continue for the last three years the transfer would have taken place at no cost and the revenue sharing would have increased to 40%."

Lebanon would have received about US$600 million from the final two years of Cellis and LibanCell's contracts (Habib, 2002b). As Interview Respondent 16 (2015) noted the arbitration was a long story that ended in favorable rulings for both Cellis and LibanCell (LibanCell, N.D.b). LibanCell was awarded US$266 million by the ICC (LibanCell, N.D.b).

One of the most illuminating sources on how the relationship between the government and the managers of LibanCell broke down is a 40 page pamphle, titled The Truth, published by LibanCell (2004) following the government's cancelation of their BOT contract. While some of the details and arguments within are impossible to confirm—the Lebanese government did not publish a counter-argument -- it does provide valuable insight into the dispute. This value derives from the highly detailed and specific nature of the publication.

According to LibanCell (2004) the accusations against the company by the Lebanese government were: 1) falsifying the Contract by altering revenue sharing from

30% to 20% for contract years 6-8; 2) exceeding the BOT set ceiling of 250,000 subscribers; 3) generating huge profits at the expense of the government; 4) of not paying the dues on extra lines and taxes, or of paying with a 6 to 8 month delay; 5) not paying the government fees on the use of microwave frequencies; 6) overcharging subscribers by .02 cents per minute; 7) selling pre-paid cards without the legal right to do so; 8) not providing the geographical coverage agreed upon; and 9) not paying compensation for violations discovered during the auditing process.

LibanCell (2004) then lists their accusations against the government, which include raising cellular tariffs without parliamentary approval, not guaranteeing the exclusivity of the BOT agreement, and most of all not allowing the conversion of the BOT contracts into a formal license—again, a legal maneuver that would have been a de facto privatization of the mobile telecom sector.

LibanCell (2004) argued the point-by-point contract disputes with the type of legal contract interpretation one might expect during a formal adjudication. Rather than a mere polemic against the government they duly acknowledge that they did in fact violate the terms of the contract by growing past 250,000 subscribers, however, they contend that the contract allowed expansion based on market demand. LibanCell tries to bolster this argument by pointing out that more subscribers to their network would lead to increased government revenue. LibanCell then also try to make the somewhat less compelling case that less accessibility would give Lebanon a bad reputation, and therefore the company was right to ignore that specific stipulation of their contract.

The 250,000 subscriber limit is perhaps the most approachable contract dispute covered by LibanCell (2004). They do, however, complete a point-by-point refutation of every grievance the government levied against them. It is impossible to know the truth of something so bitterly contested. Additionally, it is likely that there is not a single story that all sides would agree on. It does show how tense the situation had become between the Lebanese government, LibanCell and Cellis during the late 1990s and early 2000s, and why the early termination of the contract now seems inevitable.

Critics of LibanCell and Cellis' services and prices to this day see the move as one that was necessary. Interview Respondent 12 (2015), a World Bank employee, not only cited it as an example of positive government intervention into a marketplace that had become an "oligopoly," but also cited it as an example of how strong leadership is necessary in Lebanon to achieve anything of consequence:

> "They [MTC and Alfa] are not less advanced technologically then they were before, in my opinion they are doing okay. Since then a few ministers came and the subscription rate has increased. So the privatization of the telecom had a really bad record to begin with. And there was again, Emile Lahoud worked very hard to bring them back to the state. A lot of arm twisting actually."

Whether or not the decision to cancel the BOT contracts prior to their agreed upon expiration was wise, once it was decided the government had to get the mobile telecommunications sector functioning again. A reorganization of the sector began in 2002 with plans to liberalize and eventually privatize the sector—many of these plans were created during the Paris II donor meeting in 2002.

C. The Paris II Donor Conference of 2002

The legal authority to privatize SOE in Lebanon is based on Law 228 (2000). In addition to providing the ongoing legal framework for the privatization of all SOE in Lebanon the law also created the Higher Council for Privatization (HCP). The role of the HCP as written in Law 228 (2000) was to implement approved privatizations by creating the policies, timetables, valuations and necessary laws to make the privatization of each sector both legal and effective. While Law 228 (2000) provides a necessary legal framework, each individual privatization must have its own law passed in order to proceed. One way to look at it would be that Law 228 (2000) made privatizations legal in Lebanon, but to actually privatize a specific SOE a law would have to be passed at which point the framework would be applied (Lebanon, 2002). Two years later such a law was passed, Law 431 (2002), providing the foundation with which to begin the liberalization and privatization of the mobile telecommunications sector.

These laws were not created in a vacuum. Law 431, along with the Law 462 (2002) that was created to privatize EDL, were implemented just before the Paris II donor conference as a good faith measure to receive debt relief and new US$4.4 billion in soft development loans. Furthermore the implementation of these laws was a condition to the final Paris II agreement (Saadi, 2003).

In the Paris II agreement the Lebanese government makes its case for the advisability of privatizing telecommunications, mobile telecommunications, and the electricity sector (Lebanon, 2002). Not only does the government contend that the

privatizations will be supply much-needed debt relief, they argue that the structural changes in the government will:

> "…improve the reliability and quality of provision of public services and reduce costs through increased efficiency of operations. As such, it is an integral part of the Government's broader program of structural reforms, which are aimed at promoting growth by further liberalizing the economy, in particular trade, modernizing the legal framework for production and trade, and removing administrative obstacles and disincentives. These reforms are expected to reduce the cost of doing business and hence improve competitiveness of the economy" (Lebanon, 2002, p. 10).

On the surface it seems as though the government was arguing that privatization, along with other structural reforms such as increasing the VAT and liberalizing trade (Lebanon, 2002) would be something of economic panacea. State revenues for the privatization programs promised during Paris II were projected to generate US$5 billion revenue in 2003 alone, with an additional US$1 billion for the 2004 and 2005 (Lebanon, 2002).

Following Paris II implementation of Law 431 (2002) did begin. A regulatory body, the Telecommunications Regulatory Authority (TRA) was created, as called for in Law 431. Furthermore, the initial procedure to transform the two BOT contracts into 20 year operating licenses had started before the Paris II conference commenced. A prequalification and bidding for the two networks was scheduled to take place between October of 2002 and January of 2003. Had this process been completed the two networks would have been transformed from BOT contracts into 20 year licenses. The government would have retained a stake in both networks and still have derived revenue as a shareholder (Lebanon, 2002). However, little progress was made on implementing the promised privatizations. While it is difficult to know all factors that contributed to the delay, it was apparent to both

international donors and the Lebanese business community by the summer of 2003 that implementation was going to be a slow process (The Daily Star, 2003).

For the mobile telecommunications networks the 20 year licenses were never tendered. According to the HCP (2007) the reason for this was simple lack of interest, the offer only received three bids, one of which was non-binding, and all of which were rejected by the government. Instead in June 2004 MTC[5] a Kuwait-based company and Detcon[6] a German-based company were awarded four year tenders to run the two mobile networks (HCP, 2007). Since these original tenders were awarded, they have been renewed periodically. This year the Ministry of Telecommunications is accepting open bids for a new 3 year tender (Freifer, 2015).

D. The July 2006 War

The July war between Lebanon and Israel came at an especially inopportune time for the Lebanese economy in general and for development specifically. The United Nations Development Programme (2007a) was projecting a 6% growth rate by the end of 2006. These positive developments were immediately halted on July 12, 2006 with the Israeli invasion of Lebanon. In addition to the 1,200, mostly civilians, who perished during the Israeli invasion, the war caused massive damage to civilian infrastructure (United Nations Development Programme, 2007b).

The United Nations Development Programme (2007b) details how severe the damage to civilian infrastructure was following the war:

[5] Now known as Zain.
[6] MIC1 (Alfa) now managed by Orascom of Egypt.

> "125,000 housing units, 612 public schools and 80 private schools, 97 bridges, 16 hospitals and 65 outpatient clinics, 850 commercial enterprises in the manufacturing and service sectors, 151 segments of the road network, and damage to three airports, including the international airport in Beirut. The cost of reconstruction was estimated by the government to be in the order of US$2.8 billion" (p. 13).

The war had a huge negative effect on the Lebanese economy as a whole; the projection of a 6% growth rate plummeted to a real growth rate of -5% (United Nations Development Programme, 2007a).

The war created a focusing event, and along with the necessary emergency measures like rebuilding homes and restoring essential services, economic stimulus was a major priority of both the government and its international donors (United Nations Development Programme, 2007a).

These plans were discussed in greater detail in August 2006 at the Stockholm Conference for Lebanon's Early Recovery. Six months before the larger and more comprehensive Paris III meeting, the Stockholm Conference was mainly focused on relief and the immediate reconstruction of the areas of the country that sustained the most damage during the war. The damage to the mobile networks was extensive: 13 transmission stations destroyed, and an additional 5 damaged, the government reported that the long-planned privatization of the mobile networks would be "severely delayed" until the estimated US$15 million in damage to the networks was repaired. The privatization program and subsequent economic stimulus that was supposed to arise were put on hold (Lebanon, 2006).

In December The Ministry of Finance (2006) reported that over US$900 million dollars had been pledged 87% of the funds coming in as grants, with the remaining 13%

soft loans. The majority of post-war funding, including funding through international financial institutions, loans with conditionality, and the renewal of the privatizations of remaining SOE came the following year in Paris.

E. The Paris III Donor Conference of 2007

The fact that the loan conditionality of Paris II were never fulfilled provides important background to the renewed loan conditionality, and the very familiar reforms that were agreed to five years later at the Paris III donor conference in 2007.

The international conference for the support of Lebanon, Paris III, was hosted on January 25, 2007 by then-President of France Jacques Chirac. Though the reforms proposed were similar to the reforms that are often imposed through loan conditionality, the Lebanese government had actually created the comprehensive reform program prior to the conference, approving them on January 4, 2007 (Ministry of Finance, 2007a). More in-line with traditional structural adjustment programs, however, the proposal and implantation of these reforms were the basis of why IFIs, and specifically the IMF agreed to provide funds for the Emergency Post-Conflict Assistance Program (EPCA) (Ministry of Finance, 2007a).

IFIs and other donors pledged US$7.6 billion in loans and grants (23% grants; 77% loans) for various reform and reconstruction projects. Arab states and European donors were responsible for the majority of the amount pledged, with IFIs and other governments pledging the reaming 26% of the total (Ministry of Finance, 2007a).

The proposed reforms were sweeping and, if implemented, would have fundamentally altered the structure of many of Lebanon's public institutions. Interview

Respondent 5 (2015) described the proposal this way: “Paris III was an attempt to create an overarching vision for the future of Lebanon with major reforms in multiple sectors.”

This overarching vision included reforming government expenditure; measures to increase government revenue—including a gradual 5% increase in the VAT from 10% to 15%, increases in income tax, and an increase of taxation on real estate transactions. The structural reforms proposed were larger in scale: a government reform project with new financial management procedures including a legislative framework and capacity building initiatives; administrative reform and implementation of eGovernment services; and, of course, the privatization of three state owned sectors: telecommunications, mobile telecommunications, and power (Ministry of Finance, 2007a).

Paris III also included social sector reforms including expansion of pensions and other social safety net programs; reforms to the education sector; and reforming health insurance policies and public hospitals (Ministry of Finance, 2007a). It is worth considering the breadth of these reforms when viewing two specific privatization programs originating (or, more accurately, being reintroduced) in Paris III.

According to the Ministry of Finance’s First Progress Report (2007a) the plan was to first privatize the mobile telecommunications sector, as it was seen as a less complicated process than the privatization of the electricity sector. The plan was to appoint the Telecommunications Regulatory Authority (TRA), as called for in Law 431 during the first quarter of 2007. Also during the first three months of 2007 the TRA was to initiate the tender process for awarding the two networks to the highest bidders. The legal framework for the full privatization was to be drafted and passed as law by the second quarter of 2007.

The following year, the government would put a minimum of 20% of their ownership in the mobile telecommunications networks on sale through listing shares on the Beirut Stock Exchange (Ministry of Finance, 2007a).

In February of 2007 the TRA was created with a mandate to start its regulatory activities on March 1, 2007. The TRA together with the HCP, then began working on creating the regulatory structure necessary for the privatization of the mobile telecommunications networks (Ministry of Finance, 2007b). Once created the TRA took assumed five basic regulatory functions previously under the jurisdiction of the Ministry of Telecommunications: Licensing; radio frequency management; number management; import authorizations; and international relations (Ministry of Finance, 2007b).

The mobile licensing and privatization of the mobile telecommunications sector were a major focus of the TRA's first year of operations. They showed that the planning was well underway by the summer of 2007. In a report prepared by the Ministry of Finance (2007b) the importance of complying with the conditionality of Paris III was emphasized:

> TRA is working with the Higher Council for Privatization (HCP) and the Ministry of Telecommunications (MOT) to ensure the success of the licensing/privatization of the two incumbent mobile networks, in line with the Government of Lebanon's commitments in the context of the Paris III donor conference.[7] TRA is taking the lead in preparing the licenses, the auction rules (in consultation with HCP), and the relevant regulations, while HCP and MOT are working on preparing the expected transfer of mobile network assets. The mobile licensing/privatization will be carried out in a transparent, competitive auction. It is the first step in the liberalization of the mobile telecommunications market" (p. 71).

[7] Emphasis mine.

At this time the plan was still to put the licenses to tender before the end of 2007, a timeline in the same document showed that the entire process was to be completed, and the winners announced by 21 December 2007 (Ministry of Finance, 2007b).

By the fall of 2007 The Ministry of Finance was still reporting that the privatization of the mobile telecommunications sector was progressing apace. They contended that the TRA in conjunction with the Ministry of Telecommunications and the HCP had reached the final phase of creating the legal and financial framework to imitate the tender process for the two networks (Ministry of Finance, 2007c).

The first indication that the reform process would be delayed came in December and was couched in language that made it seem as though things were progressing smoothly. In fact there is no acknowledgement or reference to the fact that the dates had been moved back. The new application date for the planned 20 year licenses was moved to February 2008, with the plan to announce winners by the end of that same month (Ministry of Finance, 2007d).

