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The case of Lebanon**

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# ENTREPRENEURSHIP AND INNOVATION IN A HYBRID POLITICAL ORDER: THE CASE OF LEBANON

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## **Abstract**

Governance is often treated as a 'black box' explanation for unproductive or destructive entrepreneurship. In order to improve our understanding of how governance structures influence entrepreneurship and innovation it is instructive to consider how entrepreneurs function in so-called hybrid political orders. Lebanon is such a hybrid political order in which a dual game of informal clientelism and formal programmatic competition shapes entrepreneurship.

In this paper I provide an exploratory overview of the governance-entrepreneurship nexus in Lebanon. It is argued that although Lebanese entrepreneurial attitudes appear to be very positive, entrepreneurial activity seems to be adversely impacted by governance challenges and entrepreneurial aspiration is severely underdeveloped.

In-depth interviews with Lebanese experts show that Lebanese entrepreneurs still face significant obstacles, often related to the political context and system. These include: the high costs of utilities and infrastructure; poor government support and a lack of political vision for the economy; and instability and unpredictability related to violent conflict that make investment and planning difficult and foster a short-term, migration-focused mentality.

Lebanese entrepreneurs respond to these challenges by operating as independent from government as they can; taking a regional perspective; and diversifying. The challenging context, moreover, also offers particular assets and opportunities to entrepreneurs, such as a vibrant diaspora and a supposedly resilient business mentality.

**Keywords:** Lebanon; governance; conflict; fragility; entrepreneurship; innovation; business

**JEL Classification numbers:** L26, M48, O17, O53

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## 1. Introduction

Mention Lebanon and three connotations often spring to mind. First, the country is often associated with conflict (most notably the infamous 1975-1990 Civil War and the more recent 2006 Summer War between Israel and Hezbollah). Second, it is a prominent example of a hybrid political order (an uneasy marriage between liberal democracy and traditional sectarian institutions governing Lebanon's seventeen sectarian communities). And, third, the country has been known for its considerable entrepreneurial acumen (from the legendary Phoenician traders to the renowned banking culture earning Lebanon the nickname of the 'Swiss of the Middle East').

While these three connotations may at first seem contradictory, the relations between them are mutually reinforcing and complex. Higher levels of uncertainty and insecurity stemming from conflict may limit government support and regulation and reduce investment, encourage emigration and discourage innovation. On the other hand, fragile governance contexts may necessitate a flexible and entrepreneurial private sector with an innovative approach. In this paper I contribute to the understanding of the relationship between governance and entrepreneurship by exploring how the unique governance system in Lebanon shapes entrepreneurial activity, attitudes and aspirations.

The paper makes a start with exploring how the governance dynamics and government system of a hybrid political order affect its entrepreneurship ecosystem – an issue that remains to be systematically explored (Naudé 2012:6).<sup>1</sup> Relatively little is known about the co-evolution of institutions, entrepreneurial behavior and a country's stages of development (Fogel et al 2006:572 in Naudé 2007:14; Ács and Naudé 2012). Correspondingly, there is a growing awareness about the strong need of empirical studies on the "interaction between entrepreneurs, policy, institutions and context" as an alternative to taking for granted the positive effect of entrepreneurship on development and prosperity (Shane 2008 in Guglielmetti 2010:1). Specifically, "fragile and post-conflict state policy priorities may differ from those of non-conflict affected countries because the necessities per se are different, but also because problems are atypically severe and they are atypically sensitive to specific reform processes" (Collier and Hoeffler 2002 in Guglielmetti 2010:1). Yet so far the link between the political environment and policy uncertainty is often assumed rather than systematically tested (Kenyon and Naoi 2010:487). Indicators in, for instance, the World Bank's (WB) Doing Business survey do not deal with the relationship between hybridity and entrepreneurship (Guglielmetti 2010:2) and are very limited in capturing governance and corruption (Inman 2012).

To cast more light on the above, the case of Lebanon is instructive for three main reasons. First, the relationship between governance and entrepreneurship has in recent years received increasing attention in the literature and in policy making circles, mainly as a result of the greater awareness of the importance of institutions, broadly defined, for economic development outcomes (Naudé 2010). This literature has however generally treated governance to be a very simple concept – either approximated by limited and outcome-type indicators (e.g. Kaufmann et al 2010) or by rather creative but distant and historic proxies such as settler mortality and pre-colonial decentralization (see e.g. Acemoglu et al 2001). So far the literature has, to my best knowledge, not dealt with the complex shapes of government, particularly fragile governance on entrepreneurship. The main reason is likely the lack of empirical data: the Global Entrepreneurship Monitor (GEM) or the World Bank's Enterprise Surveys do not cover states with fragile governance. Another possible reason is that fragile governance is itself a concept with potentially different definitions and interpretations, with the type or source of fragility differing per context. A second reason for focusing on Lebanon is that despite its fragile context, it has witnessed a recent boom in initiatives supporting entrepreneurship and innovation. This offers an interesting opportunity to explore emerging aspects of the Middle Eastern entrepreneurship ecosystem. Third and finally, Lebanon is an interesting case because despite its entrepreneurial history, its challenging context and current entrepreneurship 'buzz', Lebanon remains academically under researched when it comes to the political context for entrepreneurs (Welsh and Raven 2006:30).

The paper is based on an extensive literature review of entrepreneurship and governance in Lebanon, complemented by a survey of 29 local experts on entrepreneurship and business. The (qualitative) survey was conducted in July 2012.<sup>ii</sup>

The paper consists of four sections. Section two contains a literature review, including a discussion of key concepts. Section three provides an assessment of the Lebanese political system and entrepreneurship ecosystem. Section four reports and critically evaluates the survey results. Section five concludes.

## **2. Key Concepts and Literature**

### **2.1. Entrepreneurship: innovation, opportunity, necessity**

Entrepreneurship is living “a renaissance the world over according to a recent survey in the *Economist*” (Ács and Szerb 2009, see also Isenberg 2010). Most entrepreneurship definitions either refer to the creation of a new venture (Mehzer et al 2008:35) or the realization of a new idea. As Kooiman (2003:161) notes, in the classical Schumpeterian definition, the entrepreneur is “a revolutionary, ‘changing conditions of supply, combining new resources, and setting up a new production function. Entrepreneurial innovation is a creative act, breaking through a wide array of ordinary constraints.”

In line with this, three categories of entrepreneurs can be distinguished: innovation entrepreneurs, entrepreneurs who “create new demand by nourishing an innovative idea they have conceived or acquired,” opportunity entrepreneurs, who “recognize a demand/supply gap in the market, an unmet need or an opportunity for change”; and necessity entrepreneurs, who “have been forced by their environment to seek self-sufficiency and satisfy their basic needs of food, shelter and security” (World Economic Forum (WEF) 2011:8).<sup>iii</sup> The differences may be important from a policy view, as Schoar (2010:57) convincingly argues that “people engaging in these two types of entrepreneurship are not only very distinct in nature but only a negligible fraction of them transition from subsistence to transformational entrepreneurship,” even if many development policies support subsistence entrepreneurship with the aim of generating transformational entrepreneurs.<sup>iv</sup>

In this paper, an entrepreneur is a person or company who starts and owns a new business involved in creating new demand and supply dynamics – either out of inspiration, opportunism or necessity (loosely based on WEF 2011:8).

### **2.2. The entrepreneurship ecosystem: attitudes, activities, aspirations**

It is useful to consider these categories of entrepreneurs as reflecting a country or region's entrepreneurial ecosystem, that is characterized by entrepreneurial attitudes, entrepreneurial activity and entrepreneurial aspirations (Ács and Szerb 2009).

Attitudes refer to “the general attitude of a country's population toward recognizing opportunities, knowing entrepreneurs personally, attaching high status to entrepreneurs, accepting the risk associated with business start-up, and possessing the skills required to successfully launching businesses.” Entrepreneurial activity is defined as the start-up activity in medium or high technology sectors, “initiated by educated entrepreneurs and launched because of opportunity motivations in a not too highly competitive environment.” Entrepreneurial aspiration closely corresponds with innovation and refers to “the effort of the early-stage entrepreneur to introduce new products/services, develop new production processes, penetrate foreign markets, substantially increase the number of firm employees substantially and finance the business with formal and/or informal venture capital.” This firmly entrenches the notion of innovation within the concept of entrepreneurship.

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

Schedule 1: Ács and Szerb's (2009 attitudes, activities and aspirations)

For present purposes it is useful to keep in mind how the context of governance can influence entrepreneurial attitudes, activities and aspirations. For instance, Ciarli et al (2009:19-20) found that in Afghanistan objective conflict measures had little effect on the occurrence of entrepreneurship, but that subjective perceptions of violence and conflict had a negative impact on the percentage of entrepreneurs. Lund (2011:90) also emphasizes the importance of security and stability for perceptions of entrepreneurs.

### 2.3. Innovation

Innovation has been centre stage in development discourse (see for instance Aghion and Howitt 1997 in Ardagna and Lusardi 2010:17 and Briscoe 2009:v).<sup>v</sup> As Naudé (2007:7) reviews, a recent string of researches confirm the importance of innovation as a source of growth and suggest that start-up firms are the ones most likely to grow (Lingelbach et al. 2005; Johnson et al. 2000) and to create new jobs (Audretsch et al. 2006:25; McMillan and Woodruff 2002:166). Regarding the Middle East and North Africa (MENA), for instance, WEF estimates that the region needs to create “75 million jobs by 2020 – a jump of more than 40 per cent over the number of jobs in 2011 – just to keep employment close to current levels.” The single most important driver of such job creation, according to WEF, is entrepreneurship that can foster “a business environment in which entrepreneurs can easily start new companies, spread innovation and spur economic activity in general.”

In this paper innovation is seen as an inherent component of entrepreneurship consisting of the creation, on different scales, of new demand and/or supply for specific knowledge or products. The level of innovation will vary for different entrepreneurs and enterprises.

### 2.4. Fragility and hybridity

Many countries in need of job creation and development do not just face poverty, but a post-conflict situation in which fragile or hybrid political institutions shape entrepreneurial attitudes, activities and aspirations. In this paper it is most appropriate to focus on two inter-related elements of this post-conflict political context: (i) fragility (mostly violent conflicts) and (ii) hybridity (particularly state-society relations and the role of the government in the private sector). Fragility, in this sense, concerns the broader context of governance. Hybridity, concerns the specific system of governance.

#### 2.4.1 Fragile governance contexts: conflict, politicization, limited capacity and vulnerability

Some states have been labelled ‘fragile’ (e.g. Naudé et al 2012). However, given that all states are fragile to some extent, depending on the extent to which they exhibit political will and/or capacity to “provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations” (the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD/DAC) 2008:15-19), it may be more useful to refer to situations of fragile governance.<sup>vi</sup>

Based on Naudé et al (2011) fragility can be conceptualized by means of four core characteristics: i) legacies of violent conflict and risk of recurrent conflict; ii) politicization of private life; iii) limited state capacity and institutional multiplicity; and iv) vulnerability to external shocks and donor dependency.

Clearly, these characteristics are inter-linked and mutually reinforcing as, for instance, violence occurs where institutional alternatives to violence are weak and violence, in turn, further erodes and splinters political institutions (Jones and Elgin-Cossart 2011:3).<sup>vii</sup>

#### 2.4.2. *Hybrid governance systems: institutions in a dual game*

A political order is the sum of institutionalized power and governance relations that one can empirically grasp at a given time and place (Hagmann and Hoehne 2009:44). This power consist of two dimensions: the access to it and the exercise of it (Munck and Skaaning in Schmotz 2010:5). Access to power is determined by competition (elections, lineage, party decree or military orders) and exercise of power is characterized by regulatory constraints (Schmotz 2010:5; Roesler and Howard 2007:3).

Five regime types permeate the literature: monarchy, military, no-party, one-party, and multiparty (Hadenius and Teorell 2006:8 in Brownlee 2009:520). Yet the main typology is that between democratic regimes associated with a highly competitive access to and a highly constrained exercise of power and autocratic regimes with little or no competitiveness and few or absent constraints (Schmotz 2010:6). The organization of state power through a government in the bulk of fragile states, however, falls somewhere between these extremes. In response to this, a body of literature on hybrid political regimes has emerged that described such regimes as “a peculiar mix of democratic and autocratic features. The common denominator for hybrid governance appears to lie in its system “of regular, contested elections that are sufficiently unpredictable in outcome for incumbents to have to take them seriously but that nonetheless do not meet the procedural standards for democracy” which results in “a combination of vigorous political competition and lack of credible information regarding likely policy changes” (Kenyon and Naoi 2010:489).

A useful metaphor to illustrate the idea of hybrid governance is that of the ‘dual game’ (Cammett and Issar 2010:383) which combines a formal (electoral) game, in which parties and groups aim to gain votes, with an informal (regime) game encompassing the struggle over the basic rules of allocating power in the polity. Power-sharing agreements in the electoral game can then “act as a fig leaf that obscures important governance issues” (Lund 2011:51, 58). The regime component of the dual game often prevents a merit-based bureaucracy from emerging, instead generating a public system in which clientelist distribution of jobs is the core function (Briscoe 2009:16). The intuitive logic of the dual game idea corroborates with institutional overlap between state institutions and ‘traditional’ authorities at the heart of Boege et al’s (2008) hybrid political order concept. Boege et al (2008:7) describe how “the state’s ‘outposts’ are mediated by ‘informal’ indigenous societal institutions which follow their own logic and rules within the (incomplete) state structures” through which institutions “become the subject of power struggles between competing social groups and their leaders.” They explain, taking a case study from Melanesia that seems instinctively representative for many other ‘hybrid’ government systems, how local customary leadership demands distributing gifts and resources to specific in-groups whereas state politicians are obliged to act in the interest of a much broader common good not of kin group members, but of citizens. In reality, however, many ‘bigmen’ are simultaneously politicians and will hence face fundamental challenges with reconciling these two roles. Often, “bigmen must become politicians, as only then will they get access to state coffers which make it possible to distribute gifts to their kin, and politicians must first be bigmen, as only then can they rely on the support of a loyal and powerful kin based constituency” (Boege et al 2008:7).<sup>viii</sup>

The contemporary discussion about hybrid regimes has its intellectual foundation in the transition paradigm which makes it hardly surprising that scholars have long regarded hybridity as a transitional phase in an almost teleological development from autocracy to democracy (Linde and Ekman 2010:5). However, it is now increasingly accepted that most hybrid regimes are in fact relatively stable and show little propensity to becoming democracies (Howard and Roessler 2006:365 and 2007:3; Kenyon and Naoi 2010:488; Jones and Elgin-Cossart 2011:12).<sup>ix</sup> The emerging theory on hybrid regimes is in many ways a political economy counterpart of more sociological theories on clientelism, patrimonialism and suzerainty (Boege et al 2008:7) and still lacks empirical substance on what these black boxes of hybrid regimes actually contain (rather, the tendency is to focus on the transitional

dynamics and potential of such regimes). The hybrid regime concept also suffers from attributing a sense of peculiarity to 'hybrid' regimes glossing over the fact that such multiplicity and hybridity of power constitute a historical and geographical norm rather than exception (Boege et al 2008:2).<sup>x</sup> This is further illustrated by the state-centeredness of the concept, disregarding non-state institutions governing socio-political life. In line with the dual game logic, it is important to avoid the 'electoral fallacy trap' (Karl 1995 in Roesler and Howard 2007:4), because, as Brownlee (2009:526) argues, non-electoral variables, such as the internal cohesion of the ruling elite, are exerting the greatest influence on the maintenance or collapse of the regimes in question – a finding which, in his own words reinforces “the importance of contextual political and historical factors that are often treated in qualitative discussions but less often incorporated into statistical work” (Brownlee 2009:530).

## 2.5. Entrepreneurship in under Hybrid Governance

### 2.5.1. *Internal and external factors influencing entrepreneurship*

The attitudes, activities and aspirations shaping entrepreneurship are influenced by external and internal factors. The former are institutional, political and distributional elements that are outside the organization and not typically within the direct control of the entrepreneur, whereas the latter consists of variables that are within the organization (Mehzer et al 2008:36; Justino 2009 in Ciarli et al 2009:7). Certain studies indicated that up to 90 per cent of failures of small and medium sized enterprises (SMEs) can be attributed to internal factors such as management inadequacy and inefficiency (Berryman 1983; Williams 1986; Perry and Pendelton 1983 in Mehzer et al 2008:38), interpersonal skills, inadequate pricing strategies, inflexible decision-making, the lack of experience in a product line, the poor use of outside advisors, the lack of knowledge on the current business literature (Gaskill et al 1993; Andrew et al 1999; Lussier 1996 in Mehzer et al 2008:38).

Yet these internal factors are related to – and in turn influenced by – external factors. Mehzer et al (2008:37-38) describe how poor economic conditions (poor external markets), high taxes, a high interest rate, and government regulations can explain about 18 per cent of SME failures. But this distinction between internal and external factors is largely artificial and misleading as determinants like education, skills and confidence are often the outcome of contextual factors outside the entrepreneur's sphere of influence (Guglielmetti 2010:2). It nevertheless offers a convenient starting point for exploring the impact of governance and government on entrepreneurship. In Peschka's (2011:11-14) words:

Fragile states represent the world's most challenging business environments, often with the most bureaucratic hurdles and the fewest property protections for entrepreneurs” with obstacles ranging from “asset destruction to microeconomic instability (high proportion of informal economic activity); poor public institutions; corruption; security; access to finance; labor (sudden influx of workers into the labor market); land ownership (breakdown of the legal system); infrastructure; market distortions (grants and subsidies abound); and poor tax enforcement and collection (vicious cycle).

Conflict or fragility does not destroy the private sector or entrepreneurship, except in extreme cases, but distorts it, often resulting in the pursuit of short-term gains through informal or criminal activities or rent-seeking and corruption (Peschka 2011:3-4) – in short, 'destructive entrepreneurship' (Baumol 1990).

### 2.5.2. *Entrepreneurship as cause, effect and cure*

The potential of entrepreneurship, or certain forms of entrepreneurship, to contribute to peace, security and development is by now widely acknowledged and pursued (Anderson et al 2011). Entrepreneurs can create jobs – the prime priority of the international community these days (Jones and Elgin-Cossart 2011:2; WB 2011; Lund 2009:88) –; propel economic growth (Estrin et al 2006:693; Collier 2006:9; Sternberg and Wennekers 2005); provide goods and services, including public goods (Batley and Mcloughlin 2010); and provide an environment for learning, experimentation, innovation and competition through which they fulfill a 'cost discovery' function (Hausmann and Rodrik 2003 in Naudé

2006:7-8). What is more, entrepreneurs generate change from inside the country and its economic system, rather than from the outside, potentially reducing donor dependency (Metcalf 2006:60 and Keister 2000 in Naudé 2006). In addition, by providing vehicles for social mobility entrepreneurship is often seen as a way to reduce societal conflict (Stiglitz 2006 in Guglielmetti 2010:5; Peschka 2011:10). Ideally, entrepreneurship eventually even contributes to state-building by the positive effect it has on the private sector and hence tax income and through delivering tangible 'peace dividends' that might grant the state some legitimacy by association (Peschka 2011:3, 8).

While entrepreneurship might contribute to overcoming fragility and hybridity through such peace dividends, there is a converse logic suggesting that fragility and hybridity, through insecurity and uncertainty, undermine entrepreneurship; which is particularly unfortunate considering that many of the world's fastest-growing markets are found in conflict-affected states (Anderson et al 2011:12). Reinert et al (2007:20, 10), for instance, propose that "failure of governance is simply an external sign of failed or failing productive structure" in a country.<sup>xi</sup> And, as discussed before, entrepreneurship itself might exacerbate post-conflict problems rather than contribute to their solution.

Whether entrepreneurship contributes to, benefits from or can help overcome the uncertainties inherent in hybrid political orders is related to the various types of entrepreneurship distinguishable. Opportunity or innovation entrepreneurs are usually seen as instruments to remedy social conflict. However, much of the entrepreneurship emerging or surviving during conflict is necessity entrepreneurship. Ciarli et al (2009) find that for Afghanistan the direct negative effect of the conflict on entrepreneurship is very small, which they explain by pointing out that small businesses are a means of surviving in a situation where any another support is lacking. During conflict,<sup>xii</sup> entrepreneurship is, for the majority of people, a coping mechanism and it usually risk averse in nature and likely to be abandoned when other sources of revenue (such as remittances) become available (Ciarli et al 2009:25; Brück, Naudé and Verwimp 2013). This is in line with studies like those of Smith (in Kaplan 2009:6) that suggest that poor people in fragile contexts rate self-employment as one of the most promising ways to improve their situation. While conflict, then, apparently does not undermine the occurrence of entrepreneurship – and might in fact boost it – it does affect the form and nature of the entrepreneurial activity emerging, leading perhaps to a disproportionate amount of necessity entrepreneurs vis-à-vis opportunity entrepreneurs. Conflict can lead to adverse coping by entrepreneurs apparent in reduced long-term investment, truncated supply lines, regressive innovation, reduced employment, and less exports (Brück, Naudé and Verwimp 2013). Ciarli et al (2009:2, 27) show for Afghanistan that there is little indirect effect of conflict via institutions and infrastructure on the *quantity* of entrepreneurship, but this does not rule out an institutional effect on the *quality* of the entrepreneurship.

### 2.5.3. *Post-conflict entrepreneurship dimensions*

Six post-war contextual dimensions affect external and internal factors influencing entrepreneurship attitudes, activities and aspirations: the legacy of war, institutional potency, government support, diaspora influence, market scope and capital requirements.

First, there is the direct legacy of the violent conflict, which is substantial and tends to last long (Chen et al 2007 in Naudé 2007:11). While many post-conflict development policies either explicitly or implicitly build on the 'clean slate argument', assuming a clear break between conflict and post-conflict realities, many local 'post-war' contexts are characterized by institutional continuity rather than rupture (Richards 2005; Peschka 2011:30; Anderson et al 2011:14; Ciarli et al 2009). This means that apart from the insecurity and lopsided spending on military means bred by a continued risk of relapse into war (chances of which are about 50 per cent in the first decade after the end of war according to Collier (2004:2)), the very causes of conflict – such as the unfair allocation of resources across societal groups and lack of alternatives for unemployed youth (Naudé 2012:6) – continue to shape social and institutional realities that affect entrepreneurs' motivations and decisions (Lund 2011:42; Jones and Elgin-Cossart 2011:6).

A second dimension, which is intimately related to the conflict legacy, but more specifically touching on politicization and limited state capacity and institutional multiplicity, is the relationship between institutions and entrepreneurship. Institutions regulate social life and business. However, according to Ardagna and Lusardi (2010:18), little is in fact known about how a country's regulatory and legal environment affect individuals' decisions to engage in new entrepreneurial activity, especially when it comes to the regulation of product and labor markets and contract enforcement. Bearing in mind that for entrepreneurs, one of the core functions of institutions is producing the stability and predictability that is required for 'transactional trust,' it is important to stress the dual game again; the reality of hybrid governance operating under formal, electoral, settings as well as informal, regime, settings (Naudé 2007:14-15; Guglielmetti 2010:3). Under hybrid governance with limited state capacity, the question is not so much whether regulation exists, but whether it can or will be enforced (and on what or whose terms). In most such situations entrepreneurs will regard regulation as a challenge to be negotiated rather than an order to be complied with. Regulation might be determined by various sets of formal and informal, state and non-state authorities and official legal regulation will not be the only, or even most important, institutional parameter that entrepreneurs face. As Estrin et al (2006:716 in Naudé 2007:18) note, "personal networks can act as substitutes for missing institutions in fragile states in a number of ways, such as making reputational incentives stronger where court enforcement is weak; in providing trade credit where bank credit is limited, and in allowing entrepreneurs opportunity for 'portfolio' entrepreneurship to spread risk" (see also Batley and McLoughlin 2010). In a study on the impact of conflict on entrepreneurial activity in Afghanistan, Ciarli et al (2009:26) also show that the effects of formal institutions on entrepreneurial activity are often insignificant, partly because of an "institutional setting that has de-constructed during a long time of conflict, and that does not recognize the value [or authority] of formal institutions."

A third dimension of post-conflict settings that affects entrepreneurship is the degree and form of government support for the private sector. A lot of this has to do with re-establishing trust in the government, with changing (perceptions of) governments "from being invisible or grabbing hands towards being helping hands" (Naudé 2007:14), a field of study still facing a knowledge gap (Anderson et al 2011:9). The war-time entrepreneurial logic of treating the state as something to be evaded has to be reversed if tax revenue is to be gathered; a long-term and cumbersome process (Collier 1994 in Guglielmetti 2010:15). Yet even if entrepreneurship, by definition, stems from individual motivation, investment, commitment and creativity, government intervention in the private sector can contribute greatly to entrepreneurship, particularly in post-conflict situations (Audretsch and Thurik (2004); Kauffman Foundation (2007); Naudé (2007, 2009a and 2009b) in Guglielmetti 2010:6). Isenberg (2010:12) remarks how, for instance, "Rwanda, Chile, Israel, and Iceland all are fertile ground for entrepreneurship—thanks in no small part to the efforts of their governments" becoming an example for governments the world over.

The fourth dimension discussed by Naudé (2007) as critical in determining the entrepreneurship ecosystem in post-conflict settings is the role played by entrepreneurs from the diaspora. Members from the diaspora can provide pivotal capital, skills, knowledge and networks to the recovering private sector of their country of origin (Reinert et al 2007:21). At the same time, their often disproportionate political influence, ties to (ethnic) minority groups and role during the war can also exacerbate the social tensions that contributed to war in the first place (Koinova 2010:153; Demmers 2005).

The fifth of Naudé's (2007) post-conflict entrepreneurial dimensions concerns the scope of the market, meaning existing arrangements for transport and trade infrastructure, regional economic integration and export capacity. The scope of the market also touches upon the sixth, and final, dimension of post-conflict entrepreneurship: human and financial capital requirements. Naudé (2007:20-21) proposes that entrepreneurs need to perceive opportunities before these can be exploited. Human capital requirements can include a country's entrepreneurial culture or milieu as well, the degree to which entrepreneurship is regarded as a fruitful and desirable (or respectable) in a certain society (Guglielmetti 2010:14). Economists tend to be skeptical about the explanatory power of the notion of 'entrepreneurial culture' (Schoar 2010:68). Yet the fact that in some countries "incentives or social

status are set in such a way that the smartest people do not go into entrepreneurship but rather enter government jobs or professions such as doctors or lawyers” (Schoar 2010:68) clearly affects entrepreneurship structures and outcomes – even if the explanatory power of such dynamics lies perhaps in historical and institutional analysis rather than economic theory.<sup>xiii</sup>

2.5.4. *Synthesis: fragile governance, hybrid government and entrepreneurship*

This paper does not aim or claim to be exhaustive in discussing the external factors impacting entrepreneurship. It focuses specifically on the institutional and governmental components of the external context affecting entrepreneurship in fragile and hybrid settings. These factors are referred to in the literature and figure 1 as ‘institutions’ and ‘government support’ or ‘politicization’ and ‘limited state capacity and institutional multiplicity’. As depicted in figure 1, moving from the broader governance context to the more specific governance system, the dual game analogy is used to demonstrate how institutions in fragile contexts or hybrid systems emerge in a continuous tension between an electoral – programmatic or formal – ‘game’ on the one hand and a regime – clientelist or informal – ‘game’ on the other hand in which political actors engage to ensure their access to power and influence their exercise of it. This institutional tension shapes entrepreneurs’ attitudes, activities and aspirations. The remainder of this paper seeks to explore how it does so in Lebanon.

