

MARKET OVERVIEW

SMALL & MEDIUM ENTERPRISES IN BEIRUT & MOUNT LEBANON

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A report by Building Markets for the International Rescue Committee (IRC)



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ACRONYMS & ABBREVIATIONS

BML	Beirut & Mount Lebanon
CCIABML	Chamber of Commerce Industry & Agriculture of Beirut & Mount Lebanon
DfID	Department for International Development (United Kingdom)
EU	European Union
ERD	Economic Recovery & Development
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GoL	Government of Lebanon
FDI	Foreign Direct Investment
HR	Human Resources
ICT	Information and Communications Technology
IRC	International Rescue Committee
KII	Key Informant Interview
LBP	Lebanese Pound
LC	Livelihoods Center
LCRP	Lebanon Crisis Response Plan
MENA	Middle East & North Africa
MoET	Ministry of Economy & Trade
MoF	Ministry of Finance
MoL	Ministry of Labor
NGO	Non-Governmental Organization
MSME/ SME	Micro, Small & Medium-Sized Enterprises/ Small & Medium-Sized Enterprises
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees

PREFACE AND ACKNOWLEDGEMENTS

This report provides a snapshot of Lebanese micro, small and medium-sized enterprises (MSMEs) operating in Beirut and Mount Lebanon. The report highlights demographic information as well as needs, perceptions, opportunities, capacity constraints, and other challenges. Recommendations are intended to guide the design and implementation of MSME support initiatives. Findings and recommendations presented are also intended to complement existing research and inform a wider audience interested in current challenges and opportunities to support Lebanon's domestic private sector. This report is intended to be used as a resource for donors, government, policymakers, international and local non-governmental organizations (NGOs), business support providers, research practitioners and local businesses.

The research and writing of this report was funded by UKAID through the International Rescue Committee (IRC) and carried out by Building Markets in collaboration with IRC's Economic Recovery and Development (ERD) team in Lebanon and ERD technical unit in New York. The IRC responds to the world's worst humanitarian crises and helps people to survive and rebuild their lives. From the onset of an emergency through early recovery, the IRC's economic programs engage and strengthen the capacity of individuals, households and markets and foster economic opportunities for people who need them the most, particularly women and youth. Building Markets is a nonprofit organization that creates jobs and encourages economic growth in developing countries by connecting local small and medium-sized enterprises (SMEs) to supply chains and investment.

Building Markets wishes to thank UKAID and the IRC for making this project possible through their generous support.

The methodology for this study was developed in consultation with the IRC. In preparing its analysis and recommendations, Building Markets has relied on the accuracy of data reported, and has not undertaken any independent verification of data. Field research for this project began on November 4th, 2015 and concluded on November 27th, 2015. The results presented in this report are based on information provided to Building Markets through surveys and informal consultations with 29 MSMEs (including 1 business roundtable discussion with 4 micro-enterprises) and 17 stakeholders representing public, semi-public, private and international organizations in the Beirut and Mount Lebanon governorates of Lebanon. Owing to the small size of the survey dataset, responses cannot be considered statistically significant or representative of the actual population of businesses operating across Beirut and Mount Lebanon. Hence, this report provides a snapshot of Lebanese MSMEs operating in Beirut and Mount Lebanon, as a first step towards understanding the needs, challenges and constraints of businesses.

This report was researched and written by Kavya Raman (raman@buildingmarkets.org). Additional support provided by Building Markets staff included research, data analysis and development of training resources by Alan Jameson, interview support by Scott McCord, translation assistance by Vicken Avakian, and review and oversight by Jennifer Holt. The Building Markets team wishes to thank Jarrett Basedow, Naim Frewat and IRC's Economic Recovery and Development team in Beirut and Mkalles for their contributions, guidance, and support throughout the field research phase. The research team would also like to gratefully acknowledge the important contributions and support of the many individuals without whom this research could not have been undertaken: This includes the businesses, government, international organizations, business support providers and other stakeholders who contributed their time, and shared their insights and experience.

EXECUTIVE SUMMARY

Lebanon faces significant challenges emanating from the war in Syria, including hosting the largest number of Syrian refugees¹, proportionate to the country's population. The Syrian crisis has led to an influx of more than 1.2 million refugees² into Lebanon over the last four years, creating severe economic, political and social strains. The lack of established shelter and housing for refugees in Lebanon has resulted in widespread displacement across thousands of villages, communities and informal settlements³. Based on current data, over 300,000 Syrian refugees have settled in the governorates of Beirut and Mount Lebanon alone⁴. Due to the protracted nature of the crisis, Syrian refugees and local Lebanese communities already struggling pre-crisis with high unemployment rates and a weak economy are becoming increasingly vulnerable. As their displacement extends and their savings deplete, the socio-economic vulnerability of refugees increases, putting downward pressure on host communities as local economies are in turn squeezed by the crisis. While the country has been receiving humanitarian aid to help manage the influx of refugees, funding levels have been unsustainable and do not adequately address the short and evolving longer-term needs of refugees and already vulnerable Lebanese host communities.

As part of its efforts to generate employment opportunities for economically vulnerable Lebanese and refugees in Lebanon, the IRC operates Livelihoods Centers in Mount Lebanon and Akkar. These Centers provide support to jobseekers, entrepreneurs and employers and seek to improve labor market information and income generation. The IRC has also begun further outreach and support to micro, small and medium-sized enterprises (MSMEs) and is further defining its MSME approach. Therefore, the IRC engaged Building Markets, an expert in accelerating the growth of local businesses in developing countries, to undertake a market assessment and identify practical ways that the IRC could provide meaningful support to MSMEs, with a particular focus on training and mentorship.

Key Findings

While this research found inconsistencies in performance as well as gaps in resources available to Lebanese businesses, there was not always consensus among stakeholders and MSMEs about what support is required to promote their growth. However, MSMEs operating in Beirut and Mount Lebanon indicated that they could benefit from training in sales and marketing, customer service, financial management and business planning. Stakeholders interviewed emphasized the importance of providing customized support and follow-on mentorship assistance that is tailored to the needs of MSMEs, as opposed to generic short-term training, which is already available through several business providers. Stakeholders also underscored the need to provide targeted support to smaller enterprises (particularly micro-enterprises), female entrepreneurs and Lebanese businesses that have been negatively impacted by the Syrian crisis, all of which are currently underserved by existing business support providers.

¹ This report uses the definition established in the 1951 Refugee Convention to define refugee: <http://www.unhcr.org/pages/49c3646c125.html> The term refugee is also used synonymously with Syrian refugee.

² United Nations High Commissioner for Refugees (UNHCR). (Early 2015 Estimate).

³ UNHCR. (2015). 2015 UNHCR Country Operations Profile – Lebanon. <http://www.unhcr.org/pages/49e486676.html>. Accessed on December 14th, 2015.

⁴ This number represents the number of Syrian refugees officially registered with UNHCR in Beirut and Mount Lebanon as of November 30th, 2015. In May 2015, UNHCR Lebanon temporarily suspended new registration as per the Government of Lebanon's instructions. Accordingly, the actual number of Syrian refugees settled in Beirut and Mount Lebanon may be higher. Comprehensive data on the unregistered segment of the refugee population does not exist, however this number is estimated to be somewhere between 300,000 and 500,000 persons across Lebanon. UNHCR. (2015). Syria Regional Refugee Response Inter-Agency Information Sharing Portal. <http://data.unhcr.org/syrianrefugees/country.php?id=122>. Accessed on December 14th, 2015.

In addition to the need for capacity development, this assessment found significant information asymmetries that are likely preventing growth in the market. This includes a lack of available data, for example, disaggregated geographic or sectorial information, upon which local businesses and stakeholders can effectively plan or develop their strategies. There is also an absence of any kind of centralized information sharing platform that would give MSMEs access to procurement opportunities, training resources, guidance on accessing financing and credit, and other market information. The existence of such a resource could also be used to promote best practice and reduce duplication of efforts among stakeholders supporting private sector development in Lebanon, and the region.

Perceptions of Local Businesses

- Of the 29 businesses surveyed, 48.3% employed more than 10 full-time⁵ employees, 75.9% of businesses reported they did not have a dedicated administration or human resource function – defined as at least one full-time employee whose primary job is administration or human resources. Fifty-nine percent (59%) reported they did not have a dedicated finance function – defined as at least one full time employee whose primary job is financial management or accounting. Seventy-two (72%) of businesses said they did not have a formal business plan.
- Eighty-nine percent (89.7%) of all businesses were registered with an officially recognized licensing authority. Of the businesses that were registered, 50% were registered with the Lebanese Ministry of Finance.
- Seventy-five percent (75.9%) of businesses said they hired non-Lebanese workers. These businesses primarily operated in the construction, household and industrial services, and tourism sectors. These businesses also employed a higher percentage of unskilled workers, comprising approximately 32% of their current workforce.
- Businesses perceived increased competition from local businesses, availability of skilled labor, and infrastructure, as factors having major to severe impact on their business operations.
- Sixty-eight percent (68%) of businesses stated they were currently stable, 24% indicated that they were expanding, and 8% indicated that they were downsizing.
- Sixty-eight percent (68%) of businesses stated they had received some type of training, mentorship, or capacity building support in the past. Sales and marketing, and customer service were identified as two main areas in which businesses needed additional support.
- Businesses were asked to predict which sectors they believed would experience the most economic growth within the next 12 months. Commonly cited sectors included food and beverages (16%), construction (14%), health, recreation and leisure (11%), banking, financial & legal services (7%), and agriculture (7%). These sectors align with traditional drivers of economic activity in Lebanon, indicating that businesses did not foresee any dramatic shifts in drivers of economic activity.

Perceptions of Stakeholders

- Stakeholders noted a severe lack of accurate and reliable market information, statistics, and research about MSMEs and the business environment in Lebanon. Stakeholders specifically referred to the absence of a centralized repository of information about Lebanese businesses – including geographic location, sector of operations, management, ownership, age, registration, certification, clientele, past performance, geographic scope, competition, the financial standing of businesses, and other key information. Stakeholders also noted a lack of a centralized information on available business opportunities – including procurement, finance, and business

⁵ For the purposes of this research, “full-time” employees are defined as employees working 40 hours per week, or more.

support services (training and mentorship), among others. These factors were noted as some of the possible reasons why businesses do not conduct research when developing their business plans and marketing strategies.

- While the Lebanese financial sector is well regulated, and the central bank has introduced initiatives to stimulate SME growth in key sectors, stakeholders noted that high collateral requirements and interest rates were prohibitive to smaller businesses (particularly micro-enterprises).
- Stakeholders noted that public procurement in Lebanon is closed, lacks transparency, and is riddled with institutionalized corruption. This is highlighted in the Government of Lebanon's SME Strategy, which stresses the need for Parliament to endorse the draft Public Procurement Law, paving the way for an institutionalized and transparent public procurement process - thereby, allowing maximum participation by MSMEs.
- Stakeholders were asked to predict which sectors they believed would experience the most economic growth within the next 12 months. Overwhelmingly, the most commonly cited sector was information and communications technology (19%), followed by agriculture (15%), construction (12%), and interestingly – art and design (12%). Stakeholders indicated that these sectors were generally resistant to political instability, and insecurity, and hence, had the opportunity to grow.



Above: Naim Baddath owns a tailoring company that provides uniforms for schools, universities, hospitals, and restaurants across Beirut. Despite having run his own successful company for over 50 years, Naim believes that he can benefit from training on financial management.

I. INTRODUCTION

I.1 Context

Lebanon is a small but highly urbanized middle income country with a GDP of around US \$45 billion, a GDP per capita of US \$ 10,057.9⁶ and an ease of doing business ranking of 123 out of 189 economies⁷. Beirut, the capital, Lebanon's largest city, and seat of government, has traditionally been the country's hub of political and economic activity. In recent years, political paralysis has rendered Lebanon's government ineffective⁸. Moreover, the collapse of public services and infrastructure, including electricity, water supply and a visually powerful garbage crisis that left mountains of trash uncollected on the streets, has led to large popular demonstrations and unrest in recent months⁹. Current data suggests that the Syrian crisis has resulted in over 300,000 registered refugees having settled in Beirut and Mount Lebanon¹⁰. This influx has added pressure to an already strained social and economic fabric, highlighting the acute effects of the Syrian crisis beyond regions close to the Syria-Lebanon border.

Economic Growth: Although Lebanon has weathered several crises over the past decade, the Syrian crisis has exacerbated pre-existing economic issues, resulting in a decline in tourism, private investment and foreign direct investment (FDI) since the beginning of the conflict in 2011¹¹. However, despite these challenges, the Fall 2015 publication of the World Bank's Lebanon Economic Monitor suggests that peripheral sectors have helped maintain positive, albeit sluggish growth in real GDP (measured at 2% in 2014). The report confirms that traditional drivers of growth in Lebanon - real estate, construction, finance and tourism¹² have suffered heavily from the regional turmoil. Instead, growth originated from other sources. This included Syria-related economic activity in Lebanon - generated through increased spending by refugees in Lebanon on household and private consumption, as well as increased export activity for some Lebanese businesses who have since replaced a loss of production in the Syrian market (See section on Trade below). Growth also originated from pharmaceuticals¹³, and business services sectors (including financial, legal, accounting, engineering, architecture, advertising, media) and information and communications technology (ICT)¹⁴.

Trade: The Spring 2015 publication of the World Bank's Lebanon Economic Monitor confirms that trade patterns (both imports and exports) have been severely disrupted by the Syrian crisis. However, despite these disruptions to trade, the trend in Lebanese exports to Syria and neighboring affected countries has remained consistent with the pre-war period. To some extent, this can be explained by the Port of Beirut, whose existing capacity has facilitated an

⁶ Figures in current US dollars. World Bank. (2014). Lebanon Country Profile. <http://data.worldbank.org/country/lebanon> Accessed on December 14th, 2015.

⁷ World Bank. (2015). Doing Business 2016. Measuring Regulatory Quality and Efficiency. Economy Profile Lebanon 2016.

⁸ [The] Economist Intelligence Unit. (2015). Lebanon Country Profile - Politics. <http://country.eiu.com/lebanon#>. Accessed on December 14th, 2015.

⁹ World Bank. (2015). Lebanon Economic Monitor: The Great Capture (Fall 2015).

¹⁰ UNHCR. (2015). Syria Regional Refugee Response Inter-Agency Information Sharing Portal. <http://data.unhcr.org/syrianrefugees/country.php?id=122>. Accessed on December 14th, 2015.

¹¹ International Finance Corporation (IFC). (2014). IFC & Fransabank. Supporting Job Creation in Lebanon. Case Study.

¹² The tourism sector saw a 16.6% increase in tourist arrivals year-on-year, during the first eight months of 2015, compared to an increase of only 0.7% during the corresponding period in 2014. However, observed growth still remained below pre-crisis levels.

¹³ According to Société Générale de Banque au Liban, in EcoNews, No. 36, September 2015, pharmaceutical output and capacity have increased significantly over the past five years following a series of new investments in the industry geared mainly towards export markets.

¹⁴ Contrary to most economies in the region, Lebanon's services exports do not rely exclusively on exports of transport and tourism, but rather expand to cover modern sectors like financial, real estate and business services. Overall, non-tourism services exports have grown unabatedly during the Syrian war. Even the real estate sector that contracted in 2010-12 most likely due to the spillovers of the Syrian conflict, rebounded in 2013. And the financial sector has remained resilient throughout the crisis despite some loss of profitability of the Syrian affiliates of major Lebanese banks. Other business services including legal, accounting, engineering, architecture, advertising and media services, have continued to be resilient despite the challenging economic environment relying on well-developed skills and budding services infrastructure. World Bank. (2015). Lebanon Economic Monitor: The Great Capture.

avoidance of delays, as it has been able to accommodate an increase in traffic resulting from a shift in overland trade routes, redirected as a result of the conflict. However, the potential for increasing future trade is hinged on improving port infrastructure - at least until the security situation in Syria allows for the unhindered passage of goods¹⁵. Furthermore, the World Bank report (Spring 2015) suggests that the crisis has generated opportunities for some Lebanese exporters, who have replaced a loss of production in the Syrian market. From a business perspective - this would indicate that there have been winners and losers as a result of the crisis. The analysis further suggests that there has been relative stability of imports, despite the crisis. This is explained as the likely product of two competing forces – (i) refugee inflows to Lebanon, resulting in increased imports as a result of increased demand for consumer goods, and (ii) increased trade costs due to the war, which have hampered the ability of some Lebanese businesses to import overland, thus decreasing the import propensity of the economy”¹⁶. Nevertheless, the report suggests that there is a need to support businesses that have been negatively impacted by the Syrian conflict – particularly businesses that were heavily reliant on Syrian and Middle Eastern markets and overland trade routes. These businesses could benefit from diversifying towards other markets, or shifting their trade routes until the crisis is resolved.