The February 2008 deadline, too, was pushed back. It was moved to May 2008. However, the reasoning presented by the Ministry of Finance, TRA, and Ministry of Telecommunications was sound and reflected both political and technical considerations: "such extension is intended to accommodate ongoing due diligence requests from applicants and to take into consideration the delay in holding presidential elections" (Ministry of Finance, 2008a).

In June 2008 the Ministry of Finance was still publicly stating that the tender bidding was to be postponed until May—seemingly ignoring the fact that the deadline and already elapsed (Ministry of Finance, 2008b). By that fall the Ministry of Finance (2008c; 2008d) was reporting that mobile privatization was stalled and would remain so until political gridlock was removed, and the reforms were allowed to progress.

By February 2009, two years after the Paris III conference the Ministry of Finance (2009a) was no longer covering mobile telecommunications privatization in its periodic progress report. In a later report, the Ministry of Finance (2009b) shows that the process had died on the vine. They also report, rightly, that the international capital markets had created an inopportune time for the selling of any asset. The official status of mobile telecommunication reform in March 2009: "Re-launch the process upon political decision" (Ministry of Telecommunications, 2009b). That remained the story in later 2009, though the focus was shifted from political to economic factors while acknowledging that renewed political actions would also be necessary: "[mobile telecom privatization] which had been postponed due to market conditions, would require a renewed political decision by the incoming government" (Ministry of Finance, 2009c).

The final Paris III progress report prepared by the Ministry of Finance (2009c) holds a single mention of the progress of the planned mobile telecommunications privatization reform and it's a reference about a Banque du Liban project to try and ascertain an up-to-date market valuation following the financial turmoil of 2008 and 2009.

The fact that the program of privatization of the mobile telecommunications sector wasted away was seen as a missed opportunity by Interview Respondent 1 (2015), a member of the Higher Council of Privatization:

> "We were arguing in February of 2008 that yes there was no president—when I say we I mean TRA and HCP were arguing that we may not have a president but the country is functioning… The country is functioning the country was [and] experiencing a period of calm and so we should [go forward], and valuations for telecom countries worldwide were at record highs. So we felt we should go ahead with privatization. The council of ministers, like I said, didn't think the same way. In May 2008 we had the global financial crisis and telecom valuation have never recovered. So even today, we won't be able to get the same valuations."

Even in the midst of the global financial crisis, the process of privatization of the mobile telecom networks did continue into 2009. Interview Respondent 16 (2015) a senior member of the Lebanese government from 2009-2011, and vocal critic of privatization has a much more narrow interpretation of the Telecommunications (Law 431, 2002) than members of the HCP and international community.

> "We have a law that was voted in 2001 or 2002. It's called the telecom law. That says related to this subject two things: first of all that the government under certain conditions and processes etc., etc. Has the right to launch bids for mobile phone licenses. Another thing is that, the central policy regarding telecom in general and mobile in particular is the ministry of telecoms.
>
> First point is that granting a license means granting a license, it does not mean selling assets! The government has no right to sell any assets. To sell an asset you have to go to the parliament and through normal processes. There is no law allowing the government to sell anything. The decisions that were announced in the Paris III story were absolutely out of the legal scope of the… Of the government… there is a legal framework for any sale it is the privatization bill. But this was not linked to Paris III what they've done with Paris III is absolutely illegal. And I was not intending at all to apply it" (Interview Respondent 16, 2015).

By 2011 when Interview Respondent 16 left office, the Paris III reforms were all but abandoned. The basic question of legality remains. Was Interview Respondent 16

(2015) correct in his assertion that the post-Paris III attempt to privatize the mobile telecommunications sector led by HCP and TRA was illegal? TRA's duties are enumerated in Chapter 2, Article five of Law 431 (2002). Included in the duties assigned to the TRA is to: prepare draft decrees, take necessary decisions pursuant to the enforcement of current telecommunications law, promote competition, organize the licensing process, establish interconnection rules, establish technical standards, monitor the tariffs, enforce current law through the establishment of new rules and regulations, monitor the marketplace for anticompetitive behavior, assist the health and education sectors in setting up their telecommunications networks, and act as a mediator and arbiter for any future disputes.

While the privatization of the mobile telecommunications sector is not specifically listed as a prerogative of the TRA in Law 431 (2002), calling the TRA's actions following Paris III illegal may be an exaggeration. Part IV, Article 20 of law 431 (2002) states clearly: "The TRA shall establish a procedure to be used for the application and processing of Licenses. The TRA should award a license to any person or group who meet the required qualifications and specifications."

The main issue was likely that in 2008 the HCP and the TRA were attempting to totally sell off both networks. Law 431 (2002) while giving the TRA the right to begin the process specifically prohibits the sale of more than 40% of the networks. This is explicitly stated in Part IX, Article 46:

> "The Government of Lebanon may, by a decree issued by the Council of Ministers, and within a period of two years from the date of incorporation of the Company, proceed with the sale of a maximum of 40 percent of the Company's shares to an experienced, specialized and reputed investor from the private sector by way of an international auction held in accordance with terms and conditions to be set by the

> Higher Council for Privatization upon the proposal of the Minister and issued by virtue of a decree by the Council of Ministers" (Law 431, 2002).

A joint HCP & TRA press release from November of 2007 appears to violate Article 46. HCP & TRA (2007) invited private companies to participate in the tender for a build, operate, and own 20 year license. The press release, setting the original auction date of February 21, 2008, shows no indication that the tender process would only grant 40% ownership rights of the two mobile telecom companies following the awarding of the two licenses. Had the HCP & TRA succeeded in 2008, and auctioned of the total ownership of both networks that would indeed have been a violation of Part IX, Article 46 of Law 431 (2002).

The apparent progress of the HCP & TRA created a political backlash. News reports following HCP & TRA (2007) press release quote Hezbollah Secretary General Sayyed Hasssan Nasrallah as saying that: "the biggest looting operation in the history of Lebanon is taking place," a statement pointed specifically towards mobile telecommunications privatization (Hankir, 2007). The process had fallen apart by 2008 partly due to political pressures, though economics and a lack of a solid legal framework were certainly factors as well.

Law 431 (2002) had left enough room for legal interpretation to create the confusion and acrimony that followed Paris III. The current, smaller TRA—Interview Respondent 1 (2015) referred to it as "what's left of the TRA"—has been less active since the failure to implement the Paris III privatizations.

The political tensions seem to have remained; however, I did not get the chance to interview any representatives from the TRA, but the process of not being granted the interview illuminates the political pressure still resting on the TRA following the 2008 failure to privatize the mobile networks.

After dozens of calls, over a period of almost two months, requesting an interview with TRA chairman Dr. Imad Hoballah, I was told that I might be granted permission to speak with two senior staff as long as I sent in the questions for preapproval. I sent the IRB approved questionnaire (See Appendix V) and was granted an interview the following week. After arriving and introductions, I requested the two TRA staff sign the interview consent document. This, I was told, was impossible without legal review. Perhaps, they said, Dr. Hoballah, could sign it as a way of showing that they were allowed to speak with me. After a short wait, I was told that this, too, was impossible.

Dr. Hoballah could not sign on behalf of staff without legal review; Dr. Hoballah did not wish to speak with me. This left me in an awkward situation. I was then offered a bit of a consolation by the two TRA staff: they would be willing to speak with me, but not about the questions I had sent in (they were too politically sensitive) and not in their official capacity as TRA staff (they did not have permission to do so). I politely declined, seeing no potential benefit for any of the parties involved and left the TRA offices.

While the most of the respondents I interviewed view Paris III as an era that, for better or worse, has passed many of the reforms—including mobile telecommunications privatization—are still being pursued by the international community. While the role of IFIs in the reform process is detailed in Chapter VII, it is important to note that the official

position IMF (2015) still views the privatization of the mobile networks as a necessary reform, one that would encourage investment. Also worth noting is that individuals I spoke with (Interview Respondent 2, 2015; Interview Respondent 12, 2015), who were staff at the IMF and World Bank did not necessarily agree with this assessment. They sited both network improvements and the profitability of the networks for the government as reasons to avoid, or continue delaying, the privatization process.

CHAPTER VI

THE CASE OF ELECTRICITÉ DU LIBAN

A. Introduction

Throughout the interview process there was one theme that was touched upon over and over. Electricité du Liban (EDL) had been, prior to the start of the Lebanese Civil War in April 1975, a functioning public institution. Moreover, it had been well managed, efficient, and by the middle of the 1970s producing an energy surplus that had to be sold off at rock-bottom prices in a market already saturated with affordable power.

The narrative then jumps abruptly to now. According to the World Bank (2009) EDL has failed their responsibility of service delivery to the point where households spend US$330 million annually on private, unregulated, and technically illegal third party power generation. This informal generator network is necessary due to power rationing that manifests as scheduled blackouts. In the capital, Beirut, the blackouts are relatively short in duration, outside the city—especially in poorer and rural areas—the blackouts can last up to 13 hours per day (World Bank, 2009). This is indeed a compelling story of acute failure of public service delivery.

However, like the case study in Lebanon's mobile telecommunication sector, it is important to go back further. Upon closer examination, problems with power generation long predated the Civil War and occurred regularly throughout Lebanon's history. To provide important historical context, I will briefly cover Lebanon's troubles with the sector

prior to Decree No. 16878 of July 10, 1964 which formally nationalized power production, transmission, and distribution in Lebanon.

B. History of Electric Power in Lebanon

In Beirut electricity production initially started as a means of power for a tram network. The company, Electricité du Beirut (EDB) was awarded a concession from the Ottoman Empire, giving it exclusive rights to both generate and distribute electricity in the capital and to run the transit system. EDB started operating the trams and providing electricity for businesses and residences concurrently in 1909. At the time there was little electricity being used outside of the tram line because people and businesses had little use for electricity. EDB could easily fulfill whatever scant demand remained after powering the tram network (Abu-Rish, 2014).

Problems arose in the following decades as the demand for electricity began to grow. Following the collapse of the Ottoman Empire, at the end of World War I, there were, according to Abu-Rish (2014), over 30 different entities in Lebanon generating, transmitting, or distributing power. EDB, still having monopoly rights over power production and distribution in Beirut was often criticized in the 1920s and 1930s for high prices, poor working conditions for employees, and outages (Abu-Rish, 2014).

Throughout the 1930s citizen groups set up power boycotts to protest the poor service. When the boycotts became untenable, due mostly to increasing reliance on electricity, the boycott shifted from refusing to use power to refusing to pay for it. Abu-Rish (2014) details one civil society organization that would come and reconnect customers

to the power grid illegally after EDB had come and disconnected their residence for nonpayment.

Protests and political pressure against EDB mounted and in 1952 the government intervened to lower the tariff. In 1953 the government took "provisional control" over EDB and the tram system. This control was made official the following year as the Lebanese government reclaimed all of the concession contracts and assumed ownership of all EDB and the tramway system's property (Abu Rish, 2014).

With the new government control came a formalization of both lower prices and rotating, planned three hour power outages, a system reintroduced following the July 2006 war with Israel (al-Saadi, 2015). The final nationalization of EDL was made official on July 10, 1964 with decree number 16878 (EDL, N.D.).

The nationalization of EDL concentrated state ownership to 90% of generation, transmission, and distribution infrastructure (EDL, N.D.) However, some concessions dating from the French mandate era were still considered valid according to a report prepared by the Council for Development and Reconstruction (2002) concessions inZahle, Jbeil, and Aley were still in charge of distribution or generation. In 2015 the Zahle concession has become another point of political contention which will be detailed later in this chapter. As of 2015 there are two remaining concessions: Zahle and Jbail (Interview Respondent 13, 2015).

Initially the nationalized company was successful at providing power. Interview Respondent 13 (2015) who began a career with EDL in the 1960s describes the period

between the nationalization of the sector in 1964 and the outbreak of the Lebanese Civil War in 1975:

> "We used to market to consumers to consume more. We had about 50% overload. And the price of electricity was cheaper as you consumed more. The first part was expensive then cheaper. Now it is the opposite, if you consume more you pay more. In the old days before '75 if you consumed more you'd pay less. We were encouraging people to use electricity, to consume electricity… But then in 1975 it was sort of a demarcation, we went down, gradually."

He continued, describing the effects of the war on EDL's ability to provide power:

> "We had a lot of destruction from the war. And people stopped paying. Therefore, it went nearly bankrupt after a few years. Before it was full—as far as economies are concerned. We used to have extra funds to expand. But then in 1975 we started going down, first in production. And we couldn't repair, so then we started having 2 hours a day of less electricity. It wasn't because we didn't have it, we had the generation. But we couldn't reach the consumer.
>
> Eventually the time came and the population increased, consumption increased. The way of life has changed and therefore we needed more power. So we started getting short. And then we needed to rehabilitate the power plants, so we couldn't do anything" (Interview Respondent 13, 2015).
>
> As people stopped paying their electric bills the government intervened to subsidize EDL and keep it from going bankrupt. This, too, was detailed by Interview Respondent 13 (2015):
>
> "Going down means that if people are not paying, somebody has to pay. So the government stepped in and started paying and subsidizing the electricity. So we were at the mercy of the government. It wasn't the same independent authority like it used to be. It was at the mercy of the financial minister, and the electricity minister. So they started dictating and interfering.
>
> I remember in 1988 it was the first sort of letter sent by EDL employees and management to the government, 'Please either give us the authority to do things, or privatize it.'"