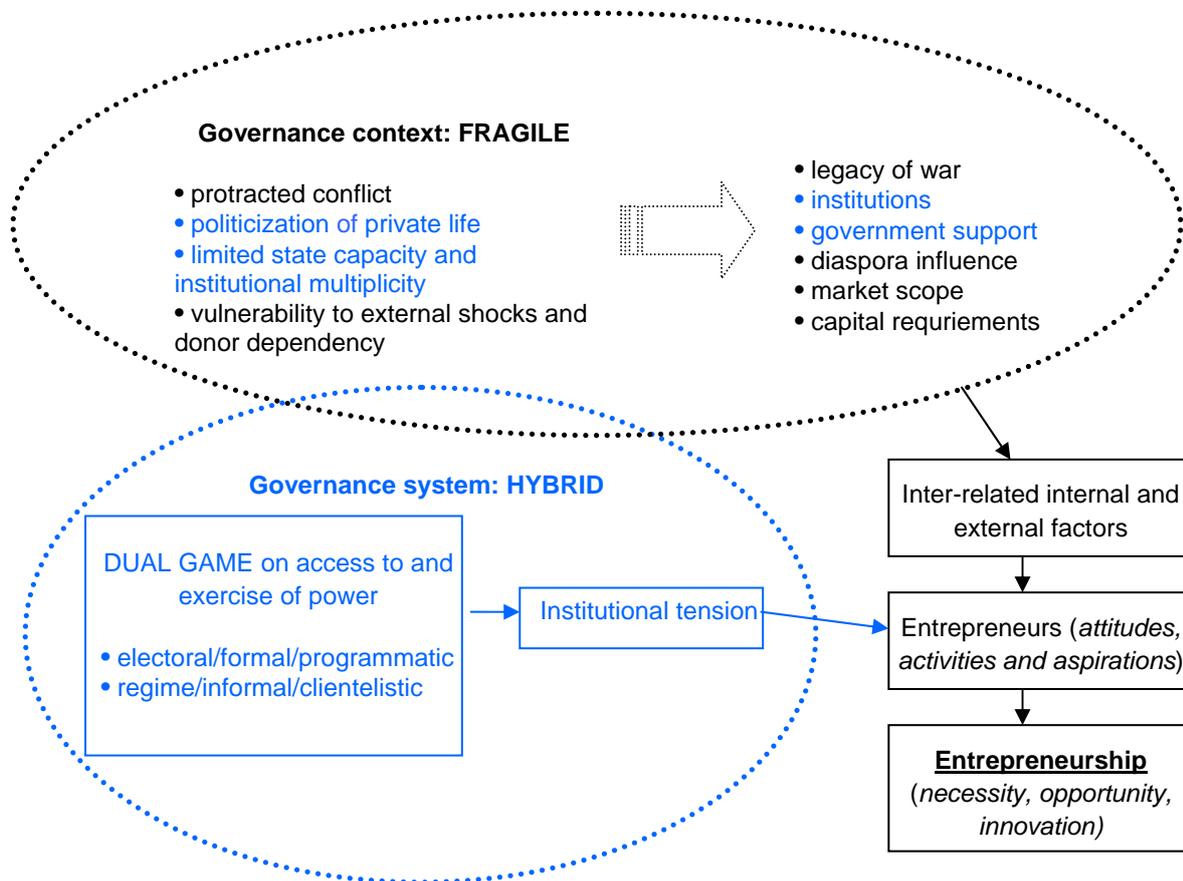


Figure 1: A tentative model on fragile governance, hybrid government and entrepreneurship (figure by author)

3. Economics and Politics in Lebanon

3.1. **Politics: the dual game incarnated**

Lebanon has approximately four million inhabitants (Yamout 2012; WB 2011) living on 10,452 km<sup>2</sup>, but there are an estimated 15 million to 22 million Lebanese worldwide. Lebanese society is organized along the lines of eighteen recognized religious communities (of which the Maronite Christians, the

Sunni and Shi'ite Muslims and the Druze have been the largest and most politically influential) that each have their regional strongholds political parties; social institutions like schools, clinics and charity organizations; and armed militias.<sup>xiv</sup> Each sectarian group, moreover, has traditionally been backed by various international and regional coalitions (the Sunni, for instance, by the US and Saudi Arabia; the Shiite by Iran and Syria; and the Maronites by the French). The central concept to understand Lebanon's society, then, is sectarianism (sometimes labeled confessionalism) that signifies this division of society into religious, 'sectarian,' communities. The importance of religion in Lebanon's society results from its role as a system of social reference, more than from its role as a spiritual force. Sectarianism corresponds with the polarization of social control between Lebanon's various communities. This fractionalization breeds a structural elitism: because society is organized along sectarian lines, citizens have historically depended on sectarian leaders for protection and provision. In turn, political players have "to show off their prowess by claiming allegiance of their communities" (Ziadeh 2006:173). Sectarianism manifests itself in clientelist distributional logic under a system of *zuama*, local strongmen, and integrates political, militia, and business functions (Welsh and Raven 2006:30) – resulting in what Leenders (2012:232) calls an 'allotment state' wherein institution-building is highly contested and utilized for sectarian distribution.

The Lebanese Republic was created in 1926 under a French mandate predominantly as a response to "persistent lobbying by the leaders of the Maronite Christian community" (Barak 2003:305). It gained independence from France in 1943. From the beginning, the Lebanese State was organized through a political system centered on an inter-sectarian power-sharing formula, as expressed in the verbal 'National Pact,' that took its reference from a 1930 census and stipulated that the President of the Republic should be a Maronite Christian, the Prime Minister a Sunni Muslim and the Speaker of Parliament a Shi'ite Muslim. The Pact included a corresponding sectarian quota system guiding the allocation of all public functions and positions. The Pact was slightly adapted in the Taif Agreements stipulating the end of the Lebanese Civil War (1975-1990) with executive power, earlier the prerogative of the Maronite President being transferred to the government and the Sunni Premier and the implementation of a 1:1 ratio between Christians and Muslims in formal institutions (instead of the previous 6:5 ratio in favor of Christians). At the same time, however, the Taif Agreements reinstated the sectarian logic:

Ta'if, however, also introduced a major inconsistency into Lebanon's state-building process by simultaneously disavowing and enshrining sectarianism. The accord states that all Lebanese are equal before the law and proclaims that political sectarianism should be abolished. Nevertheless, it also discriminates on a sectarian basis, allocating certain posts to certain communities, and fails to set a schedule for the decreed desectarianization. (Stel 2009:41).

The post-war era was dominated by de facto Syrian occupation of Lebanon that dampened direct sectarian strain, but ultimately enhanced sectarian schism through a divide-and-rule policy (Rabil 2008:1; Wärn 1998:33). After the ousting of the Syrians in 2005, Lebanese politics has been dominated by a polarized programmatic competition between two broad coalitions (Abdul-Hussain 2010). March 8 is led by Hezbollah and Amal, both Shiite parties and the Christian Free Patriotic Movement (FPM) and is considered pro-Syrian while March 14 is led by the Sunni Future Movement and various Christian parties and is regarded pro-Western.<sup>xv</sup> Other dividing lines are constituted by the issue of Hezbollah's arms and the stance towards Israel and the desired economy policy. Both coalitions are heavily associated with foreign patrons.

While being a vibrant parliamentary democracy, as a result of its consociational nature, the Lebanese State is far from the neutral civil service bureaucracy that states are often envisioned to be. Rather, its entire structure is informed by the sectarian quota and quest for inter-communitarian balance stipulated by the Taif Agreements that results in endemic patronage and clientelism (Gebara 2007; Hamzeh 2001). Leenders (2012:163) characterizes the post-Taif political system as follows:

Five interrelated features of the political settlement stood out in shaping the process of decision making in the Second Republic: (1) an extreme dispersal of power and associated quasi-permanent gridlock in the decision-making process; (2) the predominance of the troika [President, Prime Minister and Speaker

of Parliament] and the politics of *muhasasa* [allotment]; (3) continuous attempts to circumvent the built-in stalemates of the political arrangement laid out in the Ta'if Accord; (4) extremely weak popular support for political elites, exposing them to confessionalist strategies and narrow, local agendas; and (5) the overriding role of the Syrian leadership's interests in Lebanon, its manipulation of the country's differences, and its growing resort to authoritarian interference.

Makdisi and Marktanner (2010) show how consociationalism has exactly cemented the vertical and horizontal inequality it was supposed to overcome. Thus, the Lebanese political reality reflects the logic of the dual game, combining and integrating a system of clientelist sectarian logic that is reinforced and legalized in the constitution and implemented through political parties tied one-on-one with their officially-political-actually-sectarian constituencies.

### 3.2. Fragility as the legacy of perpetual conflict

Lebanon is considered a fragile country in at least two of the five leading fragility indexes<sup>xvi</sup> (Lund 2011:13). Following Naudé's (2011) characteristics of fragility, Lebanon has a weak state capacity and hybrid institutional structures due to sectarian clientelism; its private life is exceptionally politicized for the same reason; and the country is extremely vulnerable to external shocks as a result of its polarized affiliations with rival hegemonic powers. On top of that, and very much because of that, ever since, and even before, Lebanon was created as a state the country has faced several brutal violent conflicts.

The most iconic and horrific of these was the Lebanese Civil War that raged from 1975 to 1990 and that took some 150,000 lives, wounded another 200,000; displaced almost a fifth of the population; and left "most state institutions paralyzed or collapsed, its physical infrastructure largely destroyed at an estimate costs of US\$25 billion, and with an estimated fall in per capita income by two-thirds" (Leenders 2012:1). The Civil War was fought over many intricately related issues coming together in the strife over the role and positions of the Palestinian refugee community and the PLO guerilla structure in Lebanon and the division of power between the sectarian groups (see Fisk 1990; Hirst 2010).<sup>xvii</sup>

The Civil War resulted in the Israeli occupation of South Lebanon and the subsequent emergence of a resistance led by Hezbollah that waged a successful guerilla war, eventually liberating the South in 2000. Since then, the situation in South Lebanon, monitored by the United Nations Interim Force for Lebanon (UNIFIL), remained tense and skirmishes between Hezbollah and Israel continued and ultimately escalated in the 2006 Summer War between Hezbollah and Israel that caused widespread destruction and left almost 2000 Lebanese and more than 150 Israeli's dead, 4,054 people injured and 262,174 displaced (Fatouch and Kolb 2006:97; International Crisis Group (ICG) 2006). It destroyed 28 'vital points' (airports, ports, water and sewage treatment, electrical plants etc.), 600 km of roads, 23 fuel stations, 80 bridges, 72 overpasses, 15,000 private houses and 160 units in the commercial sector (factories, markets, farms, etc.) (Fatouch and Kolb 2006:98).



Pictures taken by the author in the Mleeta Resistance Museum – Mleeta, South Lebanon

The Civil War also gave birth to the Syrian occupation of Lebanon that lasted from 1976 to 2005 when, during the 'Independence Intifada' following the assassination of ex-Prime Minister Rafiq Hariri (the zenith of a series of other politically inspired killings of prominent anti-Syrian figures in Lebanon), forced the Syrians to withdraw from Lebanon. Various other, but ultimately interconnected, more minor conflicts have played out since then. In 2007, the Lebanese Armed Forces (LAF) waged a battle against Fatah al-Islam, an Islamist faction located in the Nahr el-Bared Palestinian refugee camp close to Tripoli, resulting in 168 casualties among the army (as well as 47 civilian dead) and almost completely destroying the camp in the process (Khalidi and Riskedahl 2007; Knudsen 2011). In 2008, Hezbollah and its political allies forcefully took over Beirut to impose a specific power-sharing formula; an event that not only killed 71 people, but also seriously disrupted a previous balance of power and reemphasized the volatility of Hezbollah's formidable, and disproportional, armed presence (ICG 2008; Stel 2009). The Arab Spring, specifically the civil war that started in Syria in 2011, also affects Lebanon; resulting in deadly clashes in Tripoli; kidnappings by armed clans; and frequent riots and neighborhood clashes. Besides these demarcated eruptions of violence, there are ongoing clashes between sectarian militias and political factions (particularly in some of Lebanon's twelve Palestinian refugee camps).

These conflicts have affected Lebanon's economy and entrepreneurship climate. The Civil War has been described as the "costliest conflict in recent memory" (Kibranian 2009:9). While an in-depth analysis of the direct economic effects of the Civil War on Lebanon's economy are beyond the scope of this paper, Ghazi (1997) provides an eloquent overview and summarizes that in the first nineteen months of the war alone losses amounted to US\$12 billion (US\$10 billion sustained by the private sector and US\$2 billion by the public sector), according to the Beirut Chamber of Commerce and Industry. During the war, "recession in the Gulf led to a sharp reduction in remittances and Beirut's prominence as a center for finance, commerce, and tourism faded away." In the mid 1980s, relative calm, a sharp depreciation of the Lebanese pound and a decline in labor costs resulting from inflation of 600 per cent, produced a modest economic rebound. However, foreign banks began selling and moving out and by 1986 the inflation rate was well over 100 per cent. Government revenues from taxation and customs duties continued to erode and economic control was falling into the hands of militias. Their tight grip on customs revenues gave them increasing control over what was left of the national economy. Growth was cut short completely by the general chaos of 1988-1990 that had a dramatic and negative impact on production and exports, triggered massive outflows of capital and people.

Regarding the 2006 war, Lebanon calculates the damage at US\$3.5 billion (Rammerstorfer 2008:90). Fatouch and Kolb (2006:99-100) provide more disaggregated losses: US\$1,4646 million in housing and trade; US\$404 million in transportation infrastructures; US\$208 million concerning electricity facilities; US\$190 million in terms of industrial establishments and facilities; US\$99 million concerning telecommunications; US\$74 million with regard to water provision; US\$16 million concerning military installations and US\$10 million due to destroyed gas stations. They conclude that the month of war "devastated Lebanon just as economic growth appeared to be gathering momentum at last and the country was looking forward to a bumper tourist season" (Fatouch and Kolb 2006:96). The CIA World Factbook states that following the 2006 war, "pledges of economic and financial reforms made at separate international donor conferences during the 2000s have mostly gone unfulfilled, including those made during the Paris III Donor Conference in 2007 following the July 2006 war." Instances such as the collapse of the government in early 2011 and unrest in neighboring Syria slowed economic growth to 1.5 per cent after four years of 8 per cent average growth (Bank Audi 2011:2).

These conflicts have not just had economic consequences, they have had, in some cases, partial economic causes as well. Regarding the Civil War, Fisk (1990:78) notes that "typically, it was an economic dispute between Muslims and Christians in Sidon – involving Muslim fishermen who feared that a new fishing consortium run by Chamoun and other Maronites would destroy their livelihood – that ignited the fire." Makdisi and Marktanner (2010:5-6) feel that economic factors did not play a decisive role in the onset of the Lebanese civil war and recall that just before the war Lebanon

had “a vibrant merchant class, comparatively high per capita incomes, an economy growing at considerable rates, and expanding employment opportunities.” They also recollect, however, that economic development was regionally and horizontally highly unequal, causing the migration patterns that helped fuel the war.

### 3.3. Economy: open and modern or corrupt and unproductive?

Lebanon is generally considered a middle income country, often described in terms its open, liberal and modern outlook with minimal state intervention (Leenders 2010:169, Lebanese Transparency Association (LTA) 2011:106; Marseglia 2004). This is often linked to Lebanon’s famed human potential – built on education and a pro-activeness – that was a dominant theme throughout the interviews. One researcher emphasized that private property has always had a special place in Lebanon: “we never had the socialist experience that the other’s had in the 1960s. Lebanon has always been a safe haven for private capital.”<sup>xviii</sup> He goes on to stress that, in fact, what he calls this “laissez-faire on private property and trade” is an almost sacred thing and can count on quite unique endorsement of all political factions, “even Hezbollah.”<sup>1</sup> This analysis is confirmed by Leenders (2004:170) who quotes a Lebanese economist describing the country’s ‘credo of laissez-faire’ as “so deeply engrained that no warlord—no matter how ‘socialist’ in outlook—would think of touching it.” This ‘laissez-faire’ or minimal state interference manifests itself in fiscal policies, with extremely low income and corporate taxes; monetary policies, testifying of a generally liberal regime; and the absence of significant state enterprise except for some public utilities (water, electricity, transport, and communications) (Leenders 2004:173-174). The state has never nationalized or expropriated privately-owned firms and owns just two mobile phone networks, the electricity utility Electricité du Liban (EdL), flag-carrier Middle East Airlines (MEA) and the Intra Investment Company that owns the Finance Bank, Casino du Liban and real estate assets (LTA 2011:106). Nevertheless, analysts agree, although its economy is dominated by the private sector, it is not market based. The Lebanese Center for Policy Studies (LCPS 2011:7) argues that the Lebanese economy is highly oligopolist since more than 50 per cent of the 300 markets are in the hands of a few companies and two per cent of companies take more than 50 per cent of the loans. Leenders (2012) also meticulously documents the dominance of political elites in ‘regulating’ the Lebanese economy through a dissection of corruption cases referring to the MEA; the Ministry of Industry and Oil; the port of Beirut; and Lebanon’s quarrying business.

Lebanon has a labor force of around 1.5 million people and its NGI per capita was US\$7,970 in 2009 (the total GNI being US\$35.2 billion). The Lebanese GDP consists of eight per cent agriculture; 16 per cent manufacturing; nine per cent construction and 67 per cent services and commerce (Fahed-Sreih 2001:1). Lebanon has a high imports to exports ratio, large per-capita imports and a deficiency in raw materials (Blom Bank 2012:13-14). Experts predominantly referred to the real estate and banking sectors when asked for Lebanon’s main business sectors – even if the real estate sector is facing a setback due to declining Gulf investment and general saturation after a post-2005 building boom when the Syrians left.<sup>2</sup> Manufacturing is relatively under developed, just like agriculture.<sup>3xix</sup> This is related to a combination of high utility costs and regional trade agreements that do not favor Lebanese produce.<sup>4</sup>

Some have claimed that Lebanon depends too heavily on tourism, “the center of everything.”<sup>5</sup> The Authority on World Travel and Tourism (2012:1) estimates the direct contribution of travel and tourism to Lebanon’s GDP around LBP 6,229.0bn (9.8% of total GDP) in 2011 (see also Daily Star 2011). It is estimated, however, that the indirect effect of tourism is significantly larger as tourism is at the center

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<sup>1</sup> Author’s interview with policy expert.

<sup>2</sup> Author’s interview with real estate expert. The interviewee said there are 71 banks in Lebanon: 10 big ones and 60 others (such as family banks). Before the war there were 105 banks, but after the war the central bank arranged for mergers.

<sup>3</sup> Author’s interview with diplomat.

<sup>4</sup> Author’s interview with LAU professor.

<sup>5</sup> Author’s interview with micro credit expert.

of many other services as well. Lebanon's close socio-political ties with regional countries, its favorable climate (the habitual Lebanese tourism slogan purports one can swim in the Mediterranean and ski on the same day), picturesque and diverse landscape and historical liberalism resulting in a booming nightlife all account for the prevalence of tourism. At the same time, however, tourism seems a precarious driver of the economy in a country plagued by wars as it is extremely vulnerable to seasonal fluctuations. The Civil War, for instance ruined the tourist industry.<sup>xx</sup> The 2006 war also proved a major setback for the tourism sector with an income loss of approximately US\$2 billion (Rammerstorfer 2008:90). Current, Arab Spring related, unrest has also resulted in a severe downturn in tourism (International Monetary Fund (IMF) 2011:33).

According to some analysts, this specific economic structure – with relatively under developed agriculture despite a favorable environment and a weak industry despite good potential – is the outcome of a quick returns oriented post-war governmental vision evolving around “Beirut as the focal point of a service-tourism and real estate based economy” consciously “not allowing the serious development of industry and agriculture.” There was, according to them a reasoning of “Beirut first and the rest will follow” stemming from a drive during the post-war Hariri years to get Beirut back to being the Swiss of the Middle East, regardless of the costs. Researchers had similar understandings of the dominance of the Lebanese banking sector in the economy, stressing that this was not an organic or inevitable development, but rather the result of a conscious campaign by the bankers-cum-politicians in power during the establishment of the Lebanese State (Michel Chiha, considered one of the fathers of the Lebanese constitution, is perhaps the most iconic of these) (Leenders 2004:173). They maintain that industry was in a rather good state after it boomed during the French Vichy years and the Arab-Israeli wars in the 1960s and 1970s when Lebanon was forced to produce for its own markets, but that the powerful banking-political elite pushed for a more real-estate oriented economy, of which the tourism is mostly a spillover effect.<sup>6</sup> Academics confirm that the ‘structural unproductive nature’ of the Lebanese economy stems from both the elite influence during the establishment of the State of Lebanon and the specific post-war policies.<sup>7</sup>

The Lebanese economy is characterized by a strong dependency on external funds and markets; a very sector-stratified development; and a seasonal income distribution due to the predominance of tourism. According to WB (2012:v): “Large inflows of foreign financial resources, continuous import of low skilled labor, outmigration of skilled labor and a booming real estate market have been key features of the Lebanese economy over the past two decades. In recent years, growth has been strong if narrowly based, fueled by steadily increasing foreign financial inflows.”

The Lebanese government itself (Yamout 2012) describes the business environment as “vibrant and resilient” as evidenced by the fact that many multinational corporations and international organizations have their Levant head office in Beirut. The main bottlenecks identified for reform and development are infrastructure and administration. These bottlenecks are reflected in Lebanon's low (even in regional terms) ranking in the WB Doing Business indicators: number 104 out of 183 (WB 2012a:7). In a more substantial in-depth study, Mehzer et al (2008:41) by and large confirm this, concluding that on a macro-economic level the domestic level is characterized by limited demand, low levels of exports and increasing foreign competition. From a micro-economic outlook, business support policies are inadequate, firms find it difficult to recruit skilled employees; and physical infrastructure is lacking. From an institutional perspective, finally, the extensive bureaucratic red tape, the inadequate administrative procedures, the weak judicial sector and the inappropriate tax and labor laws have come under discussion as proximate reasons for the difficult environment to business in.

### 3.3.1. *The dominance of SMEs and family businesses*

Some experts lament the gap between a prevalence of micro enterprises and big businesses, saying that the Lebanese economy consists of “90 per cent are micro companies; only some five per cent are

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<sup>6</sup> Author's interview with policy expert.

<sup>7</sup> Author's interview with LAU economist.

large companies that generate external revenues. The problem is the lack of companies with around 200 employees. This is a structural issue in the business lay-out. Micro ventures are nice socially speaking and they generate some jobs, but they have no economic impact and are not innovative.”<sup>8</sup> Scholars agree that the predominance of SMEs<sup>xxi</sup> and family firms is one of the most defining characteristics of the Lebanese economy. Saidi (2004:5) notes that “more than 85 per cent of industrial companies have less than 10 employees and 90 per cent of SMEs are individual or family owned.” According to Mehzer et al (2008:35) SMEs make up 98 per cent of all the firms in Lebanon and employ 72.4 per cent of the total workforce, but they highlight that a large percentage of SMEs fail within the first five years of operation. This preponderance of SMEs has been ascribed to Lebanon’s legacy of war, specifically to import restrictions during the civil war, which stimulated the rise of a large number of small-scale industries that aimed to meet the demand for previously imported goods. The absence of taxes and government control during the war as well as the wartime depreciation of the Lebanese pound and the consequent significant decline in labor costs, also contributed to SME environment (Mehzer et al 2008:41).

Having a large pool of SMEs in an economy could be an impulse for innovative economic activity. Welsh and Raven (2006:33), for example, note that in comparison with large organizations, SMEs are “less bureaucratic and hierarchical, while being more *innovative* and customer oriented” as they are more flexible [author’s emphasis]. Lebanese business, moreover, is family-led. Surveys consistently find heavy reliance by entrepreneurs on family members to establish, develop and grow their enterprises (Fahed-Sreih et al 2010:35). Fahed-Sreih (2006 in Fahed-Sreih et al 2010:37) poses that family businesses constitute 85 per cent of the private sector, accounting for 1.05 million of 1.24 million jobs. In the Lebanese banking sector, Fahed-Sreih (2001:2) estimates that 43 per cent of the banks are family owned. She goes on to show that 78 per cent of the Lebanese work force in the agricultural sector is engaged in family projects; 51 per cent of industrial establishments are family establishments, employing 71 per cent of the work force in the industry sector; 62 per cent of service and commerce establishments are family owned, constituting for 38 per cent of the work force in this sector (Fahed-Sreih 2001:3-4). Lebanese firms have often been described as having a traditional management style due to this “predominance of small, family-owned firms [and] informally structured business environment” (Mehzer et al 2008:40). The Reference Guidebook on the Corporate Governance of Family-Owned Businesses (LTA 2009a:21) concurs that, in Lebanon, “governance in family-owned enterprises drastically differs from the governance of other companies.” But De Vries (1993 in Welsh and Raven 2006:31) found that small family-controlled firms are in fact “less bureaucratic, authoritarian, and impersonal than larger firms that were not family controlled.”

There is, in other words, a vigorous debate in the literature regarding the origins of this family prevalence – especially concerning whether or not is rooted in the history of violent conflict – and on the effects of it on entrepreneurship and innovation. Fahed-Sreih et al (2010:40) argue that the family plays an important stabilizing role in social and economic value creation and trans-generational wealth perpetuation processes and as such has been a way to navigate the uncertainties and instabilities produced by years of war and destruction: “in war torn transition economies, such as those in Lebanon that are struggling to rebound following civil war, the family unit is often the only intact socioeconomic institution capable of supporting entrepreneurial activities” (Fahed-Sreih et al 2010:37). Although Fahed-Sreih would not claim that family business is a consequence of war, as it is more clearly rooted in social and cultural structures not directly related to war, it is enhanced by war as a coping strategy.<sup>9</sup> One expert recalls that “they say that being a family business made these companies very adaptable during the war; they were autonomous and could take their own decisions and were flexible and this is what got them through. They have good experiences with that, so why change it now?”<sup>10</sup>

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<sup>8</sup> Author’s interview with start-up consultant.

<sup>9</sup> Author’s interview with LAU professor.

<sup>10</sup> Author’s interview with BIAT representative.

Fahed-Sreih et al (2010:42) found that motivations for entrepreneurship evolving around the wish to “provide security and to generate the income necessary to create and protect a strong family life.” Apart from the succession process usually associated with family business, motivations to ensure family well-being thus also drive start-ups of new firms. While employment might at first glance seem more secure in assuring a short-term stable income, the argument is that establishing a family firm guarantees long-term security through employment options for future generations. In light of the fact that the borders between firms and households in fragile states are often blurred (Naudé 2007:15) and in a culture in which, as the truism goes, the family is the most important social entity, employment is a part of the family’s obligation and businesses are viewed as an extension of the family (Pistrui and Fahed-Sreih 2010:85). Fahed-Sreih et al (2010:42) state that 80 per cent of the entrepreneurs surveyed was leading family businesses (50 per cent of which were originated and 33 per cent inherited). Family participation is apparently critical for the creation of SMEs as well, with the family providing primary sources of start-up capital (in the Fahed-Sreih et al study, over 50 per cent of the businesses had more than one family investor and 70 per cent had a family member employed full time). Entrepreneurship is also a way to enhance not just individual, but also family status (Fahed-Sreih, 2006:206 in Pistrui and Fahed-Sreih 2010:83). Pistrui and Fahed-Sreih (2010:115), conclude that “the ability to create and foster an entrepreneurial mindset across generations is a major element of family business continuity and longevity and is instrumental in effective strategic execution, innovation and growth.”



Pictures taken by the author of family businesses in Tripoli

Others disagree with the position of Fahed-Sreih et al (2010) that family businesses boost entrepreneurship. They argue that a family orientation could undermine value chain development as a way to access new markets and added value (The Broker 2009:13). Ahmed and Julian (2012:26, 30), for instance, acknowledge that family structures have allowed entrepreneurship through opening up informal funds, but also signal that family business structures can “divert resources to cover current expenses, and discourage risk taking, innovations or the delegation of authority.” They argue that some Lebanese cultural features are individualist, but that the family is dominant and “restricts entrepreneurial spirit and is, in general, patriarchal and extended, which are also the characteristics of a collective culture” (Ahmed and Julian 2012:26). While this is somewhat primordial (it is the way in which a family is involved in a business more than the simple fact *that* it is that will determine the direction of this business), this critique does resonate with findings from interviews underlying this paper. The high proportion of family firms in the Lebanese economy is sometimes seen as a factor hindering entrepreneurship.<sup>11</sup> People recount meeting students not interested in acquiring any

<sup>11</sup> Author’s interview with UN-ESCWA expert.

entrepreneurial skills because they “will just take over the family business anyway.”<sup>12</sup> Even those generally pertaining that family business in fact boosts entrepreneurship, admit that “those whose family has a business, join the family business; those who don’t, try to start their own.”<sup>13</sup> Things are, however, developing in the right direction.<sup>14</sup> A venture capitalist expert indicated that there is more focus on liquidity and expansion due to stagnating takeovers of family businesses by the younger generation.<sup>15</sup> An incubator spokesperson confirmed that the new generation taking over family businesses in Lebanon has a different mentality and is more interested in expanding beyond the family and getting involved in stock exchange.<sup>16</sup>

### 3.4. A culture of entrepreneurship: nature or nurture?

Lebanon has historically been a center of commerce in the Middle East. The territory that is now Lebanon has formed part of numerous illustrious empires, among them the nigh legendary Phoenician one and the Egyptian, Persian, Assyrian, Hellenistic, Roman, Seljuk, Mamluk, Crusader, Ottoman and French. Lebanon is composed of three main regions (Hourani 1986:3-4). First, there is the eastern Mediterranean seacoast. Much of Lebanon’s pre-state history (and current economy) revolves around various trading cities located along the coast. Tripoli (or Trablous), established as a trading center with the inland of the Mediterranean by the Phoenicians and a naval shipyard during the Hellenistic days, was one of the main Crusader centers in the region. Byblos (or Jbeil), an old fishing town considered one of the oldest continually inhabited cities in the world. Tyre (or Sour), the main port city of the Phoenician traders. Sidon (or Saida) known for its glass manufacturing during the Phoenician days and Tyre’s predecessor and continual competitor as the ‘capital of the Phoenicians.’ These cities were major flashpoints during the crusader years and faced recurrent destruction and occupation. The second region that can be distinguished is the succession of mountains and hills running from north to south and known collectively as Mount Lebanon. In the first half of the nineteenth century, under emir Bashir the Second, the agricultural economy of Mount Lebanon region was connected with the commercial economy of Beirut, expanding the influence of cash crops and creating increased economic and political ties with France. The third region is the Beqa Valley, an inner plain on the other side of the mountains with a history of agriculture and oriented towards inland commerce with Syria. Beirut has historically played a marginal role as one of several port cities along the Mediterranean coast, but came to gain importance as the centre of governance linking the three regions previously administrated separately. Its importance as a regional port also increased after the closure of Haifa port at the creation of the state of Israel (LCPS 2011:4). According to renowned Lebanese historian Hourani (1986:3-4) “the difference between these three kinds of region helps to explain something about the nature of the country. The life of the mountains has been an enclosed life, away from the outside world; that of the ports and the inner valley has been open to a broader world.”