Financial Sector: Lebanon’s strong financial sector is the outcome of prudent regulatory structuring and effective supervision. The country’s banking sector has positioned itself as a safe haven in the region during times of crises and has consistently attracted inflows from the MENA region and the Lebanese diaspora. Consequently, the banking sector has benefited from high levels of liquidity and has been able to withstand exogenous shocks while maintaining profitability and low levels of non-performing loans. The banking sector is critical to Lebanon’s macroeconomic stability as almost 42% of government debt is financed by the country’s domestic banking sector¹⁷. However, as in the rest of the region, Lebanese financial institutions remain conservative in their lending practices with loans given primarily to large companies, even though 93 – 95% percent of businesses in Lebanon are considered to be MSMEs. According to data from the Chamber of Commerce, Industries and Agriculture of Beirut & Mount Lebanon (CCIABML), commercial bank loans were predominantly distributed amongst trade/services, construction, industry, financial intermediaries, private individuals and agriculture in 2014. There appears to be a gap in lending to other sectors of the economy, which comprised only 2.6% of loans distributed¹⁸. The World Bank report (Spring 2015) predicts a continued negative trend on lending to the private sector, characterized by higher interest rates, and tightened monetary policy. This is attributed to the expected normalization of global interest rates which will ultimately require domestic interest rates to increase in order to maintain exchange rate stability. Secondly, despite initiatives to boost economic activity through the provision of subsidized loans, the report predicts that after several years of such lending, attention needs to be refocused to repayment capacity.

Employment: Real estate, construction, finance and tourism have traditionally been drivers of economic activity in Lebanon. However, these sectors are not labor intensive, and typically attract lower skilled and cheaper foreign labor. As a result, growth observed in Lebanon does not adequately generate employment for Lebanese nationals. The World Bank report (Spring 2015) suggests that Lebanon’s inability to generate much needed jobs for its citizens has considerable socio-demographic implications. Unemployment data has not been updated since 2011 (Pre-crisis, when it was measured at around 11%), however it is estimated to have worsened significantly during the past four years. As a result, educated Lebanese are seeking employment in countries with a demand for high-skilled labor. This has resulted in high levels of emigration and a significant “brain drain”.

¹⁵ World Bank. (2015). Lebanon Economic Monitor: The Economy of New Drivers and Old Drags (Spring 2015).

¹⁶ World Bank. (2015). Lebanon Economic Monitor: The Economy of New Drivers and Old Drags (Spring 2015).

¹⁷ IFC. (2014). IFC & Fransabank. Supporting Job Creation in Lebanon. Case Study.

¹⁸ Chamber of Commerce, Industries and Agriculture for Beirut & Mount Lebanon (CCIABML). (2014). The Business Chronicle 2014.

Although non-Lebanese have traditionally dominated the unskilled labor market¹⁹, the Syrian crisis has exacerbated protection concerns for refugees, as shifting work restrictions have constrained the ability of Syrians to find work in Lebanon. As the crisis protracts, and Syrians further shift their economic role from being consumers reliant on “handouts” towards income earners (albeit confined within the informal sector or working unskilled jobs), sustained unemployment can impact domestic stability in Lebanon in the long-term. The issue of domestic stability is further exacerbated by negative perceptions from Lebanese host-communities, some of whom feel that Syrians are establishing micro and small businesses that sell goods at lower prices, thus impacting Lebanese businesses that are unable to compete at the same prices²⁰. The World Bank report (Spring 2015) emphasizes the need to support Lebanese businesses that have been negatively impacted by the crisis – either directly or indirectly. Furthermore, the report also emphasizes the need to support workers (both skilled and unskilled) that are being laid off by businesses, as a mechanism for ensuring long-term domestic stability.

“In the UN system, we have championed a resilience-based approach to the Syria crisis – with development support complementing humanitarian support. It’s not a question of either/ or – both are needed. All partners see the need to provide refugees with increased access to livelihoods, but more livelihoods are needed for host communities too. National and international partners need to look at job creation initiatives, strategies, policies and public-private partnerships...It is critical that the international community look at new, multi-year financial commitments to support neighboring countries to address the challenge of hosting very large numbers of refugees. Widening our partnerships to International Financial Institutions (IFIs) and the private sector is imperative.”

- *United Nations Development Group Chairperson and United Nations Development Programme Administrator Helen Clark. Address to the Resilience Development Forum, November 9th, 2015*

1.2 Impact of the Syrian Crisis

Nearly five years into the Syrian crisis, the likelihood of a political solution that will bring an end to the conflict is not expected within the near term. Refugees have limited livelihood and education opportunities, and living conditions in exile continue to deteriorate. “Savings have been depleted and valuables have been sold to cover rent, food and other basic needs. Refugees have become increasingly vulnerable to protection risks, and many resort to negative coping mechanisms”²¹.

Furthermore, the crisis continues to have an enormous social and economic impact on host communities. Lebanon hosts an estimated 1.2 million refugees, representing nearly 30% of the 4.3 million refugees displaced across the region between Turkey, Lebanon, Jordan, Iraq and Egypt (official UNCHR estimate, early 2015 – although actual

¹⁹ It is worth noting that while the influx of Syrian refugees represents a huge demographic shift for Lebanon, Syrians and migrant workers from other Arab, Asian and African countries have filled the majority of low-skilled jobs since the 1990s. These jobs are typically characterized by wages that are below minimum wage, and without the benefits of national social security. International Labour Organization (ILO). (2015). *Towards Decent Work in Lebanon: Issues and Challenges in Light of the Syrian Refugee Crisis*.

²⁰ It is possible that observations noted during this research are based on a perceived rather than actual threat posed by Syrian businesses, as in most cases, Syrian micro-enterprises may cater to Syrian markets that were not previously served by Lebanese businesses.

²¹ Challenges to host communities are noted anecdotally. Whether competition is actual or perceived is not indicated in the report. 3RP. (2015). *Regional Strategic Overview. 3RP Regional Refugee & Resilience Plan 2016 – 2017 In Response to the Syrian Crisis. Regional Strategic Overview*. <http://www.3rpsyriacrisis.org/wp-content/uploads/2015/12/3RP-Regional-Overview-2016-2017.pdf>. Accessed on December 14th, 2015.

figures may be significantly higher). Local, municipal and national public services are overwhelmed, and vulnerable host communities have reported decreases in wages and deteriorating working conditions due to increased competition for low and unskilled jobs²². At the same time, labor markets that depended on migrant labor pre-crisis are affected by increased restrictions on the rights of refugees to work, and refugee families face increasing poverty. As a result, refugees work in the informal economy, which leads to an increased potential for exploitation as a result of working under unclear and shifting regulations²³.

According to the Government of Lebanon's (GoL's) Crisis Response Plan, the most vulnerable Lebanese feel they are paying a disproportionate price for another country's conflict. As these challenges follow years of chronic under-investment, vulnerable Lebanese communities insist their needs be met as well as those of the refugees²⁴.

Indeed, there is a need to support the resilience of refugees and host Lebanese communities. One key objective of the GoL's Crisis Response Plan 2015 - 2016 is the reinforcement of Lebanon's economic, social, institutional and environmental stability. With regards to economic stability, the Plan is focused on enhancing the productive capacities of MSMEs through improved local economic infrastructure and supporting MSMEs to respond to market demands. This is expected to have a positive knock-on effect of creating jobs, and supporting local businesses to generate income, thus benefiting vulnerable local communities, and reducing tensions caused by competition for work²⁵. With the Syrian crisis expected to continue, this expanded support to MSMEs will play a critical role in accomplishing the GoL's objectives, by improving livelihoods, increasing employment generation, decreasing dependence on aid, increasing self-reliance and other positive social and economic dividends for refugees and impacted communities.



Above: Vahram Aghazarian of Vaco, a company that supplies fixing products (such as nails, screws, etc.) to construction companies.

²² Ibid.

²³ IRC. (2015). Akkar Business Climate Assessment.

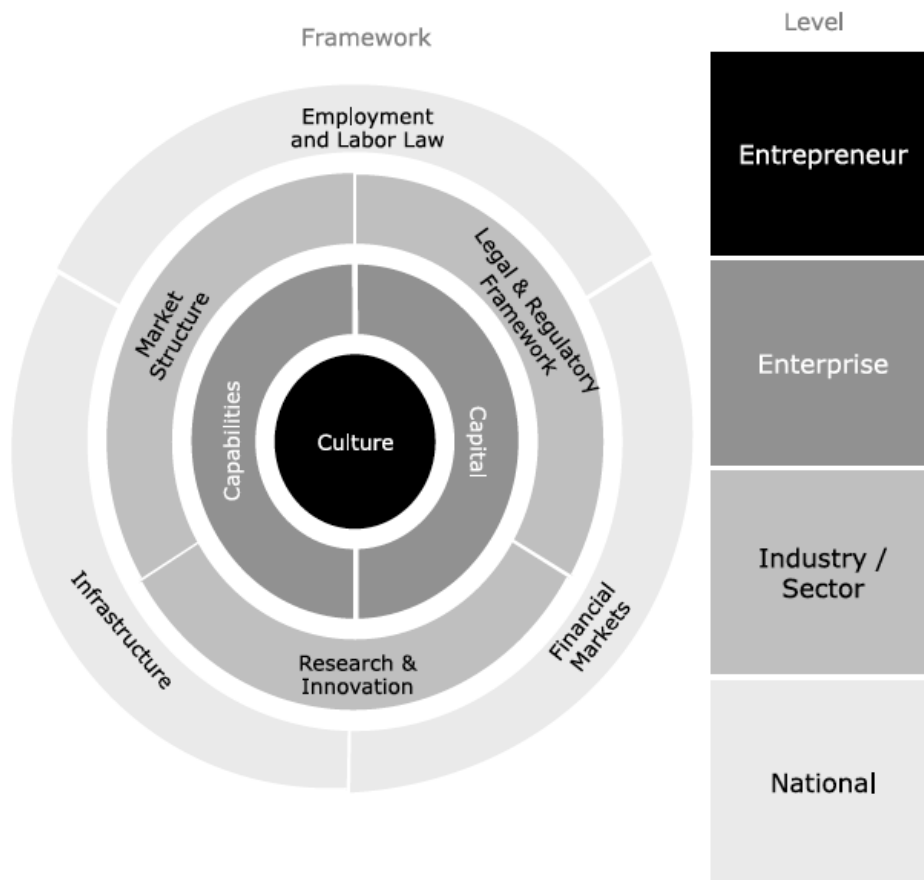
²⁴ Government of Lebanon. (2014). Lebanon Crisis Response Plan (LCRP) 2015 – 2016.

²⁵ Government of Lebanon. (2014). Lebanon Crisis Response Plan (LCRP) 2015 – 2016.

1.3 The MSME Landscape

In order to expand support to MSMEs, it is imperative to understand the constraints facing businesses within the Lebanese business ecosystem. This helps to identify underlying factors that limit the growth potential of businesses, and consequently, their ability to stimulate job creation and other positive social and economic dividends, as described above. These constraints are well documented in the GoL's SME Strategy at the Entrepreneur, Enterprise, Industry and National levels, summarized below:

Figure 1: The SME Entrepreneur Ecosystem. Understanding business constraints (SME Strategy)²⁶



Entrepreneur (Culture): At the entrepreneur level, Lebanese SMEs demonstrate limited readiness for institutionalization and transition to professional management. They are typically family-owned businesses, and exhibit a hereditary culture of ownership that values unrestricted control. This causes family-run businesses to keep their capital bases closed, discouraging growth. At the cultural level, the Strategy also highlights the untapped potential of Lebanese female entrepreneurs who remain underserved due to the lack of an enabling environment to support their unique needs and development.

²⁶ Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

Enterprise (Capabilities): At the enterprise level, Lebanese SMEs are constrained by a “Middle Management Gap” that is fueled by high emigration levels and poor talent retention. This is argued to have led to a stagnation in the growth of companies and weak managerial pyramids. Furthermore, there is a mismatch in demand and supply of capabilities. There is an observed lack of technical specialists and highly skilled workforce in Lebanon. This is exacerbated by a shortage of vocational programs and technical specializations.

Enterprise (Capital): Despite a well-developed financial sector, and an evolution in the landscape of available capital for SMEs – which includes debt financing instruments through government subsidized loans, microfinance, and loan guarantees²⁷, to the recent entry of private sector equity investors and early stage venture capital – Lebanon remains a heavily debt driven market. Lebanese business owners exhibit limited appetite for outside investors or diversifying their capital bases, thus restricting professional investment companies from playing an active role in supporting their growth.

Commercial banks dominate the funding scene for mature SMEs with (costly) highly collateralized debt. At around 16% of the total loan portfolio, SME lending in Lebanon is among the highest in the MENA region, yet only half of the 30% target set by banks²⁸. Some of the challenges that prevent banks (and subsequently SMEs) from reaching their targets are limited financial transparency, weak credit coverage/ creditor rights, weak SME management skills, and high collateral requirements.

Industry (Market Structure, Legal & Regulatory Framework): The business landscape in Lebanon is constrained by an uneven playing field that stems from exclusive agencies, de-facto oligopolies, the lack of a strong judicial system and relevant antitrust laws to regulate competition. Bureaucratic inefficiencies, red tape, costly regulatory and setup processes, and restrictive taxation policies²⁹ place SMEs at a disadvantage compared to larger, more established competitors.

Despite being a largely consumer economy, and a major driver of import and export activity, trading is a lengthy and tedious process for Lebanese businesses. This has been exacerbated by the Syrian crisis, as overland trading routes have been closed off. This is particularly felt by SMEs which do not have the depth and capacity to handle the complexity of trading inefficiencies and regulations, in a fluid political and security environment.

Lebanese SMEs are further constrained by a cultural stigma of failure. This is aggravated by the lengthy and costly process of closing a business. As a result, SMEs exist in *perpetual limbo*, instead of a healthy ecosystem that allows the same entrepreneurs to learn from their failures, shut down, and build stronger enterprises³⁰.

Industry (Research & Innovation): Lebanese SMEs face serious challenges in acquiring reliable, and recent market information. As a result, SMEs and entrepreneurs develop their strategies, build their business plans and size their markets based on irregular and poor market intelligence. This is in part driven by the small budget allocations of

²⁷ It is worth noting that the introduction of Kafalat loans helped push the boundaries of commercial lending to “early-stage (higher risk) enterprises” in selected industries by reducing the risks taken by banks. Kafalat is a Lebanese financial company that facilitates access to commercial bank funding through loan guarantees for SMEs in one of five subsidized sectors: Industry, Agriculture, Tourism, High Technology and Traditional Crafts. Kafalat (SAL) is owned by the National Institute for the Guarantee of Deposits (75%) and fifty Lebanese banks (25%). See <http://kafalat.com.lb/> for more details.

²⁸ Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

²⁹ The current tax and tariffs regime in Lebanon lacks sufficient differentiation for SMEs. Some regulatory fees and tariffs may be prohibitive for SMEs. The Lebanese government has developed tax incentives and exemptions for specific sectors/geographies (e.g. 6 to 10-year income tax breaks for rural industrials, draft law for tax reduction on profits of industrial exports of Lebanese origin). However, adoption and utilization of these incentives is still low. Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

³⁰ Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

Lebanese research and statistical institutions such as the Central Administration of Statistics, central bank, public and private institutions (e.g. banks), as a result of which in-depth market research and analysis is not prioritized.

National (Infrastructure, Employment & Labor Law and Financial Markets): Poor infrastructure increases transaction costs to SMEs and their ability to operate across the Lebanese territory. This includes poor quality roads, costly and subpar information and communications technology, challenges to the supply of electricity, and waste management – among others.