C. EDL After the Civil War

The next real steps towards reform did not begin until the official end of the Lebanese Civil War with the signing of the Tiaf Agreement in 1990. Throughout the 1990s the Lebanese government, with backing from the regime in Syria was able to rebuild infrastructure and boost production (Abdelnour, 2003). By 1997, according to Interview Respondent 14 (2015), 24 hour power had returned to the capital. The reconstruction of post-war Lebanon in the immediate years following the end of the Civil War was notable enough to garner international attention from other countries that were facing similar reconstruction challenges. This was detailed by Interview Respondent 15 (2015):

> "But, to tell you frankly after the war what was done was very good, just to restore electricity. During my experience I was invited 3 times to Sarajevo to talk about how Lebanon got out of its problems. Because Bosnia-Herzegovinian, years after the war they couldn't achieve anything. So they came once to Beirut, a delegation. They were astonished how things were rebuilt in such a short period. This was beginning in 2000. I was invited just to tell them how we did it. Really, a lot had been done…"

While the progress on the sector may have been good in infrastructure and production terms throughout this period of heavy investment there were also widespread accusations of corruption from of both the Ministry of Energy and Water and EDL (Abdelnour, 2003).

Unfortunately, the year 2000 seems to be the delineation point, the year that progress stalled out. Production was planned to be over 2,000 megawatts by the year 2000, a 200 megawatt surplus over the estimated need of that time. However, development of the sector had lost momentum and increases stopped at approximately 1,400 megawatts (Abdelnour, 2003). 2000 was also the year that the Privatization Framework Law (Law

228, 2000) was adopted. As detailed in Chapter V this law created the legal framework for sector specific privatization laws to be passed.

D. Law 462 of 2002

While the implementation of Law 462 (2002)—the partial or total privatization of the power sector was a condition for the loans received during the Paris II donor conference of 2002, Law 462 (2002) was actually adopted prior to the conference (Lebanon, 2002). Because of the pivotal role Law 462 (2002) plays in every attempt to reform and privatize the sector following its adoption, it is critical to go into some detail about the design of the law and how the implementation of the privatization program was planned.

Law 462 Regulation of the Electricity Sector (2002) lays out in detail the process by which EDL will become wholly or partly privatized. The sector is broadly divided into three categories. First, electricity production which includes all power generation ranging from fossil fuel sources of generation (e.g., fuel oil, liquefied natural gas, coal) to renewable sources of generation (e.g., solar, wind). Second, transmission refers to the high voltage conveyance of power to transformer stations. Transmission lines are often used for transnational power networks and can be divided into two subcategories: national and international. Third, distribution refers to the power that is distributed at low to medium voltage[8] to consumers (Law 462, 2002).

Article 4 of Law 462 (2002) specifies the partial or complete privatization of only the production and distribution components of the sector. High voltage transmission is

[8] According to Law 462 (2002) low to medium voltage is 25 kilovolts and below.

regularly regarded as a national strategic asset (Interview Respondent 9, 2015). However, there is a stipulation in Article 5; Section C that does created the legal framework for the partial privatization of power transmission.

Article 4 continues to stipulate the specifics of how ownership of the sector will be transferred to private ownership. Part 3; Article 4 covers the corporatization process, dividing EDL into multiple companies performing the two categories of the sector that are to be fully or partially privatized: generation and distribution. Once these entities are legally established and shares of the companies are created the government will own 100% of the shares at which time they can begin the transfer process through the sale of shares. Additionally, Part 4; Article 4 of Law 462 states that the shares can be sold, in their entirety, to "non-Lebanese persons" (Law 462, 2002).

Article 4 of Law 462 (2002) also exempts business-related administrative and legal fees, and taxes, from the privatized entities as long as the government remains the sole shareholder.

Article 5 of Law 462 (2002) details the process by which the ownership of EDL (at this stage split into multiple companies, therefore the plural is used) will be transferred. Once the government has identified an investor from the private sector through an international auctioning process, with "experience, competence and knowledge in the electricity sector" the winner of the auction and the government will enter into a strategic partnership.

Article 6 of Law 462 (2002) lays out the Ministry of Energy and Water's power over the proposed private electric sector. They include setting policy for the sector, advising on regulatory policy in reports submitted to the Electricity Regulatory Authority, propose draft laws relating to the sector, and to work on public safety and environmental proposals. Additionally the ministry is in charge of liaising with their foreign counterparts for any international transmission agreements that may be planned or entered into. According to Interview Respondent 9 (2015) a plan was eventually agreed upon in which Lebanon would be connected to a transmission network that included Syria, Turkey and Egypt. Lastly, Article 6 states that the Ministry will be responsible for proposing members of the Electricity Regulatory Authority (Law 462, 2002).

Article 7 of Law 462 (2002) is the major political problem facing all of the efforts to privatize the sector after 2002. Article 7 authorizes the creation of an Electricity Regulatory Authority (ERA). Law 462; Article 8 (2002) stipulates that the ERA shall consist of "a Chairman and four Lebanese full-time Members." They five members of the ERA must be recommended by the Minister of Energy and Water and hold a university degree in a relevant field. The term length to serve on the ERA is limited to one, five year term. Additionally, Law 462; Article 9 (2002) bars persons from serving on the board who have a conflict of interest, who are bankrupt, or persons subject to a disciplinary decision.

Article 12 of Law 462 (2002) is perhaps the most important section of the entire law, enumerating the ERA's duties and powers. Again, because this becomes such point of contention in all attempts to privatize the sector after 2002, it is important to review table 5-1 to see the duties and powers given to the ERA by Law 462 (2002).

Table 5-1: Law 462; Article 12

1. Prepare studies related to the general plan for the sector in the production, distribution and transmission fields, submit them to the Minister for discussion, finalize them and submit them to the Council of Ministers for approval.
2. Prepare decrees and regulations' projects related to the implementation of the provisions of this law and submit them to the Minister and provide comments on laws and decrees' projects related to the electricity sector.
3. Promote the investment in the electricity sector, work on improving the operational efficiency and guarantee the quality of the services and its good performance.
4. Ensure and encourage competition in the electricity sector, supervise and control non-competitive tariffs and ensure the transparency of the market.
5. Determine and classify the various categories of Production, Transmission and Distribution services, which appropriately reflect variances in the use of electricity according to various consumption categories, the quality and time of service.
6. Determine, the ceiling of the prices of Production services, tariffs applied on the various services of electricity Transmission and Distribution, subscription fees, service fees, fines and other fees, and their method of collection.
7. Set the technical and environmental standards and rules governing the verification of compliance with said standards and control their implementation. The Authority shall take into consideration upon assuming its responsibilities, the best international standards regarding the regulation of the electricity sector.
8. Determine the rules and standards of the Licenses and Authorizations, provided they are not contrary to the provisions of the present law.
9. Issue, renew, suspend, amend and cancel Licenses and Authorizations. In the event the Authority decides to renew the License or Authorization, or in the event the License or Authorization specifies the possibility of renewal, the Authority shall notify the conditions of renewal to the holders of Licenses and Authorizations, two years prior to the expiry of the License or Authorization.
10. Control the compliance of the holders of Production and Distribution Licenses and Authorizations as well as the Transmission sector, with the laws, regulations, agreements, conditions of the Licenses and Authorizations, and the tender documents for purposes of providing to the Consumers better services, in particular with respect to tariff regulations and subscription contract. In the event they fail to comply with the above, the Authority shall implement the applicable laws… The holders of Licenses and the Company shall provide the Authority with financial and technical information and data, as well as any other information required by the Authority to achieve its purposes.
11. Ensure that all holders of Licenses and Authorizations equally benefit from the Transmission equipment, according to the tariffs set.
12. Ensure the smooth running of the Production, Transmission and Distribution services up to the supply of the Consumer with electrical power, after deliberation with the competent parties while taking into account the free competition conditions in the sector, the government's policy and strategy, the conditions of the agreements, Licenses and Authorizations in force, the protection of the Consumers' interest, the stability in the electricity sector and the balance of the prices of the services, in accordance with the laws in force.
13. Examine and approve the requests for License and Authorization's holders to modify the services they are authorized to offer, to avoid shortfalls in connections, equipment failure or in the event of force majeure.
14. Prepare an annual report on its activities and submit it to the Council of Ministers through the Minister within the three months following the end of each financial year. This report shall be published in the Official Gazette and shall include a summary of the measures taken by the Authority in implementation of its mission, and its participation in the achievement of the objectives specified in the present law.

15. Act as intermediary and as arbitral committee in order to resolve disputes arising from the implementation of the provisions of this law between the Licensees and act in order to settle amicably the disputes between the holders of the Distribution Licenses and the Consumers.
16. Take any decision, measure, or any other action specified in the present law and regulations in force.

Source: Law 462 (2002)

Beyond Article 12 of Law 462 (2002) further discussion is of little value. This is because at the time of this writing, in the summer of 2015, Lebanon's Electricity Regulatory Authority has never been created. Such provisions as Article 16 that ensures the ERA's transparency; Article 18 dealing with the appeal process of a disputed ERA decision; Articles 19-23 detailing the ERA's role in the licensing process; Articles 24-32 dealing with the technical specifications that shall be created and enforced by the ERA; Articles 33 and 34 dealing with the ERA's responsibility in Tariff creation and regulation—in fact all subsequent Articles of the Law delineate the Authority's powers and responsibilities (Law 462, 2002). All of which have remained pending until the ERA is established.

While the rules and regulations governing the ERA have little use until if and when the body is created, this brief overview illustrates the comprehensive nature of the privatization plan that the government brought to the Paris II conference in 2002.

E. The Paris II Donor Conference of 2002

The international donor community may have viewed the fact that Law 462 was passed prior to the start of the Paris II conference as a sign that the privatization of EDL was more plausible. Law 462's passage being the step-by-step roadmap for privatization of the sector must have looked, at the time, like evidence of political support within Lebanon.

After the conference, however, a familiar pattern emerged. In the Ministry of Finance's follow up report (Lebanon, 2002) no action has been taken on the creation of the ERA though the plan seems to be moving forward as scheduled:

> "Major improvements in the performance of the public power company (Electricité du Liban—EdL), which now covers its operating costs before debt service, contributed to the fiscal outcome for 2002 and facilitates the planned privatization. The focus of the company's new management has in particular been on improving revenue collections, with the installation of new meters and inspection of existing ones, resulting in revenues increasing by close to 40% over last year. The privatization of EdL and other public companies now planned for 2003 and beyond will also play a key role in reducing the stock of public debt."

Later in the same document a timeline of the privatization process is detailed:

> "The generation and distribution company would have a monopoly on generation for seven to ten years, after which the sector would be opened up in line with current EU Directives. Establishment of the two companies, and a regulatory agency for the sector, is to take place during the first quarter of 2003, subsequent to which the Government intends to sell a 40% share (the initial maximum envisaged under the law) of the generation and distribution corporation to a strategic private investor before the middle of 2003. Government intends to contract operations of the transmission corporation with the same strategic investor. As in the case of telecommunications, Government would subsequently proceed to sell additional shares to private investors, as allowed for under the law, once a track record has been established" (Lebanon, 2002).

The familiar stalling, political in-fighting derailed the creation of the ERA.

According to a number of interview respondents the primary reason that the ERA was never created was that the persons who would make up the 5-member board could not be agreed upon (Interview Respondent 1, 2015; Interview Respondent 9, 2015; Interview Respondent10, 2015; Interview Respondent 11, 2015; Interview Respondent 13, 2015).

After three years of political stalemate a new crisis forced the issue again.

F. The July 2006 War

Much of EDL's electricity infrastructure was damaged during the month-long war between Israel and Hezbollah in the summer of 2006. By the end of July the Council for Development and Reconstruction (CDR) was estimating the damage to the sector at over US$200 million (Stinson, 2006) though this was later revised down to US$114 million (Ministry of Treasury, 2006a).

According to one reprehensive from the CDR during the war electricity transfer stations were deliberately targeted by Israel throughout the month long bombing campaign (Interview Respondent 9, 2015). This respondent also argued that security remains the largest single problem in any attempt to draw in foreign investment into the sector, asking "who will be interested in investing in Lebanon until Lebanon has a secure future?"

The largest single source of damage to the sector came on July 13 and July 16 of 2006. Though it was a huge blow to the generation capacity of EDL, much more focus has, rightly, been put on the environmental aspect of the attack. On those two days in July Israel bombed the fuel storage tanks adjacent to the Jiyeh power plant. Following the bombings 12,000-15,000 tonnes of heavy fuel oil spilled into the Mediterranean (Ministry of Environment, N.D.). This attack has stayed in the eye of the international community. As recently as December of 2014 the United Nations General Assembly voted 170-6 in a nonbinding resolution demanding Israel compensate Lebanon US$850 million in damages from the attack (Haaretz, 2014).

According the Ministry of Finance (2006b) following the war the Lebanese Treasury had to supply EDL with over US$490 million more through the end of 2006 than was projected prior to the start of the conflict. Emergency support was pledged to the

electric sector immediately following the conflict, during the 2006 Stockholm Conference (Ministry of Finance, 2006a). However, a path forward for the sector that included, again, plans to privatize it were not discussed in detail until the following year at the Paris III donor conference of 2007.

G. The Paris III Donor Conference of 2007

As discussed in Chapter V, the reform plan brought to Paris III in February of 2007 touched on almost every intersection of the Lebanese public administration and the Lebanese people. At the time Law 462 (2002) had been stalled for nearly five years, but considering the damage sustained during the previous summer's war drastic action seemed to be urgent and reform of the electricity sector seemed likely.

Putting capacity issues aside momentarily, reform of the sector was necessary to put Lebanon's public finances in order. In the Ministry of Finance's (2007a) First Progress Report privatization of the sector is a focal point because EDL's drain on the national finances. As stated in the report: "Reduce the budgetary cash transfer to Electricité Du Liban through the adoption of the Power Sector Reform Plan and the specific measures as outlined." One aspect of this plan was to collect an addition 5% Value Added Tax (VAT) on top of the electricity tariffs.

The core of the plan was, in fact, similar to previous plans to privatize the sector and depended on Law 462 (2002) as its primary legal framework. The basic timeline set out in the First Progress Report (Ministry of Finance, 2007a). During 2007 external consultants were to come to EDL and sort out its finances. Once the assets of EDL had been assessed it

would be broken up into a group of companies along the lines of the three main categories: generation, transmission, and distribution. By the third quarter of 2007 the tender process for the initial privatization of the distribution sector was to begin. By early 2008 the "New EDL Group" of companies was to be fully corporatized. And, in 2009, the new group of corporate entities would be privatized (Ministry of Finance, 2007a).