It is often assumed (see Welsh and Raven 2006:32) that the history of development under diverse and competing leaders and realms influenced Lebanon’s propensity to trade and business (rather than industry) and have ingrained entrepreneurship in the national psyche – if such a thing exists, something particularly questionable in Lebanon – to the extent that “Lebanese culture is one that strongly encourages and supports self-enterprise and that ‘successful entrepreneurs not only are accepted but also are often considered “champions of industry” and presented as role models for others”’ (Chakour 2001:41 in Ahmed and Julian 2012:27).

But existing work on the impact of ‘Arab’ culture on entrepreneurship tends to be deterministic and simplistic, rife with platitudes such as the inherent fatalism apparently evidenced in the omnipresent expression *inshallah* (literally ‘if God wills it’, but ranging in meaning from ‘yeah, whatever’ to ‘if the

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<sup>12</sup> Author’s interview with entrepreneurship education expert.

<sup>13</sup> Author’s interview with LAU professor.

<sup>14</sup> Author’s interview with expert on Lebanese industrialism.

<sup>15</sup> Author’s interview with venture capitalist expert.

<sup>16</sup> Author’s interview with BIAT representative.

boss wills it' or 'consider it done') (Rice 1999 in Welsh and Raven 2006:32).<sup>xxii</sup> It states that factors such as Bedouin tradition and wider tribal inheritances, Islam, foreign rule and the West's need for oil (Hickson and Pugh 1995 in Welsh and Raven 2006:30) have influenced Arab management styles but by and large fails to describe how. There is an assumption of a negative influence while tribal traditions, for instance, can reinforce authoritarian management styles, but often support consultative management techniques as well (Welsh and Raven 2006:31). Religion<sup>xxiii</sup>, too, might form a conservative – or fatalist – influence on management or entrepreneurship, but there are also examples of authoritative Islamic 'televangelists' that exhorts Arab youth to "study hard, stop being 'leeches on the blessings of Allah and create a job, don't wait for one'" (Theil 2007:3 – this mirrors almost exactly encouragements by OECD (2011:2) to "become '*job creators*' instead of '*job seekers*'"). While Islam is often perceived as an impediment to business development and entrepreneurship, "most Islamic economists view markets as the normal vehicle for conducting transactions" (see also Creevey 1985 and Vogel and Hayes 1998 in Pistrui and Fahed-Sreih 2010:110-111). Islam even provides an entrepreneurship niche, it seems, as "one of the most unique and distinctive developments in the Arab world is the emergence and growth of Islamic finance products and services" (Pistrui and Fahed-Sreih 2010:115, see Calo et al 2008 for an example of Islamic Microfinance). In general, while interest may be forbidden in Islam, profit making is praised in many *hadiths*: "The best gains from honorable trade and from a man's work with his own hands", and "To seek lawful gain is the duty of every Muslim" (Lewis and Churchill 2009 in Pistrui and Fahed-Sreih 2010:115). Broad notions like culture and religion, then, are hardly useful in exploring the causes and consequences of entrepreneurship and need to be quantified and qualified with regard to specific attitudes, activities and aspirations to have any explanatory power.<sup>xxiv</sup> They will be addressed in this paper only when referred to by experts.

#### 3.4.1. *Entrepreneurship profile of Lebanon*

WEF (2011:9) estimates that 15 per cent of the Lebanese adult population is engaged in entrepreneurial activity, but warns that this is mostly necessity entrepreneurship that revolves around self-employment rather than job generation.<sup>xxv</sup> This entrepreneurship level is not as high as Yemen (24 per cent) or China (19 per cent) in the same measurement, but on a par with Brazil and significantly higher than the United States of America (eight per cent), Germany (four per cent) or Japan (three per cent).

In their profile of the average Lebanese entrepreneur, Pistrui and Fahed-Sreih (2010:83-84), paint a picture of a 41-year old, male (only 16.82 per cent of the entrepreneurs in their sample were women), highly educated person with seventeen years of work experience. They distinguish between an existing "deep-rooted entrepreneurial class and an emerging new group of dynamic female entrepreneurs." This supports a comparison by Ardagna and Lusardi (2010:39-40) between entrepreneurs and non-entrepreneurial working people that suggests that entrepreneurs tend to be younger (two years), more often male and eight per cent more likely to hold a postsecondary degree (this dynamic seems even stronger for opportunity entrepreneurs when compared with necessity entrepreneurs, with the former often being younger, more likely to be male and more educated).

In Lebanon, one can open four types of ventures: a non-profit organization; a for-profit (limited liability) enterprise; a for-profit personal enterprise; and a civil company (only available for those who pursue a liberal profession e.g. attorneys) (Feghali et al 2012:8).<sup>xxvi</sup> As will be elaborated on, there is no legal structure available to start a social enterprise. In general the registration process is not complex, but it is expensive, requiring a lawyer and costing between \$1000 and \$5000. According to WB (2012a:15-16, 20), starting a business in Lebanon requires five procedures, takes nine days, costs 67.1 per cent of income per capita and requires paid-in minimum capital of 35.3 per cent of income per capita – interestingly, it has recently become more rather than less expensive to start a business in Lebanon. Lebanon knows three bankruptcy scenarios: "depending on the type of bankruptcy, one may a) see all his or her possessions and assets seized and be prohibited from working for ten years, b) face between three months and three years in jail, and c) face up to seven years in jail" (Feghali et al 2012:8).

There might be no Arabic word for entrepreneurship (Theil 2007:3), but the experts interviewed for this paper had clear conceptions of entrepreneurship, mostly centered on notions of start-up, self-sufficiency and independent business. Respondents seemed to regard entrepreneurship both in terms of agency, the entrepreneur, and in terms of structure, entrepreneurship. Many references were to the character of the entrepreneur, as apparent in the half-joking expression that “entrepreneurs, compared with industrialists, are less whiners and more doers.”<sup>17</sup> There was some resistance to the cliché entrepreneur as a “fresh graduate starting a million dollar business,” with experts emphasizing that the usual entrepreneurs have quite some experience (usually abroad).<sup>18</sup> A widespread referral to the ‘ecosystem,’ showed experts see entrepreneurship as a phenomenon depending on and consisting of a broad set of enablers ranging from culture to governance, education, finances and infrastructure.<sup>19</sup>

By and large, experts agreed that the main entrepreneurial sectors were online services, ICT and technology; marketing and media; financial services; and (tourist) services. Interestingly, the wine industry was mentioned multiple times as well as being increasingly entrepreneurial.<sup>20</sup> The majority of the entrepreneurial success stories recounted by respondents were in online services and other non-spatially bound businesses capitalizing on the immense demand for Arabic online content.<sup>21</sup> The creative sector was also widely seen as very entrepreneurial.

The perceived motivations for entrepreneurship that experts mentioned were, first and foremost, acquiring a higher income, closely followed by (and closely related with) societal status.<sup>22</sup> The drive to get ‘respect’ and to ‘show off’ was repeatedly mentioned as a typically Lebanese motivation for starting a business.<sup>23</sup> “People like to say they own a pub; they’re show-offs. Lebanese prefer independence and status, they want to be an owner, they want to be the boss – even if it lasts only for a few months, they have been the boss at least once in their life. This is a cultural thing.”<sup>24</sup> Family well-being, a predominant factor in the literature, was hardly mentioned.

### 3.4.2. Innovation

According to a study by WB (2012:46), almost 25 per cent of Lebanese companies supposedly have a department specialized in R&D – slightly less than in Egypt – and almost 35 per cent developed what the Bank calls a “major new product line” – considerably less than in Syria. While Lebanon was entrepreneurial to all experts interviewed, this entrepreneurship was not automatically considered innovative. While entrepreneurship has been a hot topic and the subject of a vibrant supporting ecosystem, “innovation has been less central in the private sector debates.”<sup>25</sup>

Entrepreneurship and innovation are two totally different things [...] the indicators for innovation are very weak. There are few new products, new technologies, new production systems. Innovation is not the same as improvement or tailoring or diversification; it’s not about having ten different kinds of tea.<sup>26</sup>

As Doumit and Chaaban (2012:23) eloquently note, the Lebanese context presents many factors that can trigger innovation such as “diversity, risk and lack of resources.” The extent to which these opportunities are actually capitalized on, however, is subject of debate among academics as well as practitioners. On the one hand, Shane et al (1991 in Ahmed and Julian 2012:28) concluded that the opportunity to be innovative and the leaders or developers of new technology were frequently cited as the reasons for starting a new business. Moreover, SMEs are often considered the major providers of technological innovation and in Lebanon, as noted previously, SMEs form about 98 per cent of all the

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<sup>17</sup> Author’s interview AUB business expert.

<sup>18</sup> Author’s interview with venture capitalist expert.

<sup>19</sup> Author’s interview with entrepreneurship education expert.

<sup>20</sup> Author’s interviews with real estate expert; and diplomat.

<sup>21</sup> Author’s interviews with IDAL representative; and venture capitalist expert.

<sup>22</sup> Author’s interview with polling expert.

<sup>23</sup> Author’s interview with Kafalat experts.

<sup>24</sup> Author’s interview with corruption experts.

<sup>25</sup> Author’s interview with advisor to the Council of Ministers.

<sup>26</sup> Author’s interview with LAU economist.

firms (Keng and Jiuan 1989 in Ahmed and Julian 2012:26). On the other hand, stakeholders in various studies have identified considerable and persistent obstacles to innovation, most notably weakly enforced intellectual property; a limited market; meager training and education on innovation; nearly absent research and development; and poor infrastructure - these will be addressed in part 3 of this paper (Doumit and Chaaban 2012:23). In Lebanon, innovation – perhaps in line with individualist conceptions of entrepreneurship – is usually described as being ad hoc and personal rather than structural and collective. “New technology and product diversification are introduced informally through the individual efforts of entrepreneurs” and there is a perceived lack of institutional innovation (banks and other financing institutions were especially seen to be conservative) (Chakour 2001 in Ahmed and Julian 2012:27).

There was vigorous disagreement about the meaning of innovation and, subsequently, the extent to which Lebanese entrepreneurship can be considered innovative among the experts interviewed. The majority of the interviewed felt Lebanon was innovative. They understood innovation in a very broad sense of improvement, adaptation, franchising and marketing,<sup>27</sup> tailoring<sup>28</sup> and added value<sup>29</sup> – or even “following market trends.”<sup>30</sup> They saw innovation not only as the

Creation of new knowledge and technology and the adaptation of existing ones, but equally important, as the diffusion and use of all technologies, products, processes, and practices that are – new to the country and the region – although not necessarily to the world. Innovation is, therefore, also about the transformation of traditional sectors into higher value-added, knowledge intensive sectors, through the local adoption of already existing technology and processes (WB 2012b:32).

Innovation, then, “isn’t necessarily the invention of space ships.”<sup>31</sup> Innovation, one incubator representative clarified, is “presenting added value, a new feature. This can be either an existing product with a new feature or a whole new product responding to a new need.”<sup>32</sup> A public official considered “start-ups and innovation interchangeable as innovation these days comes from start-ups rather than multinationals.”<sup>33</sup> Some respondents also questioned the necessity of innovation, stressing that there is no need for each start-up to “provide the world with a patented idea.”<sup>34</sup> An incubator representative added that “R&D is not a priority in a country this instable”<sup>35</sup> and a manager of a microfinance institution stressed that perhaps his clients were not innovative in a traditional sense, but “when you present them with new options they like it and take the chance.”<sup>36</sup>

A smaller group of respondents maintained that Lebanese entrepreneurship was remarkably un-innovative. The government itself is clear in recognizing the absence of innovation and lists the country’s minimal new product or process development and the fact that patents lodged by universities do not make it to commercialization by the private sector (SME-unit 2007:20). These analysts adopted a more specific, not seldom academic, understanding of innovation as research and innovation based new technologies and products reflecting Bizri et al’s (2010:5 in WB 2012b:32) conceptualization of innovation as “the application of new ideas, technologies, or processes to productive activities.” One economist’s reflection on Lebanese innovation seems representative for this line of thought:

Everyone assumes that the Lebanese are entrepreneurial and business minded, but people might be using the word innovation incorrectly; it is not just about doing something new (about redecorating and

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<sup>27</sup> Author’s interviews with advisor to the Ministry of Economy; business consultant; and polling expert.

<sup>28</sup> Author’s interviews with venture capitalist expert; and IDAL representative.

<sup>29</sup> Author’s interview with Kafalat experts.

<sup>30</sup> Author’s interview with LAU professor.

<sup>31</sup> Author’s interview with venture capitalist expert.

<sup>32</sup> Author’s interview with Berytech representative.

<sup>33</sup> Author’s interview with IDAL representative.

<sup>34</sup> Author’s interview with start-up consultant.

<sup>35</sup> Author’s interview with BIAT representative.

<sup>36</sup> Author’s interview with microfinance expert.

then reopening a restaurant or about introducing fusion cooking in Lebanon). Ultimately, innovation is about new products, concepts, technologies and systems that will lead to higher productivity.<sup>37</sup>

Ultimately, then, the extent of innovation in Lebanese entrepreneurship depends on the definition of innovation. In the words of one diplomat “there is a variation in the understandings of innovation. If you see innovation as a Microsoft-like feat, then you’ll find little of this in Lebanon. If it refers to the creative way of making economic progression, innovation is widespread, especially on a grassroots level.”<sup>38</sup> One Lebanese research center makes the eloquent distinction between ‘innovation’ – the creation of product entirely new to the world – and ‘invention’ - “taking an existing product, for instance a phone, and through a process of reverse engineering, tweaking technology and short circuiting inventing a way to produce it cheaper and becoming competitive.”<sup>39</sup>

Innovation, of course, also clearly differs per sector, with the media and communication and services being considered most innovative.<sup>40</sup> This coincides with Ahmad and Julian (2012:29) and with the observation of WB (2012:32) that “in the particular case of Lebanon, innovation in the so-called *creative industries* (architecture, film, music, advertising, fashion design, gaming, crafts, visual arts, and performing arts) represents a promising avenue.” Tourism, most respondents agree, is not very innovative (apart from some imported concept restaurants and a very small ecotourism niche).<sup>41</sup>

### 3.4.3. Lebanon’s entrepreneurship support ‘buzz’

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

Almost all respondents agreed that now is the perfect time to address the issue of entrepreneurship in Lebanon: “the term entrepreneurship has become really sexy the last couple of years.”<sup>42</sup> Since a few years – opinions differ on how long exactly – Lebanon is witnessing what respondents called an ‘entrepreneurship buzz’; a substantial increase (in both quantity and quality) of various types of initiatives to support entrepreneurship. These initiatives range from education to loan subsidies to business plan competitions and are implemented by a wide range of private, civil and sometimes (semi-)public organizations. While the perceived success and actual output of this new dynamic differs among respondents<sup>xxvii</sup> – with the exception of the widely acknowledged improved access to finance resulting from the Kafalat initiative<sup>43</sup> – and have not been structurally evaluated yet<sup>44</sup>, the simple fact of its emergence and existence is broadly acknowledged and embraced.<sup>45</sup>

Six components of the emerging Lebanese ‘entrepreneurship ecosystem’ can be distinguished. First, there is a system of incubators. Some six years ago four incubators that were supposed to help entrepreneurs on the trajectory from idea to business were instigated with the support of the European Union (EU Delegation of the European Commission to Lebanon 2008; Lopez-Mencherero 2011); one in Beirut and surroundings (Berytech); one in the north (the Business Incubation Association in Tripoli,

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<sup>37</sup> Author’s interview with LAU economist.

<sup>38</sup> Author’s interview with diplomat.

<sup>39</sup> Author’s interview with policy expert.

<sup>40</sup> Author’s interview with polling expert.

<sup>41</sup> Author’s interview with IDAL representative.

<sup>42</sup> Author’s interview with AUB business expert. Some respondents remained skeptical and felt that entrepreneurship still was not given the attention it deserves and that entrepreneurs are basically still on their own (author’s interviews with business journalist; and LAU professor).

<sup>43</sup> Author’s interview with polling expert.

<sup>44</sup> Author’s interview with policy expert.

<sup>45</sup> Author’s interview with business consultant.

BIAT); one in the south (Southbic); and one in the east, in the Beqa Valley (Agripole).<sup>46</sup> Where Agripole soon had to close shop and Southbic apparently still faces start-up challenges,<sup>xxviii</sup> Berytech and especially BIAT are generally considered rather successful even if their output in terms of actual businesses is still marginal in the eyes of many experts.<sup>47</sup> These EU initiated incubators are considered to have kick started the entrepreneurship boom, with other donors later jumping on the bandwagon.<sup>48</sup>

Second, there is Kafalat, the single most important – and widely applauded – facilitator of entrepreneurship through the provision of subsidized and guaranteed loans.

Third, there are some government initiatives, most notably the Investment Development Authority Lebanon (IDAL) seeking to enhance entrepreneurship through tax incentives, administrative reforms and the support of the incubators. Respondents were mostly cynical about this programme, at best saying it was still in the start-up phase with little to show for yet,<sup>49</sup> at worst claiming it high-jacked the success of other initiatives with which it had little to do. In general, there is widespread confusion on the extent to which the incubators and Kafalat are part of the governmental structure. The consensus seems to be that the great majority of initiatives is in fact private or civil, with some government support or cooptation.<sup>50</sup>

Fourth, there are support initiatives by international organizations such as the United Nations Development Program (UNDP), the United Nations Industrial Development Organization (UNIDO), the European Union (EU) and WB.

Fifth, there are some research and analysis oriented agencies, academic and journalistic – from the newly initiated Darwazah Center for Innovation Management and Entrepreneurship at the American University of Beirut and the Institute for Family and Entrepreneurial Business at the Lebanese American University to the *Al-Iktissad Wal-Aamal* and *Executive* magazines.

Sixth, there is a wide range of private sector and civil society projects, programmes and organizations helping entrepreneurs in many different ways – here, one can think of Injaz that provides entrepreneurship education; Endeavour that seeks to support more mature entrepreneurs; and a wide range of microfinance institutions.

Experts praise the emergent ecosystem for its organic growth and see it as a relatively native dynamic driven by “this smart, small group from universities, the central bank and the private sector – Lebanon is small, people know each other – that got together and got increasingly interconnected and mapped the needs for this emerging ecosystem.”<sup>51</sup> The purposeful addressing of a lack of communication, exchange and specialization among the main players in the private sector by this core group of actors under the auspices of some widely appreciated experts at the UNDP project within the Council of Ministers might have been a determining stage in the budding entrepreneurship support system.

Investors didn't talk to entrepreneurs, big and small companies didn't communicate. I invited them to the Council of Ministers where they were forced to sit at the same table and talk to each other. This initial meeting resulted in a rather vibrant mailing list that grew from 15 to 150-200 participants and still functions as a main communication channel for sharing events and networking. These players even meet on their own accord now.<sup>52</sup>

This entrepreneurship development in Lebanon is part of a wider international and regional focus of “educators and CEOs, Western aid agencies and multinationals, royals and even Islamists, who are now trying to inject the entrepreneurial virus into the region's youth” as a way to generate jobs (Theil

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<sup>46</sup> Author's interviews with BIAT representative; and UN expert.

<sup>47</sup> Author's interview with UN expert.

<sup>48</sup> Author's interview with UN expert.

<sup>49</sup> Author's interviews with policy expert; and IDAL representative.

<sup>50</sup> Author's interview with policy expert.

<sup>51</sup> Author's interview with UN expert.

<sup>52</sup> Author's interview with advisor to the Council of Ministers.

2007:1-2; WB 2012b:v). One of the main instigators for this endeavor is demographic.<sup>53</sup> According to Theil (2007:2), 70 per cent of the population in the Arab world is under 25 years old and employing them will take the creation of 80 million new jobs by 2020, which means “achieving twice the job-creation rate the United States managed during the go-go 1990s.” Interviewees disagreed on the extent to which the entrepreneurship buzz is externally (meaning donor) or internally driven. Some refer to a tradition of “copying the West, being tuned into the West” that allowed Lebanon to pick up the Western entrepreneurship focus relatively fast.<sup>54</sup>

In Lebanon, at least two other dynamics beyond the demographics and international entrepreneurship obsession were mentioned by experts as having instigated the entrepreneurship buzz: the end of the Syrian occupation in 2005 and the economic crisis. The withdrawal of Syrian troops from Lebanon and the (partial) dismantling of Syrian infiltration in Lebanese public institutions is generally seen as having been a huge impetus for entrepreneurship, with less corruption and predation and hence more gains from creating and running businesses.<sup>55</sup> The association of entrepreneurship with jobs, growth and self-sufficiency also resonates well with people in times of economic crisis.<sup>56</sup> The lack of traditional high-return investment opportunities in the West, such as real estate, is also seen to have opened the eyes of the diaspora to the potential of investing in Lebanese start-ups.<sup>57</sup> More practically, the economic crisis multiplied unemployment and forced many employed people to either start a business on the side or give up their job (or being fired from their job) to create a new business; the crisis has produced legions of necessity entrepreneurs all over the world (IMF 2012:18).<sup>58</sup> The crisis also reinforced the growing concern in Lebanon about the brain drain effect of their graduates migrating en masse to the better paying Gulf region and kindled initiatives to keep them in Lebanon.<sup>59</sup> One expert also mentioned a generational conflict related to globalization dynamics that undermines the family business ‘trap’ and thereby contributes to the entrepreneurship momentum. He noted that because the younger generation often is not interested in taking over the family business, not only the younger professionals are more inclined to start-up their own new business, but the family business also has to be sold. This has resulted in a modest mentality shift with more willingness to sell and exit and more emphasis on value creation and venture capital, which in turn can be pillars of entrepreneurship (Naqvi 2011:12).<sup>60</sup> The rise of technology was also repeatedly mentioned as having perhaps not originated but at least enabled the surge in interest in entrepreneurship, creating more space for low-investment individual initiatives.<sup>61</sup>



Pictures taken by the author at Berytech and BIAT (middle) offices

<sup>53</sup> Author's interview with venture capitalist expert.

<sup>54</sup> Author's interview with AUB economist.

<sup>55</sup> Author's interviews with diplomat; and AUB economist.

<sup>56</sup> Author's interview with start-up consultant.

<sup>57</sup> Author's interview with IDAL representative.

<sup>58</sup> Author's interview with polling expert.

<sup>59</sup> Author's interviews with Berytech representative; and expert on Lebanese industrialism.

<sup>60</sup> Author's interview with venture capitalist expert.

<sup>61</sup> Author's interviews with diplomat; and Berytech representative.

### 3.4.3.a. *Limitations of the entrepreneurship support system*

Despite the promise of these developments, Abdo and Kerbage (2012:72) note some features of the current Lebanese entrepreneurship support structure that provide a less euphoric picture (they discuss women's entrepreneurship, but in light of the interviews taken for this study, their remarks seem to be relevant to the wider entrepreneurship ecosystem as well). They note that the impediments obstructing entrepreneurship "are often constructed as constraints on individuals, and only rarely are structural or systemic concerns analyzed or addressed" (Abdo and Kerbage 2012:72). This seems to mirror the academic literature in assuming a disconnect between internal and external factors hampering entrepreneurship. Abdo and Kerbage also note a fundamental lack of vision in many of the organizations working on facilitating entrepreneurship and an oversimplified notion on dealing with informality:

There is a belief that linking informal entrepreneurs to formal banks necessarily leads to the formalization of their businesses. Yet the assumption that the transition is automatic reveals a lack of understanding of the wider causes of informality such as the absence of infrastructure, the low productivity of businesses, the lack of incentives to formalize one's business, and the generally survivalist types of enterprise activities (Abdo and Kerbage 2012:71-73).

More importantly, many initiatives (unconsciously) reinforce existing inequalities, for instance further directing women towards traditional low productive sectors deemed 'feminine' (Abdo and Kerbage 2012:76). Despite their perhaps internal origins, entrepreneurship support services in Lebanon, moreover, suffer from a high dependence on donor funds and hence donor priorities (Abdo and Kerbage 2012:76). This donor dependency, according to some respondents, is not merely problematic, but also unnecessary considering that "Lebanon is a high to middle income country and it is therefore ridiculous that it should host every single UN division one can think of."<sup>62</sup> There were also fundamental doubts about what was called an 'over focus' on entrepreneurship by some respondents:

Yes, for SMEs there are financial facilities undreamt of anywhere else. I don't know many places where you can get a half a million interest free loan as a start-up. There are all sorts of programmes to help SMEs; all banks have tailored SME loans. There're incubators (BIAT, Berytech, Bader) all over the country. However, the country doesn't necessarily need more entrepreneurship. What it needs is to develop SMEs from employing ten to employing 200 people. Not every human is an entrepreneur and they need not be. 80 per cent just wants to be comfortable employed. They made the same mistake with microfinance before: not every poor person is a budding entrepreneur.<sup>63</sup>

Finally, some experts suggested, the whole buzz showed that in fact entrepreneurship is not innate in Lebanon after all, because if it were, there would be no need for intervention and support.<sup>64</sup> A crucial deficit of the entrepreneurship support structure in Lebanon that is particularly relevant to the scope of this paper, finally, is the fact that the 'buzz' is almost completely depoliticized, focusing on grants and incubators, but staying away from lobbying for or agendizing the structural governance problems undermining entrepreneurship potential.<sup>65</sup>

### 3.4.4. *Social entrepreneurship*

Propelled by initiatives like AltCity and Beyond Reform and Development (BDRI), a special feature of the Lebanese entrepreneurship ecosystem is the role that the concept of 'social entrepreneurship' takes within it. Social entrepreneurs can be described as entrepreneurs heading businesses with a social purpose mixing not-for-profit and for-profit elements (Doumit and Chaaban 2012:9).<sup>xxix</sup> While social entrepreneurs abound in Lebanon, the leading study on the subject by Doumit and Chaaban (2012:9) notes that "the individuals and organizations behind such initiatives are still unfamiliar with the term social entrepreneurship and how it applies to their missions and practices." This is partly because

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<sup>62</sup> Author's interview with diplomat.

<sup>63</sup> Author's interview with microfinance expert.

<sup>64</sup> Author's interview with policy expert.

<sup>65</sup> Author's interview with UN-ESCWA expert.

there is no legal structure available to start a social enterprise and social entrepreneurs as thus forced to register as either an NGO or a private business (with the former being much cheaper - \$200,- versus \$1000-5000 – and easier as a result of tax exemptions and access to donor funds) (Feghali et al 2012:8).

While not unique to Lebanon, social entrepreneurship as a distinct concept or strategy seems to reverberate well with the Lebanese context in which relations “between civil society and the private sector are very strong in Lebanon, much stronger than relations with the public sector.”<sup>66</sup> In a similar vein, one academic remarked that:

There could be a connection between this [social entrepreneurship] and the gap between legal and cultural expectations of empowerment in Lebanon and the failure of the political system to deliver this empowerment, the legal practice not living up to this. If your voice isn't heard or your contribution can't be made through politics, people might be more likely to graffiti, flash mobs, art, comedy or other social things. This is not the basic human need to live, but it might be secondary human need for making a difference.<sup>67</sup>

While there appears to be some overlap between the entrepreneurship buzz and the social entrepreneurship movement, the latter is oriented more towards civil society. Social entrepreneurship is associated more with generating social value that with, for instance, corporate social responsibility (Feghali et al 2012:3).<sup>68</sup> Nevertheless, Berytech, a business oriented incubator, also has a social entrepreneurship programme and many of the motivations of the civil society entrepreneurship support initiatives are socio-economic developmental.<sup>69</sup> This is in line with work by Audretsch and Thurik (2004:1 in Naudé 2007:6) showing that many small business support programmes are in fact undertaken for social and political reasons rather than for economic motivations.