Owing to a strong protectionist policy, foreign workers are restricted in the types of jobs and industries in which they can seek employment. As a result, there are no special provisions for highly skilled professionals and limited encouragement for the transfer of knowledge. This also relates to the mismatch in demand and supply of capabilities indicated under challenges facing SMEs at the Enterprise (Capabilities) level. The Syrian crisis has created an additional layer of ambiguity with regards to the employment of foreign labor. As previously mentioned, labor markets that depended on migrant labor pre-crisis are affected by increased restrictions on the rights of refugees to work. Under a new policy, implemented in 2015, Syrians entering Lebanon are now required to obtain visas or sponsorship, and face increasing issues gaining legal stay, whereas previously, they could come and go with ease³¹. Without the necessary documentation, refugees are considered to be contravening the law and can face criminal sanctions which may result in imprisonment, fines or departure orders. Consequently, refugees have limited legal status, which also places restrictions on their ability to work and earn income³².

At the national level, the Government of Lebanon SME Strategy highlights low capitalization (around US\$ 11 billion) and trading volumes at the Beirut Stock Exchange as one of the key barriers to SME growth. Despite incentives and low barriers to entry, no IPOs have been witnessed since 1999. In Lebanon, the public stock market is mostly comprised of the banking and real estate sectors. The limited appetite of SME owners to enlist is also attributed to the lack of large institutional investors, and the unwillingness of family enterprises to lose control³³.

1.4 IRC Programming

In Lebanon, the IRC provides cash and livelihoods support to vulnerable Lebanese and refugees with funding from USAID. The objective of the program is to assist vulnerable households in meeting their essential needs and increasing their self-reliance. The nexus of the IRC's service model is the Livelihoods Center (LC), which is a conduit to training, empowerment and employment services for jobseekers, entrepreneurs and employers.

The IRC operates centers in Mount Lebanon and Akkar where jobseekers receive intensive counseling services to understand their marketable skills, and access opportunities for gaining employment, on-the-job learning and short-term income. Similarly, employers are given access to more accurate labor market information. Budding entrepreneurs are given the chance to develop their ideas, create business plans and receive small start-up grants of up to US \$ 3,000 for their businesses. Through its suite of services at the Livelihoods Centers (which also includes access to legal counseling for clients and code of conduct training for employers), the IRC provides targeted assistance in compliance with Lebanese labor regulations to build household income, mitigate negative coping strategies, develop skills useful in the employment market, in the household, and in rebuilding Syria.

³¹ Reuters. (2015). New restrictions in Lebanon mean Syrian refugees live in fear. <http://www.reuters.com/article/us-mideast-crisis-lebanon-refugees-idUSKBN0N819Z20150417>. Accessed on December 15th, 2015.

³² IRC and NRC. (2015). Legal Status of Refugees from Syria: Challenges & Consequences of Maintaining Legal Stay in Beirut & Mount Lebanon.

³³ July 2014 figures. Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

In Lebanon, the IRC's programming is evolving beyond humanitarian assistance to economic recovery, using evidence-based development oriented practices. While current activities have yielded positive results on the workforce development side, there is a need to provide more services to employers to promote and support job creation and decent work³⁴. In response to this constraint, the IRC is exploring coordinated solutions that will address the needs of employers and job seekers through expanded support to MSMEs, with a particular focus on training and mentorship, in line with the GoL's objectives under the Lebanon Crisis Response Plan (Reference section 1.2 Impact of the Syrian Crisis).



Above: General Manager Joseph Hakim standing in front of a stone cutter located at his business, Hakim Construction Materials, a tile manufacturing company.

³⁴ IRC. (2015). Akkar Business Climate Assessment.

2. METHODOLOGY

For the purposes of this research, MSMEs are defined using the definitions set out by the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIABML)³⁵:

Definition of Micro, Small and Medium-Sized Enterprises (MSMEs)			
Size	Employees	Capital	Profits
Micro	< 3	< US \$100,000	< US \$15,000
Small	3 - 9	~ US \$100,000	~ US \$15,000
Medium	10 - 49	~ US \$200,000	~ US \$30,000
Medium/Big	50 - 124	~ US \$1,000,000	~ US \$150,000

The IRC engaged Building Markets, an expert in supporting SMEs in crisis and post-crisis economies, to conduct a market assessment, develop training resources and provide recommendations on designing and implementing MSME support initiatives that could lead to growth and greater job creation for businesses in Beirut and Mount Lebanon. This report and its recommendations are the outcome of desk research and a field visit to Beirut, Lebanon between November 4th and November 27th, 2015. This report also builds on the extensive work and experience of Building Markets across more than a dozen countries with over 20,000 MSMEs, and on the IRC's years of experience working with private sector actors in Lebanon.

2.1 Objectives

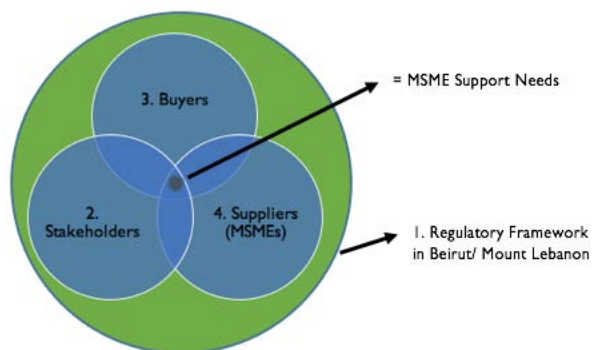
The specific objectives of this study were as follows:

Objective I

Conduct a market assessment to provide a snapshot of Lebanese MSMEs operating in Beirut and Mount Lebanon. Activities included:

1. Desk research to understand the existing business landscape and regulatory environment. Sources used included a mix of Public (e.g. Government line Ministries), Semi-Public (e.g. Chamber of Commerce), Private (Research institutes) and International Publications (e.g. World Bank, IFC). The complete list of sources used for the literature review can be found at the end of this report (Annex IV). This was undertaken to understand the following:
 - a. Regulatory framework (1): Existing market structure, legal and regulatory framework, laws, policies & strategy, growth sectors, research & innovation, and existing infrastructure.
 - b. Stakeholders (2): Relevant programming, SME support services, and access to finance.
2. Field interviews with businesses, buyers and key stakeholders to understand the needs, perceptions, opportunities, capacity constraints, barriers to growth, and other challenges facing Lebanese MSMEs as follows:

Figure 2: Survey methodology



³⁵ However, it should be noted that most MSMEs that participated in this study did not meet the CCIABML's criteria for Capital and Profits respectively.

- a. Stakeholders (2) & Buyers (3): Key informant interviews to understand perceptions, opportunities, capacity constraints, and growth sectors.
- b. MSMEs (4): SME survey to understand local business capacity, perceptions, expectations, training needs, and barriers to growth.

Objective 2

Provide recommendations for implementing and sustaining MSME support initiatives that could lead to growth and greater job creation for MSMEs.

2.2 Survey Techniques

The Market Assessment incorporated a mixed methods approach that blended structured and semi-structured surveys of 29 MSMEs in Beirut and Mount Lebanon (including 1 business roundtable discussion with 4 micro-enterprises), as well 17 interviews with key stakeholders (including representatives from public, semi-public, private and international organizations).

The SME Survey

In consultation with the IRC, Building Markets designed a SME survey, comprised of 74 quantitative and qualitative questions. This structured survey included questions across eight categories of inquiry including: firmographics, labor and hiring, finance (including financial management and access to finance), procurement practices, training needs, perceptions about external factors, constraints to business operations, and general business outlook. 25 surveys of individual Beirut-based businesses were carried out by Building Markets' staff during a field visit to Lebanon in November 2015. Each survey took approximately one hour to complete.

Additionally, Building Markets hosted 1 business roundtable discussion at the IRC's Livelihood Center in Mkalles. This focus group discussion provided the opportunity for Building Markets to interview owners of 4 micro-enterprises that are currently beneficiaries of the IRC's services. Micro-entrepreneurs shared their needs, perceptions, challenges and constraints for inclusion in the SME survey. The list of questions listed under the SME survey has been included under Annex II.

Stakeholder Key Informant Interviews

In an effort to supplement findings from the SME survey, and to address gaps and possible contradictions in the analysis of survey responses, the assessment included a mix of qualitative approaches comprised of semi-structured interviews with key stakeholders (including buyers).

Building Markets conducted 17 key informant interviews, included elements of the SME survey with key public, semi-public, private and international stakeholders including the Lebanese Ministry of Economy and Trade (MoET), the Lebanese Chamber of Commerce Industry & Agriculture of Beirut & Mount Lebanon (CCIABML), Kafalat, Lebanese banks and microfinance institutions, business support providers, the World Bank, International Finance Corporation (IFC), United Nations Development Programme (UNDP) and other stakeholders. For a complete list of stakeholders that were interviewed, please see Annex III.

2.3 Assumptions & Limitations

Sampling approach

Systematic random sampling was not applicable to this assessment, due to the narrow scope of the project – with a sample size of 29 businesses. MSMEs for the survey were identified from several sources³⁶, and were geographically concentrated around the IRC Livelihoods Center in Mkalles. Building Markets focused on MSMEs with whom the IRC had pre-existing working relationships, through its outreach and apprenticeship programs respectively. These businesses operate across a range of sectors - perceived to have higher potential for job creation – based on recommendations from the IRC, consultations with stakeholders, and a review of relevant literature.

Among businesses interviewed, Building Markets also met with six MSMEs from the CCIABML's database, although securing meetings with these businesses was more difficult, as owners/ managers did not see the immediate value of participating in the survey. The importance of buy-in and cultivating relationships with target MSMEs prior to engaging them in similar activities is an important consideration for any future studies or engagement.

Sample size

Owing to the small size of the survey dataset, which was limited by budget and time lines – at 29 surveys, responses cannot be considered statistically significant or representative of the actual population of businesses operating across Beirut and Mount Lebanon. Hence, this report provides a snapshot of Lebanese MSMEs operating in Beirut and Mount Lebanon, as a first step towards understanding the needs, challenges and constraints of businesses, however additional in-depth analysis is required. To this end, the SME survey has been designed with scalability in mind. This was done, in the event that the IRC or others wish to conduct similar studies in other locations, or conduct a large scale survey of MSMEs. Furthermore, in order to address the shortcoming of a small dataset, and to address gaps and possible contradictions in the analysis of survey responses, Building Markets conducted semi-structured interviews with 17 key stakeholders (representing key public, semi-public, private and international entities comprised of a mix of government, buyers, banks, microfinance institutions, business support providers, and NGOs). This was done in addition to observations noted throughout the literature review and field research process.

Reliability of information - A note on local businesses in Beirut & Mount Lebanon

Beirut and Mount Lebanon are two of Lebanon's 6 governorates. According to a high level regional and sectorial analysis from the Lebanese Ministry of Finance (MoF)³⁷, businesses in Mount Lebanon and Greater Beirut account for around 80% of registered enterprises in the country. This report indicates that businesses operate primarily in the wholesale/retail & trade, manufacturing, real estate, transport, construction, financial intermediation and hospitality sectors. However, there are two key concerns about the data: (i) it is out of date. This indicates that the dataset does not account for recent changes to the business landscape, and the likely impact of the Syrian crisis on businesses in Lebanon (ii) the data accounts for registered businesses only, and hence ignores the large segment of the business population operating in the informal economy. The World Bank's Enterprise survey includes more recent data for

³⁶ Sources included CCIABML's Database of Businesses in Mkalles, IRC's – Employer Outreach Database, IRC's – Apprenticeship Program Database of Employers, and SME Loan recipients recommended through Al Majmoua, a non profit microfinance institution that also provides loans to SMEs

³⁷ This is based on data from the Government of Lebanon, Ministry of Finance's LRD database, LTO: Large Taxpayers Office for entities with large turnovers exceeding LBP 10 billion. (2011 values). Recent data is not available.

Lebanon from 2013, however this survey was based on interviews with 561 businesses³⁸ of which 46% were located in Beirut and Mount Lebanon. It is difficult to ascertain whether this percentage accurately reflects the actual population of businesses – which would then indicate a significant difference in the geographic distribution of businesses, compared against the MoF's data; or whether it can be attributed to differences in methodology.

The World Bank's Doing Business Report for 2016 includes statistics on entrepreneurial activity for 136 countries. Entrepreneurial activity is a key measure of economic growth as new businesses are an important source of job creation. Lebanon however, is not included amongst the 10 MENA countries included in the analysis³⁹.

The limited availability of comprehensive data on Lebanese businesses is a major constraint, rendering geographic, sectorial, and other types of analyses difficult. Where information is available, it is inconsistent, vague, or contradictory – as indicated above. The need for reliable, updated, and consistent data is highlighted under the Government's SME Strategy, however the ongoing political crisis has constrained implementation of this Strategy⁴⁰.

As such, this report utilizes publicly available information, data and literature, supplemented by qualitative/ anecdotal evidence acquired through key informant interviews with stakeholders, as indicated above. In preparing this analysis and recommendations, Building Markets has relied on the accuracy of data reported, and has not undertaken any independent verification of data. Accordingly, where there are errors or omissions in the data provided, these inaccuracies will be carried over into the analysis.

³⁸ World Bank – Enterprise Surveys. (2013). Lebanon (2013). <http://www.enterprisesurveys.org/data/exploreeconomies/2013/lebanon> Accessed on December 15th, 2015.

³⁹ World Bank. (2015). Doing Business – Entrepreneurship. <http://www.doingbusiness.org/data/exploretopics/entrepreneurship#sub-menu-item-link>. Accessed on December 15th, 2015.

⁴⁰ The Strategy recommends the establishment of an SME Observatory - tasked with conducting and publishing research, statistical and impact analysis on SMEs, business support entities, and maintaining a comprehensive database to ensure continuous and effective monitoring and support to SMEs, in compliance with local and international SME initiatives, associations and organizations. Government of Lebanon, Ministry of Economy and Trade. (2014). Lebanon SME Strategy: A Roadmap to 2020.

3. DATA ANALYSIS

3.1 SME Survey

Firmographics

Total number of businesses surveyed	29 This includes 4 micro-enterprises that participated in a business roundtable discussion on November 11 th 2015
Business Size	Median number of employees: 10
Sectors of Operation	16
Age of businesses	51% of businesses were over 20 years old
Type of Ownership	55% of businesses were family-owned
Registration	89% of businesses were registered with a recognized licensing authority
Employment	75% of businesses said they hired non-Lebanese workers Unskilled labor comprised 35% of the workforce
Administration & Finance	75% of businesses did not have an Admin/ HR Department 59% of businesses did not have a Finance Department
Access to Finance	66% of businesses had taken loans from banks or other financial institutions
Business Planning	72% of businesses reported that they did not have a formal business plan
Procurement	56% of businesses indicated that they looked for procurement opportunities

Business Size: The average number of staff employed by businesses that participated in this study was 27.5 and the median⁴¹ number of employees was 10, with 48.3% of businesses employing more than 10 people. Businesses demonstrated a more diversified client base with 27.3% indicating that their customer base was comprised of individuals and households, 25% sold to small local businesses, 25% sold to large local businesses, 4.5% sold to large international businesses or international NGOs, 4.5% sold to Government or local NGOs, and 13.7% sold to a mixture of all of the above. In describing the geographic scope of their businesses, 34.5% operated nationally – across the country. Another 34.5% indicated that they operated locally, within Beirut. Twenty percent (20.7%) operated regionally, across Beirut and Mount Lebanon, and 10.3% operated internationally.

⁴¹ This report uses medians instead of averages owing to the small sample size, to avoid skewing results.