To implement the plans of Paris III new offices and committees were created. Program Management Offices (PMOs) were created to manage the implementation of the many reforms and initiatives planned for Paris III. PMOs were responsible for taking the lead on projects, coordination, monitoring, technical assistance, and providing the concerned ministries with semi-annual progress reports. The PMOs would also coordinate with the three inter-ministerial committees (IMCs): Social; Economic and Infrastructure; and Privatization. Their aim was to involve all the ministries involved with the implementation of the planned reforms (Ministry of Finance, 2007a).

Along with the PMOs and IMCs the "natural owners" were to play a main role in the implementation of the reform program. In this context the "natural owner" was the ministry most directly involved in a specific reform. Therefore, the "natural owner" of the proposed electricity sector reform was the Ministry of Energy and Water (Ministry of Finance, 2007a).

The IMCs were planned to smooth the process by addressing any conflict that might arise through overlapping jurisdictions within the reform program. The IMC secretary was to appoint specific tasks to specific ministries (or "natural owners"). Then conduct monthly meeting with everyone involved with the reform to ensure that it remained on track. The

IMCs were also responsible with the allocation of resources pertaining to the reform program; resolution of issues that may arise between competing "natural owners;" set the agenda an re-prioritize as necessary; and report progress to the Council of Ministers (Ministry of Finance, 2007a).

Finally, another new apparatus was created to carry on the various jobs of monitoring, evaluating, and proving a one-stop liaison between all the ongoing projects and the donor community. According to the First Progress Report (ministry of Finance, 2007a)

> "[The] Donor Coordination Unit (DCU) at the Ministry of Finance, with a mandate to be the focal entity within government dedicated to mobilizing, coordinating, programming, monitoring and reporting on external assistance allocated to the reform program and to reconstruction. DCU will be composed of a dedicated team that will coordinate with international and regional multilateral and bilateral agencies and facilitate partnerships with national entities being public, private and NGOs."

It bears repeating then, that in addition to the Lebanese government arriving at the Paris III conference with a sprawling agenda of reforms that touched upon almost every aspect of the country's public administration; it did so with comprehensive mechanisms to ensure implementation. These mechanisms reflect Lebanese political life, attempting to stop inter-ministerial jurisdictional battles while heightening donor involvement.

By the summer of 2007 all the IMCs had been created, and the initial stages of privatizing EDL had begun. EDL had taken on Electricité de France (EDF) as a sector consultant. Also, during the same time period EDL entered a bilateral agreement with Egypt to supply it with Liquefied Natural Gas. During this same period the Ministry of

Energy and Water had signed a contract with the International Finance Corporation (IFC)[9] to set the groundwork for the tender. Also, during this same time period EDL was seeking consultants to help with the privatization process (Ministry of Finance, 2007b).

An important legal aspect of Paris III is covered in the Second Progress and Third Progress reports following the donor conference (Ministry of Fiance, 2007b; Ministry of Finance, 2007c). While unlike traditional loan conditionality that is designed and insisted upon by multilateral donors, the Paris III conditionality was designed, for the most part, by the Lebanese government. Reform design, though, did not change the basic relationship between the government of Lebanon and the donor community. The reform program was included as conditionality to the loan agreement as part of the IMF Emergency Post-Conflict Assistance (EPCA) loan (Ministry of Finance, 2007b) and the World Bank IRBD's Reform Implementation Development Policy Loan (RIDPL) (Ministry of Finance, 2007c). The World Bank authored agreement makes the government of Lebanon's responsibilities very clear:

> "The agreement is in the form of a Reform Implementation Development Policy Loan (RIDPL) that earmarks money for budgetary support, the disbursement of which is conditional on the implementation of reforms that have been committed to by the government in its Paris III program" (Ministry of Fiance, 2007c, p. 46).

Progress continued throughout 2007, though there were signs of delay by December of 2007. EDF was working on the master plan to reform the sector; EDL's audited accounts had been made public, and a program to make EDL more efficient was underway; corporatization plans, too, were underway. However, the ERA had yet to be established and

[9] IFC is Part of the World Bank Group.

the tender process for the new independent power distribution licenses had been pushed back from February to March of 2008 (Ministry of Finance, 2007d).

This period also concluded the lifespan of Law 775 (2006) (November 2006-November 2007) which gave the Ministry of Energy and Water in consultation with the Council of Ministers a one-year window to award Independent Power Production (IPP) licenses in absence of the ERA. Memorandums of Understanding had been agreed upon with four firms to explore the expansion of power generation in Lebanon. However, with the expiration of Law 775 (2006) the ERA would have to be created to issue IPP licenses (Ministry of Finance, 2007d).

The Fifth Progress Report (Ministry of Finance, 2008a) showed more evidence of delay. By early 2008 a shift had been made and an apparent acknowledgement that the privatization of the sector would be a slow process. The World Bank funded a report to examine building policy making capacity within the Ministry of Energy and Water. Concurrently, in February 2008, EDF had drafted the first part of its master plan for the sector focusing on generation. When completed the master plan was indented to create an overarching vision for the future of the sector including future rises in demand and the eventual introduction of renewable energy sources (Ministry of Finance, 2008a).

Also during early 2008, plans for improving EDL's financial management, physical rehabilitation of Zouk power plant to extend its operational life, and the transition from heavy fuel oil to LNG. Additionally, the creation of a National Control Center (NCC) to oversee power transmission was scheduled to be created by June 2008 (Ministry of Finance, 2008a).

Corporatization was still in its early stages during the first quarter of 2008. In January the Higher Council of Privatization made a "Request for Proposals (RFP) for an accounting advisor to undertake the counting and valuation of EDL assets" (Ministry of Finance, 2008a. p. 36).

There was, though, one major component missing from all of the work preparing the transformation of the sector in early 2008. The ERA still had not been established. Donors noticed, too. The European Union created a program to fund the ERA's creation and build its capacity:

> "In order to facilitate the establishment of an Energy [sic] Regulatory Agency (ERA), the European Union (EU) has offered a €1.6 million grant within a twinning arrangement to build its capacity. The project is expected to start in October 2008, and its expected duration is two years" (Ministry of Finance, 2008a, p.36).

Progress continued slowly. By the summer of 2008, there were few concrete accomplishments concerning reform of EDL that the government could point to. In a familiar pattern, the deliverables always seemed to be pushed back—only a few months at a time—but always being delayed. The team of consultants charged with "perform[ing] operational, financial, accounting, legal and contract management activities, including coordinating and assisting the HCP and its advisory team in the corporatization and privatization of EdL" had yet to deliver these services. Reported in June 2008, they expected to deliver their reports and recommendations to the concerned ministries by March 2009 (Ministry of Finance, 2008b).

The corporatization of EDL with its necessary restructuring and planned break up of EDL properties into the New EDL Group, which had been originally planned for the first quarter of 2008 (Ministry of Finance, 2007a) was now planned for third quarter of 2009

(Ministry of Finance, 2008b). A draft report leading to the creation of the long-stalled ERA had been delivered to the council of ministers in May 2008, and as of June of that same year the ERA was expected to be established by September (Ministry of Finance, 2008b).

Scheduled for the late summer of 2008, also, was an initial tender process to contractors for the meter monitoring and collection of bills to low and medium voltage consumers. IPP licensing and the HCP's full valuation of EDL's properties were both pushed back to the late second quarter and third quarter of 2009 respectfully (Ministry of Finance, 2008b).

By the autumn of 2008 the government was reporting that all accomplishments scheduled for the summer of 2008 had been delayed. Most important of the delays was the creation of the ERA. In May of that year, the Council of Ministers had been delivered a draft proposal to incorporate the ERA. By September—when it had been hoped the ERA would be created—the Council had taken no action, and the establishment of the ERA had been delayed until December 2008 (Ministry of Finance, 2008c). In the absence of an ERA other reforms, too, had to be delayed most notably the meter and payment collection contracts and the initiation of IPP licensing. Since the expiry of Law 775 (2006), the ERA was the sole authority with jurisdiction over these areas. Because of this, creation of the ERA was the primary prerequisite to any reform (Ministry of Finance, 2008c).

In December of 2008 the Ministry of Finance (2008d) was reporting:

> "The establishment of the Energy Regulatory Authority (ERA) awaits the Council of Ministers' endorsement of the corporatization process for EdL. Reflection within the Government is still ongoing on the corporatization model that will help to promote efficiency and full transparency across the different areas of activities (i.e. generation, transmission and distribution)" (p. 47).

Later in the same report, there is an acknowledgement that it is hard to predict when the ERA would be established. Plans that, in previous progress reports, had an expected completion date had, in December of 2008, been changed, simply, to TDB (Ministry of Finance, 2008d).

By March of 2009, not only had implementation on most reform measures been delayed, but the very nature of those measures were being second guessed. The Council Of Ministers had still not discussed the draft regarding the organizational structure of the ERA which had been delivered to them 10 months prior. The Council had yet to decide whether or not to split EDL into many companies or to restructure its organization while leaving it one corporate entity (Ministry of Finance, 2009a).

Further delays included the tender process for meter reading and bill collection contractors. Though a tender had been put out, it had been canceled due to lack of interest and lack of competition (Ministry of Finance, 2009a). Perhaps most striking though, was the sudden about face on a few long-held aspects of the reforms. The IPP contracts, which had been waiting for the creation of the ERA to initiate a tender, were now being questioned by the Ministry of Energy and Water. The Ministry of Energy and Water suggested, instead, a Public Private Partnership arrangement, advocating abandoning IPP licensing, arguing that it was too expensive (Ministry of Finance, 2009a).

Among these sudden changes, other aspects of the plan fell apart as well. The HCP's ongoing effort to assess the value of a corporatized EDL dissipated along with the discussions of no longer creating the New EDL Group of companies, keeping EDL a single

entity. In early 2009 implementation of the electricity sector reforms promised during Paris III, seemed more remote than in February of 2007 (Ministry of Finance, 2009a).

By autumn 2009 the Ministry of Finance (2009b) was reporting that little had changed during the first three-quarters of the year. The meter and distribution tender process had stalled with no reported date to begin again; and IPP contracts had been dismissed, on the advice of the Ministry of Energy and Water. The IPPs were abandoned in favor of PPP agreements, though in the fall of 2009 there was no tangible progress in this regard. The HCP's efforts had also stalled indefinitely as the Council of Ministers could not reach agreement on how to restructure EDL.

The final Paris III progress report prepared by the Ministry of Finance was published that December (2009c). Illustrative of how progress had eroded the following is the entire coverage of the proposed privatization of the electricity sector in the 34-page report:

> "The draft reports for the planning phase of the sector restructuring and EdL corporatization were completed. A draft budget and organizational structure of the Electricity Regulatory Authority ERA was proposed by the Higher Council for Privatization (HCP) consultant (Decon) and is under review by Ministry of Energy and Water" (p. 20).

This 49-word summation perfectly articulates how completely the reform process had fallen apart nearly three years after Paris III. Almost six years after this report was written (Ministry of Finance, 2009c), the draft budget and organizational structure of the ERA never amounted to the creation of that regulatory body. EDL was never restructured, IPP contracts, or PPP agreements for that matter, were never initiated, and the problems plaguing the sector continued to grow.

H. The costs of the Status quo

One aim of this study is to look at the confluence of multilateral and national actors, examining the outcomes of that relationship, in this chapter, specifically, the privatization of EDL. However, it is a valuable exercise to look at the cost that non-action has taken on the largest stakeholder, the residents of Lebanon. In this section I will cover the challenges that residents of this country face, the current political realities, on other urgent issues facing Lebanon's electric sector.

In the same year as the final Paris III progress report, the World Bank (2009) published an important Social Impact Analysis to examine the impact of the electricity sector's dysfunctionality on Lebanon's economy. The findings of the report show the drastic detrimental effect that the failing sector has had on the overall economic health of Lebanon. According to the report, the problems represent a threat the country's macroeconomic stability (World Bank, 2009).

The most drastic cost to individuals and businesses comes in the form of subscription to independent generators. While technically illegal—EDL has the sole legal authority to sell electricity—the independent generators accounted for a third of energy production in Lebanon by 2009 (World Bank, 2009).

The number of households connected to an independent generator had increased from 36% in 2004 to 58% in 2009 (World Bank, 2009). Technically illegal, the generators have become a political obstacle to reform. Interview Respondent 2 (2015) an International Monetary Fund official noted it as one the first steps that could be taken towards reform: "I mean you can ask the municipalities to take care of the generators. They will be managing

this on behalf of the country, so you have a fixed rate, and this is kind of a transition before fixing the problem at EDL." Unfortunately though, the government seems to be unable or unwilling to deal with the issue, as Interview Respondent 2 (2015) pointedly noted, "They [the Lebanese government] pretend that this [the independent generator network] doesn't exist."

Interview Respondent 3 (2015) a World Bank employee viewed the independent generators as an emerging obstacle to reform, saying:

> "You have all these generators—they generate around 30% percent of the electricity of the country. By the letter of the law they're illegal… Now of course they played a role during the war and afterwards when the government wasn't able to. You're not supposed to have private, 3rd party generation, but you do and people accept it. So whoever is making money from the contracts—the oil, the fuel—all those vested interests in managing the generators all over the country. The contractors. All the money in that space, I think that it's not an issue unique to Lebanon. But trying to look at politics, capacity, some of the government agencies to liberal reforms in a consistent measured way."

Not all interview respondents saw the independent generator network as major political threat to the reform of the electricity sector. Interview Respondent 9 (2015) argued that the reform of the sector would necessitate a strong government, and a strong government would have no problem dismantling the illegal network:

> "The generator men, the informal network, will not be an issue by the time there is strong government support for the privatization. They may be a force now but the government pulls a huge influx of private capital that would make them a nonissue."

As Interview Respondent 11 (2015), a representative of the Ministry of Energy and Water pointed out, the government is currently not capable of enforcing the law against the independent generators, "private generators are not legal. But the government is tolerating.