Among the experts interviewed, some regarded social entrepreneurship as regular business with a focus on social impact,<sup>70</sup> with the “means in which funds are generated and spent” defining what is and is not a social enterprise (Feghali et al 2012:3). Some see social entrepreneurship simply as a way to make NGOs sustainable and independent in the light of decreasing donor funds.<sup>71</sup> Others take a more ethic-philosophical approach towards the concept, seeing it as:

A choice that embodies the values of cohesion, inclusion and integrity, which should govern society's mindset when dealing with issues where human beings are at the core. It is a strategy to find innovative, responsive and participatory mechanisms and approaches to solve our problems by taking initiative rather than complaining and demanding change. (Doumit and Chaaban 2012:6)

In this sense, social entrepreneurship is less about business than it is about generating a strategy to help overcome challenges in government, civil society and the private sector by developing “an alternative for service provision, activism, and commercial work” (Doumit and Chaaban 2012:2).

### 3.5. Taking stock of Lebanese entrepreneurship

In terms of the Babson Entrepreneurship Ecosystem Project's evaluation framework (Isenberg 2010:5) the following reflections can be made on the above introduced entrepreneurship ecosystem (history and current momentum combined).

Lebanese public leaders act as strong, public advocates of entrepreneurs and entrepreneurship; the government seems to be increasingly committed to create effective institutions directly associated with entrepreneurship, but fails to remove structural barriers to entrepreneurship; culture at large definitely

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<sup>66</sup> Author's interview with AUB business expert.

<sup>67</sup> Author's interview with AUB economist.

<sup>68</sup> Author's interview with UN-ESCWA expert.

<sup>69</sup> Author's interview with Berytech representative.

<sup>70</sup> Author's interview with start-up consultant.

<sup>71</sup> Author's interview with AUB business expert.

respects entrepreneurship as a worthy occupation; there are multiple visible success stories that inspire youth and would-be entrepreneurs; there seem to be enough knowledgeable people with experience in creating organizations, hiring, and building structures, systems and controls; there increasingly are capital sources that provide equity capital for companies at a pre-sales stage and add non-monetary value, such as mentorship and contacts as well as nonprofits and industry associations; in Lebanon, there are insufficient, but increasing, educational institutions that teach financial literacy and entrepreneurship to high school and college students; the public infrastructure clearly provides blatantly insufficient transportation (roads, airports, railways, container shipping) and communication (digital, broadband, mobile); there is just one geographic location that has concentrations of high-potential and high-growth ventures and proximity to universities, standards agencies, think tanks, vocational training, suppliers, consulting firms, and professional associations; there are multiple formal or informal groups that link entrepreneurs in the country or region and diaspora networks and new ventures and local offices of multinationals; there are some venture-oriented professionals; there appear to be enough local potential customers who are willing to give advice, particularly on new products or services and willing to be flexible with payment terms to accommodate the cash flow needs of young, rapidly growing suppliers.

Thus, the main challenges remaining to the Lebanese entrepreneurial ecosystem are related to government and infrastructure, two issues intimately related according to experts and taken up in detail in part 3 of the paper.<sup>xxx</sup>

#### **4. Fragile Governance, Hybrid Government and Innovative Entrepreneurship in Lebanon**

##### **4.1. Does governance fragility and government hybridity matter for business at all?**

No one will deny the devastating effect of the Civil War on Lebanon's economy. Moreover, anecdotes about the impact of politics on business and of business on politics abound in Lebanon. Illustrating the impact of business on politics, the recent lifting of the street blockade organized by Sheikh Ahmad al Assir in Sidon to underline his demand from Hezbollah to give up its arms, for instance is widely believed to have been brokered by Sidon's strong business community that had grown increasingly impatient with the detrimental effect this blocking of the vital highway between North and South Lebanon had on their business. Representatives from Sidon's municipality, Chamber of Commerce, Industry and Agriculture, Merchants Association, Federation of Trade Unions and Employees as well as civil society groups called "on the Lebanese authorities to take full responsibility, lift the siege of [Sidon] as quickly as possible, and remove all manifestations that are offensive to the city of Sidon, its people, and its economic and national roles" (Zaatar 2012). The recent revival of the Hamra neighborhood in West Beirut as a major bar district, to take an example of the reverse dynamic – politics influencing business – is accompanied by an increased competition between political parties (the Syrian Socialist nationalist Party (SSNP) and Amal) demanding protection money and providing services (such as water and electricity and even valet parking) through affiliated suppliers (Rahal 2012).

Nevertheless, a fundamental question in assessing the effect of governance on entrepreneurship and innovation remains whether politics is currently perceived to matter for business. The above anecdotes are illustrative and the literature seems to think it does. Klapper et al (2010:143) are confident in claiming that case-based evidence suggests that government policy in the areas of taxation and enforcement can have a large impact on business registrations and that the data show a strong and significant relationship between entry rates and good governance. Briscoe (2009:2-3) infers that "the economic conditions which prevail within them [fragile states] are intimately related to their political culture, and that poverty and economic informality breed and are bred by poor governance, a porous rule of law and institutional weakness." The majority of interviewed experts agree. However, it seems

important to mention that a significant portion of professionals working in or on the Lebanese entrepreneurship ecosystem are reluctant to make this linkage. People related to the incubators and from private companies implicitly emphasized a ‘just do it’ component as the distinctive characteristic of entrepreneurship and seemed to regard reference to politics as an obstacle for entrepreneurs as an excuse.<sup>72</sup>

The political situation? That’s all excuses; you can’t wait for the situation to become perfect. Yes, there is a deadlock, but just go for it. Other people have done it, it can be done. The political things are impediments, but not reasons why. It makes life harder, but you still live.<sup>73</sup>

There is a recurrent discourse on entrepreneurial resilience stressing the fact that Lebanese work around the problems rather than giving up:

In 2009, 2010, 2011, we were growing, we were doing fine. And we had no government in 2009; there were political tensions – but the figures in Kafalat have been growing. So the behavior from entrepreneurs is independent from this situation. [...] Such situations influence things, but we don’t raise our hands [give up]. After 2006 there were many projects in the south influenced by the situation – they were bombed and had nothing to repair their business and they asked our help, they wanted more money to restore their projects: they didn’t give up. [...] This is a mentality thing; there they’re rigid. Here, we think you can always find ways – legal or illegal. The will is there, people look forward.<sup>74</sup>

They emphasize that the main challenges facing entrepreneurs are the small market and the stratified consumption patterns in Lebanon or the lack of vision among would-be entrepreneurs and the difficulty to attract and keep ‘the good people’ in a context dominated by lucrative Gulf offers for many talented graduates.<sup>75</sup> One academic also felt that

The Lebanese entrepreneurial ecosystem mostly hovers above the direct political tugs of war. Non-governmental organizations, whether they’re for profit or non-for-profit, are not fundamentally affected by political tensions. In fact, the entrepreneurial ecosystem is a-political, blind to religion and to gender; at this point in time it is a wonderful place to be in. There is a lot of excitement and cooperation and people from ‘different sides of the fence’ connect, this doesn’t matter.<sup>76</sup>

There seems to be a consensus among the experts interviewed that it is the internal political system, the structural problems with government, more than the often externally initiated eruptions of violence and destruction, that most severely undermines entrepreneurship and innovation. In the words of one microfinance expert: “We can deal with our problems if we know what our problems are. But things change every day and everybody keeps putting new restrictions on things. At least if there are bombs, you can avoid the bombs, now you don’t know [what to avoid].”<sup>77</sup> It is the structural governance problems more than the event-based political problems that concern people.<sup>78</sup> Wars can boost some forms of entrepreneurship. The fact that Lebanon is ruled by a “kleptocratic corrupt class” unable or unwilling to even provide basic necessities of life like electricity, on the other hand, never fails to agitate people. “Accidents you can always survive, this structural deficiency is much more problematic than the Syrian situation, an explosion, an assassination.”<sup>79</sup>

#### 4.1.1. *Public-private entanglement*

There are 14 business associations in Lebanon and they have had significant impact on the Lebanese business sector. The LTA (2011:106-107) gives several examples ranging from the Beirut Traders Association that initiated important governmental decrees to the Association of Banks in Lebanon that has pushed for influential finance sector reforms. Associations such as the Lebanese Business

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<sup>72</sup> Author’s interviews with venture capitalist expert; IDAL representative; and Berytech representative.

<sup>73</sup> Author’s interview with start-up consultant.

<sup>74</sup> Author’s interview with Kafalat experts.

<sup>75</sup> Author’s interviews with polling expert; and start-up consultant.

<sup>76</sup> Author’s interview with AUB business expert.

<sup>77</sup> Author’s interview with micro credit expert.

<sup>78</sup> Author’s interviews with IDAL representative; and UN expert.

<sup>79</sup> Author’s interview with UN-ESCWA expert.

Association (the RDCL) bring together “Lebanon’s more prominent businessmen and opinion makers to protect economic liberalism and the interests of Lebanese enterprises” (LTA 2011:106-107). Oversight of businesses depends on the sector,<sup>xxxii</sup> but by and large there is an absence of corporate governance<sup>xxxiii</sup> and anti-corruption initiatives are entirely voluntary (LTA 2011:106-108).

The relations between the public and private sectors – as well as civil society – in Lebanon are complex, but close, yet views on politicization of business and corruption differ widely. This seems to hinge not so much on disagreement on whether politicization and corruption exist – they do: in Transparency International’s 2008 Corruptions Perceptions Index (CPI), Lebanon scored three out of ten (on a scale from zero “highly corrupt” to ten “highly clean”) and ranked 102<sup>nd</sup> among 180 (LTA 2011:11) –, but on divergent opinions on their importance for entrepreneurs and business(wo)men. A large portion of the sample concurs with Kaplan (2009:7) that in Lebanon, “successful entrepreneurs are not those with the best ideas, but those with the best ties to ruling elites.” Spokespersons of a civil society watchdog say that “if you know how to bribe well, you can do well” and signal “immense conflicts of interest between politics and business.”<sup>80</sup> A diplomat described the Lebanese entrepreneurship climate as a mix between “19<sup>th</sup> century American brigand capitalism and Soviet steering.”<sup>81</sup> Lebanese political analysts confirm that the political class is “embedded in the private sector” as “most businessmen are former state officials and most politicians have some businesses.”<sup>82</sup> Leenders (2012:223) evidences how because of their institutional weakness – their failure to meet the “essential criteria associated with bureaucratic organization derived from its Weberian ideal type:” a clear mandate governed by procedures and regulations with external checks and controls to ensure accountability and a separation of public office from private interest – Lebanese public institutions have failed to prevent (even facilitates) endemic corruption as manifested in chronic conflicts of between private interests of politicians and civil servants and the public institutions they led or worked for. This corruption, the porosity of the boundary between the public and private spheres (Leenders 2012:9), basically concerns the use of public office for private gain and thereby the ‘cheating’ of the private sector, a dynamic Leenders illustrates for a wide variety of ministries and institutions. Clearly, relations between private sector, public sector and civil society differ per sector and that politicization only occurs when there is significant money to be made, such as in the construction sector.<sup>xxxiii</sup>

Some respondents stress the connecting quality of business, mentioning that all sectarian groups do business with each other and depend on each other to access respective constituent customers.<sup>83</sup> They acknowledge that “the big businesses related to infrastructures and utilities are all indeed connected in one way or another to politicians, but if you go one notch beyond that, things are not as corrupt as you might think. You can be, for instance, a successful Mercedes Benz dealer because you’re a good businessman, regardless of political connections.”<sup>84</sup> This is consistent with Mehzer et al’s (2008:44) finding that although political affiliations are very common sources of advantage in Lebanon, the advantages of such connections ranked only fifth among the manager attributes that influence success. Some experts even stress the fact that business(wo)men (from former Prime-Minister Hariri to current Prime Minister Miqati) are leading politicians in Lebanon point to a merit-based and technical conception of governance, a ‘businessization’ of politics rather than a politicization of business.<sup>85</sup>

However, a leading analyst concluded that while the private sector says it wants to stay away from politics and therefore refuses to lobby for better governance regulation, this is in fact “preposterous,” as they are all “entangled.”<sup>86xxxiv</sup> Such observations seem more than justified in light of existing research into the workings of patronage networks in the public and private sectors in Lebanon – a

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<sup>80</sup> Author’s interview with corruption experts.

<sup>81</sup> Author’s interview with diplomat.

<sup>82</sup> Author’s interview with UN-ESCWA expert.

<sup>83</sup> Author’s interview with LAU professor.

<sup>84</sup> Author’s interview with AUB business expert.

<sup>85</sup> Author’s interview with entrepreneurship education expert.

<sup>86</sup> Author’s interview with UN-ESCWA expert.

dynamic glaringly obvious in many of Lebanon's post-war reconstruction flurries. Reconstruction processes, it is safe to say, have further strengthened the dominant role of the private sector in Lebanon, albeit not in a very constructive way as they have resulted in a rise of corruption (Leenders 2004:174). This is largely due to Lebanon's public contracting system that is extremely vague. LTA (2011:85) euphemistically states that "very limited information exists around contracting and there is no information available about the size of the procurement market. Clearly, transparency is an issue. In practice, public contracting and procurement is subject to patronage and clientelism, "whereby all political leaders take advantage of their position to promote the interests of their own communities."

The private real estate company Solidère that was charged in 1991 with rebuilding and developing the heart of Beirut constitutes a widely referred to example of the endemic corruption and clientelism characterizing 'development' in Lebanon – from bribing MPs to accept laws to the creation of unconstitutional schemes to appropriate private property (Leenders 2012:58-64). Solidère's board of directors was dominated by allies of then Prime Minister Hariri, just like its private contractors and all state institutions whose authorities touched upon the works of Solidère, including the Higher Council for Urban Planning, the City Council of Beirut, the Land Registry and the Ministry of Finance. Leenders (2004:184) concludes:

The entire scheme was anchored in Hariri's tightly knit network of contacts and allies, who acrobatically crossed the boundaries between public and private whenever required. As Saree Makdisi concludes, Solidère became 'the ultimate expression of the dissolution of any real distinction between public and private interests or, more accurately, the decisive colonization of the former by the latter'.<sup>xxxv</sup>

#### 4.1.2. *External versus internal obstacles*

There have been several academic studies into the challenges facing entrepreneurs in Lebanon. Ahmad and Julian (2012:35) claim that internal factors are critical in deciding the success or failure of Lebanese entrepreneurs, with innovation, flexibility, product quality, human resources and venture capital being the core limitations. Mehzer et al (2008:34) similarly argue that business failures of Lebanese firms are mainly due to internal controllable factors including lack of innovation and flexibility, inferior product quality, the lack of experience of owners/managers in the sectors, an unfavorable personality, conflict between business partners, the failure to establish a market niche, the excessive withdrawal of cash by owners, inventory problems and bad communication skills.

Leenders (2004:175), in contrast, points out that "when asked about which factors they held responsible for their failures and/or successes in business, entrepreneurs very rarely pointed at market dynamics in the pure sense." He refers to a 1995 WB survey among entrepreneurs that revealed that market participants were much less troubled by market factors (such as domestic or foreign competition or lack of demand), than by a high cost business environment due to erratic government policies, corruption, complex procedures, and delays on customs as well as a stifling state bureaucracy at both central and municipal levels. A 1999 cross-sector survey of businessmen's views on which Leenders (2004:175) reflects cited similar external factors (corruption, government procedures and informal competition) to be the biggest obstacles to doing business. A 2006 Foreign Investment Advisory Service (FIAS) survey of more than 450 Lebanese enterprises also found corruption to be the main obstacle to investment (LTA 2011:107).

In any case, as noted above, the separation between such external and internal factors affecting entrepreneurs is highly artificial, perhaps especially so in fragile settings – considering that 'internal' factors are mediated through 'external', contextual factors. Company processes are shaped by larger cultural and social structures; management skills are related to educational opportunities; product quality depends on availability and affordability of resources. This interrelatedness between internal and external aspects of entrepreneurship is perhaps most clear with innovation, that is considered by Mehzer et al (2008) and others to be an internal quality of entrepreneurship, but that is in turn affected critically by external factors. Mehzer et al's (2008:42) observation that "many of the studies made on Lebanon by the United Nations Economic and Social Commission for Western Asia (UNESCWA), UNIDO, WB and other governmental bodies and NGOs have dwelled on the external environmental

setbacks that affect an enterprise,” while “very little research, if any, has focused on the management-related factors in Lebanon” is therefore no less valid, but perhaps slightly less imperative.

## 4.2. Challenges for Entrepreneurship

In the literature, the external factors affecting entrepreneurship most commonly cited are – in order of salience – economic downturns and the high cost of infrastructure (utilities); poor external markets, high taxes and high interest rates (on loans) (Mehzer et al 2008:44). The challenges related to utilities and to governance were mentioned by respondents for this paper as key bottlenecks for entrepreneurship. These will therefore be discussed below in the context of the theory discussed in part one of this paper.

### 4.2.1. Utilities and infrastructure

Access to reliable and cost-effective infrastructure and utility services remains a major constraint on economic activity in Lebanon (WB 2012a:viii). Informants considered infrastructural facilities, mainly electricity, water, internet and telecommunications the most important restriction for entrepreneurs. Utilities are unreliable and expensive, undermining competitiveness of entrepreneurs; demanding more extensive investments for start-ups; and causing business failures.<sup>87</sup> Scholars have noted that “utility costs are extremely high and considered as indirect taxes” (Mehzer et al 2008:44) mitigating the low tax burden in Lebanon (the country ranks 30 out of 183 in the Doing Business index on taxation (WB 2012a:68)). It is not that the utilities are not available, but that they are unreliable and expensive, putting immense strains on household budgets<sup>xxxvi</sup> and limiting financial scope to expand and invest.<sup>88</sup> GEM (2007:4) concludes that the lack of proper infrastructure and the resulting high transportation costs are a huge obstacle for accessing domestic markets. The government itself (SME-unit 2007:6) notes Lebanon’s weak competitiveness, being second to last in the region.<sup>xxxvii</sup>



Pictures taken by the author of electricity wiring in Palestinian camps and gas distribution in Lebanon (middle)

The insufficient state of Lebanon’s infrastructure is often related one-on-one with specific governance practices evolving around inefficient public spending, deficient regulatory frameworks and poor management (WB 2012b:viii). The experts interviewed for this study go much further and invoke the clientelist and oligopolistic nature of the utility and telecom sectors as the core explanation for their

<sup>87</sup> Author’s interview with microfinance expert.

<sup>88</sup> Author’s interviews with advisor to the Council of Ministers; and UN-ESCWA expert.

bad performance.<sup>xxxviii</sup> Leenders (2004) meticulously documents and analyzes several examples of utility contracts and projects doled out to regime favorites (with, to mention but one of his examples, the terms of two GSM contracts granted to private operators in 1994 “widely believed to have been molded to serve the interests of Prime Minister Rafiq al-Hariri, Defense Minister Muhsin Dallul, and Syrian Vice President Abd al-Halim Khaddam after each of them obtained a controlling share in these companies” (Leenders 2004:177). A government advisor explained that she found it impossible to reform the moribund telecom sector, mostly because there is a lot of power for politicians to run and operate the telecom networks. Politicians are able to perform favors and sometimes make business deals advancing their political aims. This is an example of how public money is being used indirectly as an election fund (see also Leenders 2012:66 on the use of funds of the Central Fund of the Displaced of the Ministry of the Displaced for private election campaigns). The Lebanese sectarian quota system effectively working as an official mechanism to ‘divide the pie’ of state jobs among sectarian communities through a clientelist award system, is often seen as the core problem: “politicians put their people in the administration and now even the public companies are divided.”<sup>89</sup>

There is a paradox in that the economy is business-driven, while key facilitating infrastructural sectors are government owned such as electricity and telecom sectors. The same goes for the banking sector. It is heavily regulated, but this regulation de facto means that the barrier to entry is high and there is no competition. There is a perceived fear of international bidding, as if contracts are divided on sectarian lines – the public thinks that if Turkey gets the contract, it goes to the Sunnis, if Iran gets it, it goes to the Shia, if France gets it, the contract goes to the Christians.<sup>90</sup>

The electricity crisis that Lebanon faces at the moment is exemplary for the other utility and infrastructure sectors. In June, citizens across the country staged daily protests against the increasing electricity cuts (Daily Star 2012). Lebanon suffers a severe shortage of electricity, producing 1,500 megawatts of electricity per day with consumption exceeding 2,400 megawatts per day (Daily Star 2012). Already in 2008, WB (2008:4) subtly summarized that:

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

Obtaining an electricity connection in Lebanon requires five procedures, takes 75 days and costs 99.9 per cent of income per capita (WB 2012b:35). However, the real problem is not to establish the connection, but to arrange the back-up for this connection that is likely not to work more than a few hours per day. Respondents surmised that outside Beirut, electricity runs for just four hours per day, with the rest having to be covered through generators that are very expensive and often facilitated by mafia-like middlemen.<sup>91</sup> This undermines competitiveness. One microfinance expert narrates how the electricity failures required his company to buy its own batteries of \$4000,- for each office, because the generators only work at night.<sup>92</sup>

The Lebanese Parliament approved a \$1.2-billion electricity bill for the construction of 700-megawatt power plants in 2011 and the Cabinet agreed to rent power-generating ships for a maximum of three years in order to produce 270 megawatts simultaneously with the construction of 1,500-megawatt power plants (Daily Star 2012). Nevertheless, for many observers, the failure of the government to

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<sup>89</sup> Author's interview with corruption experts.

<sup>90</sup> Author's interview with advisor to the Council of Ministers.

<sup>91</sup> Author's interview with micro credit expert. There are many illegal generator companies. The government used to shut these down, but this has stopped, which is thought to be a result of the government having bought into them. (author's interview with AUB economist)

<sup>92</sup> Author's interview with microfinance expert.

address the electricity crisis is a hallmark of its overall malfunctioning during a ‘long, hot summer of incompetence’:

“Last week, as temperatures hit 40 degrees, the capital was brought to its knees with repeated power cuts and surges. The airport, arguably Lebanon’s shop window, was without air conditioning for three days, while homes and businesses outside the capital had to do with as little as four hours of power a day. In many ways, it is probably better that many tourists stayed away. A vacation this summer would likely put them off coming here for good. [...] There can be no more costly, ad hoc, stop-gap solutions that simply kick the proverbial can further down Lebanon’s potholed roads. There should be a national strategy to end 20 years of shame by governments of every color.” (NOWLebanon 2012)

WB (2008:4) estimates that electricity subsidies made up 39 per cent of total government spending between 1997 and 2006. Yet the overwhelming perception seems to be that while the *government*, as a state institution, might be losing money on the electricity file, *politicians*, as private economic actors, are carefully scooping up the same money through their affiliated companies and contacts.<sup>93xxxix</sup> The politicization of the electricity sector has its roots in the Syrian occupation, Leenders (2012:183) argues, during which time the doling out of electricity and oil contracts to Syrian allies was institutionalized.

Thus, although privatization has been proposed, the state has little resources left to invest, and political interests have so far prevented privatization.<sup>94</sup> It has also been feared that privatization would be no remedy for politicization, because “even if it would be privatized, the monopolies would remain as it would just be taken over by the same ‘entrepreneurs’ that would see it as a chance to make money rather than to innovate.”<sup>95</sup> The electricity issue is seen, some experts fear, as a bargaining chip in other political struggles in the current extremely polarized arena: “there is political blockage; it’s all political and personal; trying to share the cake and get your favorites nominated. ‘If I don’t get my judge, I won’t accept your electricity law.’”<sup>96</sup> Current tensions and strikes within EdL national electricity company – that has not been audited since 2003 and faces a US\$1.5 billion deficit (LCPS 2011:7) – stem for a large part from the tendency of Speaker of Parliament to dole out EdL jobs among his party’s followers to the extent that it is seen to breach the quota guidelines in the eyes of other political groups.<sup>97</sup> The electricity file, then, clearly shows the functioning of the dual game logic, with services being provided through formal government channels but by means of an informal, clientelist logic.

#### 4.2.2. *The dual game: institutional clientelism*

According to WB (2012:xi) Lebanon’s political economy is characterized by the existence of powerful interest groups in key economic sectors (most notably banking and real estate).<sup>xl</sup> This mix leads to the capture of the decision-making process in the areas of economic and social policies:

“On the one hand, and because of the sectarian polarization of the system, bargaining, cliental behavior, and political rent shape the functioning of institutions. On the other hand, internal political divergences and the influence of vested interests have a strong impact on the legal process regulating social and economic life. And, finally, the electoral system is playing a major role in perpetuating political, social, and economic dominance.” (WB 2012b:xi)

The tension between political leaders’ traditional distribution of public goods among sectarian constituents and their adherence to national accountability to citizens through elections is entangled in Lebanon’s political system that combines programme-based elections and parliamentary democracy with a sectarian quota system reinforcing, in fact legalizing, clientelism. The two constituent parts of the dual game, then, are rather ingeniously combined into one master game of acquiring votes to secure state resources and distributing state resources to acquire votes – all along sectarian rather than programmatic lines. Political hybridity does not only undermine business directly, through corruption, but also indirectly, through high utility prices resulting from oligopolies and job-distribution

<sup>93</sup> Author’s interview with real estate expert.

<sup>94</sup> Author’s interview with venture capitalist expert.

<sup>95</sup> Author’s interview with LAU economist.

<sup>96</sup> Author’s interview with advisor to the Ministry of Economy.

<sup>97</sup> Author’s interviews with diplomat; and LAU economist.

part of the sectarian quota demands and clientelist reward systems (Leenders 2012:231).<sup>98</sup> Lebanon's state apparatus is characterized by many institutional weaknesses, partly stemming from the fact the administrative boundaries and mandates have been vague as a result of their dependence on the informal 1943 National Pact (LTA 2011:11).

One effect of the clientelist and rent-seeking system for entrepreneurship is the restricted access to markets because of the strong political gatekeepers installed by oligopolistic business(women).<sup>99</sup> WB (2012:43) recognizes this by urging the government to “address key barriers to entry and competition and to level the playing field for all investors” as this “will be essential to convince more entrepreneurs to take the risk to enter markets, innovate and create jobs.” The sectarian logic driving the dual game also results in segregated and politicized rather than merit-based employment – even if business might span across sectarian divides – with one diplomat noting that “for instance, no matter how good you are as an economist, if you're not a Sunni, you'll never work at the HSBC bank.”<sup>100</sup> A zero-sum mentality instigated by thinking along quota lines – every additional position for a Shia mirrors a lost function for a Sunni – undermines much of the efficiency of public institutions. A civil servant recalls how the Nahr el-Bared crisis generated a momentum to improve the economic situation in North Lebanon and develop a special economic zone in Tripoli:

All laws and decrees were passed, which was a spectacular achievement as parliament was totally blocked, deadlocked. But then we needed to nominate an authority (a management commission of some eight people) and we didn't manage to do so in three years. It proved impossible to nominate: 'not your brother, we won't take his cousin'. [...] Everything is about personal and communitarian shares and division. [...] We cannot get the right people in the right places. [...] It's never about the project, it's always about the person.<sup>101</sup>

A government advisor agrees that “the country is run by managers with no more than one year expertise in the sectors they're running; [...] there is no interaction between technical experts and politicians,”<sup>102</sup> echoing the academic who poetically noted that “the churn of politics only haphazardly puts people with technical skills in power.”<sup>103</sup>

Apart from ruining competitiveness through generating expensive utilities and infrastructures, sectarian clientelism might also affect on entrepreneurs' motivations. With a state structure that seems to have the distribution of public jobs as a primary function and that makes access to jobs dependent on political (i.e. sectarian) affiliation, the system could create incentives to rely on such channels of employment rather than, for instance, starting a business.<sup>104</sup> This logic seems to be confirmed by a political scientist remarking that while Lebanon has a relatively mercantile and entrepreneurial culture, “outside of Beirut people's biggest ambition is to work for the state [mostly in the army] to get a stable income. This might be less than in other Arab countries, but it is still a strong tendency.”<sup>105</sup>

Faith in the potential of elections to generate real change in terms of, for instance, utilities seems the exception rather than the rule.<sup>106</sup> Generally, experts agree that as long as people depend on their sectarian leaders for security and jobs, elections cannot do more than reconfirm time and again the sectarian balance, or deadlock.<sup>107</sup> Elections are expected to generate a lot of change in the informal clientelist advantage or disadvantage that you might face as an entrepreneur (Lund 2011:60). For a project manager in an international humanitarian organization “with elections everything changes. [...] If Hezbollah, for instance, gets a minister, he will gather all his people around him and if the minister

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<sup>98</sup> Author's interview with AUB economist.