Figure 3: Clients (SME Survey)

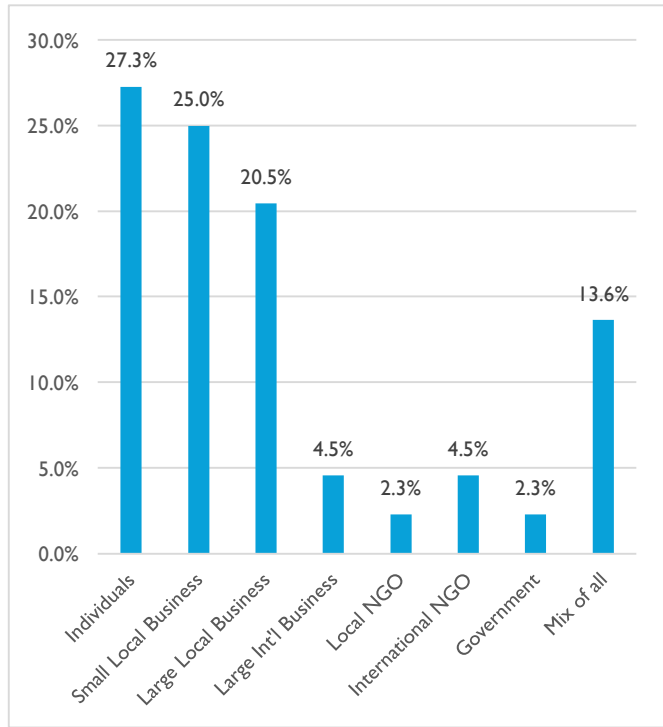
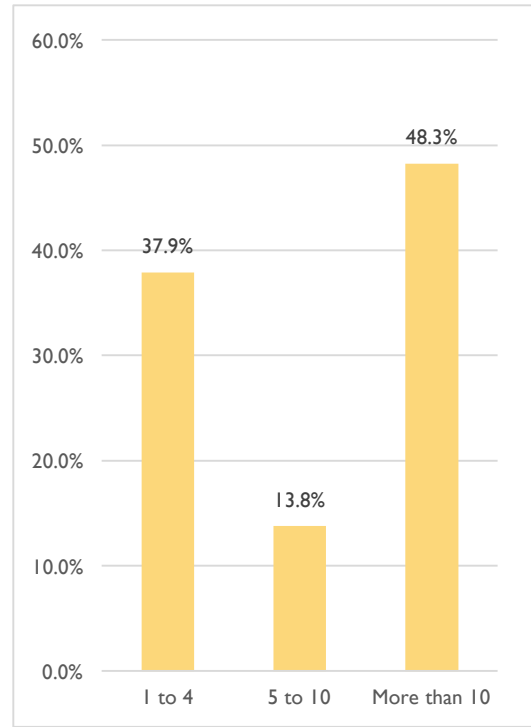


Figure 4: Number of Employees (SME Survey)

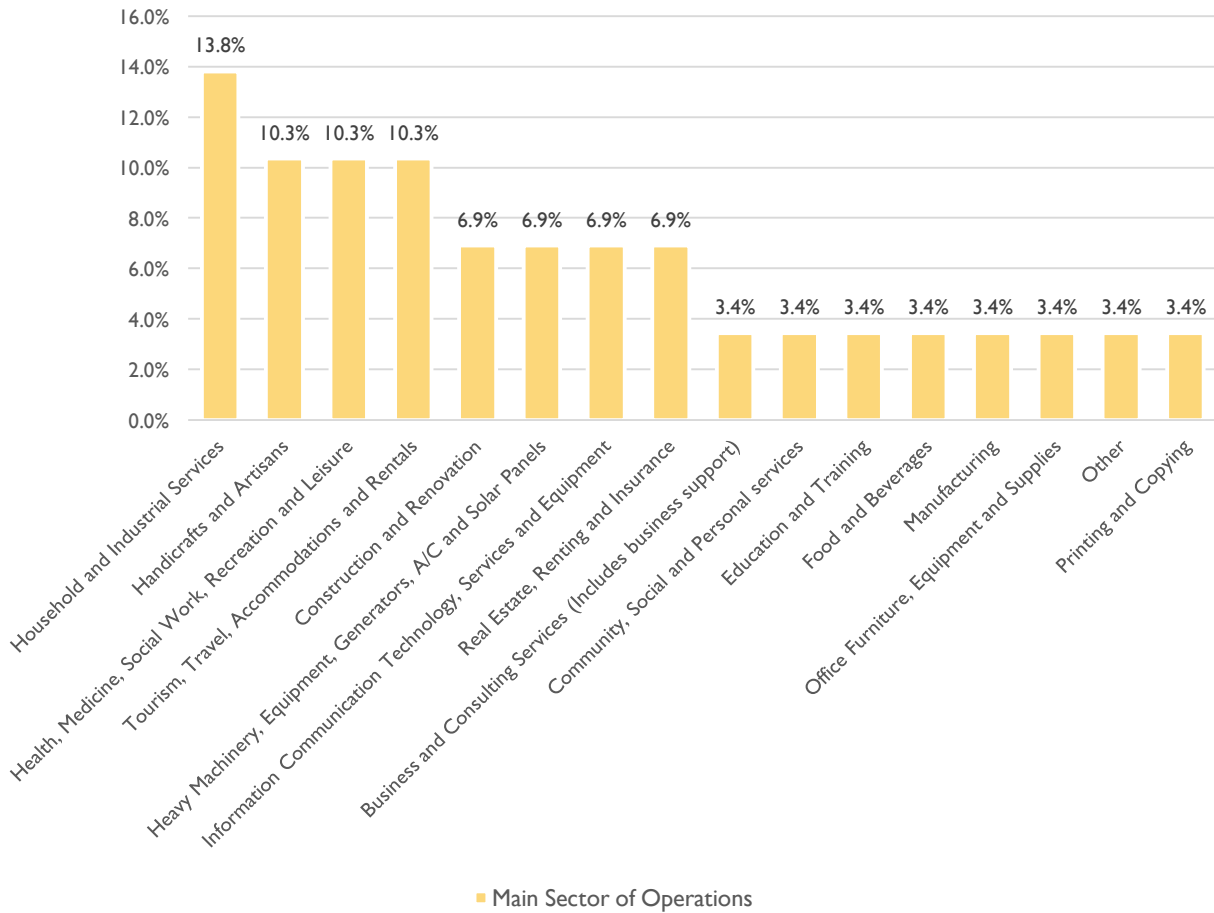


Sectorial Breakdown: The 29 businesses surveyed represented 16 sectors⁴² of operation. Sectors with the highest representation were Household and Industrial Services (14%, 4 businesses), handicrafts and artisans (10%, 3 businesses), health, recreation & leisure (10%, 3 businesses), and tourism, travel, accommodations and rentals (10%, 3 businesses). Businesses were further classified as manufacturers, wholesalers, retailers and service providers. Forty-five percent (45.5%, 15 businesses) identified themselves as being service providers. This was followed by 21.2% (7 businesses each) which identified themselves as being wholesalers and retailers respectively. Only 12.1% (4 businesses) identified as being manufacturers⁴³.

⁴² Sectors of operation were identified using Building Markets taxonomy of sectors. This is based on the United Nations Standard Products and Services Code® (UNSPSC®) taxonomy, an open, global, multi-sector standard for efficient, accurate classification of products and services.

⁴³ Several businesses identified themselves under more than one classification. Hence the total number of responses is greater than 29.

Figure 5: Distribution of businesses by sector – By main sector of operations (SME Survey)



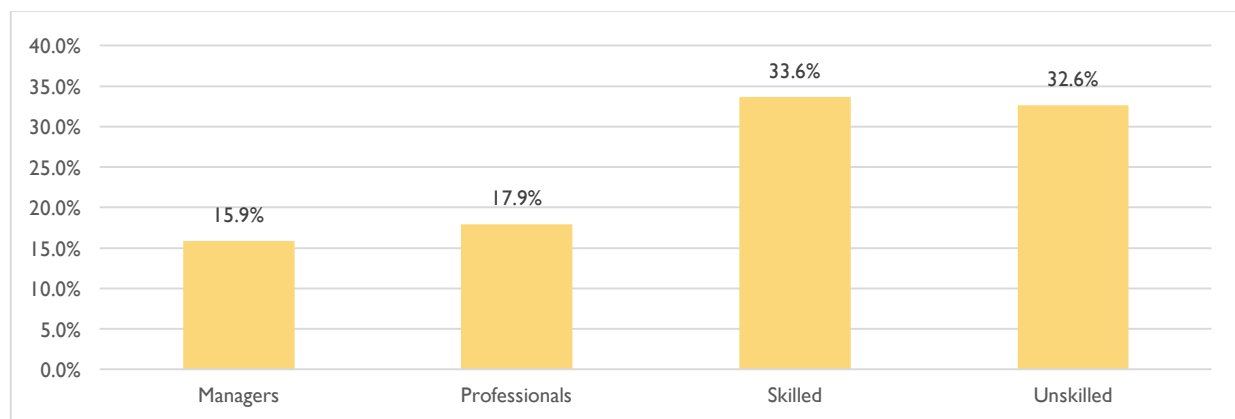
Age of business: All surveyed businesses had been operational for several years – Fifty-one percent (51.7%) indicated that their businesses were over 20 years old, 31% indicated their businesses were between 10 and 19 years old, and 17.3% indicated their businesses were between 0 and 9 years old.

Type of Ownership: The majority of businesses interviewed were family-owned (55.2%). Businesses that were not family-owned all had a single proprietor (41.4%). This is consistent with the GoL’s SME Strategy, which characterizes Lebanese businesses as typically family-owned, due to an unwillingness of owners to relinquish control.

Registration: Nearly all surveyed businesses were registered with a recognized licensing authority (89.7%). Of these businesses, 50% were registered with the Ministry of Finance, and 34.6% were registered with another Government Ministry (This included the Ministries of Tourism, Health, Justice, and Education). Seven percent (7.7%) were registered with the local Chamber of Commerce, and 7.7% with the local Municipality. Businesses that were not registered reported they did not have the desire to register, or wished to register, but had not been able to, due to their Syrian nationality. When asked about the registration process, respondents stated that the registration process for establishing a business in Lebanon had been easy. In most instances, businesses had retained the services of a lawyer. Businesses that found the process to be challenging indicated they encountered difficulty navigating all required paperwork and requirements, when registering.

Employment: Seventy-five percent (75.9%) of businesses reported that they hired non-Lebanese workers. These businesses primarily operated in the construction, household and industrial services, and tourism sectors. Furthermore, these businesses also employed a higher percentage of unskilled workers, comprising approximately 32% of their current workforce⁴⁴. These businesses also indicated that approximately 21% of their current workforce was Syrian, followed by 21% who stated that their workforce was comprised of other foreign nationals (including Iraqi, Palestinian, and Bangladeshi nationals). When asked to describe what issues (if any) they had faced in hiring Syrian workers, most respondents indicated they only hired Syrian nationals that were legally able to work in Lebanon, in order to remain compliant with the Government's rules and regulations. Other respondents cited that it had become more difficult for them to hire Syrian staff after the Government tightened rules and regulations on visa requirements and work permits for Syrian nationals in 2015. This is consistent with literature on changing regulations impeding some businesses from hiring foreign workers, despite being reliant on foreign unskilled labor.

Figure 6: Workforce composition – Percentage of total workforce (SME Survey)



Administration and Finance: Although businesses were generally larger in size, with 48% of businesses employing more than 10 employees, this did not translate into a segregation of workforce functions. Seventy-five percent (75.9%) of businesses reported they did not have a dedicated administration or human resource function – defined as at least one full-time employee whose primary job is administration or human resources. Fifty-nine percent (59%) reported they did not have a dedicated finance function – defined as at least one full time employee whose primary job is financial management or accounting, although 97% of businesses indicated that they kept regular financial records. Furthermore, a majority of businesses indicated that they did not use employment contracts (55.2%), or only used contracts for some employees (10.3%). The absence of formal employment contracts is common practice as registered businesses are required to comply with Lebanese Labour Law, which regulates wages, working hours, and social security, among other factors⁴⁵.

Access to Finance: The majority of businesses (66%) reported they had taken loans from banks or other financial institutions to finance their business. This differed significantly from the IRC Akkar Business Climate Assessment, which found that businesses were primarily self-financed, or financed through loans from friends and/or relatives in Akkar's more informal economy which lacks the same access to finance. Although respondents were aware of financing instruments available to them, several respondents (including all roundtable participants) reported that it was difficult

⁴⁴ This represents the workforce composition of full time employees only – defined as employees working 40 hours per week or more.

⁴⁵ Investment Development Authority of Lebanon. (2015).

http://investinlebanon.gov.lb/en/doing_business/starting_a_business/employment_social_security. Accessed on December 15th, 2015.

for them to access loans without a credit history and past performance. While this aligns with literature on the traditionally risk averse nature of Lebanon's banking sector with regards to lending to MSMEs and start-ups, it is plausible that difficulties in accessing finance are also the result of market information asymmetries and a lack of research on available financing options. This was evident from the 59% of businesses who indicated that they had not considered other types of financing mechanisms (For e.g. equity, investment, or venture capital). Those that had considered other financing mechanisms demonstrated a very narrow understanding of the meaning of "other financing". In all cases, this meant applying for another loan or looking for a new business partner. Furthermore, asymmetries could also stem from a lack of publically available information on financing instruments for businesses.

On average, the median loan size was US \$ 15,000. Loans were primarily used towards operating costs, purchasing tools/ machinery/ other fixed assets, or towards investments in business infrastructure. 34% of businesses indicated they had repaid their initial loans, compared against 28% who indicated that they were currently still in repayment. Furthermore, 62% of businesses stated that they would consider taking another loan in the future, indicating that the loan financing mechanism had been largely successful for the sample of businesses surveyed. Surveyed businesses reported a median net profit of US \$ 48,000.

Business Planning: The majority of surveyed businesses indicated that they did not have a formal business plan (72%). The remaining 28% of businesses did not provide evidence of a formal plan. When asked to talk about their planning process, it became apparent that these businesses lacked a formal mechanism for developing their business plans. Rather, plans were ad hoc, and intentions to expand operations or geographic scope were not supported by market research or budgeting.

Procurement: Businesses that worked in retail and wholesale demonstrated a basic understanding of procurement with 56% of respondents indicating that they looked for procurement opportunities online, in newspaper classifieds/ magazines, or through direct email notifications from buyers/ clients. However, information provided by businesses also suggests that procurement is not a core business function, but rather an activity that is undertaken infrequently, or on an ad-hoc basis. Businesses reported a median timeframe of 10.5 months elapsing between submitting a tender and receiving a response from a buyer. This, in part helps explain why smaller businesses do not see procurement as a core business function as delays in procurement affect operating cash flow, making it untenable for businesses to sustain operations during the interim.

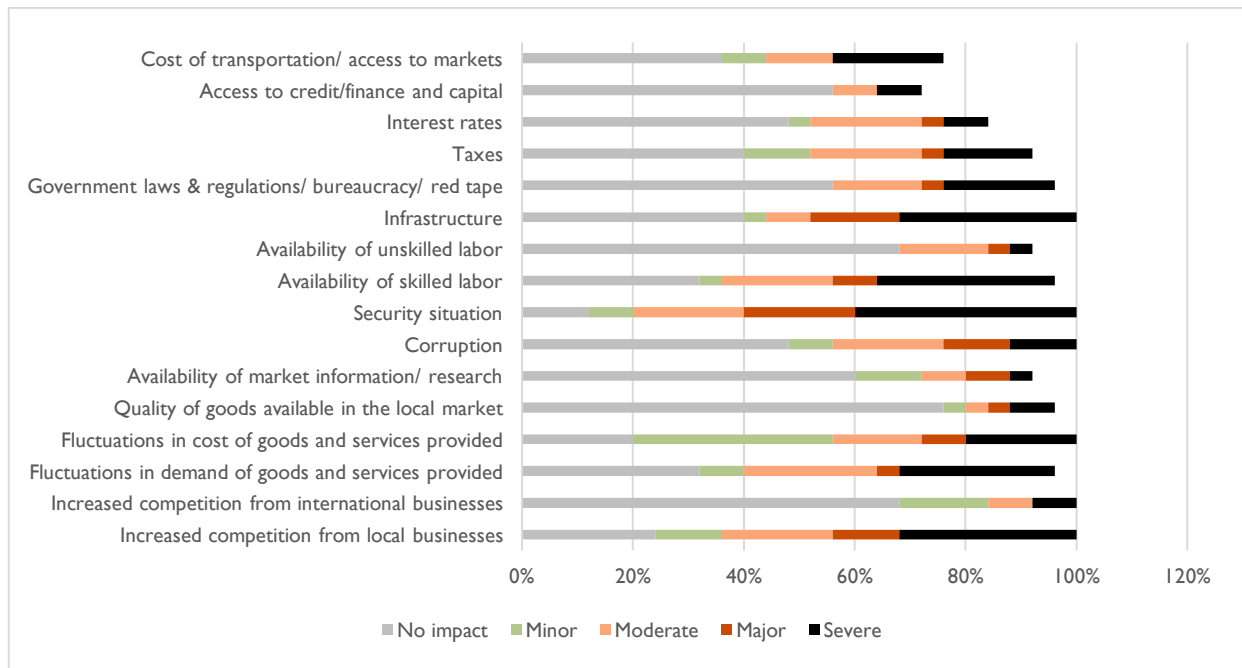
When asked to describe why they believed their bids had been successful, businesses cited price competitiveness, superior quality and reputation as the key factors that helped them win bids. Conversely, when asked to describe why they believed their bids has been unsuccessful, businesses alluded to corruption in the procurement process, price competitiveness, inferior quality, and not being able to meet the desired specifications as several reasons for not winning bids. Firms also noted that buyers typically did not provide feedback to them, if their bids had been unsuccessful. Perceptions of corruption in procurement, particularly public procurement were noted across several meetings. Business indicated that it was not possible for them to bid on or access large public contracts because of a "lack of having the right connections". This highlights the need to improve transparency in procurement in Lebanon, an issue that has also been documented in the GoL's SME Strategy. This issue has been addressed in more detail in Section 3.2, under Stakeholder Interviews.