Why? Because we are not able to provide 24 hour service so we have to shut our mouth and let it go…"

The extra-legal nature of the independent generator network translates to a completely unregulated industry. Since the government of Lebanon has taken a stance of non-enforcement the generator operators can, and do, charge a much higher tariff than the would-be fair market price. A major contributor to the high cost of these generators is their inefficiency. Interview Respondent 9 (2015) compared the difference between the standby generators and a modern system saying, "a good modern power plant can produce at 9.5 cents per kilowatt hour. The best of these private generators can do is 22 cents per kilowatt hour. And that's assuming that they are brand new and efficient."

Most of these generators, though, are not brand new and efficient. When I asked Interview Respondent 15 (2015), a representative of an environmental NGO, if the informal generator network was detrimental to the environment and air quality in Lebanon, he seemed shocked by the question and said:

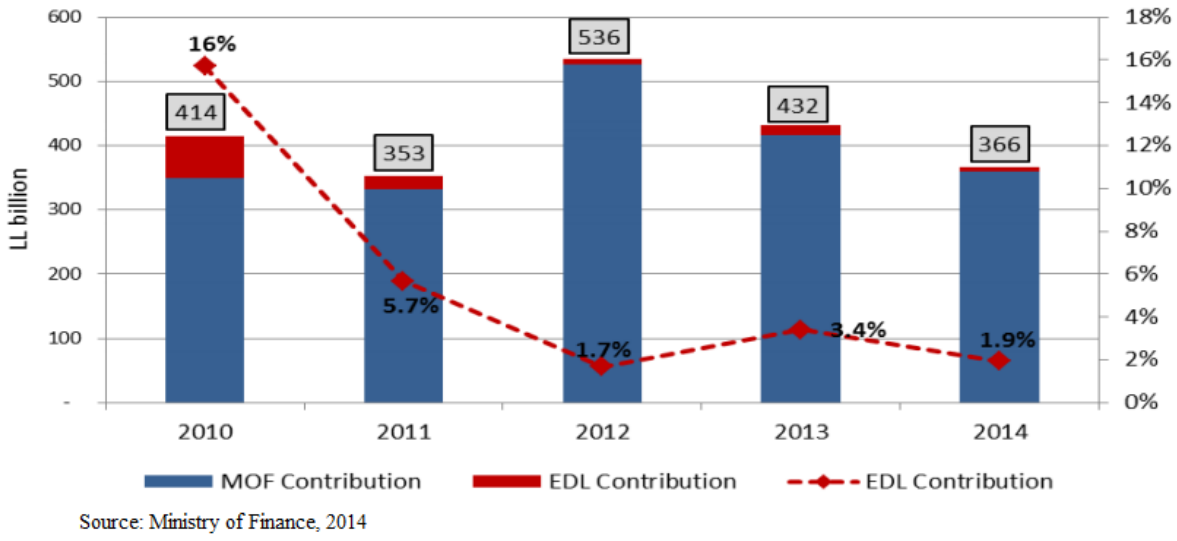
> Very bad! Certainly, what do you mean? We talked about this 18 years ago, certainly, any engine which is different speed. There are no controls, no checks. Not anybody controls who is doing it. I mean your car even if it's a bad system at least you take it to a check in Lebanon once per year. But here there is no one that checks on them. It's not that there is a system which is not implemented, there is no system. They don't consider them existing. So, no controls. Certainly, who cares? And then they are very powerful. Connected. It's big money, anything which has money. You can't stop it. They distribute benefits…

The reliance on these private generators, the operators of the generators' political potency, the environmental issues, all seem to compel government intervention. But, as Interview Respondent 11 (2015) had pointed out, until the government is capable of providing 24 hour per day power that intervention remains politically unfeasible. Perhaps

now it is important to explore how a monopoly provider, providing a product with near universal demand, has managed to fail so spectacularly.

Before looking at the causes of EDL's failure, it is illustrative to look the numbers behind that failure. In February 2014, for instance, the monthly transfers for both fuel costs and debt service from the Ministry of Finance to EDL was US$71,221,792. In that same month, EDL was only able to contribute 1.9% of the total cost of fuel oil needed for its operations, a percentage which has dropped precipitously since 2010 (see figure 5-1) (Ministry of Finance, 2014)

Figure 5-1 EDL contribution towards Fuel Oil Purchases 2010-2014



Source: Ministry of Finance, 2014

The total transfer to EDL from the Ministry of Finance in 2014 turned out to be almost US$3 billion (Khoury, 2015).

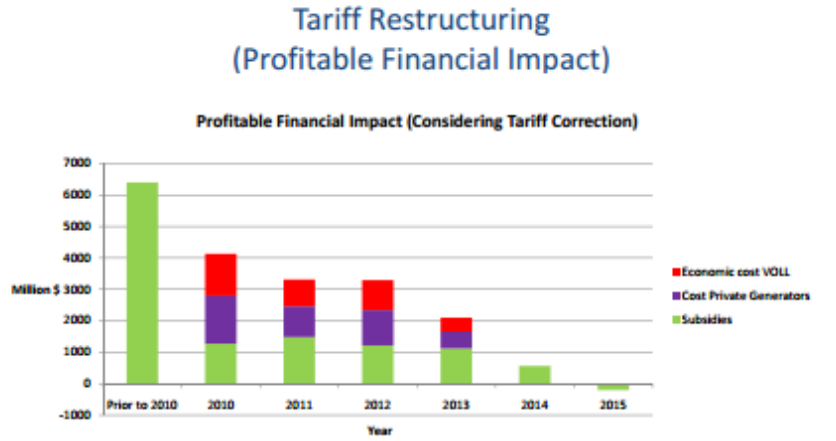
The desperate financial state of EDL has a number of sources. Currently technical losses, losses that stem from inefficiencies of the transmission and distribution networks, combined with theft and unpaid bills contribute to 15% of EDL's deficit (Sakr, 2014; Interview Respondent 14, 2015).

While they are certainly problematic, the main source of EDL's financial woes is neither technical losses nor theft. The main issue is that EDL has been restricted by parliament to charge a tariff based on $25 per barrel oil prices (IMF, 2007; Interview Respondent 11, 2015). $25 per barrel oil has not reflected the international commodities market price since 2002 (Williams, 2011).

Forcing EDL to sell electricity at below market rates for over a decade has manifested into the current problem. The lack of funds have, in turn, translated to a lack of infrastructure investment and a continuing pattern of poor service, Interview Respondent 7 (2015) described this cycle as the "systematic impoverishment of the utility;" while Interview Respondent 10 (2015) simply said, "the government is letting it [EDL] die."

Just how impactful to EDL's finances tariff reform would be is displayed in then-Minister of Energy and Water Gebran Bassil's 2010 sectoral reform plan which shows a projected end to EDL subvention by 2015 (see figure 5-2).

Figure 5-2 Proposed 2010 tariff restructuring



	2010	2011	2012	2013	2014	2015
Subsidies total M$	1276	1482	1215	1119	564	-201.073
Total Losses/ subsidies	4130	3310	3292	2100	564	-201.073
% of Average Tariff Increase	0%	0%	7%	10%	13%	16%
Tariff in US$/ kWh	0.0958	0.0958	0.1025	0.1128	0.1274	0.1478
% increase of tariff from 2010	54%					

Source: Ghajar, 2010

Unfortunately, Minister Bassil's proposal was never implemented and the problems plaguing the sector have continued. However, there have been a number of proposed solutions and stop-gaps introduced since 2010. Coinciding with a massive influx of refugees fleeing the Civil War in Syria, two Turkish barges, essentially floating power plants, have begun providing power to the country. Though their original purpose was intended to provide power so the Zouk power plant could be temporarily shut down and rehabilitated, the unexpected population increase has caused Zouk to keep running and the power barges to provide the necessary excess capacity created by the refugee crisis. Interview Respondent 10 (2015) an independent energy expert explained:

> "These power ships were brought for three years—they have only been here for two years. The ships' contract is supposed to end after the three years, but even if they

> started rehabbing [Zouk power plant] today the ships would have to stay another 2 years. There is a possibility to stay by mutual agreement. They may stay if there is a failure in one of the plants. If the ships left the difference would be immediate, resulting in drastic prolonged power cuts."

The general consensus of the interview respondents seemed to be that the government would be unlikely to allow the power ships to leave. This was even true for the respondents who thought it was poor policy. Interview Respondent 15 (2015), who noted that the ships were inefficient and expensive, still assumed that the government would have no choice but to extend their contract.

There have been some novel attempts at combating the problem. Notably, Interview Respondent 13 (2015), the former EDL official, argued for a plan of government seizure of all the independent generators. They could then be used, temporarily, to feed EDL's capacity. With the new capacity and 24 hour power EDL would be able to raise the tariff to customers who would now be only paying a single bill, not a bill plus a generator subscription. Importantly, the World Bank (2009) provided evidence that most Lebanese households would be happy with such a trade-off. This plan was not without its critics; however, Interview Respondent 14 (2015) argued that it was not practical.

What does seem to be practical requires less government authority, and, like the informal generator network, is technically breaking the law. Electricite de Zahle (EDZ) began providing Zahle and surrounding areas with 24-hour power in February 2015. EDZ began as a concession for power generation and distribution in the 1920s, during the French Mandate. The concession agreement signed by EDZ with EDL following Decree 16878 allowed EDZ distribution rights, and allowed a provision that if EDL was unable to supply power generation than EDZ could supplement generation. EDZ's success has largely been based on their ability to collect bills for costumers—a 99% collection rate compared to EDLs 60% (Sakr, 2015).

In two notable areas EDZ is breaking the law. First, they have set their tariff to market price; and have made the sector (at least in Zahle and the surrounding areas) profitable. As Interview Respondent 14 (2015) noted, "EDZ is charging 16 cents per kilowatt hour. They are technically breaking the law, charging more than the EDL tariff." Moreover, EDZ is using EDL's transmission network illegally, as described by Interview Respondent 11 (2015)

> "If you produce large scale power then you have to distribute it. He is using a network which is not his, the network is the property of EdL. So he is using that to distribute his power and make a profit. And this is illegal. And he is not paying the cost. So all this situation is illegal. But it is an accomplished fact."

The government may treat EDZ as an accomplished fact, but there are certainly voices within the government who are unhappy about it. Interview Respondent 9 (2015), a staff member at the Council for Development and Reconstruction and a vocal proponent of privatization, did not support EDZ:

> "As for EDZ, what's happening now is the bad type of privatization. They have been able to privatize without the regulatory agency being formed. This means they have the ability to charge any price they like with no recourse for the patrons of their services. If the ERA had been established they would be able to go and complain, but now the people running EDZ are making millions of dollars by being able to set the price as high as they like."

I. The Anatomy of Corruption

In 2014 a law was passed that, unlike EDZ's activities, provided a legal avenue towards privatization. Much like Law 775 (2006) almost a decade earlier Law 288 (2014) was created as a solution to the problem that has plagued the implementation of Law 462 (2002) since it was passed. Law 288 (2014) allows the Minister of Finance, Ministry of Energy and Water, and the Council of Ministers to approve IPP licenses in the absence of the ERA. Based on an assumption that the ERA would eventually be created, Law 288

(2014) would only be in effect for two years. As of the summer of 2015, no IPP licenses under Law 288 (2015) have been issued.

Why IPP license were not being issued under Law 288 (2014) was a question that, in the beginning of my research, I had trouble answering. Interview Respondent 1 (2015) and Interview Respondent 3 (2015), a government and World Bank representative, respectfully, told me, vaguely, that political gridlock was the source of the delay.

Interview Respondent 11 (2015), a contractor working with the Ministry of Energy and water told me the following remarkable story. That showcases both political corruption and political intransigence at an extreme level.

> "15 years! No consensus, and until today this committee [the ERA] has not been named. So, recently, last year… you'll see how devious the mind of politicians are. They voted a law, another law, Law 288 which is an amendment of Law 462. And what does this law say? It says for a period of 2 years the authority of the ERA is given to the minister of energy jointly with the minister of finance, subject to approval of the council of ministers.
>
> When this law was published we were surprised by the ministries… How can they recommend this law? They are giving the authority of the ERA to the Minister of Finance?
>
> So, we started receiving applications for companies applying through the law. To have a permit, to produce. So we had… We hired an international consultant [redacted] and we made a study, like a feasibility study. What can be done to privatize the sector and what are the necessary steps?
>
> And [redacted] recommended to us to hire a transactional adviser. Because the ERA was supposed to oversee privatizing the sector. You must have a complete set of documents. Policy, financial, administrative, technical, environmental it's not actually very easy. I mean you must have your own technical certification, legal requirement, and financial requirement. You must think of financial models that are attractive to investors and convenient to you.

> You must review the laws. Maybe the current laws are not adapted to private investment so you must try to pass new laws to be able to make it feasible. All of this must be studied to prepare the ground for privatization.
>
> So, when we had received the first request to give the license, when they applied we said, 'Okay. Let's hire a transactional adviser. We will start with him to see what should be done.'
>
> The first answer was: why do you need a transactional adviser? Why don't you just issue licenses? You've read Law 462?
>
> We said to them, "look law 462 says that the minister should have some criteria for the awarding of these licenses. You don't just say yes or no based on your mood. So these criteria—we don't have them. This is why we need the transactional adviser.
>
> They don't want the ERA. They want us to do the job of the ERA. But we don't have the capability in-house, we need a transactional adviser… Even worldwide consultants that have the experience as a transactional adviser in IPP—they're not many, Maybe 5 or 6 worldwide. This is a field in which a lot of experience is required.
>
> So since maybe one year now, we are receiving the requests for the permit and we are refusing to give anyone a permit. Unless they give us the money to hire the transactional adviser, and questioning the purpose: "why do you need a transactional adviser, etc, etc."
>
> What they want, they want us to give licenses based on your pretty face. You want a license? Take one. Because they want to share the pie between themselves, the politicians: "one silence for you, one license for me, one license for my friend without any criteria."
>
> And this is not the way to protect the interest of the government. This is the way to make—the private make money. Until now we are succeeding to reject these requests, but they are not giving us the means to do a proper job."
>
> When asked if the Ministry of Energy and Water would continue to reject the IPP

applications until the Ministry of Finance relented, Interview Respondent 11 (2015) said:

> "Yeah. Now to put pressure on us they cut our salaries. Since January they're not paying us. Four months, five months…Because we are contractors—they stopped paying us.
>
> The politicians, they want to share the market between themselves. When they made this law 288 they had in mind, everyone would have his own area and they would have a license.