<sup>99</sup> Author's interview with UN expert.

<sup>100</sup> Author's interview with diplomat.

<sup>101</sup> Author's interview with advisor to the Ministry of Economy.

<sup>102</sup> Author's interview with advisor to the Council of Ministers.

<sup>103</sup> Author's interview with AUB economist.

<sup>104</sup> Author's interview with LAU economist.

<sup>105</sup> Author's interview with UN-ESCWA expert.

<sup>106</sup> Author's interview with expert on Lebanese industrialism.

<sup>107</sup> Author's interview with diplomat.

changes, all people change and the new ones have a different point of view and a different opinion.”<sup>108</sup> Academics agree that “in general, this is the tendency. New government want to change for the sake of changing and their predecessors want to block for the sake of blocking. Depending on who wins this could lead to either extreme fluctuation or extreme deadlock.”<sup>109</sup> At the same time, paradoxically, elections are considered to inevitably reinforce the governance deficits challenging entrepreneurs (most notably the infrastructural issue).

Formal regulation for business and entrepreneurship is as disputed when it comes to Lebanese practice as when it comes to theory. While some respondents blast existing regulation as a framework to facilitate corruption rather than to protect entrepreneurs (Lebanon ranks 97 out of 183 in protecting investors in the Doing Business Index, so this does not seem too farfetched (WB 2012a:58), the majority does recognize the need for regulation of the market and the players in it. Dr. Nasser Saidi (2004:6), former Minister of Economy and Trade, Minister of Industry and first Vice Governor of Banque du Liban, seems to speak for many when he asks for the “building institutions – laws, organizations, rules-of-the-game, and a framework for economic activity – that will allow us to have political and economic governance at a par with international codes and standards, allowing us to compete in regional and world markets.” In line with the literature, however, the relevant question in this fragile setting is not so much whether regulation was there, but whether it is enforced. Leenders (2012:224) leaves little doubt:

In virtually all Lebanese institutions, ambiguous mandates and ill-defined procedures effectively paralyzed attempts by the state’s watchdog agencies to carry out external checks and controls. Moreover, where mandates and procedural rules remained unclear, so did the criteria by which the state’s audit and inspection bodies could assess officials’ decisions. In addition, the state watchdog agencies failed to implement checks and controls, for they lacked the capacity to do so or were perceived as obstructing the speedy implementation of reconstruction. Finally, discretionary powers and lack of accountability fueled unbridled conflicts of interest.

The Doing Business indicators do not bode well either. They suggest that enforcing a contract requires 37 procedures, takes 721 days and costs 30.8 per cent of the value of the claim, which means that, globally, Lebanon stands at 120 in the ranking of 183 economies on the ease of enforcing contracts (WB 2012a:84-85). Lebanon ranks below other MENA countries and many upper middle income countries in terms of public accountability, quality of administration and overall quality of governance (Saidi 2004:2).



Pictures taken by the author of random signs in Beirut perhaps symbolizing clientelism

<sup>108</sup> Author’s interview with UNIDO representative.

<sup>109</sup> Author’s interview with AUB economist.

This lack of enforcement seems at least partly related to the clientelism governing Lebanese politics that is reflected in the observation that Lebanese entrepreneurship is “personal rather than institutional” in the majority of cases, which means one must deal “with the boss rather than the system” (Ahmed and Julian 2012:26, 31). This need not necessarily be detrimental, as emerging business ethics codes (such as the one by the Rassemblement de Dirigeants et Chefs d’Enterprises Libanais (RDCL) initiated in 2004 or the 2009 Code of Ethics & Whistle Blower Procedure by the Lebanon Anti-Bribery Network) might indeed guide ‘the boss’ (Saidi 2004:1) and “personal networks can act as substitutes for missing institutions in fragile states by making reputational incentives stronger where court enforcement is weak” (Estrin et al 2006:716 in Naudé 2007:18). The experts interviewed for this paper, however, were rather unanimous in regarding this dependence on informal arrangements as problematic – a sentiment in line with most of the academic literature (Leenders 2012)

This reinforces the analysis made by Leenders (2004:176) that while Lebanon may be a laissez-faire economy with minimal state interference, “this by no means implied that the forces of demand and supply were given free reign.” Rather, social networks substituted for bureaucratic organization and have mediated economic activity in Lebanon decisively, continually reinforcing the importance of *wasta* (personal connections) for reaching entrepreneurial goals (Leenders 2004:182, 189, 177).

#### 4.2.3. *Failing government support*

Enough is surely enough. Lebanon’s economy is kept alive by banking, remittances and real estate development, but these are hardly the ingredients for a considered, balanced and organic road map for growth and prosperity. There are limited job opportunities, prices are rising, and our youth is disillusioned, a dangerous thing in such volatile times. Once again we call on the government to invest in infrastructure—leading to eventual privatization—and encourage banks to lend to small businesses. Let the private sector do the rest. This government, one that is drawn from a political class that is defined more by mediocrity and corruption than anything else, has set new standards in incompetence. The best we can hope for is that the security situation is contained and we can limp along until parliamentary elections are held in 2013. In the meantime, we shouldn’t hold our breath. (NOWLebanon 2012)

There seems to be broad agreement, even among civil servants and government advisors, that the Lebanese government by and large fails to provide sufficient support to entrepreneurs. As a result, there is much resentment among entrepreneurs towards the Lebanese State. Small entrepreneurs, according to a manager of post-war SME support programme, “hate the government” and she recounts how their beneficiaries distrusted the ministry and anything governmental. This is also related, she continued, to the historically negligent role of the state that makes it hard for government officials to implement regulations: “can the government close down a company that’s not complying if that hurts 100 families? Where was the government when they started and struggled?”<sup>110</sup> Chakour (2001 in Ahmed and Julian 2012:31) highlights that the Lebanese perceive those people working for government agencies in Lebanon as incompetent and ineffective in supporting new firms.

Failing government support is habitually attributed to a lack of vision and subsequent policy.<sup>111xii</sup> “The government doesn’t have a vision; they’re just day-to-day crisis managers; they have become fire fighters.”<sup>112</sup> An entrepreneurship education consultant adds that public decision-making culture in Lebanon is not entrepreneurial, that entrepreneurship “is seen as an individual thing, it is not approached structurally.”<sup>113</sup> In fact, government regulations tend to be seen more as a restraint on entrepreneurship.<sup>114</sup> Experts – including those from a business background – agree, however, that the

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<sup>110</sup> Author’s interview with UNIDO representative.

<sup>111</sup> Author’s interviews with advisor to the Ministry of Economy; and business consultant.

<sup>112</sup> Author’s interview with BIAT representative.

<sup>113</sup> Author’s interview with entrepreneurship education expert.

<sup>114</sup> Author’s interviews with microfinance expert; and micro credit expert.

government can and should have a constructive role towards entrepreneurs: “it can’t really happen without them [the government]; it will happen in unique cases, but against the odds only.”<sup>115</sup>

Much of the government failure seems related to the absence of a government body for planning.<sup>116</sup> Yet, while there are capacity problems due to the immense national debt and government deficit,<sup>117</sup> the consensus is that the absence of government support has more to do with political will than with capacity or resources. The economy, it is widely echoed, is not a priority for Lebanese state officials busy with sectarian politics: the Lebanese government “doesn’t govern, it does politics.”<sup>118</sup> In a flaming NOW Lebanon onion piece aptly titled ‘Can We Talk About the Economy, for Once?’ Ghousseub (2012) claims that

The fact is the economy has never been given the priority and avidity it deserves and it’s for this reason that we continually fail to manage even the most straightforward challenges. Even during relatively easier times, the majority of our “policymakers” are busy with what is most distant from the concerns of the daily lives of citizens whose fierce indignation is accumulating with unclear consequences. Politicians still fail to see that the economic situation and overall quality of life have been major reasons behind recent upheavals in the region (remember Mohamed Bouazizi?). Further, they seem incredulous of the idea that building a strong and resilient economy and improving the overall standard of living might contribute to the country’s security.

While this absence of proper policy and commitment on behalf of Lebanese government officials is usually seen in terms of disinterest or self-interest, one academic argues that this might be too simplistic and that there is an element of ideology to this distant government. He contextualizes the current weakness by pointing out a historical ‘die-hard capitalist belief’ among Lebanese elites that entrepreneurship is something to be ‘baptized through fire,’ rather than to be pampered. “There is this sense of a free market; of economic growth depending on individual initiative; a ‘leave it alone, leave it to the entrepreneur’ mentality.” Ironically enough, he said, it might be exactly “this ideology of individual initiative that is harming entrepreneurship.”<sup>119</sup>

While there is no disagreement about the abysmal state of government support to the private sector and to entrepreneurs, within the Lebanese entrepreneurship ecosystem a debate is currently going on about the direction government support is going. Some experts claim modest improvements. Indeed, one of the four pillars of the Lebanese government’s Economic Vision for Enterprise Development (2007:2) is “enhancing international competitiveness through entrepreneurship and innovation.” The government substantiates its ambitions by elaborating it will establish and financially support proactive business support programmes to encourage new business start-ups; provide financial incentives to encourage commercialization of R&D at university level and encourage spin-out businesses; and create an export assistance programme with a target of generating 500 new exporting companies by 2013. Any modest enthusiasm amongst the experts interviewed, however, seems to be about the creation of certain government (supported) bodies to boost entrepreneurship, but is accompanied by equal levels of disappointment with its actual functioning.

In 2002, the Lebanese government developed an economic reform programme (including large scale privatization) that was supported by international donors at the Paris II conference. Due to internal disagreements in the government between the March 8 and March 14 coalitions, however, this programme was never implemented (LTA 2011:106). IDAL, to give another example, was set up as a one-stop shop for permits and licenses to foreign and Lebanese investors to speed up and simplify administrative procedures (Ahmed and Julian 2012:31). For one policy expert, however, this says nothing so much as that “the bureaucracy is horrible. They have created this express way, but thereby admit failure. They indicate ‘we can’t fix the road, so we’ll make a new road; we can’t get rid of the

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<sup>115</sup> Author’s interviews with business consultant; start-up consultant; and social entrepreneurship incubator.

<sup>116</sup> Author’s interviews with real estate expert; and polling expert

<sup>117</sup> Author’s interview with diplomat.

<sup>118</sup> Author’s interview with corruption experts.

<sup>119</sup> Author’s interviews with LAU economist; and expert on Lebanese industrialism.

normal 100 stops, so we make an exceptional one-stop-shop.”<sup>120</sup> Such cynicism probably stems from the questionable reputation of IDAL in the Hariri days during which it “clearly favored business allies of the Prime Minister” (Leenders 2004:183). Kafalat is widely considered *the* success story of the entrepreneurship ecosystem, but the extent to which it is associated with government differs. Some people do credit the government for Kafalat’s achievements,<sup>121</sup> but representatives from Kafalat themselves did not consider their organization as having anything to do with the government. The UNDP project at the Council of Ministers is working on improving the Doing Business indicators for Lebanon and is seen by a WB expert as a positive example of the right direction in which the government is moving. Other respondents tend to agree with this.<sup>122</sup> A representative from the Lebanese Business Women Association (LBWA) has mixed experiences with government support. On the one hand, she praises the monthly meetings with the Minister of Economy and Trade, but on the other hand she concludes he is not able to help – something she accepts rather than criticizes. The government itself boasts its involvement in a wide range of initiatives supposed to enhance entrepreneurship, ranging from modernizing key legislations to addressing the market failure for seed funding and exit funding and improve education (Yamout 2012). Some academics and consultants also note that some promising projects are created under the auspices of ministries.<sup>123</sup>

Institutional potency and government support for the private sector at large and for entrepreneurship in particular are closely related as the commitment of a government to work towards a developmental state depends on its capacity and vice versa. In Lebanon, in short, such government vision and support is perceived as extremely poor. Saidi (2004:5) sums up how “corruption hinders development: reduced domestic investment; reduced foreign direct investment; overblown government expenditure; distorted composition of government expenditure away from education, health, and the maintenance of infrastructure towards less efficient public projects that have more scope for manipulation and bribe-taking opportunities and subsequently proposes to reduce the size of government to reduce scope for bribery and corruption. This may be a mistaken and populist assumption that there is no corruption outside the public sector, but the Lebanese government – like governments in any fragile governance setting – faces weak trust in government and fear of its interference (LTA 2011:27).

Existing policies and regulations are cumbersome and ineffective – GEM (2007:4) accounts how extensive governmental procedures are a primary reason for women not to register their companies – and supportive entrepreneurship policies are non-existent: Mehzer et al (2008:41) lament that “the business environment proved to be not so suitable for investments, since there were no initiatives on the part of government organizations to provide guidance for those entrepreneurs.” A legislative framework for social entrepreneurship is also absent and the role of municipalities is marginalized “though they can play a key role in leveraging social enterprises” (Doumit and Chaaban 2012:16). Reflecting on Naudé’s (2007:13) components of post-conflict government support for entrepreneurship, the potential problems of centralized decision-making (i.e. a limited reach, lack of local knowledge, no accommodation of spatial differences) are evident with regard to official policy, but might be compensated with informal local support. It seems that the neglect of small businesses is evident in the oligopolistic nature of the Lebanese market and the concentration of the market share in the hands of a few – often politically affiliated – companies, despite the lip service paid in policy discourse to the importance of SMEs. In the end, the issue of government support seems to be surrounded by a circular ambiguity: the problematic nature of the policies that do exist prompt people to be extremely wary of the positive potential of the policies that could exist.

#### 4.2.4. *Instability, uncertainty and insecurity*

Bad infrastructures, clientelist governance and failing government support are all reinforced – some would say caused – by Lebanon’s history of conflict and the anxiety, tension and uncertainty these

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<sup>120</sup> Author’s interview with policy expert.

<sup>121</sup> Author’s interview with social entrepreneurship incubator.

<sup>122</sup> Author’s interview with advisor to the Council of Ministers.

<sup>123</sup> Author’s interviews with AUB business expert; and advisor to the Ministry of Economy.

have infused in Lebanese daily life. Experts agree that “with stability, entrepreneurship would multiply by a factor of ten,”<sup>124</sup> with stability referring to both governance dynamics – no more war – and government system – less fluctuation in ruling party so as to stabilize the regime. Confirming findings for Afghanistan by Cusack and Malmstrom (2011:7), it is important to stress that it is the uncertainty, instability and unpredictability stemming from physical insecurity, rather than the physical insecurity itself that is perceived as detrimental for entrepreneurs.

All elements noted by Naudé (2007:11) as risks of a legacy of war are extremely pertinent in Lebanon. A continuous tension and wide felt chance of relapsing into violence impede investment and initiative; unfair allocation of budgetary resources across sectarian groups is considered a major determinant for socio-economic inequalities and divergent business successes among societal groups; rent-seeking sectors such as real estate are disproportionately big; the political system is caught in a deadlock broadly perceived to be the result of regulatory capture of public offices by (partially) war-time entrepreneurs and entrenched by the post-war peace agreement stipulating sectarian quota systems; income inequalities are regarded problematic in light of limited social security; and there is an astronomical government debt (some US\$55 billion; 150.7 per cent of GDP in 2010, the fourth highest in the world), that, while not directly caused by military spending, is linked to the war through the costs of physical reconstruction (LTA 2011:11; CIA World Factbook).

During the interviews, there were many references to instability to explain problems with or failures of entrepreneurship in Lebanon – there was a widespread feeling that another regional war about to hit Lebanon hard was inevitable. The insecurity and uncertainty this situation generates is detrimental for entrepreneurs in that it discourages planning, investment and morale.<sup>125</sup> A remarkable paradox permeated the accounts of the experts interviewed. On the one hand, they complained about the volatility of the governance dynamics (regional wars, national fighting) and on the other hand, they brought up the deadlock of the government system (no real change despite continuous replacement of civil servants and rewriting of policies). As noted before, the latter is considered more harmful and more complicated to accommodate for entrepreneurs than the former, because it is more entrenched and, as discussed in the previous section, has more structural effects (in terms of utility infrastructure and other facilities). “The problem is definitely deadlock; nothing changes; everybody, all parties, put sticks between the wheels of the others and the population suffers.”<sup>126</sup> Nevertheless the impact of potential violence and destruction is an important consideration for entrepreneurs as well.<sup>xiii</sup>

#### *4.2.4.a. Causes of instability*

Three underlying issues – whether causes or manifestations of the instability remained debated – were mentioned to explain this instability. First, the legacy of war - the fact that business mentality and structure are still geared towards short-term, quick-gain and highly mobile deals and sectors – and the threat of recurrent conflict (be it through Syrian spillover, Israeli aggression or internal sectarian strife) that was widely felt and further reinforces short-term thinking. Some experts believe that the war has had a negative effect on entrepreneurship, mentioning that it “taught people to become lazy, to look for easy money [...] which is per definition incompatible with entrepreneurship.” During the war, people have made either dirty money – through corruption and extortion – or easy money – getting paid for doing nothing; these people could be a potential entrepreneur but have no incentive to take the opportunity.<sup>127</sup> A diplomat adds that the people that made their fortune in the arms trade, extortion and illegal dumping of waste are still in power; the current Prime Minister has made a fortune under the Syrian occupation.<sup>128</sup> Second, one academic noted, vividly remembering the Syrian era, Lebanese business(wo)men and entrepreneurs might fear a stable and predatory government more than an instable, weak government; “in Lebanon, the fear of instability isn’t nearly as high as the fear of the

<sup>124</sup> Author’s interview with advisor to the Ministry of Economy.

<sup>125</sup> Author’s interviews with business journalist; and real estate expert.

<sup>126</sup> Author’s interview with micro credit expert.

<sup>127</sup> Author’s interview with Kafalat experts.

<sup>128</sup> Author’s interview with diplomat.

consequences of being successful under a regime that is capable of expropriating your wealth. [...] People can more easily deal with disruption than with theft.”<sup>129</sup> Third, a real estate expert added, Lebanon has no Minister of Planning, which, for him, is at the root of the lack of vision of the government for entrepreneurship and development and the failure to provide utility services. One journalist cynically summarized the feelings of many when he noted that “Lebanon is the best governed country, but it is governed for the wrong purposes.” He continued that politicians benefit from instability and uncertainty which allows them “to milk the system and channel the money to themselves.”<sup>130</sup>

#### 4.2.4.b. Consequences of instability

A leading Lebanese policy specialist is of the opinion that the Lebanese economy is not a real market economy, but rather a *laissez-faire* economy built around oligopolies rather than competition.<sup>131</sup> Uncertainty and lack of clarity are not simply byproducts of Lebanon’s complex political arrangements, but inherent to it. Leenders (2012) shows it is this institutional opaqueness that allows the corruption enriching Lebanon’s ruling elite. Informants too were convinced that sectarian elites’ interests are served exactly by the lack of an open competitive context.<sup>132</sup> The effects of this instability of entrepreneurship, according to the respondents, are manifold and diffuse. As noted before, there are experts who question whether instability has significant negative effects on entrepreneurship, referring to examples of entrepreneurs adapting to war, rather than succumbing to it. Some finance experts pointed out that “political stability is relative: what might be stability for one person can be instability for the other.”<sup>133</sup> In any case, instability’s effects are complex and sometimes contradictory. The current war in Syria, for instance, has a direct and negative effect on business<sup>134</sup> – reducing exports and tourists and increasing smuggling. However, in line with the often ambiguous relationship between conflict and businesses, the current war in Syria may also have some potential positive effects on Lebanese business, for instance by providing opportunities for entrepreneurs from North Lebanon to assist in the reconstruction of Syria once the civil war is ended.<sup>135</sup>

Most experts, however, consider the absence of stability the one and only missing ingredient for Lebanon to become a thriving entrepreneurial business center: “Lebanon has good services, good education, good tourism and good health [...]. All we need is stability. If Lebanon is stable, all Arabs come here, because the life is good here, we have everything.”<sup>136</sup> Nearly all respondents agree with Mehzer et al (2008:40) that pessimistic perceptions of future prospects matter and that because of Lebanon’s hazy future, many experts consider Lebanon a good place for quick deals, but not for long-term commitments. The LCPS has critically engaged with the leading resilience discourse and explored the impact of the political situation on the economy between 2005 and 2008. Their report concluded that there was no initial impact on a sector by sector basis, but that – in comparison with a constructed control case – the political situation resulted in five per cent less growth in GDP. They dubbed this the ‘opportunity deficit.’ A representative added: “we’re not resilient to conflict, we just hold back on investment and added value; we didn’t lose, because we made sure to not invest in something you can lose. It is thus misleading to go with this resilience story all the time.”<sup>137</sup> Tourism is one sector disproportionately affected by instability and insecurity as the current ‘lost summer’ illustrates. Due to travel warnings from Western states and since recently also Gulf states and the

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<sup>129</sup> Author’s interview with AUB economist.

<sup>130</sup> Author’s interview with business journalist.

<sup>131</sup> Author’s interview with policy expert.

<sup>132</sup> Author’s interview with advisor to the Council of Ministers.

<sup>133</sup> Author’s interview with Kafalat experts.

<sup>134</sup> Author’s interviews with micro credit expert; and corruption experts.

<sup>135</sup> Author’s interviews with expert on Lebanese industrialism; and BIAT representative.

<sup>136</sup> Author’s interview with real estate expert.

<sup>137</sup> Author’s interview with policy expert.

nonappearance of the tourist regularly entering Lebanon via Syria the tourism sector missed out on considerable amounts of income with potentially devastating results for many tourist oriented SMEs.<sup>138</sup>

A short-term mentality might not undermine entrepreneurship as such, although it is widely agreed that it favors less sustainable (and less job-providing and growth-inducing) entrepreneurship – in terms of the theoretical model, it guides entrepreneurs' aspirations towards opportunity entrepreneurship. Experts emphasize that much of this dynamic is implicit, that it is an internalized mentality, rather than a measurable behavior.<sup>139</sup> A core concern stemming from the instability is the regional and international competitiveness: "If we deal with a US customer and the roads to the airport are blocked, why would he want to deal with us; they want consistent services and secure products and they will go other places."<sup>140</sup> Another effect of instability recurrent in all interviews was the discouraging influence on investment, specifically, but not only, foreign direct investment.<sup>141</sup> While there is a widespread belief that crises make people creative and entrepreneurial, there were also remarks that the instability made people – especially women – more inclined to seek the stability of employment.<sup>142</sup> Mostly, experts felt that instability did not so much affect the number of start-ups, but would drastically affect the sustainability of these new enterprises; they note there is a high turn-over of business and a lot of business failures and bankruptcies.<sup>143</sup>

If you look in any street in Beirut, you'll see so many places for rent; there is a very high turn-over. People borrow money, open a bar, something bad happens (people close the airport road and burn tires), they lose money and have to close again. You can't predict, you can't plan, you can't have a real business plan. And then if you can't pay, you go bankrupt. Take Rue Monot for instance, *the* club street of Beirut: it was killed by a 2008/2009 sit-in.<sup>144</sup>



Pictures taken by the author in Beirut, signifying political-economic polarization in Lebanon

Another effect of the instability threatening Lebanon's entrepreneurs is the migration of many talented graduates and young professionals (and even established business(wo)men) limiting the availability of good quality employees.<sup>145</sup> A final issue often linked by experts to the instability factor is the concentration of business and entrepreneurs in Beirut. While there are increasing initiatives to develop the rural areas of Lebanon as well as incubators to support entrepreneurs in other parts of Lebanon, these developments are seen as long overdue and Beirut and its immediate surroundings remain the

<sup>138</sup> Author's interviews with corruption experts; women's entrepreneurship expert; AUB business expert; and entrepreneurship education expert.

<sup>139</sup> Author's interview with policy expert.

<sup>140</sup> Author's interview with expert on Lebanese industrialism.

<sup>141</sup> Author's interview with advisor to the Council of Ministers; corruption experts.

<sup>142</sup> Author's interview with women's entrepreneurship expert.

<sup>143</sup> Author's interviews with polling expert; expert on Lebanese industrialism; and Kafalat experts.

<sup>144</sup> Author's interview with corruption experts.

<sup>145</sup> Author's interviews with UNIDO representative; and microfinance expert.

dominant center of all economic activity (Doumit and Chaaban 2012:23). Some experts note that “differences in entrepreneurial scale and form are determined more by educational and cultural background than by region.”<sup>146</sup> Some find that “spatial diversity is not a big issue: all regions have their potential and strengths.”<sup>147</sup> But the vast majority feels that this potential is not developed and the centralization of business in Beirut is a fact of life even if slowly but surely more attention is being paid to the north and the south.<sup>148</sup>

#### 4.2.5. *Market scope and capital requirements*

Other characteristics of the Lebanese economy that are potentially unfavorable for entrepreneurship include the absence of sophisticated venture capital and stock exchange; the enduring difficulty to access funds; and the dominance of family business. These factors are related to the above described hybridity but, according to the experts interviewed for this research, in a less direct way.

Experts stress the oligopolistic nature of the Lebanese economy that creates high access barriers for entrepreneurs and obstructs open and equitable competition and thereby complicates the creation added value.<sup>149</sup> On top of that, the extensive level of regional trade integration is seen as a mixed blessing: while Lebanese business benefits from its regional focus, Lebanon’s industry feels severely dented by such integration and cannot compete with production in other MENA countries. In Lebanon, exporting a standard container of goods on average requires five documents, takes 22 days and costs \$1050; importing the same container of goods requires seven documents, takes 32 days and costs \$1250 – export costs decreased whereas import costs increased (WB 2012a:76-77). Thus, Naudé’s (2007:12) urge to increase the export capacity of small firms seems not to have been met in Lebanon. Regional competition is also inauspicious due to smuggling and, apparently, misguided customs regulations.<sup>150</sup> The absence of a proper stock exchange and related venture capitalism, other specialist argue, helps to keep entrepreneurship small and survivalist as it makes it harder to exit and dampens the appetite of banks to lend.<sup>151</sup>

The main issue here, however, is access to funding. Here, Lebanon ranks 78 out of 183 on the Doing Business index, better than it does on most other indicators (WB 2012a:51).<sup>xliii</sup> One venture capitalist sketches an image of a Middle East “landscape that facilitates easy access to capital” due to oil fortunes, a regional real estate boom and declining Western investment returns. This capital, however, rarely reaches start-ups, partly because of the absence of a structured debt market and due to the continued demands by banks for collateral.<sup>152</sup> As OECD (2006:2) notes, entrepreneurial start-ups are generally not well-suited to the traditional forms of debt finance since they require funding for a period during which they are not generating revenues to cover expenses. Yet many practitioners note a shift in the finance field and say that with Kafalat – that guarantees loans vis-à-vis the banks – “access to finance is no longer a problem if you have the basic things arranged for your initiative.”<sup>153</sup> There is even a hint that the old adage that access to finance is the main bottleneck now obscures other challenges related more to business vision and management skills. Kafalat representatives indicate that banks are still a major obstructive factor as they are conservative and since there are few alternatives for them.<sup>154</sup> They also feel, however, that their initiative has considerable spillover effects and that

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<sup>146</sup> Author’s interview with entrepreneurship education expert.

<sup>147</sup> Author’s interview with advisor to the Council of Ministers.

<sup>148</sup> Author’s interviews with start-up consultant; with BIAT representative; Berytech representative; LAU professor; Kafalat experts; IDAL representative; business consultant; and AUB business expert.

<sup>149</sup> Author’s interview with entrepreneurship education expert.

<sup>150</sup> Author’s interview with expert on Lebanese industrialism.

<sup>151</sup> Author’s interviews with business journalist; and venture capitalist expert.

<sup>152</sup> Author’s interviews with venture capitalist expert; with business journalist; AUB business expert; entrepreneurship education expert; and polling expert.

<sup>153</sup> Author’s interview with BIAT representative.

<sup>154</sup> Author’s interviews with Kafalat experts; and AUB economist.

Banks are opening up branches everywhere now. In Bashinta (in Metn) where there are only berries and apples, the Bank of Beirut is opening a branch in a farmers' village. And other banks start to open branches in small villages as well. There is a real mentality change compared to a few years ago; there is a tangible evolution in the last four to five years, with more attention for small people and small business. In Kesarwan, there are just farmers with apple trees [...]. They give them facilities, credit cards...<sup>155</sup>

There is annoyance with the banking sector at large that is considered to have too big a say in politics and seeks to undermine other institutions offering finance to entrepreneurs.<sup>156</sup> It is said to support existing business over start-ups despite governmental and societal pressure and guarantees to facilitate the latter.<sup>157</sup> Interestingly enough, there is a simultaneous pride towards the Central Bank, that is seen as Lebanon's only properly functioning (semi-)public institution; widely credited for navigating Lebanon through the economic crisis with minimal damage; and admired in the person of its President that has received various international awards and is seen as one of the few public officials actually owing his position to merit (see Leenders (2012:225) for an elaboration on the 'Central Bank Anomaly').<sup>158</sup>

### 4.3. Challenges for Innovation

The above dealt with the impact of Lebanon's hybrid political order on entrepreneurship. Since entrepreneurship and innovation, in Lebanon, are not synonymous, the specific impact on innovation will be discussed in this section. As was the case with entrepreneurship, instability, institutional tension and limited government support are recurrent themes, but these factors influence innovation differently than they do entrepreneurship.