Perceptions & Constraints

Businesses were asked to assess the impact of a range of different factors on their business operations, using a scale that ranged from 1 = no impact, to 5 = severe impact. In addition to security, businesses perceived increased competition from local businesses, availability of skilled labor, and infrastructure, as factors having major to severe impact on their business operations.

Competition from other Local Businesses	cited as having major/ severe impact by 44% of businesses
Availability of Market Research	cited as having minor/ no impact by 72% of businesses
Availability of Skilled Labor	cited as having major/ severe impact by 40% of businesses
Availability of Unskilled Labor	cited as having minor/ no impact by 68% of businesses
Registration	89% of businesses were registered with a recognized licensing authority
Infrastructure	cited as having major/ severe impact by 48% of businesses
Fluctuations in Demand	cited as having minor/ no impact by 40% of businesses
Cost of Transportation/ Access to Markets	cited as having minor/ no impact by 44% of businesses
Corruption & Government Regulation	cited as having minor/ no impact by 56% of businesses
Taxes & Interest Rates	cited as having minor/ no impact by 52% of businesses
Access to Finance	cited as having minor/ no impact by 48% of businesses

Figure 7: Perceptions (SME Survey)



Competition: Perceptions of competition varied significantly, however this is to be expected, given the small sample size. Forty-four percent (44%) of businesses surveyed identified increased competition from other local businesses as

having major to severe impact on their operations. This can be compared against 20% that identified competition as having only moderate impact, and 36% that identified competition as having minor to no impact. When asked to describe how many competitors they had, responses were clustered between 1 and 10 competitors (For 17 out of 25 respondents), suggesting a healthy level of competition within the local market, although this also suggests that perceptions of competition are highly localized within the business' geographic area of operation. In three instances, respondents indicated having no competitors, and in three additional instances, respondents indicated having more than 15 competitors, suggesting either a lack of awareness about competition in the market, or a lack of market research in driving business activities. Competition from international businesses was not perceived to be a major concern for the majority of businesses surveyed.

Market Research: The availability of market information and research was cited as having minor to no impact on business operations by 72% of respondents. In discussing the subject further, it was observed that businesses typically associated market research with product knowledge, rather than a practice connected with understanding competitors, demand, price, and other factors to determine market penetration. This further supports an observation from the literature review, suggesting that businesses in Lebanon plan and size their markets based on irregular and poor market intelligence.

Availability of skilled and unskilled labor: Perceptions about the availability of skilled labor varied between businesses. Forty percent (40%) of respondents cited this factor as having a major to severe impact on their operations, compared against 20% who cited the availability of skilled labor as having moderate impact, and 36% who cited minor to no impact. Businesses that identified this factor as a major to severe constraint operated in the business services, health and recreation, education, household and industrial services, manufacturing, and ICT sectors. Again, this is consistent with findings in the literature review, which suggest a lack of technical specialists and highly skilled workforce in Lebanon, due to the "brain drain" effect and lack of vocational programs and specializations. Businesses overwhelmingly indicated that the availability of unskilled labor was not a major constraint (68%), however businesses that were heavily reliant on unskilled labor (handicrafts, household and industrial services) cited that regulatory constraints to hiring Syrians had impacted their business as they were unable to find Lebanese workers to fill gaps in their workforce. Again, this is consistent with literature suggesting that some labor markets have been negatively impacted by the Syrian crisis, due to increased restrictions on the rights of refugees to work, for sectors that are more reliant on lower skilled and cheap foreign labor. This reinforces the need for support to Lebanese businesses that have been negatively impacted by the crisis.

Infrastructure (Technology/Equipment, Land/Office Space, Energy, Water, Communication): Perceptions of infrastructural availability varied between businesses as well. Forty-eight percent (48%) of businesses cited a lack of infrastructure as having major to severe impact on their operations. These businesses operated in the tourism, ICT, construction, heavy machinery manufacturing, and education sectors – i.e. sectors that are traditionally more reliant on the availability of strong infrastructure.

Fluctuations in demand: Perceptions of demand varied between businesses. Forty percent (40%) of respondents cited fluctuations as having minor to no impact on their operations, compared against 24% who cited fluctuations as having moderate impact, and 32% who indicated that fluctuations had major to severe impact on their operations. Businesses citing major to severe impact also attributed fluctuations in demand to being a consequence of the Syrian crisis. These businesses operated in the tourism, handicrafts, health and recreation, and construction sectors. This

supports an observation in the literature review suggesting that there have been winners and losers, with respect to the impact of the crisis on certain sectors of operation.

Cost of transportation and access to markets: Forty-four percent (44%) of businesses indicated that the cost of transportation and access to markets had minor to no impact on their business operations. This can be compared against 20% of businesses who cited that these factors had a major to severe impact on their operations, and 12% who cited that these factors had moderate impact. For all other instances, business either did not know, or were unable to respond. Impacted businesses were wholesalers that have had to change their transportation routes due to the Syrian crisis.

Corruption, government regulation, bureaucracy, red tape: Businesses did not identify corruption, government regulation or bureaucracy as major factors impacting their business operations. 56% of businesses identified corruption as having minor to no impact, compared against 20% who cited moderate impact, and 24% who cited major to severe impact. Similarly, on the subject of regulation and bureaucracy, 56% of businesses identified bureaucracy as having no impact, compared against 16% who cited moderate impact, and 24% who cited major to severe impact on their operations. This was consistent across interviews with several business owners, who explained that businesses in Lebanon had become accustomed to operating autonomously, without much regulation or monitoring from the government, whom they perceived as ineffective and dormant as a result of the political situation in the country.

Taxes and Interest Rates: Similarly, 52% of businesses did not identify taxes and interest rates as major factors impacting their operations. Twenty percent (20%) of businesses identified taxes as having major to severe impact, and only 12% of businesses highlighted interest rates as having major to severe impact on their operations. This is possibly explained by the fact that the majority of businesses surveyed were registered (89.9%), and/or had previously taken loans, and were required to pay tax and interest respectively, as required under Lebanese law. Businesses that cited taxation and interest rates as a major to severe concern did not provide similar responses, preventing analysis of possible trends or causality owing to the small sample size.

Access to finance: Most businesses did not highlight access to finance as a major factor impacting their operations. Forty-eight percent (48%) of businesses highlighted access to finance as having minor to no impact. This can be compared against 21% of businesses (including all roundtable participants) that highlighted access to finance as being a major or severe factor, and another 7% that highlighted access to finance as being a moderate factor. In all other instances, businesses were either uncertain, or chose not to respond. This aligns with observations in the previous section relating to access to finance as most businesses had either received a loan in the past, or were currently repaying their loans. It is possible that responses in this instance are not representative of the larger population of businesses in Beirut and Mount Lebanon owing to the small sample size.

Fluctuations in quality and cost of goods and services: Quality and cost were not cited as major factors impacting business operations. This aligns with research as the Lebanese economy is primarily reliant on foreign exports for non-agricultural products. This gives businesses more control over the quality of good and services obtained. Of businesses surveyed, 86.2% indicated that they either sourced imported goods directly, or through a Lebanese wholesaler. When asked to describe why they chose to import, over sourcing locally, businesses attributed a lack of locally available supply, poor quality of Lebanese alternatives, and lower cost of imported goods as some of the key factors that influenced their decision to import.

Challenges with buyers/ clients: When asked to describe what challenges they had faced dealing with buyers/ clients, 36% of respondents indicated that delays in processing payments posed a significant constraint to their businesses. Other challenges included the absence of feedback when submitting bids, lengthy contracting processes, bundling of procurement contracts – making procurement opportunities inaccessible for smaller businesses, and dealing with difficult clients. It is interesting to note that six respondents highlighted dealing with difficult clients as a challenge, implying a tendency to hold the customer responsible, instead of improving customer service as a strategy to ensuring customer satisfaction.

Training Needs

Previous training received: To understand the existing capacity of businesses, and examine business support needs, respondents were asked whether they had received formal training, mentorship, or capacity building support in the past. Sixty-eight percent (68%) of businesses indicated they had received support. For most of these businesses, training focused on industry-specific skills (31%), however businesses had also received training on general subject areas including - customer service (13%), sales and marketing (10%), general business management (10%), communication skills (8%), and financial management (8%). (Other responses, or refusals to answer comprised the remaining 21%). Respondents were unable to comment on the usefulness of training received as in most instances, they had not participated in the training themselves. However, in discussing training needs, the following observations were noted:

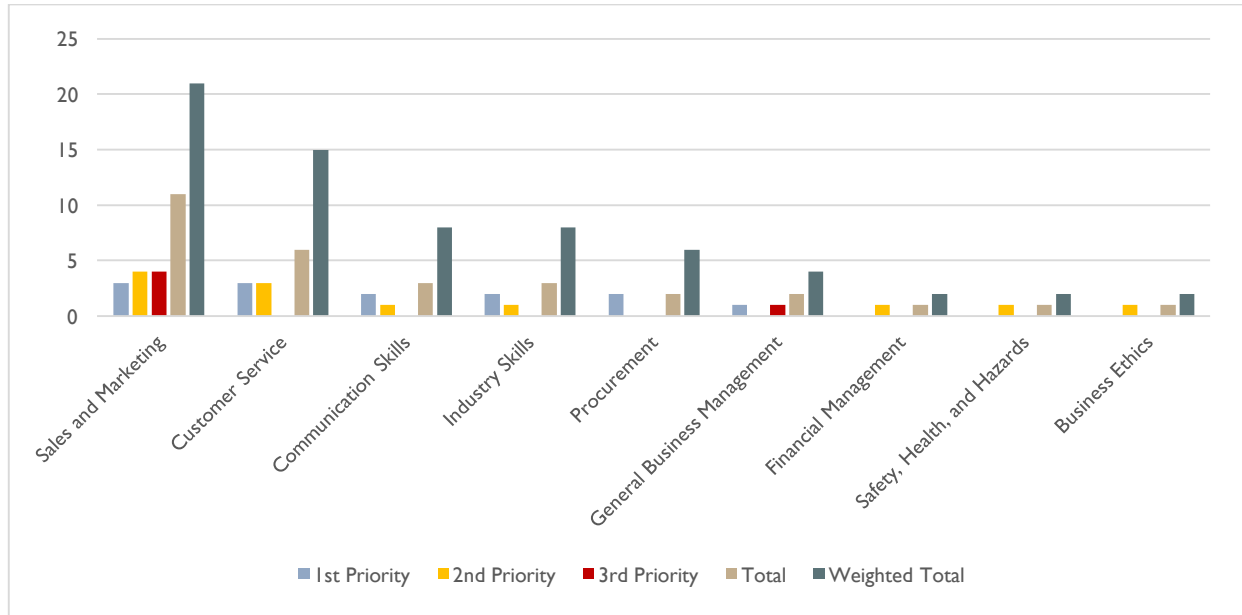
- Larger businesses were able to afford their own customized training for employees. These businesses generally provided industry-specific skills training on a regular basis, including training on subjects including customer service, and sales and marketing. Based on this research, it is possible that medium-sized enterprises would not be interested in receiving free training provided under an MSME support program, as these businesses can afford customized training on their own. However, it is worth noting that these business owners expressed some dissatisfaction with training received – indicating a perception that successful sales and customer service was the result of competent sales staff, and not the outcome of training provided. While it is possible that larger businesses do not require additional support beyond available in-house resources, it is worth evaluating whether this perception of training usefulness stems from an actual need for more sophisticated management, business planning, and market research, however further analysis is required given the small sample size of the survey.
- Several respondents also displayed a reluctance to invest in upskilling their staff for fear of attrition, or losing staff who would start competing businesses. This provided an interesting insight into the business culture in Lebanon, reinforcing the desire of owners to run family businesses with the ability to control all business functions.

Interest in additional training: When asked whether they would be interested in attending additional training, mentorship or capacity building support, 32% of respondents indicated that they were very interested, followed by 28% who indicated they were somewhat interested, and 36% who indicated they were not very interested or not at all interested. (Other responses, or refusals to answer comprised the remaining 4%). Businesses that were not interested in receiving training either felt that they did not need additional support, or indicated they did not have the resources to commit to training at the present time. This was particularly the case for smaller businesses (including all business roundtable participants) who expressed interest in external support, but also stated that it would be difficult to attend training during work hours due to limited staff capacity. Some businesses indicated interest in attending training on weekends, however these responses were insufficient to determine an appropriate time for training. Business owners at the roundtable explained that they do not prioritize training, owing to more immediate concerns

with the sustainability of their businesses, and operating cash flow – these being prohibitive factors that prevented them from being able to expand and hire more staff.

Self-reported training needs: Surveyed businesses were asked to prioritize three training areas in which they most desired support. This included sales and marketing, customer service and communication skills. Similarly, during the business roundtable discussion, business owners prioritized training customer service, sales and marketing and financial management. The chart below summarizes training needs, as prioritized by respondents:

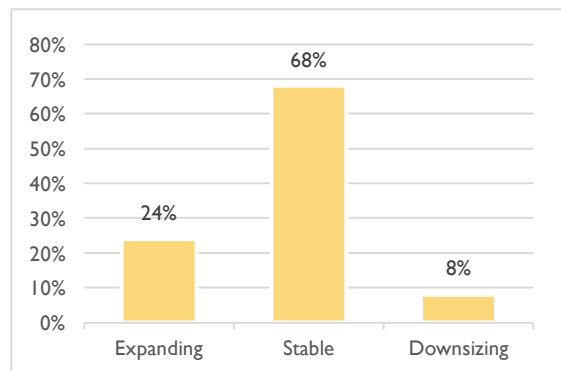
Figure 8: Training needs (SME Survey)



Outlook

Business Performance: When asked to describe the current status of their business, 68% of respondents indicated that they were stable, 24% indicated that they were expanding, and 8% indicated that they were downsizing. Business that were downsizing operated in the construction and tourism sectors – both of which have been negatively impacted by the Syrian crisis. The relative stability of the majority of businesses surveyed, despite ongoing political instability and proximity to the Syrian conflict is a testament to their enduring resilience.