> But what is the purpose of privatization? The purpose of privatization is to open the market to competition. But this is not what they have in mind. What they have in mind is to have a monopoly of private providers over the people. This would be to put some sharks in the position to blackmail the people… This is what they want. This is what they want, it doesn't mean this is what they're going to get.
>
> They are doing a lot, to get this. [Including] phone calls, "If you want to get paid you better change your behavior" and things like this. Many people left, actually. We were around 14 now we are around 10. Some people are fed up with it."

Perhaps more than any other piece of data collected, this story illustrates the current role of IFIs in the privatization processes—none. It does not mean that they are not trying to be involved, or that their role since Paris III has been unimportant. The following chapter provides a discussion of the both case studies and works towards a theory of Lebanese noncompliance

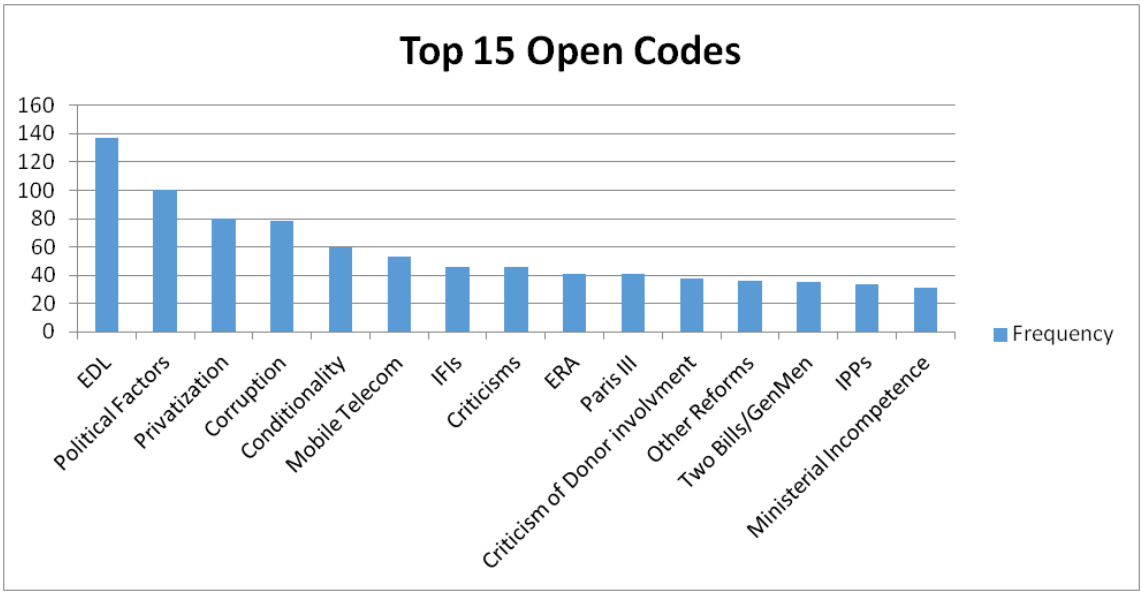
Chapter VII

DISCUSSION

A. Coding and Data Analysis

While the main line of inquiry regarding what factors led to the noncompliance of the planned privatizations of both the mobile telecommunications and electricity sectors were answered in the previous two chapters, the role of the international community generally, and IFIs specifically were rarely brought up in Chapters V and VI. The data shows why. Figure 6-1 shows the basic frequency statistics of the top 15 open codes.

Figure 6-1 Fifteen most frequent Open Codes

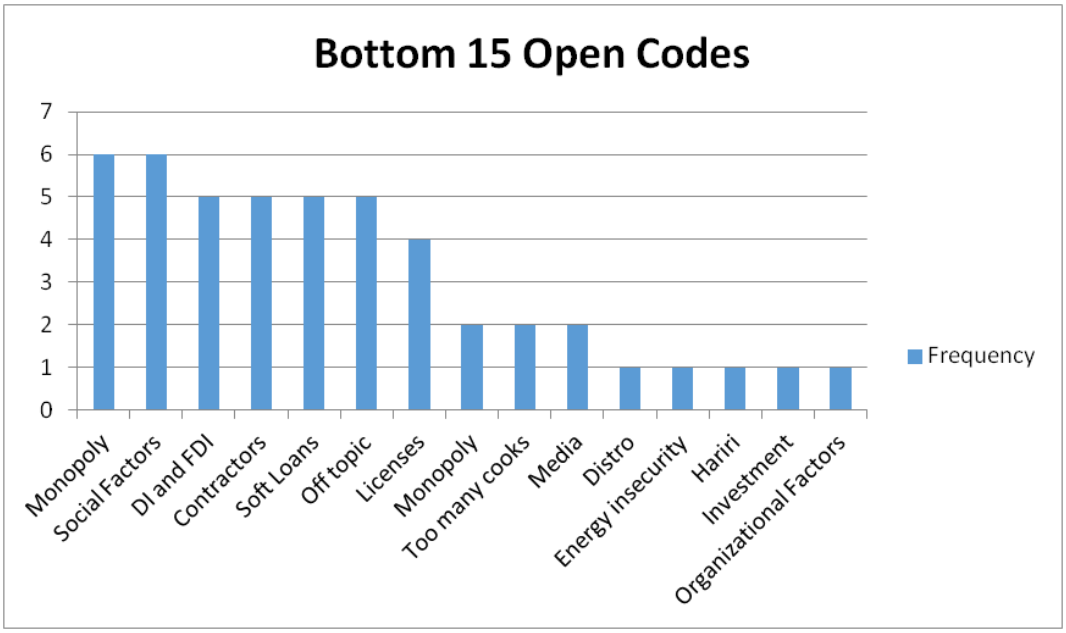


To look at this snapshot it would appear that Loan Conditionality, IFIs, and donor involvement were some of the most important factors during the interviews. However, during the axial coding process as the data became clearer and painted a different picture. A

root cause appeared, linking seemingly disparate data points. Put more simply, things that may seem to not be political, e.g. the open codes ‘vacancies’ or ‘organizational factors’ indeed turned out to be political. In these two examples the vacancies were caused by a law that froze public sector hiring; and invariably, the organizational factors were caused by problems stemming from patronage appointments or simple lack of public investment. This represents a pattern found throughout the coding process.

An even stronger example of how almost all the issues somehow came back to political problems as a root cause is shown in figure 6-2 the 15 least frequent open codes.

Figure 6-2 15 Least Frequent Open Codes

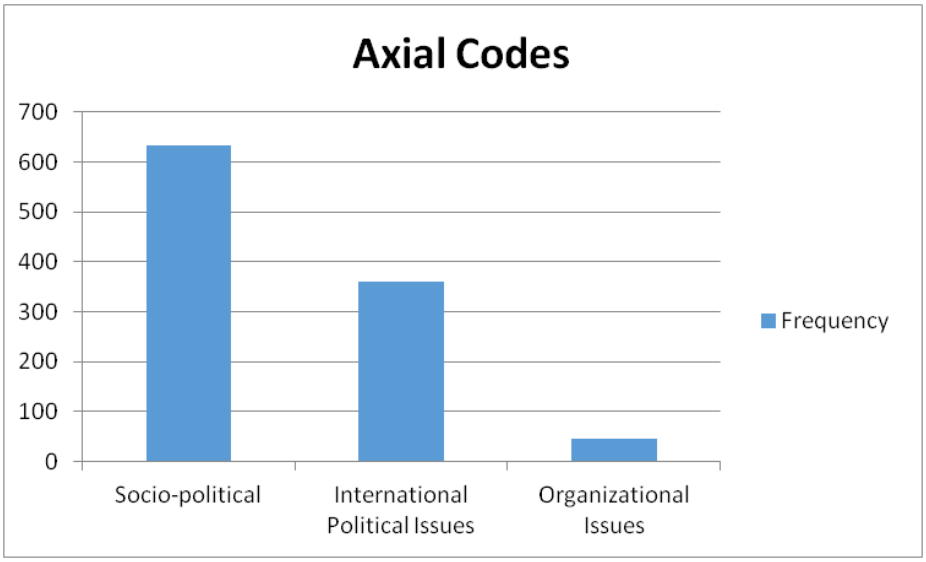


Codes like ‘contractors’ and ‘media’ in the context of the interviews were also almost exclusively related to the political situation. In these two examples ‘contractors’ were usually referred to as being incompetent but politically protected; and the media was

portrayed as having a preset political bias often being used to push one political ideology or another.

With this in mind, the axial coding took both openly political codes, and codes that could be traced back to having a political root cause, creating the first of three axial codes: Socio-political Issues. The remaining axial codes were International Political Issues and Organizational Issues. Figure 6-3 shows the frequency of the three axial codes.

Figure 6-3 Axial Codes



From the axial coding, the root cause or selective code became clear. While other aspects played a role in the noncompliance of the agreed upon privatizations, political issues were at the root of the problem, and by far the most consequential of all possible explanations. When analyzed carefully most of the other issues (organizational, economic, social) all had roots in ongoing political dysfunction.

B. Interview Respondents' Attitudes

If domestic political issues were the leading contributor towards noncompliance of promised reforms, than what role did the IFIs play? To understand the actions of the Lebanese state following Paris III and to build a theory based on my primarily Rationalist Theoretical framework it is again useful to look at the data behind the codes. Splitting the interviews up into three distinct categories I will examine how public sector officials, IFI representatives, and unaffiliated experts view the relationship between the state and the donor agencies.

In the first category, public sector officials, something that Interview Respondent 4 (2015) an employee of The Office of the Minister of State for Administrative Reform (OMSAR) told me seemed emblematic of Lebanese state institutions' view of the role of IFIs in domestic affairs: "I don't think that they [IFIs] can really force a government to do anything. So the argument that they can come in and take away power that should belong to the state is just not true." This attitude was echoed by Interview Respondent 1 (2015), who felt that the IFIs should have done *more* to try and pressure the state into implementing the reforms.

While reading the IRB-approved consent form, Interview Respondent 16 (2015) was angered by the language I used, taking issue with the very idea and term compliance. During the interview, he said this about the relationship between the government, its donors, and the role of conditional aid in sovereign lending: "Any conditionality that is put in a lending contract in order to be enforceable it necessitates that both the borrower and the

lender are subject to an agreed upon legal framework with an authority that is able to enforce."

Interview Respondent 16 (2015) went on to explain that institutions, both government and multilaterals, are made up of individuals with different and often conflicting motives, arguing that the representatives of both the multilateral donor agencies and the government are taking into account other considerations that can exist independently from, or even in conflict with, the public good.

Interview Respondent 16 (2015) echoed a compliant made by Interview Respondent 1's (2015) that the IFIs were "kowtowing" to forces inside the government who may not have the public interest in mind. A remarkable and, unfortunately, unconformable accusation made by Interview Respondent 16 (2015) was that mobile telecommunications privatization was never intended to be a condition of the Paris III loan package, at least by IFIs or any other international donor. According to Interview Respondent 16's (2015), forces inside the government, with a monetary interest in privatizing the networks, were using an assumption that conditionality would be implemented and requested the addition of mobile telecom privatization, using international lenders to pressure a domestic political action that would have been otherwise too unpopular to progress.

Representatives of the IFIs also pointed to a more complicated relationship than simply a policy forced on to a state from outside donors. Interview Respondent 2 (2015), who works for the IMF, argued the logic using crisis as an opportunity to start reform, saying that while it may seem harsh to impose reforms in the midst of a crisis, it is usually all but impossible to make any major reform during a period of stability.

That difficulty to implement reforms during periods of non-crisis seems to reflect what Interview Respondent 1 (2015) said happened following the Paris III conference. As the situation became more stable the urgency began to fade. This theme also emerges in the theoretical framework as governments and situations change over time so does the likelihood to comply. As Chayes and Chayes (1993) had argued, there is a large dichotomy between the agreement stage and the compliance (or implementation stage).

Interview Respondent 12 (2015), who works for the World Bank, described conditionality as a "wish list." His argument was that the conditionality was to improve implementation quality, saying "It [The World Bank] is a development institution. So, it's not a bank. It wants to give money for a purpose. In theory that's the idea. So there has to be some conditionality."

Interview Respondent 12 (2015) also echoed the argument of Interview Respondent 16 (2015) in describing the creation of loan conditionality as a collaborative process. One in which the lending institution and the country's leaders work together to identify the policies that would be most beneficial. Of course, bad actors inside the government could corrupt this process just as easily as poor policy decisions from the IFIs.

Finally, the arguments of two independent economists that I spoke to reinforced some of the key points of agreement between members of the government and IFI officials. One reoccurring theme is that the government of Lebanon not the IFIs are the principle policy makers. Interview Respondent 6 (2015) argued that this is precisely what happened with a new project to provide water to Beirut, a project that is primarily funded by the World Bank. This project will take water from the artificial Lake Qaraoun. However,

Interview Respondent 6 (2015) argued, the water is of poor quality and is also needed for its current purpose of agricultural irrigation in the Bekka, saying "So now we're using this sub-par water for the next dam that the World Bank has just agreed to fund. Something close to, I think $450 Million. …"

Regarding the World Bank's responsibility in choosing projects that good for Lebanon's development, Interview Respondent 6 (2015) went on, saying: "From the World Bank's perspective this was sort of like 'okay, we've ticked the quota for Lebanon, given them the amount of funding that we're required to give them and it's done.' And that's it."