As was mentioned, a lack of innovation was identified by Mehzer et al (2008:44) as a key reason for SME failure in Lebanon and WB (2012b:v, 42) has noted that "highly productive industries and innovative activities do not seem to benefit from financial inflows that mainly end as short-term deposits in Banks or real estate acquisitions" and that the creation of new opportunities for innovation activities is wanting. This is problematic because "innovation has been the driver of growth and development in many small and resource poor economies around the world" (WB 2012b:xi).

#### 4.3.1. *Instability: short-term copying rather than long-term investment*

While respondents disagreed about the extent to which uncertainty and insecurity undermined entrepreneurship, they were almost unanimous in their conviction that it dents innovation. A manager of one of the incubators sums up:

There is no stability; people are more concerned with security and safety and market stability than with R&D. But at any training we give we introduce the concept. And without being biased, when Lebanon is stable, it can be the center of innovation for the whole region. It has the universities; it has the expats that work in R&D, IT, technology and innovation. It is really the best candidate in the region. But stability is the main obstacle as it makes people think in short-term needs.<sup>159</sup>

This negative relation between instability and innovation is mediated through demoralization.<sup>160</sup> A major and immediate impact of instability and the broader political climate in Lebanon, harming innovation then, is the brain drain effectuated by the migration of large numbers of Lebanon's most talented (young) people to the West and, especially, the Gulf where they have more chance to get a job based on merit rather than connections, get more salary, more appreciation and more opportunity

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<sup>155</sup> Author's interview with Kafalat experts.

<sup>156</sup> Author's interview with UN expert.

<sup>157</sup> Author's interview with polling expert.

<sup>158</sup> Author's interview with business journalist.

<sup>159</sup> Author's interview with BIAT representative.

<sup>160</sup> Author's interview with expert on Lebanese industrialism.

(LTA 2011:29). This, experts agree, is one of the most severe problems threatening innovation in Lebanon.<sup>161</sup>

Insecurity is also seen to discourage industry – “when the instability hits, machines get destroyed, money gets transferred”<sup>162</sup> – supposedly a key driver of innovation.<sup>163xliv</sup> The investments needed according to the Lebanese Association of Industrialists, in industrial zones and infrastructure, are not being made, largely due to insecurity future prospects.<sup>164</sup> One economist even states that “the delinkage of entrepreneurship and innovation thus has to do with the structure of the Lebanese economy and the dominance, the ever increasing dominance, of the unproductive sectors.”<sup>165</sup> Moreover, there is an intuitive feeling among experts that existing companies purposefully abstain from innovation to minimize their losses during a conflict. The banking sector, for instance, is praised for keeping Lebanon out of the international economic crisis, but according to some this is mostly because they did not use and understood the modern finance techniques that caused the crisis in the first place.<sup>166</sup> Another effect of past and future conflict is the before mentioned short-term vision that can lead to entrepreneurs going for the easy fundable and easy to exit – i.e. mainstream – businesses rather than investing in riskier new ventures. People tend to do what they see others doing, not willing to take much risk and innovate.<sup>167</sup> Short-term entrepreneurship, again, for many experts results in unsustainable and un-innovative business:

In my opinion, this situation screws up the business mentality. People don't have a long-term vision; they just go until the next crisis. They want to guarantee good education and foreign passports for their kids and they don't mind ruining the country or the environment in the process, because their future is outside the country. The entire bourgeoisie has foreign passports and is not Lebanese. It's all about maximizing your profit until the country falls apart.<sup>168</sup>

Analysts blame this short-term vision for the tendency in Lebanon to copy rather than innovate or invent.<sup>169</sup> One CEO of an entrepreneurship support NGO elaborates that “there are few new ideas or new companies, even in the driving fields. Our success stories are all copycats.” He explains that companies prefer to market their product or service as the Middle Eastern version of an existing Western item rather than as an entirely new or original one.<sup>170</sup> A government official added that most successful companies produce Arabic content for existing websites or “replicate or customize American, Chinese or Latin American products.”<sup>171</sup> Two political scientists observe that:

If someone is successful (with a juice shop or a pub) someone else will open up exactly the same business right next door. [...] They also keep relocating, following demands and trends and necessarily working from short-term perspectives. Clubs renovate, change names, reopen – people create a new company to get new loans. In Nahr al-Moud, a restaurant opened and very shortly after a second, very similar restaurant opened right next door. Slightly later, a third restaurant (with the same food and the same ideas). There is a concentration of similar businesses. They also seem to feel safer in such concentrations; they share the customers, but also the PR and they are more convinced people will keep coming.<sup>172</sup>

The business magazine *Executive* dubs this tendency the ‘economics of proximity,’ the logic that “a successful establishment causes other establishments to open around it, with the idea that the consumers in search for a certain item will find it easier to head to that area where multiple

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<sup>161</sup> Author's interviews with Kafalat experts; business journalist; micro credit expert; microfinance expert; corruption experts; LAU professor; and UN-ESCWA expert.

<sup>162</sup> Author's interview with policy expert.

<sup>163</sup> Author's interview with policy expert; corruption experts.

<sup>164</sup> Author's interview with expert on Lebanese industrialism.

<sup>165</sup> Author's interview with LAU economist.

<sup>166</sup> Author's interview with diplomat.

<sup>167</sup> Author's interview with advisor to the Ministry of Economy.

<sup>168</sup> Author's interview with microfinance expert.

<sup>169</sup> Author's interview with UN-ESCWA expert.

<sup>170</sup> Author's interview with social entrepreneurship incubator.

<sup>171</sup> Author's interview with IDAL representative.

<sup>172</sup> Author's interviews with corruption experts; and polling expert.

establishments offer this item” (Rahhal 2012). Other observers mention the aptness of Lebanese for franchise and branding; not even engaging in incremental innovation of the product, but introducing it to new markets and perhaps adjusting the wrapping.<sup>173</sup> When asked for success stories or examples of innovative entrepreneurship, one professor produced a list that was topped by two entrepreneurs successfully introducing an international franchise in Lebanon.<sup>174</sup>

Instability also affects people’s educational choices and while Lebanon is highly educated, many experts complain that people opt for quick return studies rather than elementary studies needed for visionary and innovative development: “people (or people’s parents) want doctors, architects and bankers. People study engineering, not physics; business, not economics; law, not philosophy. While it is the economists, physicists and philosophers that come up with new discoveries and new research.”<sup>175</sup>

#### 4.3.2. *Institutional tension and inadequate government support: deficient intellectual property and R&D*

Inadequate government support for entrepreneurship manifests itself in a limited legislation that undermines innovative business structures, such as those proposed by the social entrepreneurship paradigm. The entrepreneurship buzz described previously, moreover, according to some is:

Quite dry and technical, there is relatively little attention for the soft and qualitative side of facilitating entrepreneurship. There is little actual innovation; little progressiveness. If you come up with a crazy idea here, if you think out of the box, people react cynical rather than supportive; there is little collaboration and little sense for the pursuit of perfection or excellence. There is a satisfaction with mediocrity here, people try to put in as minimal as possible instead of as maximal as possible.<sup>176</sup>

A major obstacle for innovation, according to respondents as well as the literature, is the weak intellectual property rights enforcement – even if intellectual property rights laws have been passed and updated in 1946, 1996 and 2000 (Doumit and Chaaban 2012:23; Yamout 2012). WB (2012:47) concludes that there are significant problems with patents and the legislation for patent protection in Lebanon which undercuts economic rewards for innovation. WB (2012:xi) simulations show that property right enforcement and promoting innovation would at least double the growth pay-off of reforms. Corruption experts go much further and state that

Property rights are a joke in Lebanon, which means there is a lot of piracy. If you come up with a product, you don’t have the privilege to have the property right. This means nobody gains from innovation: you make an investment and the next week everyone does the same. This is also related to the fact that the judicial system is extremely corrupt; there is a lot of political interference. This is important, because the law is there, but it isn’t implemented or enforced; there is no legal protection.<sup>177</sup>

Apart from limited enforcement, there is also a limited awareness among entrepreneurs themselves about the nature and importance of intellectual property rights, according to one incubator spokeswoman.<sup>178</sup>

The Lebanese government proudly lists its commitment to R&D mentioning its research collaboration with and funding of universities and showcasing the Lebanese talent:

35,305 engineers actively registered in the Order of Engineers (one per cent of total population); 1300 yearly enrollment (i.e. graduating engineers); Diaspora (pool of 12 Millions) eager to find opportunity to return home; 44,720 (29 per cent of total universities enrolment) specialize in STEM subjects; Lebanese

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<sup>173</sup> Author’s interview with advisor to the Ministry of Economy.

<sup>174</sup> Author’s interview with LAU professor.

<sup>175</sup> Author’s interview with social entrepreneurship incubator.

<sup>176</sup> Author’s interview with social entrepreneurship incubator.

<sup>177</sup> Author’s interview with corruption experts.

<sup>178</sup> Author’s interview with Berytech representative.

in post-graduate positions at top universities (MIT, Stanford, Illinois, Michigan, Wisconsin). Top companies (Intel, Microsoft, Oracle). (Yamout 2012).

At the same time, it does acknowledge the lack of ideas and concepts, which it relates to a limited input from universities and a lack of funding for research and development as a key deficit in the Lebanese entrepreneurship ecosystem.<sup>179</sup> In its 2007 Economic Vision for Enterprise Development, it embraces an ambitious definition of innovation as not just new technologies but also products, processes and systems (SME-unit 2007:15). The government has a remarkably R&D-focused policy vision to enhance innovation and mentions its commitment to training and capacity-building for entrepreneurs; establishing a logistic technology center; improving access to information; encouraging institutional linkages and international partnerships; and promoting ICT (SME-unit 2007:16).

Yet WB (2012:xi) concludes that “research and development; the scientific backbone for innovation; is weak in Lebanon.” There was no disagreement about the terrible state of R&D in Lebanon among the interviewees.<sup>xiv</sup> Even if some people suggested that with the development of the entrepreneurial ecosystem, “there are many organizations helping entrepreneurs with free and external R&D,” spending on R&D is believed to be less than 0.1 per cent of the GDP in Lebanon.<sup>180</sup> Some institutes are there. The Ministry of Economy and Trade has an Industry Research Institute funded by EU and several universities have relevant research centers. Most R&D that is being done concerns IT, although there is some directed towards industry and agriculture.<sup>181</sup> An advisor to the Ministry of Economy and Trade elaborated that the little research being done by the Ministry concerns the “compiling of some basic info on import and export, on world trade initiatives, on bilateral relations; these are just basics, they don’t represent vision for development.”<sup>182</sup> Yet an academic noted that while R&D indeed would benefit from more government support and funding, R&D is not really seen as a responsibility of the government and people’s expectations center on access to funds and regulation rather than funding R&D.<sup>183</sup>

Some experts blamed Lebanon’s small market, noting that innovation is expensive and that the real R&D can thus only be done by the large economies of the USA, China, Japan and Germany.<sup>184</sup> Others agree that the overwhelming SME nature of Lebanese business dictates that there is little funding available for R&D.<sup>185</sup> Some point towards the fact that few Lebanese actually believe in the necessity, or even usefulness, of R&D.<sup>186</sup> This is supposedly related to a “low research culture; people are not used to spend time on research and are looking for the quick gains. It’s not a government priority and few companies work on this themselves.”<sup>187</sup> One academic related this absence of R&D not merely to a short-term, quick-gain mentality, but also to the ‘hyper-individuality’ in Lebanese entrepreneurship thinking: “people think that it is enough to be street smart; make money; evade taxes. All this might channel energy and resources away from the sub sectors that could actually be entrepreneurial or innovative.”<sup>188</sup> Experts perceive an imbalance in this regard in that “there are lots of ideas, but there is little research; we have the best universities but they have no real research centers.”<sup>189</sup> A business consultant added that Lebanese have a mercantile mentality, preferring trade and delivering on demand, rather than creating new demand: “designers here make maybe only 30 dresses a year (of \$20,000 each) on request, rather than investing in a collection.”<sup>190</sup> It might also be that a research culture is there, but it is private and consultancy based. One consultant, for instance, was adamant

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<sup>179</sup> Author’s interview with advisor to the Council of Ministers.

<sup>180</sup> Author’s interviews with entrepreneurship education expert; and IDAL representative.

<sup>181</sup> Author’s interview with Kafalat experts.

<sup>182</sup> Author’s interview with advisor to the Ministry of Economy.

<sup>183</sup> Author’s interview with AUB economist.

<sup>184</sup> Author’s interview venture with venture capitalist expert.

<sup>185</sup> Author’s interviews with business consultant; and LAU professor.

<sup>186</sup> Author’s interviews with UN-ESCWA expert; Kafalat experts; and LAU economist.

<sup>187</sup> Author’s interview with IDAL representative.

<sup>188</sup> Author’s interview with LAU economist.

<sup>189</sup> Author’s interview with Kafalat experts.

<sup>190</sup> Author’s interview with business consultant.

that there are enough research companies (such as Statistics Lebanon; Infopro; Information International) and that the problem is not so much with research as it is with planning.<sup>191</sup>

Related to this minimal R&D, experts note a weak information system, with little data being available on regulation and policy or on consumer behavior and regarding basic economic statistics. Lebanon does not have an access to information law, which would for instance render tendering processes for state procurement public (LTA 2011:87). This both follows from a weak research culture and further buttresses it, as proper basic data is a requirement for R&D. Many relate this to the weakness and partisan nature of public institutions. Some experts believed that there was no central bureau of statistics;<sup>192</sup> others were aware that it existed, but were hardly enthusiastic about it.<sup>193</sup> A UN programme manager complained that besides limited socio-economic data, there is a big deficit in information on policy orientation that could help entrepreneurs to be innovative:

There is no sector orientation plan [...] and there is no data on the position of sectors, on challenges they face. The UN is trying to work on this. Because once you have information, you can orient and determine your competitiveness. [...] As it is we're turning on our place, we're going in circles. There are no policies. There is, for example, no food safety law.<sup>194</sup>

A representative of the LBWA confirms that one of the biggest challenges for female entrepreneurs is to determine which sector and what kind of business would be viable, competitive and adding value, because there is not enough data on which they can base such choices.<sup>195</sup> Others add that while some information is provided by state institutions, for example on inflation, it is unreliable.<sup>196</sup>

Another group of respondents, however, is of the opinion that the information required by entrepreneurs to be innovative is available if not necessarily obvious. They argue that "if you are not creative, flexible, connected and committed enough to get the basic information you need – even if this can be challenging – you would not have made it as an entrepreneur anyway."<sup>197</sup> Ciarli et al (2009:25) point out that in Afghanistan entrepreneurs are more likely to refer to media channels than to formal information sources such as Mullahs and Government representatives and business associations play an important role in knowledge provision. A similar dynamic seems to be at play in Lebanon (even if specific references to this were not present in experts' accounts).

Part of the information vacuum may lie in the informal nature of many start-ups. IMF (2011:45-46) puts the informal economy in Lebanon, as a share of officially measured GDP, at about 30 per cent in Lebanon, elaborating that some 67 per cent of the working force does not contribute to a retirement pension scheme, which it sees as partially resulting from rigid labor market regulations. The LTA (2011:108) is extremely concerned with this as it means that government does not collect taxes of nearly a third of GNP. While experts interviewed for this paper generally felt that entrepreneurship in the informal sector did not constitute a significant or problematic phenomenon for entrepreneurship, there were some references to large amounts of unregistered micro enterprises that might constitute a blank on the entrepreneurship information radar and could distort estimates on competitiveness and innovativeness.<sup>198</sup> Experts primarily linked informality to two aspects of the Lebanese economy, namely family dominance and unfavorable labor laws. The tendency to keep business 'in the family' often coincides with diverging degrees of informality and when asked for their perspective on family business, many respondents automatically touched upon the topic of informality.<sup>199</sup> The effect of

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<sup>191</sup> Author's interview with polling expert.

<sup>192</sup> Author's interview with entrepreneurship education expert. The Central Administration of Statistics stated it did not have any data on entrepreneurship or innovation and would unfortunately not be able to be helpful to the research.

<sup>193</sup> Author's interview with business journalist.

<sup>194</sup> Author's interview with UNIDO representative.

<sup>195</sup> Author's interview with women's entrepreneurship expert.

<sup>196</sup> Author's interview with corruption experts.

<sup>197</sup> Authors interviews with start-up consultant; and LAU professor.

<sup>198</sup> Author's interviews with IDAL representative; and UNIDO representative.

<sup>199</sup> Author's interview with BIAT representative.

Lebanese labor laws, on the other hand, is less unobtrusive: “the fact that it costs a lot here to hire someone legally means that most entrepreneurs will be cheating and will hire people on contract basis without paying for social benefits, for instance.”<sup>200</sup> In a generic sense, the dual game government system with its clientelist tentacles spreading towards entrepreneurs, encourages them to work around problems, rather than to mention, tackle, and solve problems, a tendency that might breed flexibility, but perhaps not innovation.<sup>201</sup>

In all, it seems that the issue of (dis)information is indeed related to governance, but mostly in the sense that weak public institutions in combination with a minimal research culture result in fragmented and limited information on socio-economic indicators.<sup>xlvi</sup> Yet the relation central in the literature – that polarized programmatic competition results in volatile and uncertain policies (Kenyon and Naoi 2010) – is certainly present in the account by the experts interviewed, but entrepreneurship at large more than innovation specifically. Innovation is felt to suffer more from lacking research and data than from policy uncertainty.

#### **4.4. Entrepreneurs’ Responses to Governance Fragility and Government Hybridity**

Entrepreneurship, as Lebanese respondents never failed to reiterate, depends on flexibility, adaptability and recognizing and creating opportunity. As such, it is important to emphasize that Lebanese entrepreneurs have not merely suffered under the challenging circumstances discussed in detail above. They have also actively responded to these challenges and have even pointed out several advantages of Lebanon’s specific business circumstances – sometimes generated by governance fragility and government hybridity and sometimes existing despite of it. Three main coping strategies can be distilled from the experts’ accounts: investing in self-sufficiency and independence from state structures and support; broadening visions and markets beyond Lebanon; and diversifying across multiple sectors.

The absence of regulation and stability may have been internalized by Lebanese entrepreneurs. The interviews convey pride in the educated and entrepreneurial identity many Lebanese adopt and to some extent also faith that Lebanon’s human capital will eventually prevail. “Lebanese are used to do things independent from their context; some business plans don’t even take this into account.”<sup>202</sup> This scoping paper is not the first to note that “the Lebanese perceive Lebanon as a place where there is a high value placed on self-sufficiency, individualism and personal initiative, and that generally the Lebanese do not rely on the government to provide for their well-being” (Chakour 2001 in Ahmed and Julian 2012:30). Political scientists noted that “the behavior from entrepreneurs is independent from this [the political] situation. Ok, there is an influence, but mostly the Lebanese are ambitious and forward looking and they don’t see entrepreneurship as limited to government policies or politics.”<sup>203</sup> One professor summarizes that “this is how people feel about the government, that there is no advancement. The private sector works hard and does generate this advancement. In response, people operate as if the government doesn’t exist. They got used to this in the war and they continued to operate like this. In fact, this is what keeps them going.”<sup>204</sup>

##### *4.4.1. Independence from the government*

As discussed in length, what is generally perceived as bad governance and instability have detrimental effects on entrepreneurship (generating apathy, lack of confidence and a tendency to postpone decisions and investments) and the trust deficit towards the government can hardly be welcomed from any point of view.<sup>205</sup> Yet, the fact that entrepreneurs have learnt not to rely on the government is also

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<sup>200</sup> Author’s interview with business consultant.

<sup>201</sup> Author’s interview with AUB business expert.

<sup>202</sup> Author’s interview with Kafalat experts.

<sup>203</sup> Author’s interview with Kafalat experts.

<sup>204</sup> Author’s interview with LAU professor.

<sup>205</sup> Author’s interview with UN-ESCWA expert.

seen as an incentive for entrepreneurship, making people, by necessity, more creative: “All is private sector driven here and this is the beauty of it; it results in better quality companies (at the cost of high failure rates, but this is worth it). This baptism of fire is what sets Lebanon apart from, for instance, the Jordanian ecosystem.”<sup>206xlvii</sup> A WB expert added: “I really feel Lebanon has potential for innovation. Exactly because there is no national strategy and everything emerged from the grassroots up. They don’t rely on the government, but are self-sustainable. Here, it might actually be an advantage that they have to do it themselves.”<sup>207</sup> One academic concludes: “the fact that there never has been a government, makes you depend on your own. [...] Entrepreneurship is indeed not despite but because of the political situation.”<sup>208xlviii</sup> Companies are not only self-sustainable, but often self-sufficient, they sometimes

Operate as if the government doesn’t exist. They got used to this in the war and they continued to operate like this. In fact, this is what keeps them going [in this political climate]. And all of them have contingency plans. Everyone has two generators to deal with the electricity problems. Because there is no public transport, they would start their own transportation; they would provide it to make their company a pleasant place to work. [...] They are basically self-sufficient.<sup>209</sup>

Another economist supposed that the Lebanese entrepreneurial ecosystem is now at a stage where it fully understands the current situation and is able to utilize that knowledge as a comparative advantage: “it might be that people are now banking on this, the thriving ecosystem might be a response to the realization that nothing’s going to change. People at this point are actually quite capable of predicting things and they have set up their systems beyond and without the government.”<sup>210</sup>

#### 4.4.2. *Beyond Lebanon*

Apart from a commitment to ‘not depending on government,’ Lebanese entrepreneurs are also guided by the principle of ‘not depending on Lebanon,’ meaning that they regard expanding to foreign markets as a key requirement for sustainable business. Globalization has fundamentally altered public expectations and the relationship between politics and economics in any country (Briscoe 2009:9). The eternal dependence of Lebanese communities on foreign patrons makes a regional perspective inevitable; and there is a generic logic in expanding to Middle Eastern markets, but experts agree that Lebanese entrepreneurs are more outward looking than the average business(wo)man due to the risky environment within Lebanon itself.<sup>211</sup> Regional networks have traditionally been strong, but have only been encouraged by the 2006 war that “caught everyone off guard and caused big problems for everyone; businesses made no money for one and a half month. Since 1991, businesses had been focusing almost exclusively on Lebanon, worked within their comfort zone. Since the war, they look more outside, invest more outside.”<sup>212</sup> A study by Baalbaki and Sweidan (2000 in Ahmed and Julian 2012:29) on the management objectives behind the development of corporate websites in Lebanon concluding that the main reason for owning a corporate website was to attract clients outside of Lebanon seems to confirm this. Entrepreneurs often either opt for production processes within Lebanon (specifically regarding IT or offshore businesses) that serve clients outside Lebanon or the other way around, producing outside (circumventing all the utility and infrastructure problems) for a Lebanese market.<sup>213</sup> A similar logic of spreading geographical risk is prevalent within Lebanon as people often relocate their business from direct conflict zones to safer areas, preferably investing in multiple branches (this ranges from shops and cafés closing their Downtown branch in 2008 to focus

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<sup>206</sup> Author’s interview with venture capitalist expert.

<sup>207</sup> Author’s interview with UN expert.

<sup>208</sup> Author’s interview with microfinance expert.

<sup>209</sup> Author’s interview with LAU professor.

<sup>210</sup> Author’s interview with UN expert.

<sup>211</sup> Author’s interviews with venture expert; Berytech representative; AUB business expert; and start-up consultant.

<sup>212</sup> Author’s interviews with business consultant.

<sup>213</sup> Author’s interviews with Kafalat experts; and IDAL representative.

on satellites in East Beirut to factories in the south relocating their production to northern branches in 2006).

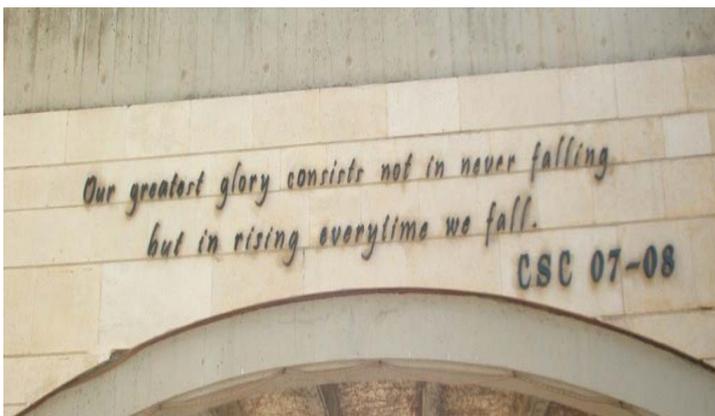
#### 4.4.3. *Diversification and spreading the risk*

A third response to Lebanon's business climate, experts agree, is for businesses to diversify.<sup>214</sup> Internet cafés specialize on gaming as well so as to provide customers with an alternative in the event of internet failure; local food and beverage producers and middlemen broaden their range of produce; microfinance organizations "urge people to go beyond the usual stuff (hairdressing, shops, computers) and give them related trainings, such as handicrafts (basket weaving, chocolate design, photography) that create markets around weddings in villages; urging them to diversify" to be able to deal with market instability.<sup>215</sup> Apart from diversification, Lebanon's instability tends to favor labor and human resource intensive business (IT, consultancy and outsourcing) over businesses depending on material, land and machines (industry) as entrepreneurs live with the continuous reminder that they need to be able to flee, relocate or sell quickly.<sup>216</sup>

### 4.5. **Despite or Because? Can Hybridity *enhance* Entrepreneurship and Innovation?**

#### 4.5.1. *Opportunities for entrepreneurship*

Lebanese entrepreneurs have not just responded to crises, they have often thrived despite and sometimes because of them. There is still, remarkable as it may seem, considerable optimism to be found among some business(women) that point towards the enormous potential of Lebanon to be released "once there is an improvement in the management of the public sector"; towards the changing mentality of the younger generation;<sup>xlix</sup> towards the opportunities of oil and gas extraction along the Lebanese coast.<sup>217</sup> Lebanese experts identified almost as much opportunities for entrepreneurs in Lebanon as they did obstacles. These ranged from flexibility and resilience stemming from war; an innate or constructed entrepreneurial identity; the abundance of inspiring examples; the availability of international support funds; the supporting role of the diaspora; the relative strength of the private sector; the negotiation and marketing skills stemming from societal fragmentation; and the trendsetting role of Lebanon regionally. Some of these incentives have been generated by instability, war, clientelism and the other factors addressed above; some opportunities are related to it; and some are seen as completely separate from the reality of governance fragility and government hybridity.



Pictures taken by the author of the motto of the Lebanese American University and an ad for Lebanese beer

<sup>214</sup> Author's interviews with Kafalat experts; and AUB business expert.

<sup>215</sup> Author's interviews with micro credit expert; UNIDO representative; and microfinance expert.

<sup>216</sup> Author's interviews with policy expert; Berytech representative; IDAL representative; and business consultant.

<sup>217</sup> Author's interview with expert on Lebanese industrialism.

#### 4.5.1.a. *The positive legacies of war? Resilience, flexibility and creativity*

As mentioned, many experts believe that the Lebanese economy is entrepreneurial because, not despite, of the various wars they witnessed and the challenging governance context in which they operate. The war has generated many opportunities for entrepreneurs – as recounted by the SME boom during the civil war – and Lebanese entrepreneurs “are leading the rebuilding and development process in the post-war economy” with construction representing 24.3 per cent of the entrepreneurs surveyed by Fahed-Sreih et al (2010:44). Physical reconstruction has long even been regarded as the avenue for nation-building (Saidi 2004:11). The potentially positive side-effects of war on entrepreneurship, however, are mostly seen as mentality and motivation issues, with challenges generating resilience, creativity and flexibility, key traits of a successful entrepreneur.<sup>218</sup> One academic seems to capture this sentiment quite well in explaining that “the legacy of the war did have a defining impact on Lebanese entrepreneurship. The entrepreneurial spirit and environment flourished during the war: we did not just survive, we flourished. It functions in a way as a selection process: it’s either leave or be creative and adapt against all odds.”<sup>219</sup>

The need for social entrepreneurship is especially related to governance and government challenges, with a mantra to see crises as opportunities, “the more bumpy the road, the more need for social entrepreneurship.”<sup>220</sup> Here, too, the civil war is seen as a major contributor to Lebanon’s widespread social entrepreneurship and more current examples of opportunity entrepreneurship related to political crises abound: “when the airport road is blocked, motor taxi services immediately emerge; when tires are burnt out of protest, people go out to collect the metal – there is a running gag, that *the* business opportunity in Lebanon is tires, as the Lebanese traditionally burn tires during protest.”<sup>221</sup> Others added that in response to the electricity crisis, many generator companies have now emerged. Academics are more cautious, but do concur that, theoretically, the wars in Lebanon might have destroyed elements in the economic system that impeded entrepreneurship thereby contributing to a more conducive entrepreneurship context. The mere fact that normal employment ventures become more scarce (or ceased to exist) during war, generated a need for other channels of generating income, leading to entrepreneurship.<sup>222</sup> Again, however, the different forms of entrepreneurship need to be kept in mind. Most of the entrepreneurship generated by conflict is necessity or opportunity entrepreneurship, or even predatory or destructive entrepreneurship; relatively little can be considered innovation entrepreneurship (Jones and Elgin-Cossart 2011:10).