Figure 9: Business performance (SME Survey)

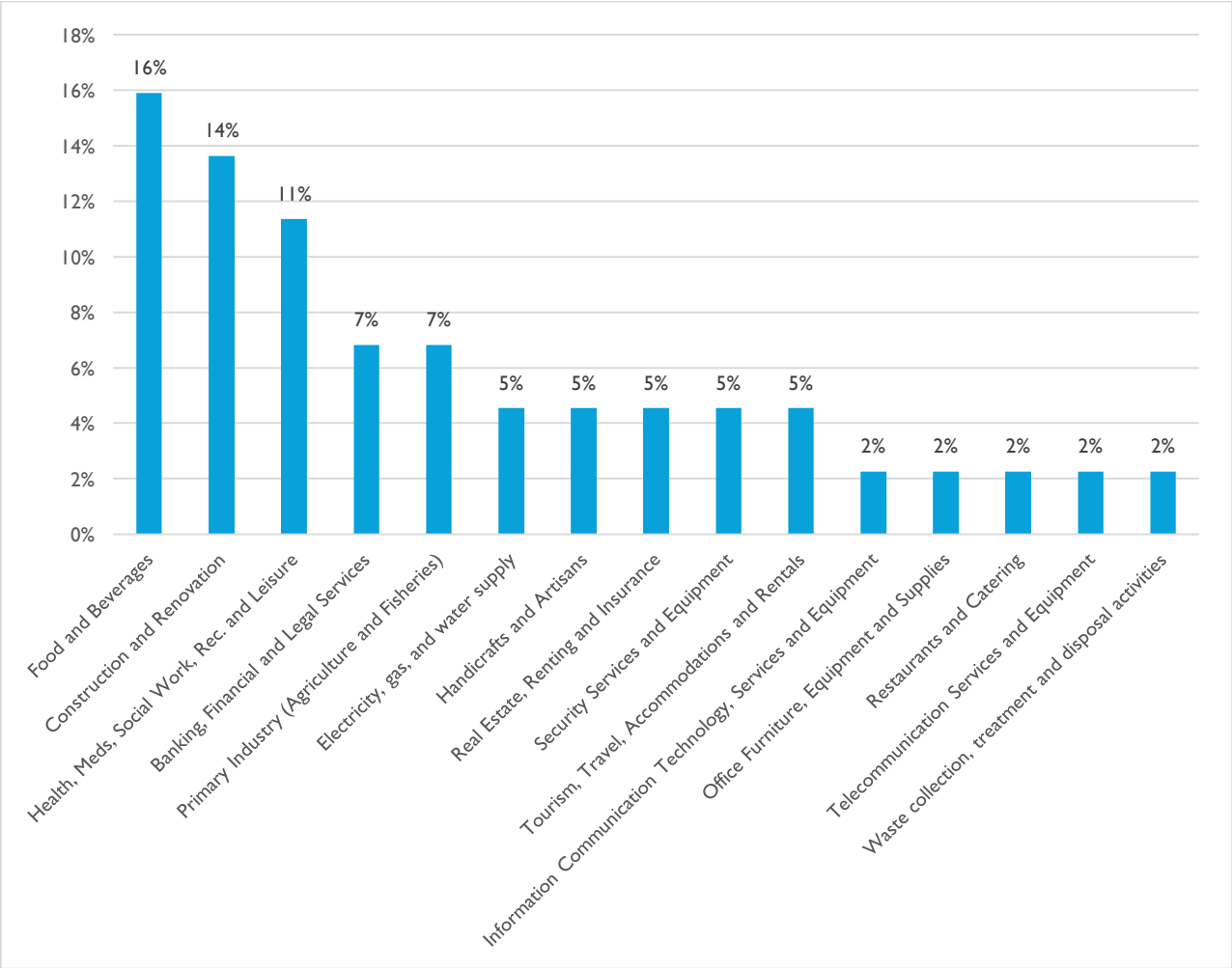


This is corroborated by the literature review, which confirmed that traditional drivers of growth (including construction and tourism) have been harder hit, whereas peripheral sectors have experienced some growth. Furthermore, for respondents that indicated that their businesses were currently expanding, this would confirm that the crisis has potentially generated opportunities for some Lebanese businesses. When asked to assess their business performance compared to the previous year, 60% of businesses indicated that their performance had been the same, somewhat better,

or a lot better, compared against 24% who indicated that their performance had been somewhat worse, or a lot worse. (Other responses, or refusals to answer comprised the remaining 16%). Businesses that fared the same or better compared to the previous year operated in the business services, food and beverages, and household and industrial services sectors – corroborating the possibility of an increase in demand for consumable goods and business services, as a result of the Syrian crisis. In fact, when asked how the Syrian crisis had impacted their business activities in Lebanon, 44% of businesses indicated that the conflict had no direct impact on their business, 36% indicated that the conflict had impacted them negatively, and 20% indicated that the crisis had impacted their business positively, Respondents all predicted that this impact would not change, with the crisis projected to continue into the next year.

Growth Sectors: Respondents were asked to predict which sectors (including their own) they believed would experience the most economic growth within the next 12 months. Some of the most commonly cited sectors included food and beverages (16%), construction (14%), health, recreation and leisure (11%), banking, financial & legal services (7%), and agriculture (7%). These sectors align with traditional drivers of economic activity in Lebanon, indicating that businesses did not foresee any dramatic shifts in drivers of economic activity. Respondents anecdotally explained that growth would be sustained by an increase in demand for consumable goods, as a result of the Syrian crisis.

Figure 10: Business predictions - Growth sectors (SME Survey)





Above: Business owners from four micro-enterprises pose with IRC Staff, following a business roundtable discussion at the IRC Livelihoods Center in Mkalles on November 4th 2015.

3.2 Stakeholder Interviews

Building Markets conducted semi-structured interviews with 17 key stakeholders, representing a mix of government, buyers, banks, microfinance institutions, business support providers, and NGOs. This was done to contrast and complement observations noted throughout the literature review and field research process. Interviews were approximately 1 hour long and included discussion on the local business environment – including strengths, opportunities, and challenges for businesses, in addition to capacity constraints, and other perceptions based on their experience engaging with MSMEs.

Perceptions & Constraints

Market information asymmetries: Several stakeholders noted that there is a severe lack of accurate and reliable market information, statistics, and research about MSMEs and the business environment in Lebanon. Stakeholders specifically referred to the absence of a centralized repository of information about Lebanese businesses – including geographic location, sector of operations, management, ownership, age, registration, certification, clientele, past performance, geographic scope, competition, the financial standing of businesses, and other key information. Stakeholders also noted a lack of a centralized information on available business opportunities – including procurement, finance, and business support services – including training and mentorship, among others (See sections on Access to Finance, and Procurement below). For instances where information does exist - specifically, information on business support services, access to

“A lack of information and lack of statistics about Lebanese businesses is a serious problem. Different sources have different numbers. You can’t even gain knowledge of the trends because data is so skewed.”

- Stakeholder Interview

finance, and procurement – stakeholders noted that information is not well publicized, thus preventing local businesses from accessing services and opportunities that could contribute to their growth. These factors were also noted as some of the reasons why businesses do not conduct research when developing their business plans and marketing strategies. This information is consistent with observations noted under the literature review, and through interviews with businesses who did not perceive the availability of market research to be a major factor influencing their operations.

Furthermore, stakeholders identified a lack of information sharing mechanisms as a constraint. This constraint was noted during the desk research process in trying to obtain reliable and accurate data on the number of businesses in Beirut and Mount Lebanon. Similarly, there is an absence of a unified definition of the term MSME itself. This is also described under the GoL's SME strategy as a baseline requirement, under which policies, strategies and support initiatives can be organized.

Availability of skilled and unskilled labor: Several stakeholders noted that sectors employing skilled labor (specifically ICT) had been unable to create enough jobs to match supply. Interviewees attributed the resulting “brain drain” and emigration of talent as one of the main causes of stagnation for Lebanese businesses. This is consistent with literature in the World Bank's Lebanon Economic Monitor, the GoL's SME Strategy, and observations from surveyed businesses relating to a perceived shortage of skilled labor.

Some stakeholders perceived the influx of refugees as having created competition with Lebanese un-skilled labor in certain sectors, including restaurants and catering, and retail (mainly customer service). However, it should be noted that foreign-unskilled workers have traditionally dominated the unskilled labor market in Lebanon. As such it is possible that observations noted during this research are based on a perceived rather than actual threat posed by Syrian businesses. Stakeholders agreed that in some cases, Lebanese businesses that were traditionally reliant on foreign-unskilled labor had been negatively impacted, due to shifting regulations, with regard to hiring Syrian workers. This was also observed during interviews with some businesses and further reinforces the need to support Lebanese businesses that have been negatively impacted by the crisis – either directly or indirectly, as emphasized in the World Bank's Lebanon Economic Monitor (Spring 2015) report.

Business culture: Stakeholders noted that an entrenched business culture of family-first ownership and control impeded growth of SMEs in Lebanon. One stakeholder said, “Family orientation is very important in Lebanon. Most medium to large businesses which were originally created as family-owned businesses are doing well and don't care about expanding further because they do not see the need.” Another stakeholder highlighted the possibility of MSMEs being reluctant to accept external support, implying a culture of self-reliance, and a fear of being negatively perceived as “failing” by peers. This observation supports a constraint in the GoL SME Strategy, which notes a tendency of Lebanese businesses to exist “in-limbo” because of a prevailing cultural stigma against failure.

Stakeholders agreed that the status quo is gradually shifting away from the family-ownership model, spearheaded by initiatives by the central bank which have resulted in the introduction of business support programs for start-ups, including accelerators and incubators. These approaches have specifically targeted the ICT sector. Stakeholders also agreed that while new initiatives are emerging, change has been slow, which would imply that the potential positive effects of this business diversification and subsequent growth – including job creation, will take time to generate results and benefits.

On a related subject, stakeholders also described a reluctance of business owners to invest in the professional development of their staff. This was noted during interviews with businesses, as stemming from a fear of attrition.

Government regulation and political stability: Stakeholders highlighted the need for enduring political stability as a precondition for creating an enabling environment for MSMEs in Lebanon. “Lebanon lacks a proactive public sector, that can effectively regulate, monitor and control [private sector activity]. Furthermore, the government has failed to provide the necessary infrastructure for businesses to operate. As a result, the private sector has become accustomed to working on its own”. This sentiment was noted during interviews with several businesses, who did not consider government regulation to be a factor impacting their operations. Businesses were accustomed to operating without regulation or monitoring from the government, whom they perceived as ineffective and dormant.

Furthermore, political stability has been a major constraint to the implementation of the GoL’s SME strategy. Although the Strategy accurately captures the operating environment, constraints, and opportunities for MSMEs in Lebanon (Reference Section 1.3 The MSME Landscape), very little movement has been made towards implementing initiatives outlined under the “Roadmap”. This presents a potential opportunity to develop partnerships with the GoL’s SME Unit under the Ministry of Economy and Trade, in implementing components of the strategy – specifically in addressing market research gaps and information asymmetries⁴⁶.

Access to finance: Stakeholders indicated that access to finance is a major challenge for MSMEs. While the Lebanese financial sector is well regulated, and the central bank has introduced initiatives (including loan guarantees and subsidized loan schemes) to stimulate SME growth in key sectors, stakeholders noted that high collateral requirements and interest rates were prohibitive to small businesses. This was corroborated by interviews with some firms⁴⁷ who expressed difficulty accessing loans without past performance, and the literature review which highlighted the traditionally risk-averse nature of Lebanon’s banking sector, despite its liquidity. There is an observed discrepancy here, as most businesses that participated in this study did not highlight access to finance as a major factor impacting their operations. This would corroborate the theory that responses to the SME survey are therefore not representative of the larger population of businesses in Beirut and Mount Lebanon, because most businesses had either received a loan in the past, or were currently repaying their loans. Therefore, perceptions about access to finance are possibly skewed. Further analysis is required to determine how easy or difficult it is for Lebanese MSMEs to access financing for their firms.

Stakeholders reported an ambiguity in understanding the long-term goals of the central bank, and a lack of easily accessible information on available financing mechanisms for businesses, suggesting these factors as contributors to market information asymmetries. However, stakeholders also attributed this to businesses’ lack of awareness and research on finance mechanisms, not just the banks. As one stakeholder asked rhetorically, “What do you expect? Providers aren't making the effort and businesses are not actively soliciting opportunities.”

Stakeholders agreed that sectors identified as high growth/ high impact by the Investment Development Authority of Lebanon (IDAL) – specifically ICT and agriculture were witnessing transformations, with the injection of more private

⁴⁶ The GoL SME Strategy recommends the establishment of an SME Observatory, tasked with conducting research, statistical and impact analysis on SMEs, and maintaining a comprehensive database to ensure continuous and effective monitoring and support to SMEs, among other key functions. A feasibility study was conducted, with support from the World Bank, however the initiative is meant to be led by the Lebanese Government. At the time of writing this report, implementation was not started.

⁴⁷ However, most surveyed businesses did not highlight access to finance as a major factor impacting their operations. This is likely due to the fact that most businesses had either received a loan in the past, or were currently repaying their loans. Hence, it is possible that responses in this instance are not representative of the larger population of businesses in Beirut and Mount Lebanon owing to the small sample size.

equity, venture capital, and other types of financing – however the “trickle down” pace to other sectors has been slow. Several stakeholders also indicated that they had stopped providing loans to businesses (particularly MSMEs operating in regions close to the Syria-Lebanon boarder), as a result of deteriorating security.

Finally, in assessing business capacity, stakeholders unanimously agreed that MSMEs lacked necessary financial management capacity to meet loan application requirements. This is discussed further under the Training Needs section below.

Procurement: Several stakeholders, including international NGOs and multilateral bodies, that typically undertake procurement functions indicated that their organizations had informal commitments to local procurement, within the parameters of their respective organizations’ global procurement policies and procurement thresholds. Stakeholders indicated having encountered difficulties with the financial capability of businesses. Other constraints included a lack of understanding about the procurement process – in terms of meeting procurement specifications and requirements, instances of corruption, collusion, and poor customer service.

While each stakeholder typically maintained their own vendor list or database of businesses, interviewees mentioned that there is an absence of a centralized repository of information about Lebanese businesses – including registration, certification, past performance, and other key information. As a result, information sharing between stakeholders is done on an ad hoc basis, and subject to the loss of institutional knowledge resulting from the possible turnover of procurement staff. This market constraint is also addressed under the GoL’s SME Strategy – which, upon noting the lack of a singular repository of information on registered MSMEs, recommends the establishment of an “SME Observatory”. Related to this, stakeholders also indicated that there is an absence of resources that would allow businesses to easily locate procurement opportunities.

Stakeholders noted that public procurement in Lebanon is closed, lacks transparency, and is riddled with institutionalized corruption. This was corroborated by interviews with businesses, who indicated that it was not possible to bid on or access large public contracts because of a “lack of having the right connections”. Several stakeholders concluded that training for businesses on procurement would not be useful until the public procurement system itself was reformed. Several efforts have been made to improve public procurement processes. These include training for public sector entities and MSMEs⁴⁸ and high level initiatives such as a 2013 joint World Bank and Ministry of Finance report on Professionalizing Public Procurement. This report included recommendations for synchronizing public procurement processes and thresholds across government ministries, simplify and speed up the bidding process by establishing a centralized registration system for businesses, and unbundling public procurement contracts – making opportunities accessible to smaller businesses. Despite these initiatives, implementation has been constrained by political instability in the country⁴⁹. Similarly, the GoL SME Strategy stresses the need for Parliament to endorse the draft Public Procurement Law, paving the way for an institutionalized and transparent public procurement process - thereby, allowing maximum participation by SMEs.

⁴⁸ The Institut des Finances Basil Fuleihan is a division of the Lebanese Ministry of Finance that provides specialized training, human resource management, communication, and documentation services - contributing to the development of national capacities in Public Financial Management and Customs. For more information, see <http://www.institutdesfinances.gov.lb/>.

⁴⁹ Government of Lebanon. Ministry of Finance. (2013). Professionalizing Public Procurement in Lebanon: Diagnostic Review and a vision forward.

Training Needs

The need for financial management training and improved business planning was cited as a major shortcoming of businesses when applying for loans. Stakeholders indicated that some of the most common reasons for rejecting loan applications were because businesses do not provide acceptable business plans that are based on appropriate levels of market research. These businesses also often demonstrate poor financial management, cash flow management, and inadequate recordkeeping. While several stakeholders reported providing advisory services to assist clients in the preparation of loan applications, this was typically an auxiliary service offered to existing clients, and not a core activity. Furthermore, several stakeholders indicated that businesses do not distinguish between company and personal funds, when submitting loan applications.