Even more critical of the IFIs role in Lebanon was Interview Respondent 7 (2015). Interview Respondent 7 (2015) argued that political actors with the help of IFIs were "systematically impoverishing" the electricity sector creating a very visible argument in favor of privatization. "It's systematic. Personally, I think it's done on purpose. It's to impoverish… You cannot have a shortage after 25 years of reconstruction more shortages… as a way to say your only redemption is privatization."

Notable about all three groups' arguments is the role of the government. Some boast of a collaborative process, others argue that the government was never obligated to comply, and still others argue that the government is colluding with the IFIs to force privatization. All pointing to a strong, active and independent role of the government.

C. Towards a Theory of Lebanese Noncompliance

Based on a Rationalist framework laid out in Chapter IV, it is possible to build a theory from the data collected as to why the Paris III reforms were never—or, at the very least, have not yet been implemented.

There is strong evidence to support Chayes and Chayes (1995) argument that state behavior is not often premeditated. I found no evidence of actors within the government weighing costs and benefits and choosing noncompliance as the best option. Also, there is strong evidence to support another of Chayes and Chayes (1993) arguments: the dichotomy between agreements and interests is greatly exaggerated. Had the reform program been fully implemented, a multitude of sectors in Lebanon would be better off today. Compliance—not noncompliance—would have been in the interest of the state.

The argument made by Hurd (1999) that on the international stage a national government act with one unitary voice does hold true. Paradoxically this unified voice emerges from the ongoing political in-fighting. The de facto result of many actors not being able to agree on policies is to speak with a unified voice, a unanimous decision to do nothing. In the case of Paris III, a de facto unanimous decision to not implement the promised reforms and go into noncompliance.

As discussed some Rationalist theorists argue that the decision to not comply is based upon a thoughtful weighing of potential benefits to potential losses and choosing the option that creates the best outcome for the country. Most of the models discussed in Chapter IV are more complex. For instance, Underdal's (1998) model is quite accurate

when applied to this case study. While the privatization of EDL would have been beneficial for lower members of society, described by Underedal as a larger concentric circle away from the center source of power, it would have been unprofitable for the private interests inside Lebanon. Looking at EDL and the mobile telecom networks, had they been privatized as planned local business magnates would be forced to compete in a free and fair market. Noncompliance was therefore in the short-term interests of some domestic business actors. Since the people who have the means to eventually acquire SOE in Lebanon are invariably politically active and powerful noncompliance was almost guaranteed following Underdal's model.

Additionally, privatizing SOE, specifically EDL, Lebanese political actors could lose a vast amount of real political power. This power includes the ability to hand out jobs, the power to award contracts, and the common practice not enforcing electricity theft—a sort of extralegal and informal version of subsidy.

Chayes and Chayes (1995) argued that compliance cannot be seen as black or white; on or off. Compliance must be understood through varying levels, and as long as a state can maintain a minimum level of compliance with their international agreements then they are free to continue acting with the global community. This is argument leads to them including reputational costs—something that might be thought of as a normative, and therefore constructivist argument—into their modeling. In Lebanon, there is strong evidence that reputational costs do drive behavior.

The basic reputational motives are evident since the Lebanese government as it never defaults on its debt to IFIs. This debt service, which amounts to a large portion of

annual Lebanese GDP, keeps the government in compliance at least up to the standards laid out by Chayes and Chayes (1995). This also speaks to Checkel's (2001) question of legitimacy. I believe it is a fair inference to assume debt service equates to an assumption of legitimacy by the government towards the IFIs.

Hurd (1999) argued to say that this type of research in general, and this thesis specifically is just a "study of excuses." I do not believe so. There is a great deal of literature on compliance with international agreements, but very few case studies. This research shows both the strengths and weaknesses of different theories and shows how, in at least the case of Lebanon following Paris III, data is necessary to confirm or challenge theories.

Hurd's (1999) argument that without a coercive force, compliance remains unlikely certainly holds true within the context of this research. However, questions could be made regarding that argument. Specifically, as Chayes and Chayes (1995) argued it is important to analyze the difference between intent and capability. Capability issues may, too, be a factor especially regarding the very complex process of EDL privatization.

Chayes and Chayes (1993;1995) focus on the fact that temporal and other issues play a huge role in compliance was certainly emergent in the data. As the government of Lebanon changed, the priorities and policies changed with it.

The question then remains: what domestic situation in Lebanon would create the highest likelihood to comply with the types of reforms agreed to in Paris III? Underdal's (1998) model seems to be quite accurate. Lebanon would need a strong, transparent,

government with higher extractive capacity (in the form of new taxation); this government would have to be reasonably independent from the business community; and would need the support of the lower echelons of society, or the outside concentric circle in Underdal's (1998) parlance.

The last aspect is perhaps the most important, the people as a whole would need to provide ongoing pressure. This pressure would need to last a long time, long enough to match the complexity and time consumption that implementation necessitates. Additionally, this would necessitate an end to the corruption that has plagued every aspect of reform from planning to implementation.

CHAPTER VIII

CONCLUSION

A. Politics and policies

The main question that drove this research was prima facie simple: What factors (political, social, economic, organizational) led to the noncompliance of agreed upon structural adjustment reforms following the Paris III funding conference, specifically the agreed upon corporatization and privatization of EDL (electric sector) and the mobile telecommunications sector? However, over the course of the 10 months between drafting that question and answering it some of the assumptions inherent in the question began to show their flaws. The main assumption, that it was unlikely that there would be a single cause to the non-implementation (and by definition noncompliance) of the agreed upon reform package after Paris III. As shown in the discussion chapter, factors outside of the realm of politics were marginal at best. Furthermore, factors that might seem to be apolitical at first glance, when analyzed more carefully turned out to have political reasons as their root cause.

In the first case study this is clear. When it came time to implement the privatization process for mobile telecommunications sector there was pushback from inside the government: high-ranking members of the government calling the privatizations illegal and Hezbollah's Secretary General referring to the privatization of the mobile networks as "looting." Moreover, the security situation in Lebanon deteriorated in 2008—due to political tensions (BBC, 2008)—and any interest from foreign investors dissipated. An

argument could be made that the worldwide financial crisis that began in late 2008 played a role in failure to comply (i.e., privatize the sector) however, by that point the government had had almost two years since agreeing to Paris III and the process had been completely stalled. While hugely important in many other aspects of financial and economic policy it would be a hard sell to argue that the financial crisis derailed Paris III's privatization of the mobile telecommunications sector. My analysis points to a failure to implement prior to the crisis. As reported in the Ministry of Finance's (2009c) final progress report the process had been long-stalled, awaiting a political decision.

The second case is just as clear, and follows the same (albeit exaggerated) trajectory as the attempts to privatize mobile telecommunications. Again, with the Electricity sector other factors emerged early on—organizational factors, technical issues—and, again, upon further analysis they all led back to a political root cause. In the two examples just noted: many of the organizational factors leading to the many failures of EDL can be attributed to incompetent staff being given patronage positions as a reward for political loyalty. The technical issues can be seen as a direct result of the lack of political will to invest in EDL's aging and poorly maintained infrastructure. This pattern repeated itself over and over: the pinned tariff to very outdated oil prices; the incompetent and politically protected third-party bill collection companies; and the lack of any meaningful response to wide-spread electricity theft. All problems pointed towards political dysfunction, be it gridlock or corruption.

The story following Paris III was quite similar as well. Despite major efforts both inside and outside of Lebanon, there was no progress in appointing the ERA. As detailed in

Chapter VI, without an ERA the government has almost no authority to proceed with privatization. Another marked change occurred in 2009 under President Emile Lahoud. Suddenly the Ministry of Finance's (2009b, 2009c) progress reports called for abandoning the original plan to issue IPP's and called for a new strategy of Public Private Partnership (PPP). Under PPP agreements the government retains ownership, so this shift was a major step away from the full privatization of issuing licenses.

The answer to the second question was entirely atheoretical and its answer was borne out at the end of both the Case of Mobile Telecommunications and The Case of EDL (Chapters V and VI). The current status of mobile telecommunications is a continuation of the old policy established under the Lahoud government at the time of the unilateral cancelation of LibanCell and Cellis's contracts. A new tender process for the operation of MIC1 and MIC2 is underway, scheduled to be completed later this year. There is no public discussion regarding a renewed effort to privatize the sector.

As for the case of EDL, as evidenced in Chapter VI there is both a renewed effort to privatize the sector and a renewed effort to prevent that privatization. Among accusations and recriminations of corruption and incompetence, it is hard to imagine that any IPP licenses will be issued during the final year that Law 288[10] (2014) remains in effect. Furthermore, there has been no progress in appointing an ERA. The appointment of the ERA would be the only way to move forward with these reforms, barring the repeal of Law 462 (2002).

[1] Law 288 allows the Council of Ministers, the Ministry of Finance, and the Ministry of Energy and Water to issues IPP licenses in the absence of a ERA.

B. Policy Opportunities

The focus of the research is about failure on multiple levels. Failure to comply with international agreements; failure to implement policies; and failure to provide the Lebanese people with necessary services. It must be added that much of what Lebanon did do by means of policy design compares quite favorably to the investigation into best practices of privatization covered in the Privatization and Conditionality Chapter (Chapter III).

In Law 228 (2000) the privatization framework law, Lebanon proceeded with sectoral privatization cautiously. The law itself did not allow for the privatization of any specific sector, it simply created a legal foundation on which sector-specific future laws could be built. When two such laws were passed for the two sectors covered in this thesis (Law 431, 2002; Law 462, 2002) they, too, were well designed and drafted in a such a way as to avoid the pitfalls that many other countries have faced following privatization (detailed in Chapter III). By creating a legal framework that necessitated the regulatory bodies (TRA and ERA) to be created prior to any privatization many of the dangers of privatization would have been averted.

As described in Chapter III Lebanon created a system of divestment that would privatized these two sectors incrementally. As Savas (1992) noted, this is a controlled and effective way to slowly shift an SOE into the private sector. The incremental nature—Law 431 (2002) only calls for a 40% share of MIC1 and MIC2 to be privatized initially—is another example of how well the policy was designed. This avoids privatizing too fast which is acknowledged as dangerous for a country's economic well-being (Stiglitz, 2002; ESCWA, 1999). Additionally, the use of delegation to retain ownership of high-voltage

transmission lines in Law 462 (2002) also serves as an example of how well-designed the privation laws were (Savas, 1992).

While these policies were well designed, the fact that they were never implemented must be emphasized. While Lebanon was never overrun by FDI looking to exploit the privatization of a monopoly by a weak state that may say more about Lebanon than the foreign investors that Woodward (1997) was weary of. Farazmond's (1999, 2002) argument that privatization is the "engine" of globalization cannot be disproved through this case study. In this context it must be ignored since it is a criticism of something that never materialized.

This case also showed some of the limits and the problems with commentators who criticize conditional lending as the grabbing away of state sovereignty from nations by IFIs. Since conditionality can be largely ignored by state governments without ramifications on the international stage, any fears of states ceding sovereignty to donors is greatly exaggerated. Furthermore, as Killick (1997) argued many of the Civil Society Organizations and academic voices who decried loan conditionality in the 1980s and early 1990s show support for conditionality when the conditions involve fair labor practices or environmental protections. This held true in three interviews with respondents who were otherwise unsympathetic with conditional lending (Interview Respondent 6, 2015; Interview Respondent 7, 2015; Interview Respondent 15, 2015).

C. Policy pitfalls

Despite Lebanon's well-designed legal frameworks and the fact that it never implemented any privatization reforms, there is still one glaring example of *bad* privatization: the private generator network. As Savas (1992) described, a process of "grassroots" privatization has occurred wherein an informal private sector has filled the void left by the failures of EDL. Here again, there are many ties to political problems as well as the political power that the generator operators and their fuel suppliers have been able to build.

Without a regulatory authority to monitor the behavior of the generator network, and as they remain technically illegal this network has proven to be both bad for the environment and bad for consumers. As the World Bank (2009) noted, Lebanese households spend over US$300 million per year on third party generator subscriptions. Ideally EDL will be reformed, through privatization or public restructuring, and the generators will no longer be necessary. Failing that, the Lebanese government should create a legal avenue to regulate the network, regulating pricing and emissions at the very least.

D. Policy and theory

Applying the theory discussed in the previous chapter would likely alleviate many the service delivery problems facing Lebanon today. The discussion, and resultant theory points to the need for structural reform of the political system more than a reform of any individual sector. This remains true regardless of IFI involvement in policy design. Representatives of IFI's expressed a willingness to work on sectoral reform, specifically

energy, without any preconceived political opinions—there was no mention of only reforming the sector via privatization, any reform would be preferable to the status quo.

Without a strong and centralized government willing to make decisions and then implement them over the short-, medium-, and long-term IFIs or *any* external influencer will only be able to assert moderate pressure, far less than is needed to affect necessary reforms. Furthermore, without an end to widespread political corruption at all levels of the government progress is likely to remain stalled in its current state of paralysis.

E. Recommendations for future research

During this research a number of very important and timely questions appeared. Most notably, "how [were a specific set] of loan conditionality created?" This could be applied to a case study like the Lebanese Government's/World Bank's water conveyance project or be done quantitatively with a multi-country survey.

The answer to this question would add deeper insight into the nature of conditional lending than a single, explanatory case such as this is capable of. The assumptions held by critics of conditional aid explored in Chapter III could, potentially, be refuted if it could be proven that loan conditionality was a collaborative process between lenders and recipient governments open to the same machinations and potential for corruption as any other complex issues of multilateral political economy. Ideally this research would cover a single period of time, the 1990s, for instance, and survey 100s of decision-makers in both the donor countries and the IFIs to conclude the exact nature of how loan conditionality is created.

Other potential research questions that emerged were much more specific and included: Why was the ERA never created? Why has EDL's tariff remained pinned to an oil price that is 13 years out of date? Why haven't there been any governmental attempts to reform EDL, i.e. why has it always been attempts to privatize not reform? And, finally, is it wise to privatize a sector like mobile telecommunications that generates so much revenue for the country?