The challenging context has not merely made entrepreneurs creative and flexible, many reason, but also the institutions and organizations they deal with. A manager at one of Lebanon’s leading incubators remembered how “in 2006, Kafalat suspended all payments and the banks were understanding as well; developments were considered as some sort of force majeure. This gives people confidence, they know they can shut down and re-open if need be.”<sup>223</sup> A microfinance organization recalled that, with reference to the 2007 Nahr el-Bared war, “some clients had everything demolished and we forgot completely about them paying back.”<sup>224</sup>

#### 4.5.1.b. *Entrepreneurial culture and identity*

Respondents were vigorously divided on the matter of entrepreneurship culture, especially on its origins. Business(wo)men and private sector entrepreneurship supporters reflexively refer to culture and history as an explanatory factor for Lebanese entrepreneurship. A venture capitalist captured this view by stating that “the Arab history and culture is extremely positive on entrepreneurship; this is a business culture at heart – we’re not a rent society, of buying land and sitting on the money, there is a

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<sup>218</sup> Author’s interviews with LAU professor; and IDAL representative.

<sup>219</sup> Author’s interview with AUB business expert.

<sup>220</sup> Author’s interview with social entrepreneurship experts.

<sup>221</sup> Author’s interview with social entrepreneurship experts.

<sup>222</sup> Author’s interview with LAU economist.

<sup>223</sup> Author’s interview with BIAT representative.

<sup>224</sup> Author’s interview with microfinance expert.

tendency towards risk and venture.”<sup>225</sup> Others found that the “Semitic mind is geared towards conceptualizing, not towards implementing.”<sup>226</sup> Testimonies that “the Lebanese have always been traders, since the Phoenicians; it almost runs in the blood, it’s in our nature;”<sup>227</sup> that “the Lebanese as a person is an entrepreneur. He takes risks, takes initiative, follows his dreams and is creative. This is because of our history, we are very proud to stem from the Phoenicians;”<sup>228</sup> and that the success of entrepreneurship is “part of our entrepreneurial culture; it is in our character to multi-task; to take initiative; to overcome problems”<sup>229</sup> are widespread and shared with conviction.

Academics agree that something like an encouraging entrepreneurial self-identification existed in Lebanon, but emphasized that this had little to do with “DNA” or even history and more with the place entrepreneurship took in the post-independence nation-building discourse<sup>230</sup>

In the process of constructing a nation, we used this theme (the Phoenician entrepreneurial legacy) to distinguish ourselves from the Syrians (forgetting that the Arab and Muslims were traders as well). Michel Chiha [...] has posted this idea of a country of traders and merchants. [...] We were forced by the circumstances; it’s not in our blood. [...] We’re not more or better, it’s just a thing we constructed to make us feel better.<sup>231</sup>

The importance of a self-identification as entrepreneurs might of course be exaggerated in a society lacking any other convincing overarching identity, fractionalized as it is between different socio-cultural groups. Moreover, the ‘innateness’ of entrepreneurship in the Lebanese spirit can also result in laxness: “entrepreneurship is a part of the culture, that is true, but you need to think about it professionally and not everybody does that; often they don’t have the education or know the sector or the product.”<sup>232</sup> A lot of young starters apparently have no idea of the vastness of challenges involved in starting up a business and have an unrealistically rosy picture of making money as a business(wo)man, seeing it as solely depending on talent and vision and lacking the commitment it takes.<sup>233</sup>

A more tangible link between culture and blooming entrepreneurship might be constituted by the abundance of examples Lebanese have of successful entrepreneurship. The importance of such examples and role models was widely felt. Respondents were proud in mentioning the worldwide fame of Lebanese professionals: “Carlos Slim; Elie Saab; Carlos Ghosn (Nissan); Jacques Nasser (Ford); the first open heart surgery was performed by a Lebanese; the director of the most famous cancer center in the world (in Houston) is Lebanese.”<sup>234</sup> An expert working at a Lebanese incubator emphasized that for his clients the inspiration transferred by successful businesses they know provides a key motivation for their entrepreneurship ambitions:

They have seen big examples and this makes them confident that they can make it. They think ‘if this guy would have waited for the perfect moment it would never have happened.’ Success stories about those that make it work inspiringly. We always look at the success story: ‘if this guy can make it, why can’t I?’<sup>235</sup>

This relates to Ardagna and Lusardi’s (2010:45) observation that the probability of becoming involved in an entrepreneurial activity when knowing someone who has started a business increases by three per cent for opportunity entrepreneurs and by 0.5 per cent for remedial entrepreneurs and provides further substance to the importance of family business for entrepreneurship.

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<sup>225</sup> Author’s interview with venture capitalist expert.

<sup>226</sup> Author’s interview with advisor to the Council of Ministers.

<sup>227</sup> Author’s interview with LAU professor.

<sup>228</sup> Author’s interview with BIAT representative.

<sup>229</sup> Author’s interview with Berytech representative.

<sup>230</sup> Author’s interview with AUB business expert.

<sup>231</sup> Author’s interview with policy expert.

<sup>232</sup> Author’s interview with Kafalat experts.

<sup>233</sup> Author’s interview with diplomat.

<sup>234</sup> Author’s interview with Kafalat experts.

<sup>235</sup> Author’s interview with BIAT representative.

#### 4.5.1.c. *The autonomy of the private sector*

A third component of Lebanese society that is seen to favor entrepreneurship, and that is linked ipso facto to the weakness of state institutions is the strength of the Lebanese private sector. "In Lebanon, the private sector is bigger than the state. The private sector does not ask or propose to the government, it just acts and only tells the government afterwards."<sup>236</sup> As discussed above, the weakness of the public sector can manifest itself in a detrimental way for entrepreneurship through capture of public institutions by established business(wo)men and privileged business sectors (bankers and lawyers) that might undermine government policy conducive for entrepreneurs that might one day compete with them (see Leenders' (2012:42; 77) analysis of Lebanon's quarrying and pharmaceutical industries for apt examples). However, the notion of the strength of the private sector vis-à-vis the government is also often invoked as a positive thing for entrepreneurs and thus seems both curse and blessing. The absence of strong enforcement of regulations caused one Lebanese UN representative to ponder that "the ministry is so flexible with them! You can just do it; it is easy to open a business. You just need the connections and networks and the Lebanese are very good at that."<sup>237</sup> That the strength of the private sector translates into entrepreneurship and not just traditional business is also due to the widely referred to bad corporate culture in Lebanon. Compared to Europe, apparently, "it is hierarchical, formal, old school; there is hardly any room for advancement in such a patriarchic culture and a lot of people don't want to work for a boss here."<sup>238</sup> This is also related to the predominance of family companies in Lebanon which is seen to limit potential for socio-economic mobility, as promotions tend to be based on family ties rather than merit.<sup>239</sup>

#### 4.5.1.d. *Development and reconstruction aid*

Of the entrepreneurship opportunities directly related to fragility and hybridity, international support (often in a development aid context) for entrepreneurship was a recurrent theme. People believed that the recent entrepreneurship buzz would not have been as vibrant as it is without the involvement of international agencies that would not have been there had Lebanon not been 'in trouble.' A UN programme manager elaborated on an entrepreneurship support programme that was part of the post-2006 economic recovery and rehabilitation efforts (financed through the Lebanon Recovery Fund (LRF) and focusing on the regions that had suffered most from the war) that went far beyond mere reconstruction and rehabilitation into development, upgrading and improvement of enterprises, involving capacity development and training (UNIDO 2010:vi). Moreover, the entrepreneurs in question did not just benefit from international funds and support, but could also count on extensive support from Hezbollah. This dynamic led the UN expert to conclude that some entrepreneurs she worked with "pray for a war as this brings funds (not unlike we do at the UN); they have this experience that after war there will be help."<sup>240</sup>

#### 4.5.1.e. *The "diaspora is our petro"*<sup>241</sup>

Lebanon, some maintain, is not the country, but the people, "an important distinction as we have a very active diaspora that is at least as big as the amount of people living in Lebanon and that is actively involved in Lebanon."<sup>242</sup> This diaspora consists of both business migrants and war time refugees and constitutes a regional (Arab) and an international (global) diaspora.<sup>243</sup>

We're all over the globe. We went to the Gulf at the oil boom when they needed skilled labor and now we're in services. We're in Africa (Nigeria, Senegal, Cote d'Ivoire). We're in Afghanistan, there's a

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<sup>236</sup> Author's interviews with real estate expert; AUB business expert; and advisor to the Council of Ministers.

<sup>237</sup> Author's interview with UNIDO representative.

<sup>238</sup> Author's interviews with business consultant; and start-up consultant.

<sup>239</sup> Author's interviews with advisor to the Ministry of Economy; and diplomat.

<sup>240</sup> Author's interview with UNIDO representative.

<sup>241</sup> Author's interview with BIAT representative.

<sup>242</sup> Author's interview with advisor to the Ministry of Economy.

<sup>243</sup> Author's interview with advisor to the Ministry of Economy.

Lebanese restaurant in Kabul based on the logic of 'just follow the US army.' It's hard to find a family without a relative outside.<sup>244</sup>

There are very strong ties between Lebanon and its diaspora (so much so that there is talk about giving them the right to vote) and "even if many people leave Lebanon, they keep their contact office here [...] and continue to tap into the Lebanese human resources,"<sup>245</sup> "they have a home here, their kids go to school here, they come here 6 to 8 times per year – they're directly involved."<sup>246</sup>

Lebanon's (business) diaspora is often identified as the single most important contributor to Lebanon's rebuilding after the 2006 war (Salem 2011:116) and is routinely referred to as a source of national pride and potency, being the most important source of investment and capital. WB (2012:v-viii) summarizes the positive effects of the diaspora on the economy at large and estimates that capital inflows, accelerating in the 2007-2010 years and to a large extent by and via Lebanese expatriate businesses, have contributed to shaping the economic structure and policy in favor of non-tradable sectors and relaxed the budget constraints of both public and private sectors. "Indeed, in a context of political polarization and lack of decision-making, the availability of foreign inflows made possible the financing of large fiscal and current account deficits, delaying important structural reforms to reduce distortions in the economy." According to the Migration and Remittances Factbook, in 2010, emigration constituted 664.1 thousand, or 15.6 per cent of the Lebanese population, with the emigration rate of tertiary-educated population reaching 38.6 per cent. The incoming remittance flow was estimated at US\$ 7,558 million in 2009, with an outward flow of US\$ 5,749 million (WB 2011). Finance experts shared that they had sources within the Central Bank estimating that US\$ 11 billion is transferred annually from expats to relatives and friends.<sup>247</sup> Others suppose that some 20 per cent of the Lebanese GDP consists of remittances (which mirrors estimates by IMF (2011:63)).<sup>248</sup> It should be noted, however, that "the Lebanese diaspora is not sending money to *Lebanon*, but to family and organizations."<sup>249</sup> The diaspora, therefore, does not so much boost Lebanon's public sector as it does its private sector. In terms of entrepreneurship, the diaspora is important mostly because of the networks and the money it provides. Some claim that many initiatives in the entrepreneurship ecosystem have been adopted as a result of the influence of expatriates returning to Lebanon and that diaspora networks reinforce the budding ecosystem. The Lebanese are successful in business, an academic proposed, precisely because they're not in Lebanon.<sup>250</sup>

Other experts are more critical, agreeing that "the remittances of the Lebanese diaspora save the economy, but at the price of inflation."<sup>251</sup> One person felt that due to the instability and lack of government vision "the diaspora believes in Lebanon, but it believes in Lebanon as a place to live happily, not as a place to do business. They don't invest. If they would invest in Lebanon there would be tremendous progress."<sup>252</sup> He even pondered whether the diaspora remittances would not undermine entrepreneurship rather than support it, by making people lazy and dependent (a hunch that would be confirmed by Ciarli et al's (2009) finding that necessity entrepreneurs in Afghanistan became less entrepreneurial as soon as they had access to remittances). Others observed that diaspora ties with Lebanon are gradually becoming more strained due to an increasing fatigue of Lebanese abroad with the ineffectiveness and corruption in Lebanon.<sup>253</sup> In any case, it appears, while there is a tradition of utilizing diaspora knowledge and funds, with for instance US based Lebanese entrepreneurs outsourcing the work for their software development companies to people based in small towns in North Lebanon, the potential is still under exploited, with experts noting the need to

<sup>244</sup> Author's interview with microfinance expert.

<sup>245</sup> Author's interview with UN expert.

<sup>246</sup> Author's interview with advisor to the Ministry of Economy.

<sup>247</sup> Author's interview with Kafalat experts.

<sup>248</sup> Author's interview with diplomat.

<sup>249</sup> Author's interview with civil society activist.

<sup>250</sup> Author's interview with AUB economist.

<sup>251</sup> Author's interview with corruption experts.

<sup>252</sup> Author's interview with expert on Lebanese industrialism.

<sup>253</sup> Author's interview with diplomat.

invest in e-commerce to tap into the diaspora more effectively.<sup>254</sup> WB (2012:viii) also notes that Lebanon is not benefiting optimally from the role that can be played by the diaspora as there is still too little brain circulation between skilled members of the diaspora and the home country.

Entrepreneurial connections with the diaspora have an impact far beyond remittance flows into the realm of long-term political and policy effects. This dynamic is aptly illustrated by the history of Rafiq Hariri's impact on post-civil-war Lebanon. Hariri, a Sunni Muslim entrepreneur made his fortune in Saudi Arabia during the oil boom and returned to Lebanon in the 1980s. Lebanon's post-conflict recovery was "largely associated with his name, since he managed to channel his own vast fortune made on construction businesses and Saudi resources into the Lebanese post-conflict economy" (Koinova 2010:156). This dynamic had profound influence on the future of the country, not in the least because Hariri consolidated his political power stemming from his economic investment as a prime minister of five governments between 1992 and 1998 and between 2000 and 2004 before he was assassinated in 2005. Other dynamics also suggest the diaspora has a real political impact, with different diaspora communities holding different political parties or leaders responsible for protecting their interests. One civil society activist noted that the Shia diaspora in Africa and the Gulf is getting increasingly impatient with Hezbollah, which it feels is unable to ensure its interests, with potentially important effects on election results.<sup>255</sup>

#### 4.5.1.f. *Fractionalization and diversity*

A further trait of Lebanese society that, in the eyes of many experts, contributes to Lebanese entrepreneurship is Lebanon's socio-cultural fractionalization and diversity along sectarian lines. Fragility, in both economics and political science, is often associated with ethnicity or socio-economic fractionalization that is assumed to both cause conflict and be the main effect of conflict (providing the lines along which politicization occurs). While this rather primordialist view on ethnicity and identity has been long since refuted (Bauman 1999; Eriksen 1993) – the separation between race, language and religion (with the latter supposedly most endogenous) is empirically problematic, to name but one thing – Alesina et al (2003) point out an interesting potential discrepancy between the effects of ethnic and linguistic fractionalization associated with negative outcomes in terms of the quality of government on the one hand and religious fractionalization on the other hand (Alesina et al 2003:158). In Lebanon, there is a feeling that "traditional businessmen separate themselves from politics" because they want to serve all parties, rather than narrow down their clientele to one political or sectarian group. For many of the experts interviewed for this paper, the fact that Lebanon is known for its mixture of Christians and Muslims is an added value as "this mixed culture means we can attract more people that will feel comfortable here and like it. We're open and this reflects on business. People are more willing to deal with Lebanese."<sup>256</sup> Not seldom, this argument is based on the perception that the Christian side of Lebanese culture is associated with Western liberalism and will hence attract international funding and reach Western markets.<sup>257</sup> The fact that Lebanese business(wo)men have to "be able to co-exist with different parties and show different faces (to for instance customers and patrons)" is thought to demand a specific set of social and managerial skills – flexibility, adaptability, conviviality, cordiality, mood management and emotional intelligence – that is especially useful for entrepreneurs.<sup>258</sup>

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

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<sup>254</sup> Author's interview with BIAT representative.

<sup>255</sup> Author's interview with civil society activist.

<sup>256</sup> Author's interview with expert on Lebanese industrialism.

<sup>257</sup> Author's interview with polling expert.

<sup>258</sup> Author's interview with AUB economist.

media, the businessmen.”<sup>259</sup> Lebanese, from journalists to state officials, feel that their country is a regional trendsetter – slowly becoming more popular than even the ‘Egypt touch’ – in terms of culture, cuisine, music. This makes it the perfect place for any regional entrepreneur to “start up and show off.”<sup>260</sup> This is perhaps what Naqvi (2011:12) calls “the cultural ‘X’ factor that is the key in defining the backdrop against which entrepreneurs prosper.”<sup>1</sup> The same reasons that make Lebanon so popular with tourists, give it an added entrepreneurial value as a ‘showcase’:

So why do entrepreneurs come here all if it’s just expensive and insecure? For the very basic reason that it is fun to be here: Beirut has energy, good weather, nightlife, liberalism; it’s a place where people want to go. This is why Doha or Jeddah or Amman would always be spending more on attracting people. No one wants to go there. The fun and energy of Beirut is what is needed for entrepreneurship; it was a similar dynamism that generated the Silicon Valley boom.<sup>261</sup>

Infused, no doubt, with a healthy dose of national pride, the idea of trendsetting nevertheless seems to make sense when looking at the Lebanese success in franchising: “there are 70 Lebanese companies branded in Arab countries and elsewhere. Jordanians, Kuwaitis, Dubai’s – they all want to invest in Lebanese brands,” leading a government advisor to conclude that “they want us; we have something no other Arab country has.”<sup>262</sup>

#### 4.5.2. Opportunities for Innovation

Many of the above considerations regarding the potential positive influence of governance fragility and government hybridity on entrepreneurship might also hold concerning innovation. However, as noted before, in Lebanon, entrepreneurship and innovation are far from interchangeable, with entrepreneurship mostly regarded as not very innovative. Below, several components of Lebanese society – some related to conflict and clientelism, others not – that were mentioned as conducive for innovative entrepreneurship are explored, most importantly the increasingly favorable societal and policy context, the competitiveness of the market, Lebanon’s high-quality education system and Lebanese risk inclination.



Pictures taken by the author of a poster for a business competition in Beirut

##### 4.5.2.a. The buzz

Respondents mentioned that there is an increased recognition of the importance of not just entrepreneurship, but innovation-based entrepreneurship. Incubators launch the discussion on innovation with clients, discussing the benefits of it and the requirements for it.<sup>263</sup> Urged on by the EU

<sup>259</sup> Author’s interviews with BIAT representative; and Berytech representative.

<sup>260</sup> Author’s interviews with business journalist; advisor to the Ministry of Economy; and UN-ESCWA expert.

<sup>261</sup> Author’s interview with social entrepreneurship incubator.

<sup>262</sup> Author’s interview with advisor to the Ministry of Economy.

<sup>263</sup> Author’s interview with BIAT representative.

and WB, the government emphasizes its commitment to “encourage new concepts and commercialization of R&D: increase spending on R&D; create a grant for funding concept ideas; develop university-industry linkages and intra-university collaboration; and instate a technology transfer office (Yamout 2012). The plans to create a Tripoli Innovation Hub focusing on ICT and media/communications might be a case in point (Melki 2012). The creative sector – from architecture to design and blogging – is often seen to be booming because of the lack of government support, with ‘poverty generating creativity.’<sup>264</sup> The rise of IT is another factor enhancing innovation, moving business plans away from ‘bricks and mortar’ initiatives heavily relying on labor and land to more flexible, human-resource oriented projects. A government advisor called IT development as “the key game changer in the private sector ecosystem.”<sup>265</sup> These accounts are confirmed by a representative of the Association of Lebanese Industrialists (ALI) that elaborated on ALI’s ambition to recruit young entrepreneurs in the fields of “software design and haute couture industry. We want to introduce these in ALI, attract businessmen in these sectors, because they have the creativity and the future.”<sup>266</sup>

#### 4.5.2.b. Education

The single most important Lebanese asset for innovation is, according to almost all experts interviewed, Lebanon’s excellent education system.<sup>267</sup> “Education is everything in Lebanon and is seen as the best investment you can make. Parents in Lebanon will go to great length to get their kids the best education they can get, often at private schools.”<sup>268</sup> The Lebanese government prizes its highly educated population with a net enrollment in primary education of 98.3 per cent; an overall literacy rate of 90 per cent (98 per cent for those aged 15-24); 42 colleges and universities in higher education, including: 4 Lebanese Universities in the top 100 Middle Eastern universities; 29 per cent of total university enrollment in STEM subjects enrolment (44,720 students); and Lebanese students scoring top regional positions in mathematics in TIMSS [Trends in International Mathematics and Science Study] in 2007 (Yamout 2012). WB (2012:45) also praises Lebanon’s 54 per cent gross enrollment rate in tertiary education (by far exceeding the 26 per cent rate registered for the MENA region and the 23 per cent rate for middle-income countries) resulting in a ranking on the UN Education Index of 88 out of 177. While education is not seen as a necessity for entrepreneurship – Mehzer et al (2008:44-47) note that work experience rather than education is considered crucial for entrepreneurs and that “work experience compensates for a low education level” – it is regarded as vital for innovation. This prioritization of education is, by some, seen as partially a response to conflict and instability.

The link between instability and entrepreneurship might go via education. Growing up in war and in an unstable country gives you the feeling that you might have to feel anytime and this generates a tendency to over invest in human capital, because this is what you can take with you. This is why parents invest in their children’s education and this is why the universities grew so much. [...] With all this instability, you can’t get attached to the land; agriculture won’t work as you have to be able to leave it behind.<sup>269</sup>

However, despite (or perhaps because) of the importance attributed to education in fostering innovation, experts voiced manifold concerns regarding the current state of education in Lebanon. They noted the paradoxical situation that the most highly educated country of the Middle East has one of the poorest R&D track-records and low levels of innovation – with education seen as a ticket abroad or into the banking sector rather than a step stone to innovative entrepreneurship.<sup>270</sup> WB (2012:34) is concerned that the oversupply and misallocation of teaching and administrative staff making the education system unsustainable by causing salaries and wages to represent almost 90 per cent of the Ministry of Education’s total spending. Practitioners note that universities are starting to provide the

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<sup>264</sup> Author’s interview with diplomat.

<sup>265</sup> Author’s interview with advisor to the Council of Ministers.

<sup>266</sup> Author’s interview with expert on Lebanese industrialism.

<sup>267</sup> Author’s interview with real estate expert.

<sup>268</sup> Author’s interview with entrepreneurship education expert.

<sup>269</sup> Author’s interview with policy expert.

<sup>270</sup> Author’s interview with LAU economist.

needed entrepreneurship programmes and seeking to encourage innovative and research-based self-employment, but simultaneously agree that these initiatives are as of yet scattered and without any real result.<sup>271</sup> There is an important distinction here, for many observers, between private schools that are “more entrepreneurial and encouraging of risk-taking” and public schools “delivering unprepared, unskilled graduates.”<sup>272</sup> One journalist commented that “we don’t graduate specialized people, they get a degree in Business Administration, but not in marketing, finance or entrepreneurship; this is a recipe for unemployment, they know everything, but they know nothing. The credibility of the degrees is therefore doubtful.”<sup>273</sup> INJAZ, an organization specialized in entrepreneurship education to youth from seven to 18 years, is highly concerned with youth unemployment which they see as the result of the lack of appropriate skills (Injaz 2011).<sup>274</sup>

#### 4.5.2.c. Risk perception

An ongoing discussion on the nature and consequences of Lebanese risk inclination or aversion was apparent in interviews with experts. It is usually assumed that innovation inherently requires a certain appetite to try new things and therefore embrace the risk of failure or loss (Naqvi 2011:12-13). On the one hand, there is a thesis among Lebanese stipulating that general instability, a lack of social acceptance for failure and lack of insurance options minimizes willingness to take risks and thereby innovative entrepreneurship.<sup>275</sup> A microfinance expert explained that “a major issue is the lack of health insurance; a major disaster is always lurking behind the corner. There is no protection and the risk involved the entire family. [...] We tried to set up insurance ourselves, but it turned out to be impossible, the price and costs were just too high.”<sup>276</sup> Adding to this, a scholar on social entrepreneurship explained that “the costs of failure are disastrous, both socially and legally/financially. Business failure is not seen as a learning process or an attempt at success, but as a death warrant. Getting legal bankruptcy is almost impossible and the chances of starting up another business are small.”<sup>277</sup> On the other hand, and closely related with the idea of the unique Lebanese entrepreneurial culture, respondents noted that while “70 per cent of new business don’t continue, [...] people always believe they’re with the 30 per cent” and are hence quite inclined to take risk indeed.<sup>278</sup> The prevalence of success stories on entrepreneurship are also seen to make people relatively more willing to take risks to make their business innovative and successful.<sup>279</sup> One academic wondered whether corruption and rent-seeking might not in a way spur innovation, or at least creativity, reasoning that if something becomes too successful, the predatory politicians will get into it which might signal to some people that it is time to move on to something new.<sup>280</sup> In essence, this thesis stipulates, the experience of Lebanese with instability and destruction has altered their evaluation or interpretation of risk, creating a higher acceptance threshold for risk due to a culturally transmitted experience with resilient supply networks:

People would ask themselves the question ‘would it devastate me?’ and would usually conclude it would not. Because of their previous experience with war, they have relatively much trust in that someone will take care of it. Someone will open another port, someone will arrange for water somehow, someone will make sure I can still make phone calls; someone will make a business out of garbage collection. There is an important faith in a resilient supply network which grows from (culturally transmitted) experience. People in Lebanon would apprehend opportunities and challenges differently and would be less likely to

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<sup>271</sup> Author’s interview with business consultant.

<sup>272</sup> Author’s interview with UN-ESCWA expert.

<sup>273</sup> Author’s interview with business journalist.

<sup>274</sup> Author’s interview with diplomat.

<sup>275</sup> Authors interviews with business consultant; and AUB economist.

<sup>276</sup> Author’s interview with microfinance expert.

<sup>277</sup> Author’s interview AUB business expert.

<sup>278</sup> Author’s interview with expert on Lebanese industrialism.

<sup>279</sup> Author’s interview with BIAT representative.

<sup>280</sup> Author’s interview with AUB economist.

abstain from starting a business than other people in the same situation that don't have the collective experience that things will continue to function in some way.<sup>281</sup>

## 5. Summary and Conclusion

### 5.1. Summary

Governance fragility and government hybridity are seen to significantly impact the Lebanese entrepreneurial ecosystem by the majority of experts interviewed for this scoping paper, not in the least via the incestuous relations between the public and private sector. The main obstacles experts identified for Lebanese entrepreneurs were:

- The *high costs of utilities and infrastructure* that make businesses uncompetitive, which was identified as the most important, but certainly not the only, manifestation of the *clientelist and oligopolistic nature of the Lebanese society and economy*
- *Failing government support and a lack of political vision* for the economy stemming from Lebanon's corrupt and informal business environment
- The *instability and unpredictability* related to violent conflict that make investment and planning difficult and foster a short-term, migration-focused mentality

Challenges for innovation stemming from governance fragility and government hybridity were mainly considered to be:

- Instability leading to short-term mentalities and *replication rather than invention*
- Insufficient government support leading to *limited intellectual property rights protection* and a *glaring absence of R&D*
- Institutional tension and multiplicity that result in a *lack of available socio-economic data* to base business plans on

Lebanese entrepreneurs respond to these challenges by operating as *independent from government* as they can; by building on Lebanon's perceived trend-setting role and taking a *regional perspective* and producing in or exporting to other countries from the very start; and by *diversifying* their produce or services.

The specific Lebanese context is also seen to offer particular opportunities or assets to Lebanese entrepreneurs. The most important of these were considered to be:

- The *resilience and flexibility* (and risk inclination) stemming from war
- The *autonomy of the private sector*
- Post-war *international support* for economic reconstruction
- The availability of *diaspora networks and finances*
- Social and negotiating skills stemming from *socio-cultural diversity*

Particular positive features of Lebanese society for innovation were mainly:

- The increased *awareness* of the importance of innovation
- The *competitive economy*

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<sup>281</sup> Author's interview with AUB economist.

