

# From dysfunctional to functional corruption – the politics of reform in Lebanon’s electricity sector

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## Executive Summary

Corruption in the electricity sector has been a major constraint to economic and social progress in many countries. In Lebanon, the electricity sector’s dysfunction and inefficiency mask deeper political economy challenges of rampant rent-seeking, captured institutions and a fractured state. Over decades, corruption and mismanagement in Lebanon’s electricity sector has contributed to draining public finances and deprived the Lebanese people of their right to reliable and affordable electricity. When Lebanon witnessed an uprising in October 2019, electricity (or the lack thereof) was a focal point of public grievance and it remains a central concern amidst the current economic crisis facing the country.

Lebanon’s electricity performance is dismal. The state utility – Électricité du Liban – covers only 63 percent of electricity demand, which results in rotating outages that get longer as one moves away from Beirut’s central district, widening social and developmental inequalities. There are high technical and non-technical losses, together amounting to a third of EDL’s total generation. Tariffs have not been adjusted since 1994 with the result that EdL makes huge losses – more than half of all of Lebanon’s national debt is as a result of the losses of EdL.

One consequence of this poor performance has been the emergence of tens of thousands of private diesel generators which provide power to households and businesses when EdL power is not available. This informal, illegal and, until recently, unregulated scattering of private generators provides a variable, high cost and often, low quality service. In many places, generator owners are regarded as a ‘mafia’ that are both part of, and contributors to, the political patronage system in Lebanon.

Amidst the general state of dysfunction in the sector, one place has managed to operate a private utility that provides a reliable and high quality electricity service – Électricité de Zahle (EDZ) which covers the city of Zahle and 16 surrounding villages. EDZ’s technical losses are only 5 percent; it collects 100 percent of bills and is profitable while providing electricity at an overall cost no higher than that paid by households that have to rely on private generators to back up EdL’s supply.

Our study explores how it was possible to create this functional, but problematic, service provision within the complex sectarian political context of Lebanon. The literature suggests that successful reform strategies are likely to be those that both yield a development benefit and are consistent with the configurations of organizational power in the sector and society. We draw on a framework provided by Khan, Andreoni, and Roy (2019) to understand the rents and types of corruption in the

sector and how the changes implemented by EDZ were consistent with the nature of the Lebanese political settlement.

Based on extensive interviews with actors in the sector - both at the central level and in Zahle – as well as with generator owners, politicians, journalists and civil society groups – we find a complex, and sometimes uncomfortable story about how Zahle achieved its success. We complement this with a series of interviews with ordinary households and business owners, both inside and outside of EDZ's operating area, to understand what impact EDZ's service has had on those able to access it and their views regarding its operating model.

We find that EDZ's service provision success is the result of a highly professional technical approach, combined with astute navigation of the political context. Technically, EDZ is able to achieve reliable power by exploiting its century-old concession agreement to contract a private emergency power contractor to provide power for its coverage area when EdL power is not available. However, a key part of EDZ's business model has been its ability to come to beneficial arrangements with key political actors. Core to EDZ's profitability is the fact that – when EdL electricity is available - it purchases this electricity at a heavily subsidized rate, while selling it at the much higher EdL tariff. In effect, this is a direct transfer of resources from the central government (which underwrites EdL's losses) to EDZ.

At the same time, EDZ has been extremely successful at mobilizing citizens in Zahle in favour of its provision of '24/24' power. It has created a strong sense of ownership in the local community around the provision of a reliable and professional service. This has helped to ensure continuity – but it has also been instrumental in resisting attempts by central political actors to capture EDZ's monopoly for their own purposes. In 2018, this culminated in thousands of people on the streets of Zahle demanding the continuation of the Zahle concession.

Our interviews at the community level suggest that the overall impact of EDZ's service has been almost uniformly positive. Households talked about how the anxiety and uncertainty of whether they would be able to use electricity has gone. No longer do households have to worry about whether the Mouneh will spoil because the power cut off. This positive effect is felt mostly at the household level and that of small businesses, particularly by women in managing domestic affairs. Some larger enterprises have also benefited from EDZ's net metering technology and installed solar PV systems that both reduced their electricity bill and contributed to a higher share of energy from renewable sources for Zahle. Almost all respondents appreciated the professionalism and quality of the service provided. The main area of concern was the cost. EDZ's addition of a new monthly fixed charge, combined with regulations that make the high unit charges for EDZ electricity more visible, means that poorer households – particularly those that do not use private generators – are paying more. The recent collapse in the exchange rate, together with EDZ's reliance on being able to source subsidized diesel for its generators, suggest that this problem is only likely to get worse.

Finally, as the EDZ contract comes up for renewal at the end of 2020, we address the issue of whether the EDZ model could, or even should, be replicated elsewhere in Lebanon. Our short answer is 'not in its current form' – the current set up benefits EDZ at the expense of the Lebanese state. However, it does solve the problem of electricity rationing, and has created a set of incentives that enable the running of an effective utility. We put forward a model for how the model might be reformed in a way that would allow other areas in the country to have reliable power supplied by profitable and well-run private utilities, without negative implications for EdL or the Lebanese government. Our model is designed to learn from the way in which EDZ's approach leveraged its legal status as a

concession, aligned the incentives of key political actors and built coalitions in support of the arrangements it created.

In a country riven by sectarian paralysis and dysfunctional corruption, EDZ's efforts have succeeded in significantly improving the service delivered to its customers. Its approach probably did not reduce corruption, but it achieved a remarkable developmental outcome in a way that was consistent with the complex political settlement of the country. We hope that our analysis will help point to ways in which similar – second-best, but politically feasible – approaches might be implemented throughout Lebanon and, potentially, in other countries too.

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