F. Conclusion

An important lesson to take away from these case studies is how singular Lebanon's political problems are in relation to government capacity. While loan conditionality and privatization remain deeply controversial and divisive issues, even privatization's biggest critics argue that if privatization is inevitable it should be done in the way that Lebanon designed Laws 462 and 431.

It is a sign of hope for the future then that a strong, centralized government in Lebanon has a roadmap for well-planned public policies that would prove beneficial to all of Lebanon's people. Politicians do, eventually, lose power. Eventually, when the government of Lebanon has strong, uncorrupt, leadership many of long-dormant, well-designed public policies will have the power to transform the nation for the better.

APPENDIX I

Open Codes

Parent code	Code	Code Description	Frequency
Economic Factors	DI and FDI	Domestic and foreign direct investment.	5
Economic Factors	Economic Factors	Parent code for social factors.	18
EDL	Contractors	EDL contract workers.	5
EDL	Distro	Code for segments related to electricity distribution.	1
EDL	EDL	All things related to EDL.	137
EDL	EdZ	Electricity du Zahle.	18
EDL	Energy insecurity	Larger problems caused by insecurity in the energy sector.	1
EDL	ERA	Electricity Regulatory Authority	41
EDL	External	Power from other countries, e.g. Syria, Turkey and Egypt.	11
EDL	Fuel Oil	Used to run power plants like Zouk. More expensive and dirtier than Liquid Natural Gas.	12
EDL	IPPs	Independent Power Producers.	34
EDL	Law 288	2014 Law that amends 462 (2002) for two years, allowing the council of ministers, MoEW, and MoF to act in lieu of the ERA.	17
EDL	Law 462	2002 Law providing the legal framework for the eventual privatization of EDL.	21
EDL	Lebanese offshore	Offshore, and currently unutilized oil.	8
EDL	Losses	Technical losses and theft from EDL that make-up a not insubstantial portion of EDL' s deficit.	12
EDL	Mismanagement	Problems with EDL Management.	9
EDL	Outages	Rationing and unplanned power cuts.	8
EDL	Power Barge	Large power ships from Turkey, meant to be temporary, seemingly here indefinitely.	11
EDL	Solar	Solar power.	8
EDL	Tariff	Price of power.	25
EDL	Transmission	High voltage lines.	6
EDL	Two Bills/GenMen	Anything dealing with the fact that Lebanese people have to pay two bills, one to EDL and one to the generators. Also anything dealing with the legal aspect of these generators.	35
Environment	Environment	Environmental issues.	16
Environment	Soft Loans	Loans given to incentivize clean energy.	5

IFIs	Conditionality	Loan terms that are seemingly unrelated to the loan, e.g. macroeconomic structural adjustment programs.	60
IFIs	Criticism of Donor involvement	Anytime the World Bank, IMF, et al is criticized by an interviewee.	38
IFIs	Donor involvement	Discussion of the World Bank, IMF, et al's role in Lebanon's development.	29
IFIs	Hariri	Mention of Rafic Hariri's ability to secure loans and grants.	1
IFIs	IFIs	International financial institutions like the World Bank, European Investment Bank, Islamic Development Bank, and International Monetary Fund.	46
Methodology	Methodology	Times when my methodology came up during an interview.	6
Mobile Telecom	Investment	Capital investment in the mobile telecom networks.	1
Mobile Telecom	Legal	Legal issues regarding the telecoms and their privatization.	9
Mobile Telecom	Licenses	MIC-1 and MIC-2 Licenses.	4
Mobile Telecom	Mobile Telecom	Parent code for Mobile Telecom Issues	53
Mobile Telecom	Monopoly	Mobile phone monopoly/duopoly	2
Mobile Telecom	Profit	Profits and revenue of the mobile phone networks.	14
Mobile Telecom	Tariff	Prices of mobile telecom.	12
Mobile Telecom	TRA	Telecommunications Regulatory Authority.	14
Off topic	Off topic	When the interview veered off into irrelevant issues.	5
Organizational Factors	Organizational Factors	Parent code for organizational factors.	1
Organizational Factors	Vacancies	Problems stemming from the high vacancy rate at most ministries.	11
Paris III	Other Reforms	Paris III reforms that were not directly related to EDL or the Mobile telecom sector.	36
Paris III	Paris III	Parent code for Paris III.	41
Political Factors	Ad Hoc Government	Problems arising from the lack of long-term planning in the government.	17
Political Factors	Consensus	Problems arising from the need for total consensus to pass any law in Lebanon.	26
Political Factors	Corruption	Problems arising from corruption.	78
Political Factors	Investor Discouragement	Investor discouragement caused by the political and security situation.	11
Political Factors	Ministerial Incompetence	Problems arising from incompetence or government mistakes.	31
Political Factors	No continuity	Problems arising from the short lifespan of most Lebanese governments.	6

Political Factors	No president	Problems arising from the lack of a Lebanese President.	9
Political Factors	Political Factors	Parent code for political factors.	100
Political Factors	Religion and Clan	Problems arising from divisions in religion or clan.	20
Political Factors	Security	Problems arising from the security situation in Lebanon.	19
Political Factors	Subvention	Code to deal with all government subsidy of SOE.	8
Political Factors	Syria et al	Issues related to the war in Syria and the refugee crisis in Lebanon.	22
Political Factors	Too many cooks	Problems arising from overlapping jurisdictional authority.	2
Privatization	Criticisms	Criticisms of privatization programs in Lebanon and beyond.	46
Privatization	Monopoly	Issues related to the monopolistic nature of SOE.	6
Privatization	Nationalization	Issues related to nationalization or renationalization after failed privatization.	8
Privatization	Privatization	Parent code for privatization.	80
Privatization	Rationales	Rationales and arguments in support of privatization.	23
Social Factors	Media	The role the media has played in shaping public opinion of privatization reforms in Lebanon.	2
Social Factors	Social Factors	Parent code for social factors.	6

APPENDIX II

Axial Codes

Open Codes	Axial Code
DI and FDI; Economic Factors; Contractors; EDL; EdZ; Energy insecurity; ERA; Fuel Oil; IPPs; Law 288; Law 462; Lebanese offshore; Power Barge; Tariff; Two Bills/GenMen; Soft Loans; Legal; Licenses; Mobile Telecom; Monopoly; profit; Tariff; TRA; Political Factors; Ad Hoc Government; Consensus; Corruption; Ministerial incompetence; No continuity; No president; Religion and Clan; Subvention; Too many cooks; Nationalization; criticisms; monopoly; rationales; Social factors; Media.	Socio-political Issues
External; Solar; Environment; Conditionality; Criticism of Donor involvement; Donor involvement; Hariri; IFIs; Investment; Paris III; Other Reforms; Investor discouragement; Security; Syria et al; Privatization.	International Political Issues
Distro; Losses; Mismanagement; Outages; Transmission; Organizational factors; Vacancies.	Organizational Issues

APPENDIX III

Interview Consent Form

American University Beirut
Political Studies and Public Administration Department

Principal Investigator: Dr. Hiba Khodr

Co-investigator: Mr. Nicholas Axelrod-McLeod

Consent Form to Participate in interview Research

You are cordially invited to participate in a research study conducted by Dr. Hiba Khodr and Mr. Nicholas Axelrod-McLeod from the Political Studies and Public Administration Department at the American University of Beirut. Interviews will be conducted with 15-25 key informants. Following are details explaining the study and the procedure involved in it. After you read the following, and if you decide to participate in this study, you will be asked to provide your consent for participation and then complete the questionnaire or answer the interviews questions. Refusal to participate will not affect your relationship with the American University of Beirut in any way. The American University of Beirut's Institutional Review Board has approved phone and email recruitment methods for this study.

Please read the information below and feel free to ask any questions that you may have.

A. **Project Description**

This study aims to explore what factors contributed to the Republic of Lebanon's noncompliance with agreed upon structural adjustment reforms following the Paris III funding conference of January 2007.

1. In this study, you will be asked to participate in an interview that takes around 15-45 minutes.

2. The estimated time to complete this study is approximately 6 months.

3. The research is being conducted with the goal of fulfilling a partial requirement of a master's thesis.

4. All interviews will be conducted in English.

B. **Risks and Benefits**

Your participation in this study is on a purely voluntary basis and does not involve any physical risk or emotional risk to you beyond the risks of daily life. You have the right to withdraw your consent or discontinue participation at any time for any reason. Your decision to withdraw will not involve any penalty or loss of benefits to which you are entitled. Discontinuing participation in no way affects your relationship with AUB. While we are appreciative of your time and thankful for your participation, please note that you will not receive any payment for participating in this study.

C. Confidentiality

To secure the confidentiality of your responses, your name and other identifying information will never be attached to your answers. All codes and data are kept in a locked drawer in a locked room or in a password-protected computer that is kept secure. Data access is limited to the Principal Investigator (Dr. Hiba Khodr) and the researcher (Mr. Nicholas Axelrod-McLeod) working directly on this project who will ensure its safety and confidentiality. All data will be destroyed responsibly after the required retention period (three years); your privacy will be maintained in all published and written data resulting from this study. Your name or other identifying information will not be used in our reports or published papers. The data collected will not be shared with anyone other than the researchers and will not be put in public archives. All records will be monitored and may be audited without violating the participant's confidentiality. This consent form is only applicable to the approved site of the interview; the place and time chosen by the interviewee.

D. Contact Information

1) If you have any questions or concerns about the research you may contact

Dr. Hiba Khodr

AUB Jessup Hall Room 209

Telephone Number: 01-350000 Ext 4348

Email Address: hk39@aub.edu.lb

Or

Mr. Nicholas Axelrod-McLod

AUB Jessup Hall

Telephone Number: 76 092 71

Email Address: nta17@mail.aub.edu

2) If you have any questions, concerns or complains about your rights as a participant in this research, you can contact the following office at AUB:

Social & Behavioral Sciences Institutional Review Board
POBOX:11-0236 F15 Riad El Solh, Beirut, Lebanon 2020

Tel: 01-374374 Ext: 5445.

Email: irb@aub.edu.lb

E. Participant rights

Participation in this study is voluntary. You are free to leave the study at any time without penalty. Your decision not to participate is no way influences your relationship with AUB.

F. Signature of Consent Form

I have read and understand the above information.

☐ I agree to Participate in this study

Signature Date and time: _____

☐ I agree to allow this interview to be recorded as a digital audio file

Signature Date and time: _____

Signature of researcher Date and time: _____

APPENDIX IV

Recruitment Script

American University Beirut
Political Studies and Public Administration Department

Principal Investigator: Dr. Hiba Khodr

Co-investigator: Mr. Nicholas Axelrod-McLeod

Recruitment Script

Email Script:

Dear sir or madam,

This email is to invite you to participate in a voluntary confidential research interview. The research focuses on the various factors that lead to the noncompliance with structural adjustment reforms agreed to by the Republic of Lebanon during the Paris III donor conference of 2007. Data collected will be used to complete research for a master's degree.

Potential participants have been chosen based upon presumed knowledge derived from publicly available information such as job title and job description, institutional affiliation, or reputation of expertise. A time commitment ranging from 15-45 minutes is required to complete the interview. The interview will take place in a time that is convenient for you in a private setting of your choice. Participation in the research of this study is voluntary. All identifying information will be anonymized and strict confidentiality will be kept.

This email was written on behalf of Dr. Hiba Khodr, the principle investigator for this study.

Please respond to this inquiry at your convenience via phone or email at +961 76 092 271 or nta17@aub.edu.

Sincerely,

Nicholas Axelrod-McLeod

Telephone Script:

Hello, my name is Nicholas Axelrod-McLeod I am calling on behalf of Dr. Hiba Khodr, the principle investigator of this study. I am a master's student in Public Administration at the American University of Beirut. I am calling invite you to participate in a voluntary confidential research interview. The research focuses on the various factors that lead to the noncompliance with structural adjustment reforms agreed to by the Republic of Lebanon during the Paris III donor conference of 2007. Data collected will be used to complete research for a master's degree.

Potential participants have been chosen based upon presumed knowledge derived from publicly available information such as job title and job description, institutional affiliation, or reputation of expertise. A time commitment ranging from 15-45 minutes is required to complete the interview. The interview will take place in a time that is convenient for you in a private setting of your choice. Participation in the research of this study is voluntary. All identifying information will be anonymized and strict confidentiality will be kept. When you have reached a decision as to whether or not you would like to participate in this study, please do not hesitate to contact me at +961 76 092 271 or via email at nta17@aub.edu.

APPENDIX V

Interview instrument

American University Beirut
Political Studies and Public Administration Department
Principal Investigator: Dr. Hiba Khodr
Co-investigator: Mr. Nicholas Axelrod - McLeod

Interview instrument

Research interview questions:

1. What political factors inside of Lebanon contributed to the failure to privatize EDL following the 2007 Paris III conference?
    - Please elaborate and provide examples.

2. What political factors outside of Lebanon contributed to the failure to privatize the mobile telecommunications sector following the 2007 Paris III conference?
    - Please elaborate and provide examples

3. What internal economic factors (inside of Lebanon) contributed to the failure to privatize the mobile telecommunications sector following the 2007 Paris III conference?
    - Please elaborate and provide examples
4. What external economic factors (outside of Lebanon) contributed to the failure to privatize the mobile telecommunications sector following the 2007 Paris III conference?
    - Please elaborate and provide examples

5. What organizational factors inside of Lebanon (e.g., administrative structures) and outside of Lebanon (e.g., IFI structures) contributed to the failure to privatize the electric and mobile telecommunications sector following the 2007 Paris III conference?
    - Please elaborate and provide examples

6. What social factors inside of Lebanon led to the failure to privatize the electric and Electric and mobile telecommunications sectors in Lebanon following the 2007 Paris III conference?
    - Please elaborate and provide examples

7. What type of policy actors both inside and outside of Lebanon are most supportive of these reforms?
    - Please elaborate and provide examples

8. What type of policy actors both inside outside of Lebanon most oppose these reforms?
    - Please elaborate and provide examples

9. What is the current status of these reforms?
    - Please elaborate and provide examples

10. Do you believe that these reforms will be implemented?

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