- The well-developed Lebanese *education* system

## 5.2. Reflections and Conclusions

This exploratory paper has sought to illustrate that a fragile governance context – facing protracted conflict; politicization of private life; limited state capacity and institutional multiplicity; and vulnerability to external shocks – feeds into a hybrid governance system characterized by a dual game of combined informal clientelism and formal programmatic competition that shapes Lebanese entrepreneurship in important ways.

### 5.2.1. *Entrepreneurship*

In Lebanon, entrepreneurial attitudes appear to be very positive – because of its challenging political context as much as despite of it. Lebanese are apt in recognizing and utilizing business opportunities; they do not just have a high skills perception but also have high post-secondary education rates; fear of failure seems to be relatively low in the sense that Lebanese are rather inclined to start their own business;<sup>li</sup> Lebanese have remarkable networking skills facilitated by both the enormous socio-political diversity and the *wasta*-based access to resources and services; cultural support, finally, is abundant and ‘societal status’ was repeatedly mentioned as one of the main motivations for becoming an entrepreneur. There is, still, a broadly shared conviction that the ‘can do spirit’ of the Lebanese will eventually overcome political challenges and that even modest reform and stability could provide an enormous boost to entrepreneurship.

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

Entrepreneurial aspiration, the component linking entrepreneurship to innovation, is also underdeveloped in Lebanon, to a large extent due to the governance and government predicaments discussed. Few entrepreneurs generate products or services customers consider to be new; while cutting edge technology may be used enthusiastically by Lebanese entrepreneurs, it is not developed in Lebanon; the persistent SME orientation of Lebanese entrepreneurs seems to signify a limited growth potential of entrepreneurs; internationalization, however, is high among Lebanese entrepreneurs; and formal venture capital is increasingly available to add to the existing reservoirs of informal venture capital resulting from positive entrepreneurship attitudes.

The above findings have three main implications for studying entrepreneurship under hybrid governance. First, fragile governance contexts (including protracted violent conflict) and hybrid governance systems (combining clientelist redistribution with elections and a semblance of a formal administration) do not so much affect the *degree* of entrepreneurship, but do influence the *form* of entrepreneurship, fostering necessity and opportunity entrepreneurship and discouraging innovation entrepreneurship. Second, and in line with this, is it misguided to automatically link entrepreneurship to innovation in fragile and hybrid settings. Building on a commercial culture dominated by banking and services, characterized by family-led SMEs and with high appreciations for entrepreneurship, Lebanon can be considered an entrepreneurial country. This entrepreneurship, however, does not go hand in hand with an innovative outlook. Third, the often made distinction between internal and external entrepreneurship components does not do justice to the business realities under hybrid governance.

As apparent in the attitudes-activities-aspirations triangle, entrepreneurship has a structural component, the influences external to the entrepreneur, and an ‘agency’ component, the influences the entrepreneur can directly address. While all experts interviewed agreed that this structural political

context affected entrepreneurship, there was also a tendency among the more business-oriented respondents to regard entrepreneurship first and foremost as a personal issue. This is also reflected in the recent entrepreneurship support buzz that is partially successful, but under-utilizes its potential because it does not deal with the structural components of instability and governance singled out in this paper and recognized by much of the literature and the interviewed experts as decisive issues in fostering entrepreneurship. While such depoliticization is of course a pragmatic – and perhaps wise – decision in light of the entrenched nature of the political problems identified, one reason why the current ‘buzz’ might be less effective than hoped for could be its depoliticized nature. The very emergence of a constructive output of a lobbying campaign by entrepreneurship experts spanning the sectarian divide provides an inspiring challenge to the inevitability of sectarian clientelist logic that is generally said to permeate and corrupt all economic policy making efforts. At the same time, however, there is an implicit risk that the proud emphasis on the fact that entrepreneurship is ‘in the Lebanese psyche’ and ‘runs through the Lebanese blood’ is turned into an excuse for not investing in structural political reforms.

### 5.2.2. *Fragility and hybridity*

My study also holds two core implications for the broader analysis of fragility and hybridity. First, it is illusory to associate hybridity exclusively with unconstructive developments or despondency. As my findings on Lebanese entrepreneurs’ responses to business challenges show, there is resilience and pro-activeness among ‘hybrid entrepreneurs’ that could provide foundations for future development.

Second, it is misleading to understand hybridity as a transitory phase or characteristic and assume the main problem lies in policy uncertainty and unregulated programmatic competition. Instead, the dual game metaphor might enable more in-depth analysis. Regarding entrepreneurship, hybrid regimes are associated with uncertainty (or volatility) that is often present on a policy and on an institutional level. Kenyon and Naoi (2010:488) define hybrid political regimes as “polities where political parties with widely different economic platforms compete and where respondents lack access to credible information regarding possible policy changes.” Yet, as my historical overview of the Lebanese political economy shows, hybrid governance situations are, at least to some extent, stable, rather than necessarily transitional. Policy uncertainty might be related not to transitional dynamics but to the particular form of vigorous but somewhat unregulated or informal political competition. Such uncertainty or volatility then stems not from the ‘inherent instability’ of hybrid regimes as a ‘residual category’ (Roesler and Howard 2007:17), but could be related to the tensions between the formal electoral game (campaigns, programmes and elections) and the informal regime game (patronage, nepotism and mobilization of the ‘streets’). Actors may feel less bounded by either set of institutions and have to deal with contradicting or multiple sources of information on opportunities and restraints which makes both official policy and day-to-day practice less predictable and the perceived costs of getting things done and risks of investing more considerable. Markets, after all, can be just as hybrid as polities, constituting “bundles of rules, institutions, regulations, enforcements (or lack thereof) and thus highly intricate webs of transaction costs and externalities that create context-specific motivators for particular economic behaviour” (Reinert et al 2007:6).

In Lebanon it seems it is not so much policy uncertainty as an intricate mixture of contextual volatility and systemic deadlock that hampers innovative entrepreneurship. In essence, entrepreneurship in Lebanon is plagued by an interconnected amalgamation of volatility and inertia. On the one hand, there is the insecurity, instability and unpredictability inherent in the fragile governance context that prevents a long-term vision and investment and thereby undermines if not entrepreneurship then certainly innovation. On the other hand, there is the entrenched clientelist and oligopolist deadlock characterizing the hybrid governance system that precludes competitiveness. While at first glance seemingly contradictory, volatility and inertia might be more deliberately related via societal leaders using “disorder as a[n] [...] instrument” through the “use and creation of personalized informal patron-client networks” (Chabal and Daloz 1999 in Di John 2011:5; see also Leenders (2012)). The detrimental effects on innovative entrepreneurship this paired volatility and inertia breed, then, suggest

that the elite-bargain and sectarian quota system adopted to guarantee stability has not merely failed – at least in economic terms –, but has added to Lebanon's predicaments (Briscoe 2009:7).

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

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## Endnotes

<sup>i</sup> Several research programs are currently aiming to address this knowledge and capacity gap, for instance the Entrepreneurship, Security and Governance (ESG) consortium (<http://research.msm.nl/Projects/ESG-Consortium/Home.aspx>)

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

<sup>iii</sup> This roughly corresponds with the authoritative distinction by GEM between necessity entrepreneurship and opportunity entrepreneurship – or remedial and opportunity entrepreneurship (Ardagna and Lusardi 2010:18). Ardagna and Lusardi (2010:23) show that while the average entrepreneurship rate is much higher in low- and middle- low- income countries than in high- income countries, “the type of entrepreneurial activities undertaken in these countries is rather different: in poor countries, more than two- thirds of individuals engage in remedial entrepreneurial activities, while this type of entrepreneurship drops to 21.9 per cent in high- income countries.”

<sup>iv</sup> The distinction between innovation, opportunity and necessity entrepreneurship touches upon the more normative discussion surrounding entrepreneurship. Entrepreneurs are often hailed for contributing to the productive economy (as opposed to a less desirable rent economy) (Stiglitz 2006:7 in Naudé 2007:4). Differentiating between innovation, opportunity and necessity entrepreneurship, however, clearly shows that not all sorts of entrepreneurship contribute to what GEM has dubbed ‘high-potential growth entrepreneurship,’ i.e. technologically innovative, pro-growth entrepreneurship (Naudé 2007:5). In essence, entrepreneurs are entities that are ingenious and creative in finding ways that add to their own wealth which means that “entrepreneurship is a quality that is always present in any country or population, and all that changes is the particular allocation or application of that quality” (Baumol 1990 in Naudé 2007:3). Entrepreneurship is thus not intrinsically desirable or undesirable and can be productive or unproductive – or even destructive (and which entrepreneur might be considered what, of course, is in the eye of the beholder). In this vein, separating entrepreneurship as a prescription – entrepreneurship as it ought to be, as it should be encouraged by policy – and as a description – entrepreneurship as it is, as it can be analyzed by academics – is essential (Naudé 2007:3).<sup>iv</sup> That entrepreneurship need not be formal is less often recognized. The literature almost exclusively addresses formal, officially registered, entrepreneurship, whereas the original, creative and innovative aspects of entrepreneurship often – per definition – find roots in unofficial, unexplored and uninstitutionalized contexts (Klapper et al 2010:133).

<sup>v</sup> Klapper et al (2010:152-153) warn that it remains unclear which way the relation between entrepreneurship and growth goes; whether “countries that facilitate entrepreneurship see commensurate increases in overall economic growth and an expansion of the formal sector” or whether “periods of economic expansion encourage optimism and entrepreneurship; for instance, individuals might be willing to leave their job security to start a business if they are more confident they could find another job if their business fails.”

<sup>vi</sup> The fragile state concept is extremely broad, implausibly sweeping all struggling countries on one big pile; static in assuming an end-state of institutional development to be measured; utterly state centric;<sup>vi</sup> unable to distinguish between causes, effects and characteristics; and by now too closely associated with normative policy frameworks (Boege et al 2008:2; Di John 2011; Patrick 2006; Duffield 2007; Chandler 2006). It has been challenged and refined by more analytically rooted concepts (such as Boege et al’s (2008, 2009) ‘hybrid political order,’ Menkhous’ (2006) ‘mediated state’ and Lund’s (2006) ‘twilight institutions’ (Overbeek et al 2009:24 in Stel et al 2012:26). In a rudimentary sense, however, the concept of fragility is useful to direct attention to the role of the state in wanting socio-economic development by referring to ‘the existence of persistent, systematic, significant and interrelated social, political and economic uncertainties’ (Binzel and Brück 2007:5 in Guglielmetti 2010:1).

<sup>vii</sup> Interestingly, these indicators are not explicitly economic, but broad economic consequences of these governance challenges are often construed as failures to carry out basic macroeconomic and fiscal policies in the economic arena or establish a legal and regulatory climate conducive to entrepreneurship, private enterprise, open trade, natural resource management, foreign investment, and economic growth (Patrick 2006:29).

<sup>viii</sup> Chabal and Daloz (1999 in Di John 2011:5) present a model based on the idea that colonial legacies create incentives for societal leaders to use “disorder as a political instrument” through the “use and creation of personalised informal patron-client networks.” This insight needs to be completed with another model seeking to explain state fragility based on the the idea of the ‘shadow state’ that adds that economic motives and objectives are not the unique purview of rebel forces, but also include those of state representatives “siphoning off state resources for personal enrichment and the establishment of patronage networks, instead of providing public goods such as security and economic governance” (Reno 1995 in Di John 2011:5). Together, these models approach the dual game that almost inevitably creates a context in which “economic liberalisation and multi-party electoral politics are likely to allow even greater scope for those powerful ‘businessmen of crime’ [...] to flourish, as such liberalisation policies tend to reinforce the power of ‘shadowy’ entrepreneurial elites” (Chabal and Daloz

1999:91 in Di John 2011:5). The shape of the elite bargain on which a political settlement rests, then, is central to understanding the context of entrepreneurship and business (Di John 2011:8).

<sup>ix</sup> On the contrary, Schmotz (2010:15) argues, hybrid regimes are more likely to turn into autocratic regimes than to transit to democracy. He calculates that, after 10 years, 34.1 per cent of hybrid regimes have become autocratic whereas only 17.4 per cent became democratic and that after 20 years, 25.3 per cent have democratized, while 45.9 per cent have autocratized. Brownlee (2009:515), concurs that “competitive authoritarian regimes are not especially prone to losing power” but he claims that when they do, they “are significantly more likely to be followed by electoral democracy.” He adds that regimes with a higher GDP per capita and regimes operating after 1989 were more likely to be succeeded by democracy than their counterparts, but notes that “location in the Middle East significantly reduced the chance of democratic transition, relative to those of regimes in other regions” (Brownlee 2009:528). Roesler and Howard (2007:13-14), conversely, argue that competitive authoritarian regimes are the most unstable as according to their analysis “nearly one in two elections in competitive authoritarian regimes leads to a new regime type, with nine elections (or 17 per cent) leading to hegemonic authoritarianism, and 15 (29 per cent) jumping up to electoral democracies.” In much of the work on hybrid regimes a democratization bias, the assumption that democracy is necessarily the sole desired, or even possible, system is clearly still apparent (Schmotz 2010:7-8; Roesler and Howard 2007:18).

<sup>x</sup> Boas and Jennings’ (2005:388 in Boege et al 2008:5) sharp remark regarding the fragile state paradigm bears equal relevance to the apparent exceptionality in the hybrid regime concept: “To say that something ‘fails’ or ‘is failing’ is a normative judgement that is only meaningful in comparison to something else; in this case, that something else is the existence of a Westernized, ‘healthy’ state that, unfortunately, has little relevance to most of the states in question because it has simply never existed there.”

<sup>xi</sup> More specifically, the failure of political leaders to generate an entrepreneurial system of governance based on a ‘coo-petitive’ (a mix of competition and cooperation) “diffusion of means (technology, know-how, innovative culture, entrepreneurship and information sharing) in a predictable and conducive environment” and the failure of donors to provide development assistance as a cure rather than a palliative.

<sup>xii</sup> This touches upon some tension in the literature. Some, such as Banerjee and Duflo (2007), remark on poor people’s lack of willingness to commit to entrepreneurial activity, an observation which might be related to the “high cost for an individual to turn attention away from pressing matters in order to seek or perceive new opportunities-which may be scarce” (Gifford 1998:17 in Gries and Naudé 2011:218). Such analysis seems at odds with Ciarli et al’s (2009) observation that poverty and conflict *necessitates* rather than discourages entrepreneurship. Again, the distinction between innovation, opportunity and necessity entrepreneurship helps unnerve the seeming contradiction.

<sup>xiii</sup> As noted previously, economists tend to focus on the impact or output of entrepreneurship, disregarding that entrepreneurship can have intrinsic value for entrepreneurs, something that is at least partially socially determined. Gries and Naudé (2011:216) seek to address this hiatus by taking a Sen-inspired capability approach to entrepreneurship. They stress how people can value being entrepreneurial for various reasons apart from material gain and list non-pecuniary values like independence, identity and (self-)respect. Seeing entrepreneurship as a capability functioning, however, is possible only by the merit of agency, of entrepreneurship being a choice. This means that it concerns innovation and opportunity entrepreneurship, but not necessity entrepreneurship (Gries and Naudé 2011:218). The authors go on to show that the increase of entrepreneurship depends on the extent to which latent entrepreneurs are willing and able to seize ‘open opportunities’ (Gries and Naudé 2011:219). This, in turn, is influenced by the broad general and institutional environment that partly determines the efficiency of entrepreneurs’ search efforts, and information and transaction costs as explored in detail above (Gries and Naudé 2011:221).

<sup>xiv</sup> In one of the most recent researches into the demographic issue, Faour (2007:912) estimates that in 2005 the Maronites made up 19 per cent of the population, the Shi’ites 34 per cent and the Sunnis 21.3 per cent.

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

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

<sup>xvii</sup> *The Civil War*, however, was preceded by another near civil war between US-baked Maronites and Soviet-supported Muslims claiming between 2000 and 4000 lives. In fact, the very Lebanese State might have never been created if not as a belated protection guarantee for the Christians that had suffered several massacres at the hands of the Druze in the Druze-Maronite strife in 1860.

<sup>xviii</sup> The Arab uprisings and the changing political landscape in the Arab world could make this ‘unique’ position irrelevant in the long term as Lebanon might no longer be able to attract capital from Syria and Egypt as it has historically done once these countries install a more liberal economic regime themselves (LCPS 2011:6).

<sup>xix</sup> There seems to be considerable mobilization to create an industrial zone in Tripoli, but no concrete output has as of yet been generated (author's interviews with expert on Lebanese industrialism; BIAT representative; and advisor to the Ministry of Economy).

<sup>xx</sup> The war included the notorious battle of the hotels, in which the Phoenicia, St. Georges, and Holiday Inn--all major luxury hotels--became fiercely contested militia strong points. "A score of smaller establishments suffered the same fate, as fighting ripped through the heart of the capital. Because the hotels were close to the Green Line, which divided the warring factions, they were forced to remain closed for business when the fighting stopped" (Ghazi 1997).

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

<sup>xxii</sup> Any prevalent fatalism is more likely to stem from decades of war and destruction, then from religious scripture.

<sup>xxiii</sup> Interestingly, even while a large proportion of Lebanese is Christian, the literature is slightly obsessed with the influence of Islam on business and entrepreneurship.

<sup>xxiv</sup> If anything, however, Islamic principles against interest combined with encouragement of "musharaka, mudaraba, and ijara (venture capital, partnership, and leasing models)" sounds pro- rather than anti-entrepreneurial (Cusack and Malmstrom 2011:11).

<sup>xxv</sup> Thirty-four per cent of Lebanese firms had women among the principal owners in 2009 (Guy et al 2011:18). Female labor force participation in Lebanon has been fluctuating from 12.5 per cent in the 1960s to 32.3 per cent in 2000, and was estimated at 21.7 per cent of the total labor force in 2003 by Lebanon's Millennium Development Report (GEM 2007:1). In 1997, female economic activity was recorded to have reached the highest level of 35.1 per cent in Beirut, 23.7 per cent in Mount Lebanon, 18 per cent in the North, 17.4 per cent in the South, and 15 per cent in Nabatiyeh. The lowest female economic activity was recorded in the Bekaa at 12.1 per cent. (GEM 2007:1) Women in Lebanon face not only challenging institutionalized social norms (such as patriarchal sectarian inheritance laws and traditions of transferring savings and resources to male relatives), but legal impediments as well, with Article 26 of The Employment Act prohibiting the hiring of women in all mechanical and manual industries and specifying working hours as well as schedule and types of work that women are allowed to undertake (GEM 2007:5; Abdo and Kerbage 2012:69). For entrepreneurs, the situation in Lebanon is generally considered more favorable than in other countries in the region, but women's entrepreneurship is low compared to men's. Abdo and Kerbage (2012:69) approximate that only 10.1 per cent of women are self-employed, compared to 33.9 per cent for men. As a result of social and institutional barriers, women owned businesses are often informal – in 1997, only 17 per cent of women registered their businesses, compared to 44 per cent of men – with all due consequences or in the less profitable economic sectors, like handicrafts and food (Abdo and Kerbage 2012:67; Husseini 1997:49). A survey by Husseini (1997:51-52) found that 1.2 per cent of women got loans from banks, compared to 4.8 per cent of men; that 8.8 per cent of men said that gaining independence was an important motivation for their business, compared to only 2.2 per cent of the women surveyed.

<sup>xxvi</sup> According to the International Finance Cooperation (IFC – 2008:2) there are ten legal structures for business entities in Lebanon: business concern; general partnership; simple limited partnership; limited partnership by shares; limited liability company; joint stock company; holding company; offshore company; Lebanese branch of a foreign company; Lebanese representative office of a foreign company.

<sup>xxvii</sup> A social entrepreneurship incubator, for instance, notes that "we should really be thinking on a different scale, though. Now we're happy with one or two start-ups being funded, or eight start-ups that are part of a program. We should really scale this up."

<sup>xxviii</sup> This observation is based on views expressed by key informants (author's interview with Kafalat experts), but has unfortunately not been validated through interviews with Southbic representatives or through literature. Other experts regarded Southbic as the smallest, but most efficient of the incubators (author's interview with UN expert)

<sup>xxix</sup> Doumit and Chaaban (2012:13), in fact, use a continuum from traditional non-profit to non-profit with income generating activities to social enterprise/social business to socially responsible business to corporations practicing social responsibility to traditional for-profit.

<sup>xxx</sup> This is confirmed by studies by WB (2012:v-vi) identifying infrastructure bottlenecks, political instability and governance problems as three main constraints for "firms' activity and investment" and by WEF (2011:11) that notes that the regulation and governance component of the Arab entrepreneurial ecosystem are under developed.

<sup>xxxi</sup> According to the Lebanon Anti-Bribery Network (2010:12), Lebanese businesses face nine types of audits (tax; SSNF; Ministry of Labor; customs; municipalities; consumer protection unit; intellectual property protection unit, Ministry of Economy and Trade; General Security; Ministry of Tourism).

<sup>xxxii</sup> Fahed-Sreih (2004:22) would disagree and, already in 2004, writes that corporate governance has come of age in Lebanon and is gaining interest among family businesses.

<sup>xxxiii</sup> Some observers even linked the absence of medium sized enterprises to this, reasoning that while small businesses are not lucrative to extort from and big businesses are owned by politicians, the segment in between is rewarding to bribe, which could be a disincentive for small businesses to grow.

<sup>xxxiv</sup> In contrast to the traditional private sector, the social entrepreneurship movement does aim to “generate a paradigm shift regarding the relations between civil society and the state. NGOs are dependent on the state for funding and the private sector is associated with the state through clientelism.” Social enterprises, in their vision, could avoid both these traps both and “weaken the grip of politics, [...] generating some autonomy and keeping clientelism at bay” (author’s interview with social entrepreneurship experts).

<sup>xxxv</sup> The reconstruction after the 2006 war can be considered an improvement compared to post-Civil War reconstruction, but “political clientelism, embezzlement and other forms of corruption were a substantial concern” and some donors decided to pay reparations directly to the individual beneficiaries instead of through the state to avoid corruption (LTA 2009b:27). Moreover, infrastructure rebuilding in some cases went through Lebanese companies and organizations that acted as donors, which often resulted in contractor and donor being the same entity and reconstruction being used as a feature of election campaigns (LTA 2009b:26).

<sup>xxxvi</sup> Costs of living in Beirut are higher than in Abu Dhabi, whereas middleclass household incomes often do not exceed \$1000,- (author’s interviews with micro credit expert; and social entrepreneurship incubator).

<sup>xxxvii</sup> As in other fragile countries “the costs and adequacy of these services affects commercial opportunities for small farmers, entrepreneurs and businesses, both small and large” (Specker and Briscoe 2010:42). Ciarli et al (2009:26) found that in Afghanistan households living in communities with public access to electricity have a larger probability of being entrepreneurs. The restoration of physical and communication infrastructure is accordingly advised as a core priority in post-conflict private sector development (Lund 2011:89-90; Guglielmetti 2010:15-16).

<sup>xxxviii</sup> One economist explained how the telecom sector is organized. “The emergence of mobile communication happened during the Syrian era and fully blossomed during the Hariri era. Two companies were given the telecommunications, “as a fig leaf of competition.” They set the price and never went down. When the government changed in 2005, they continued the duopoly, but took two different companies. Another government shift maintained these companies, but to bash their predecessors they wanted to show how they could do much better and forced the companies to lower the price somewhat.” (Author’s interview with AUB economist)

<sup>xxxix</sup> Some experts question this default reference to politicians self-interest and explain that even if, for instance, the telecom sector would be privatized there would be no economic growth “on a Chinese scale.” What is more, the telecom sector has been a private duopoly until 2004 when the government retook it from “the thieves that were running it.” “The telecom sector isn’t stopped from opened up because of the self-interest of the politicians, but because it has become a major generator of revenue for the state. For a government facing high deficits and debts, it is not easy to give this up.” (Author’s interviews with LAU economist; and diplomat)

<sup>xl</sup> The banking sector in Lebanon “has its own structure serving the government debt; supporting their board members which are mostly wealthy families.” The political power of lawyers is also often recalled as an example of the influence of specific interest groups on policy-making: knowing that almost half of the Lebanese parliament apparently consists of lawyers, the mysterious regulation obliging every start-up to hire a lawyer becomes readily less mystifying. (Authors interviews with UN expert; and AUB economist)

<sup>xli</sup> Some people contrasted the current situation with the time under Rafiq Hariri, someone who was seen to have a vision and act on that vision (author’s interview with real estate expert), but many others would probably feel that no vision is better than Hariri’s vision was.

<sup>xlii</sup> In talking about instability, experts warned, several distinctions need to be made. First, as touched upon above as well, the people in function might change – creating a semblance of transformation – but the actual policies, the important ones at least, “have been there since the Ottoman days” and will not be changed due to the veto power opposing political blocks have in Parliament Other analysts added that while politics thus might seem volatile because it is so polarized, economic policy is gridlocked – on purpose, they think, to maintain entrepreneurs’ dependence on political connections. Second, a business manager noticed, even if some policies change, this has no follow-up on the implementation level. (author’s interviews with advisor to the Council of Ministers; UN-ESCWA expert; corruption experts; and business consultant).

<sup>xliii</sup> Micro finance experts, unsurprisingly, confirm that access to finance remains the key impediment for the poorer segment of the population that makes up a considerable part of the populace but cannot access loans from banks (Author’s interview with microfinance expert). Women entrepreneurs also still face considerably more obstacles in accessing money, but this is perhaps more due to general societal gender related discrimination than to specific finance structures (Author’s interview with women’s entrepreneurship expert).

<sup>xliv</sup> According to the ministry of industry, Lebanon’s industrial exports remained fairly constant up to April 2012, rising only by 0.49 per cent to reach \$1.31 billion. However in April alone, industrial exports witnessed a drastic fall of 21.8 per cent to reach \$222.7 million compared to \$284.9 million recorded in April 2011 (Blom Bank 2012:9). The industrial sector has also been badly hit by the 2006 war. Estimates suggest that ten large factories and more than 700 small and medium industrial units have been completely or partially destroyed, corresponding to a total damage of at least \$190 million. The same goes for the agriculture sector. Oxfam estimated that up to 85 per cent of the country’s 195,000 farmers have lost all or some of their harvest at a cost of between US\$135-185 million. (Fatouch and Kolb 2006:98)

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<sup>xlv</sup> With the exception of one incubator representative that maintained that R&D was widespread, both in cooperation with universities and in internal company departments (author's interview with Berytech representative).

<sup>xlvi</sup> This reading is backed up the literature. A study by Chakour (2001 in Ahmed and Julian 2012:27) showed that the Lebanese find it difficult to get the information required to evaluate business opportunities. Women entrepreneurs, especially, complain about the lack of information that limits their access to resources and markets (GEM 2007:4). Lebanese firms also state they require more funds for information and communication technology acquisition and improvement (Ahmed and Julian 2012:29). Thus, while surveys such as the one by WB (2012:98) Doing Business research assume "that a business has full information on what is required and does not waste time when completing procedures," in the Lebanese context this is apparently far removed from the reality of doing business characterized by knowledge gaps and information insecurities.

<sup>xlvii</sup> There were various (spiteful) references to the Jordanian entrepreneurship ecosystem, mostly stating that while in Jordan a lot of public money (often provided by the United States) is invested in supporting entrepreneurs and all the facilities are there the real entrepreneurial spirit and output is missing. Lebanon is contrasted with this situation as a, more desirable, opposite: a situation in which the facilities and government support are lacking, but entrepreneurship is nevertheless booming due to 'the culture' and 'the people.' "We have the people, but lack the infrastructure; they have the infrastructure, but lack the people." (author's interview with Kafalat experts).

<sup>xlviii</sup> One potentially problematic effect of this mentality is that even government officials now (almost thankfully) conclude that "apparently companies don't really need the government and investors have money to invest anyways" (Author's interview with IDAL representative).

<sup>xlix</sup> Here, there is the often expressed hope that the younger, post-war, generation will mobilize against corruption (see also LTA (2009c)).

<sup>i</sup> Key components of this cultural X-factor include "the family and society structures; the role of and deference toward age; the existence and encouragement of innovation, creativity, arts, music, and literature communities; freedom of speech and expression; respect for the radical, maverick, and even seemingly crazy view and for nonconformity; cultural openness and the breadth and depth of that embrace; and the "continuous beta" versus product perfection culture" (Naqvi 2011:12).

<sup>ii</sup> Fear of failure does impact the type of business they then start, showing a tendency towards the conservative rather than the innovative.



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