Similarly, poor financial management capability was highlighted as a constraint when managing procurement contracts. Stakeholders highlighted that businesses often lack the required financial documentation (including realistic budgets, financial statements, quotes, and invoices) and that they sometimes encounter instances of corruption or collusion among firms.

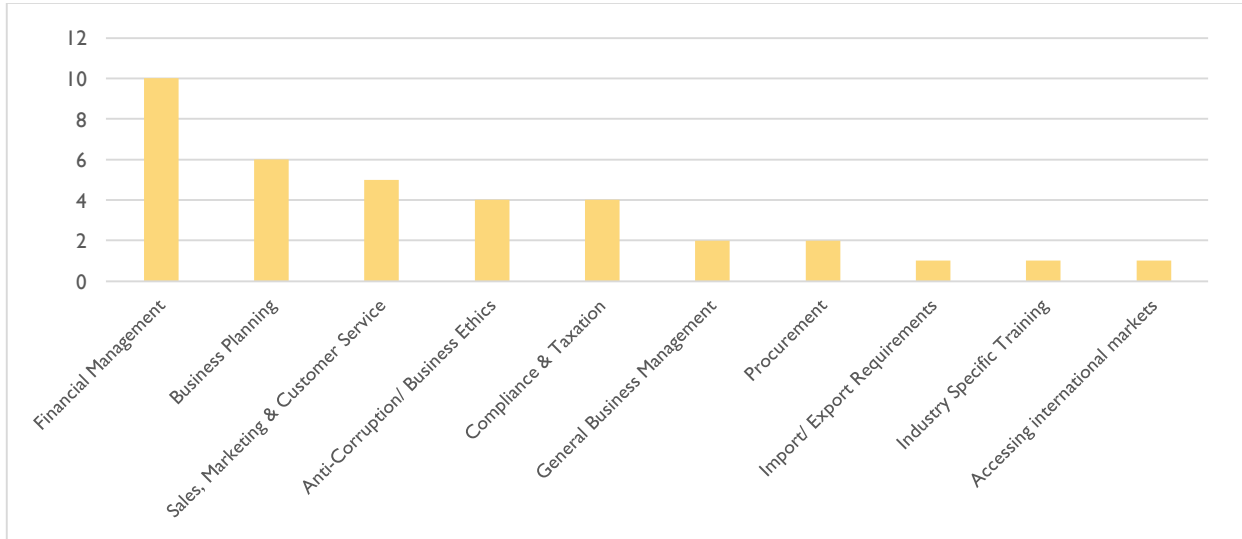
Furthermore, several interviewees mentioned poor customer service, delays in communication when dealing with smaller businesses. As a result, these stakeholders explained their tendency to give preference to larger companies when procuring goods and services or to bundle procurement contracts. Consequently, smaller businesses are shut out because they are unable to meet eligibility criteria. Several stakeholders indicated that they provide ad-hoc training or workshops to communicate their procurement procedures and requirements to businesses. While it is possible that this type of support is beneficial to businesses in understanding procurement requirements of individual buyers, the utility of such training may be constrained by the fact that businesses still lack the baseline capacity to meet procurement requirements. While it deserves further evaluation, it is possible that training on financial management and customer service are first required to build business capacity, so that businesses are able to meet basic procurement requirements when dealing with buyers. This can then be complemented with in-depth training on procurement procedures, practices and standards, which can be provided at a later stage.

Several stakeholders reiterated the importance of providing customized support and follow-on mentorship assistance that is tailored to the needs of MSMEs, as opposed to generic short-term training, which is already available through several business providers. The inclusion of tailored mentorship assistance will help to ensure that training concepts are retained and utilized by MSME beneficiaries. This can be achieved by incorporating a mentorship plan into the design of any MSME support program for Lebanese businesses.

Stakeholders also emphasized the need to provide targeted support to smaller enterprises (particularly micro-enterprises), female entrepreneurs and Lebanese businesses that have been negatively impacted by the Syrian crisis, all of which were perceived to be underserved by existing business support providers. This will help improve the sustainability of these businesses, thus increasing their potential for job creation in the long run.

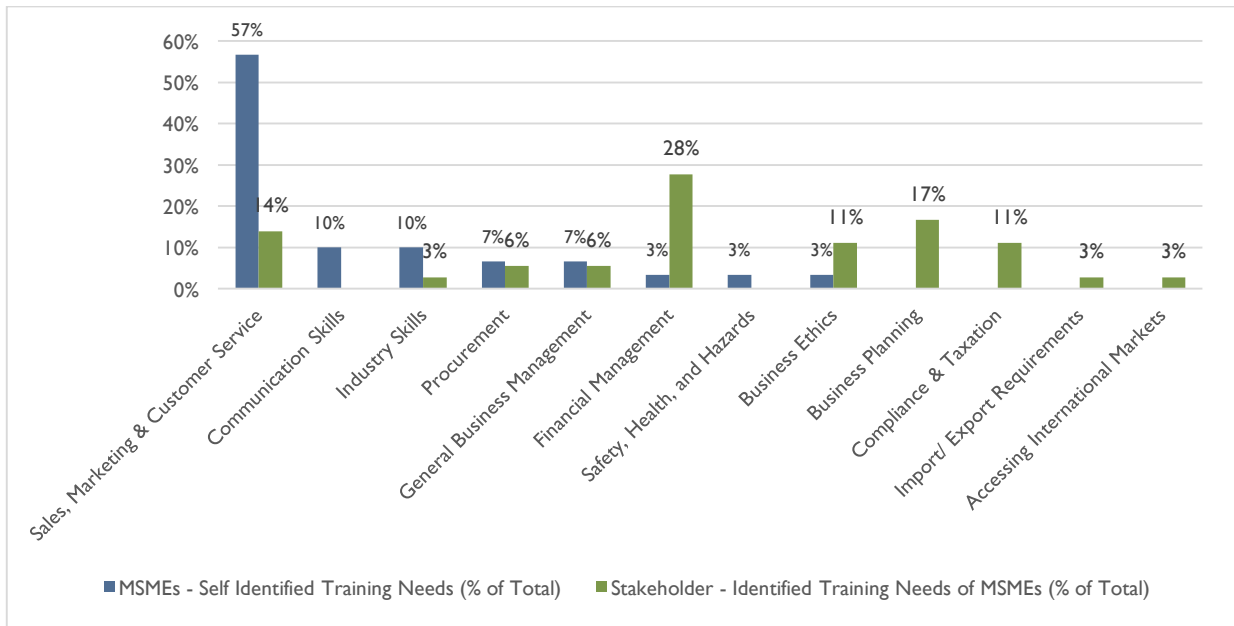
Stakeholders were asked to list areas in which MSMEs could most benefit from training, targeted mentorship and support. Financial management and business planning were identified as two main training areas. The chart on the following page summarizes training needs, as prioritized by stakeholders:

Figure 11: Training needs (Stakeholder Key Informant Interviews)



This feedback provides interesting insight into how MSMEs perceive their own needs vs. how external stakeholders perceive the needs of businesses. These differences in perceptions have been represented in the figure below. Significant variances are observed in the perceived need for financial management, and business planning, which were prioritized by stakeholders vs. businesses, who prioritized a need for sales, marketing and customer service. The difference in perceptions can be explained by the fact that businesses do not see the immediate utility of financial management and business planning, as pre-cursors to strengthening their sales, marketing and customer service capability, among other business functions. However due to the small sample size of the survey, further analysis is required to support this observation.

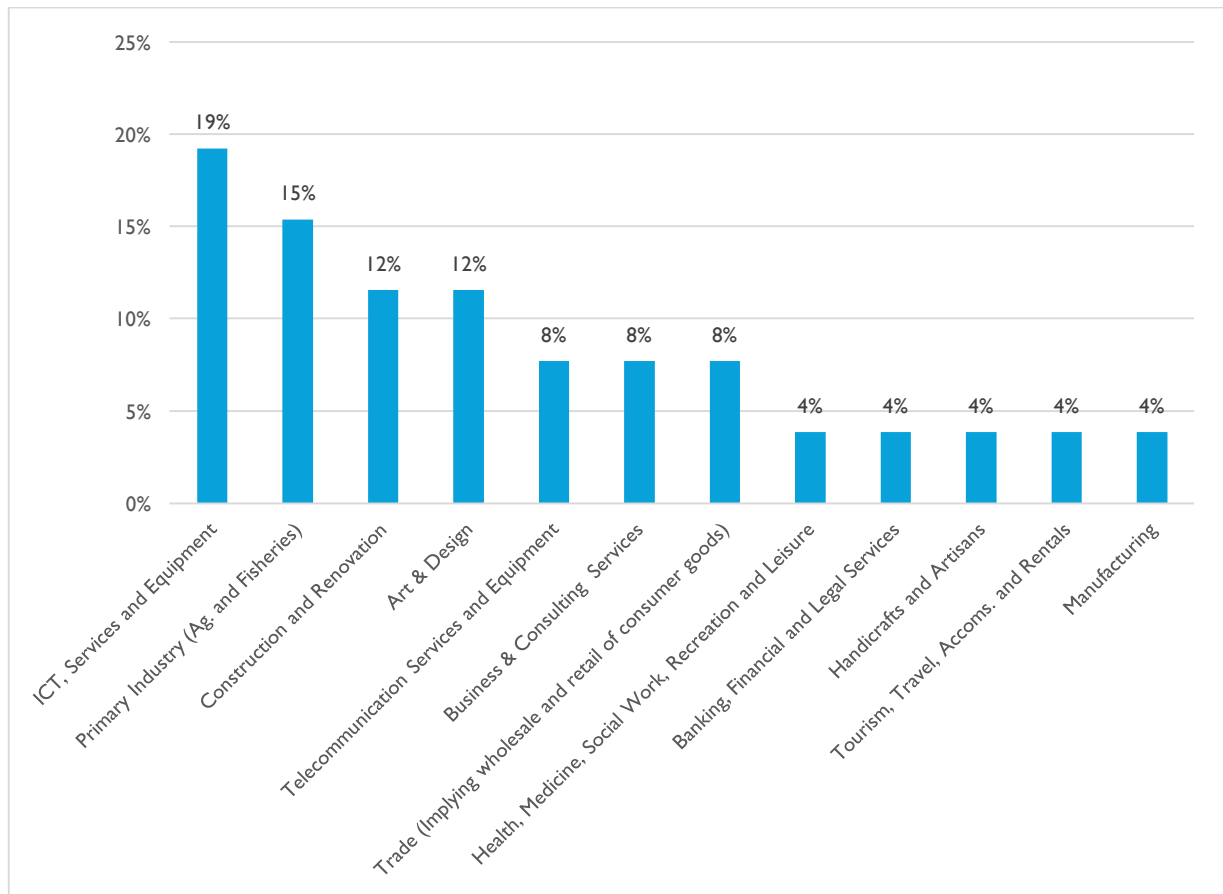
Figure 12: MSME Training needs vs. Stakeholder Identified Training Needs of Businesses



Outlook

Growth Sectors: Stakeholders were asked to predict which sectors they believed would experience the most economic growth within the next 12 months. Overwhelmingly, the most commonly cited sector was ICT (19%), followed by agriculture (15%), construction (12%), and art and design (12%). Stakeholders indicated that these sectors were generally resistant to political instability, and security, and hence, had the opportunity to grow. ICT and the knowledge economy are highlighted as growth sectors by the Investment Development Authority of Lebanon. This aligns with the GoL's SME Strategy, Kafalat, banks and business support providers, as Lebanon is perceived to be an emerging hub for ICT in the MENA region⁵⁰.

Figure 13: Stakeholder predictions - Growth sectors (SME Survey)



⁵⁰ Despite the growth potential of ICT and the knowledge economy, it should be stated that as this sector typically attracts highly specialized, skilled labor, this would thud limit the potential for job creation for vulnerable Lebanese and Syrians.

4. CONCLUSION & RECOMMENDATIONS

With the Syrian crisis expected to continue, expanded support to MSMEs will play a critical role in accomplishing the Government of Lebanon's objectives to support economic growth and overall stability, by improving livelihoods, increasing employment generation, decreasing dependence on aid, increasing self-reliance and other positive social and economic dividends for refugees and impacted communities. However, in order to expand support to MSMEs, it is imperative to first understand the constraints and underlying factors limiting the growth potential of businesses in Lebanon.

As this study notes, there is a dearth of comprehensive data accessible on Lebanese businesses, and the information that is available, is inconsistent, vague, and sometimes, contradictory. This not only renders geographic, sectorial, and other types of analyses difficult, it also grossly limits the ability to pinpoint strategies that can help grow MSMEs and broaden their potential positive socio-economic benefits.

The need for reliable and current data is highlighted under the Government of Lebanon's SME Strategy, however the ongoing political crisis has constrained implementation of this Strategy. This presents an opportunity to develop partnerships with the GoL's SME Unit, in implementing components of the strategy that are currently under-funded – specifically in addressing market research gaps and information asymmetries on the MSME environment.

Similarly, there is a need to improve information sharing between all actors. Several stakeholders highlighted a lack of transparent data and information sharing mechanisms as being a severe constraint to effectively supporting MSMEs in Lebanon. Stakeholders specifically referred to the absence of a centralized repository of information about Lebanese businesses – including geographic location, sector of operations, management, ownership, age, registration, certification, clientele, past performance, geographic scope, competition, the financial standing of businesses, and other key information. Stakeholders also noted a lack of a centralized information on available business opportunities – including procurement, finance, and business support services (training and mentorship), among others.

Overall, this assessment found that MSMEs operating in Beirut and in Mount Lebanon could benefit from training in sales and marketing, customer service, financial management and business planning. Furthermore, stakeholders interviewed emphasized the importance of providing customized support and follow-on mentorship assistance that is tailored to the needs of MSMEs, as opposed to generic short-term training, which is already available through several business providers.

Owing to the small sample size of the SME survey (29 businesses), responses cannot be considered statistically significant or representative of the actual population of businesses operating across Beirut and Mount Lebanon. Hence, this assessment provides a snapshot of Lebanese MSMEs operating in Beirut and Mount Lebanon, as a first step towards understanding the needs, challenges and constraints of businesses, however additional in-depth analysis is required. As previously indicated, the SME survey has been designed with scalability in mind.

Summary Table of Recommendations

DATA (VERIFICATION)				
#	Challenge	Possible Cause	Likely Impact (or Effect)	Solution
1	Lack of Reliable Data on local MSMEs	<ul style="list-style-type: none"> No centralized repository of information about local businesses A lack of trust or incentives may limit the sharing of business information Sensitivities relating to the Syrian crisis may limit accurate sharing of data on refugees (both Syrian-owned businesses and Syrian employees of local businesses). This impacts the availability of reliable data on MSMEs as refugees start engaging in economic activity 	<ul style="list-style-type: none"> Buyers, INGOs, government and other stakeholders have low visibility of the local market Consequently, local procurement is limited because local suppliers (MSMEs) also lack visibility, as a result of which buyers are not aware of local supply capability Strategies designed to support MSME capacity development may not reflect real needs resulting in wasted resources Economic growth and job creation are limited 	<p><u>What:</u> In partnership with the Government of Lebanon or an appropriate intermediary organization, establish a process to collect baseline data on local businesses - through verification. Data that is collected could include geographic location, sector of operations, management, ownership, age, registration, certification, clientele, past performance, geographic scope, competition, the financial standing of businesses, and other key information</p> <p>This type of partnership could also include collaborative work to improve market research, statistical and impact analyses of Lebanese MSMEs</p> <p><u>Value:</u> Increased visibility of local businesses and their capability. This would help inform training needs, and the design of more effective strategies to support local MSMEs (Through contracting, financing or investment)</p> <p>MSMEs are able to plan based on reliable market information, improving the effectiveness of business plans and marketing strategies</p>
INFORMATION SHARING				
#	Challenge	Possible Cause	Likely Impact (or Effect)	Solution
2	Information Asymmetries	<ul style="list-style-type: none"> A lack of resources and tools that allow for information sharing. This is partly driven by the small budget allocations of Lebanese institutions, as a result of which in-depth market research and analysis is not prioritized Where resources do exist, they are not well publicized or easy to access The Government of Lebanon is currently under-resourced. There is no other known intermediary that is able to set-up and manage a centralized information sharing resource 	<ul style="list-style-type: none"> MSMEs aren't aware of financing mechanisms available to them, and are prevented from accessing new financing and credit opportunities MSMEs cannot access potential contracting (procurement) opportunities Misperceptions, distrust, lack of coordination, and priorities among stakeholders can be misaligned Stakeholders are unable to develop a working knowledge on the local context to develop successful strategies, relationships and programs 	<p><u>What:</u> In partnership with the Government of Lebanon or an appropriate intermediary organization, create a centralized website in English and Arabic that shares business profiles and opportunities, key market information, information on business support providers (training and mentorship), financing options, and links to training courses and resources</p> <p><u>Value:</u> For MSMEs, this creates transparency and helps facilitate new opportunities, while building trust, capacity and relationships</p> <p>For stakeholders, this helps improve planning, strategy development and coordination. For both MSMEs and stakeholders, this prevents duplication of efforts</p>

TRAINING				
#	Challenge	Possible Cause	Likely Impact (or Effect)	Solution
3	Insufficient Capacity	<ul style="list-style-type: none"> MSMES do not understand the requirements of buyers, the expectations of customers, or how to access financing for their businesses Training and mentorship that may be available to local businesses is not well marketed Existing approaches to training MSMES do not include customized support and follow-on mentorship assistance that is tailored to the needs of MSMES – specifically the needs of smaller businesses (micro-enterprises) and female entrepreneurs. This includes language barriers where existing resources are only available in English MSMEs do not perceive a need for support and/or there is a mismatch in perceived support needs between businesses and stakeholders currently providing business support 	<ul style="list-style-type: none"> Businesses do not compete for financing or contracting opportunities (grants, loans, and procurement, including public procurement) because they fail to meet access to finance and contracting requirements. In addition to meeting procurement specific technical requirements, this can also include basic financial management requirements – as observed through this study The MSME sector remains underdeveloped which stymies employment creation and other positive social and economic dividends. Consequently, businesses may also continue to operate in the informal sector without the knowledge, capacity and incentive to formalize. 	<p><u>What:</u> Provide targeted training to MSMEs complemented by hands-on mentorship support. Training should target smaller enterprises (particularly micro-enterprises), female entrepreneurs and Lebanese businesses that have been negatively impacted by the Syrian crisis. Training resources should be translated into Arabic to ensure maximum utility for MSME participants</p> <p>Facilitate business to business mentorship to cultivate a culture of sharing experiences and learning from failure. This will reverse the cultural stigmatization of “failure”, and provide smaller businesses with the opportunity to learn from the experiences of other businesses that have experienced similar challenges. This also gives businesses the opportunity to tap into a network of industry experts</p> <p>Increase outreach and coordination initiatives between private and public sectors to improve information and resource sharing, support, and to avoid duplication of efforts</p> <p>The Institut des Finances (At the Lebanese Ministry of Finance) provides training on public procurement for Lebanese public sector entities. The Institut has contextualized training resources on public procurement for SMEs, to help Lebanese businesses access public procurement opportunities. However, the Institut is currently mandated to provide training to Lebanese public sector entities only. While training for SMEs falls outside its mandate, there is an opportunity to explore partnership or collaboration with the Institut to facilitate the delivery of in-depth training on public procurement, to help SMEs access public procurement opportunities. The Institut has expressed a willingness to collaborate, share resources and expertise in this regard</p> <p><u>Value:</u> The sustainability of MSMEs is strengthened. MSMEs develop their business knowledge, and become more competitive. Furthermore, MSMEs are better positioned to apply for and obtain financing, and access contracts - enabling them to grow their businesses, enter new markets, and create jobs</p> <p>For stakeholders, this helps improve planning, strategy development, coordination. And minimizes duplication of efforts</p>

ANNEX I: DEVELOPING AN MSME SUPPORT PROGRAM

Overview of Training Selected

Based on the findings of this study, including the literature review, SME survey and Stakeholder KIs, MSMEs need support across several areas, however targeted support on sales and marketing, customer service, financial management and business planning are most likely to yield immediate positive results in helping businesses access financing opportunities which is a key constraint to growth.

Description of Training	Why it was selected
<p>Sales and Marketing: This 4-module training is intended for businesses to identify target market segments. The training covers the 4 P's framework as well as general advice for creating and managing a sales team so that businesses can better target their market segments. Each section ends with discussion points which are designed as an opportunity to reinforce the material by allowing businesses to frame the content within their own experiences.</p>	<ul style="list-style-type: none"> ▪ Businesses want to expand markets but lack the means/ resources to do so ▪ Perceptions of competition are highly localized, possibly due to lack of market information/ research ▪ Businesses attribute poor performance of their sales staff when it could be symptomatic of issues associated with a lack of management/ planning ▪ Information asymmetries and poor market research can negatively impact the sales of businesses – particularly MSMEs who cannot afford to have specialized sales/ marketing teams ▪ Top training area highlighted through SME survey
<p>Customer Service: The 6 module course begins with an overview of the importance of customer service and becomes increasingly tactical as the content shifts to communication styles/etiquette, cross-cultural barriers, relationship management, and finally negotiation tactics and styles.</p>	<ul style="list-style-type: none"> ▪ Lack of understanding about what customer service means: respondents highlighted dealing with difficult clients as a challenge, implying a tendency to hold the customer responsible, instead of improving customer service as a strategy to ensuring customer satisfaction. ▪ Top training area highlighted through SME survey
<p>Financial Management: This 5-module training is intended for businesses to understand three financial management documents; the Income Statement/P&L, Balance Sheet, Cash Flow Statement. The training concludes with information about how the business can use their knowledge of these documents to secure financing from. Each section ends with discussion points which are designed as an opportunity to reinforce the material by allowing businesses to frame the content within their own experiences.</p>	<ul style="list-style-type: none"> ▪ Most businesses have basic systems in place for managing day-to-day administrative and financial functions, although there is room for improvement (Upgrading from paper to computerized systems of accounting) ▪ Micro/ small enterprises aren't always aware of financing mechanisms available to them and/ or are not able to meet loan application/ procurement requirements ▪ Financing is difficult for MSMEs to access without sufficient collateral however business owners are reluctant to look at other funding mechanisms ▪ Cash flow is a problem for micro/ small enterprises ▪ Top training area highlighted through KIs with stakeholders

Description of Training (Continued)	Why it was selected (Continued)
<p>Business Planning: This 3-module training is intended for businesses to understand the major components of a business plan and involves practical exercises for participants to create their own business plan using the framework provided. To further assist businesses, common analytical frameworks such as risk analysis, SWOT, and the 4 P's are also introduced. Each section ends with discussion points which are designed as an opportunity to reinforce the material by allowing businesses to frame the content within their own experiences.</p>	<ul style="list-style-type: none"> ▪ Stability/ security in the region prevents businesses from being able to plan for the longer term ▪ There is a need to shift from a culture of informal business planning to formal business planning ▪ Business planning is a key requirement for accessing loans/ other financing mechanisms ▪ Poor market research and information could negatively impact business planning ▪ Business planning is linked with financial sustainability ▪ Top training area highlighted through KIs with stakeholders

Recommended Approach to Training Delivery

The following guidance can be used by donors, policymakers, international and local non-governmental organizations (NGOs), business support providers, research practitioners and local businesses. Recommendations have been provided to guide the implementation and delivery of an effective MSME support initiative through training and mentorship.

- 1) Targeting businesses to participate in an MSME training program:
 - a) Support should target smaller enterprises (particularly micro enterprises), and Lebanese businesses that have been negatively impacted by the Syrian crisis. This will help improve the sustainability of these businesses, thus increasing their potential for job creation in the long run.
 - b) Related to the above, there is a need to provide targeted support to female entrepreneurs, who remain underserved. Furthermore, this helps accommodate possible religious or cultural constraints that would prevent women from mixing with men. This feeds into the GoL's SME Strategy by providing an enabling environment for Lebanese female entrepreneurs.
 - c) Based on this research, it is possible that medium-sized enterprises would not be interested in receiving free-training provided under an MSME support program, as these businesses can afford customized training on their own. While medium-sized businesses should not be targeted for introductory training, these businesses may still benefit from other services and programs offered.

- 2) Flexibility of approach to delivering support:
 - a) Training resources have been developed as a guide to provide support to MSME beneficiaries, based on needs identified under this assessment. Training materials have been designed for delivery in a classroom setting, however the approach to delivery may require further customization, in order to ensure that the schedule is tenable for beneficiaries. In the event that training is delivered in the form of classroom-style training, it is recommended that the training provider host a focus group with a sample of target beneficiaries prior to launching the training program, in order to determine the ideal schedule, duration and approach to training delivery. This is important as surveyed businesses indicated that they would not be able to attend training during work hours, however some businesses were agreeable to attending training on weekends.
 - b) Related to the above, training resources may need to be adapted or further contextualized in order to suit the evolving needs of MSME beneficiaries. With this in mind, it is recommended that the training provider evaluate beneficiaries at the baseline, at regular (pre-determined intervals), and upon the completion of all training to ensure continuous improvement, the retention of training concepts and the effectiveness of mentorship.
 - c) Training resources should be translated into Arabic to ensure maximum utility for MSME participants.
 - d) In order to ensure the success of its training program, the training provider should invest in highly qualified trainers, with an academic background in the relevant subject material and fluent in the local language (Arabic). Strong trainers are the backbone of an effective training program: They understand subject material, and are able to communicate and explain concepts to others. As a result, they are effective mentors because that are able to provide advisory support that is tailored to the needs, challenges and constraints of

beneficiaries. Lastly, they have the ability to contextualize and update materials, ensuring the continued relevance of training content.

- e) In the event that the targeted support is provided to MSMEs operating in specific sectors, or geographic regions, additionally, in-depth analyses, research, or follow-up may be required to identify training needs and customize the approach to training delivery. The SME survey has been designed to be scalable, with this purpose in mind. See Annex II – SME Survey.
 - f) Several stakeholders reiterated the importance of providing customized support and follow-on mentorship assistance that is tailored to the needs of MSMEs, as opposed to generic training, which is already available through several business providers. The inclusion of tailored mentorship assistance will help ensure that training concepts are retained and utilized. This can be accomplished by incorporating a mentorship plan into the design of the training program, informed by the focus group discussion (a.) and continuous improvement efforts (b.) above.
 - g) Training providers may consider linking the MSME support program with existing small grants initiatives for micro-enterprises. This would require prospective grantees to participate in training, as a condition for receiving small grants based on their needs. However, the training providers should exercise caution in marketing this scheme by vetting prospective grantees thoroughly, to avoid undermining the effectiveness of training as simply a mechanism for obtaining “free money”. This type of due diligence will help ensure an efficient allocation of its resources to beneficiaries that demonstrate a commitment to growing their businesses.
 - h) Alternately, training providers should cultivate relationships with MSMEs partners, as a strategy for providing training. This helps establish and secure buy-in from local beneficiaries, who may not see the immediate value of training/ support provided. This is particularly important as the perceived needs of businesses, may not align with actual needs – as evidenced from businesses not perceiving a need for financial management and business planning support, despite these being issue areas that have prevented businesses from accessing finance options.
- 3) Best practices for marketing a training program:
- a) Training providers should consider using their existing programs as vehicles for marketing the training initiative. As an example, MSME beneficiaries should be asked if they would be interested in training at all points of contact. For example - 15 minutes of every training session (either before or after) can be dedicated to marketing other trainings. In addition to providing an opportunity for steering beneficiaries towards existing training, this is also used as a way to qualitatively measure interest in additional subject areas.
 - b) Once credibility has been established, the training provider may consider offering paid training sessions to recover training costs as well as create a suitable environment for advanced instruction. If training is offered as a free service, it is worthwhile charging a nominal participation fee. This will help secure attendance, and ensure that training is provided to beneficiaries who demonstrate a commitment to growing their businesses.
 - c) Word of mouth & testimonials from MSME beneficiaries are an effective means of drawing new businesses and creating credibility. The training provider may consider noting testimonials and success stories when scoring businesses at the baseline, regular intervals, and upon the completion of training (See 2.b.)
 - d) The training provider may consider marketing its training program through radio, phone calls, and relevant social media. The approach to advertising can be informed by the focus group discussion (See 2.a.)

- 4) Create an enabling environment for business support:
- a) Consider facilitating business to business mentorship to cultivate a culture of sharing experiences and learning from failure between more experienced businesses and newer companies. This helps reverse the cultural stigmatization of “failure”, while providing smaller businesses with the opportunity to learn from the experiences of other businesses that have experienced similar challenges. This also gives businesses the opportunity to tap into a network of local industry experts. The training provider could leverage existing networks to develop a pool of “Business Mentors” that could participate in this program.
 - b) There are a several business support entities that provide training and mentorship support for Lebanese MSMEs. It is advisable that the training provider establish working relationships with these organizations to avoid duplicating efforts and facilitate information and resource sharing wherever possible. Building Markets & IRC met with several of these stakeholders during the field research phase (See list Annex III for the full list of Stakeholders).
 - i) During these consultations, the Chamber of Commerce, Industry and Agriculture for Beirut & Mount Lebanon (CCIABML) offered to post information on IRC’s training program on its website.
 - ii) The Institut des Finances has expanded its training portfolio to include training for MSMEs on public procurement. The Institut has agreed to share its training resources and expertise, on request. This is a potentially useful partnership to help MSME beneficiaries access procurement opportunities in the future.
 - c) The training provider should consider increasing outreach and coordination initiatives between private and public sectors to improve information sharing, and support. This can be done through regular roundtable discussions, panel discussions, or similar events. This will also help mitigate duplication of efforts by facilitating face-time with other actors in the ecosystem.

ANNEX II: SME SURVEY QUESTIONNAIRE

The full questionnaire including information on response type and coding used can be found as an attachment to this report.

I. Organization: Firmographics	I.1	Company/ Business/ MSME Name (Terms used interchangeably)	String
	I.2	First Name (Interviewee)	String
	I.3	Last Name (Interviewee)	String
	I.4	Title (This is self-described job title of the interviewee. Collect business card if possible)	String
	I.5	Position at Company (Interviewee)	MCQ (Select one response only)
	I.6	Gender (Interviewee)	MCQ (Select one response only)
	I.7	Email (Interviewee)	String
	I.8	Phone (Interviewee)	Numeric
	I.9	Citizenship (Legal status)	MCQ (Select one response only)
	I.10	Address (Main Office)	String
	I.11	City/Town (Main Office)	String
	I.12	Country (Main Office)	String
	I.13	For how long have you been employed with this company? (Years. If answer is in months, divide by 12)	Numeric
	I.14	How long has your business been operating in Lebanon? (Years. If answer is in months, divide by 12)	Numeric
	I.15	In which districts does your business operate? (Select all that apply)	List A (See Lists tab)
	I.16	Is your business female-owned? (If at least 50% of the business is owned by a woman/ women)	MCQ (Select one response only)
	I.17	Is your business female-managed? (If the most senior manager is a woman)	MCQ (Select one response only)
	I.18	Is your business registered? (If the business is registered with all legally required institutions)	MCQ (Select one response only)
	I.18.1-->If NO - Why not?	Checkboxes (Select all that apply)	
	I.18.2-->If NO - Are you planning to register?	MCQ (Select one response only)	
	I.18.3-->If YES - Who are you registered with?	Checkboxes	

		(Select all that apply)
	I.18.4-->If YES - What was your experience registering?	String
	I.19 Is your business family-owned? (If the business is owned exclusively in partnership with members of the same family)	MCQ (Select one response only)
	I.20 What is your main sector of operations?	List C (See Lists tab - Select one sector only)
	I.21 What other sectors does your business operate in?	List C (See Lists tab - Select all that apply)
	I.22 Of the following options, which best describes your business?	MCQ (Select one response only)
	I.23 What primary good/ service services does your business provide in the main sector of operations?=what kinds of products or labor do you provide?	String
	I.24 What other goods and services does your business provide?=what other kinds of products or labor do you provide?	String
	I.25 Do you mainly source your goods/ services from outside Lebanon, or from within the country?	MCQ (Select one response only)
	I.25.1-->If the business imports - Where do you typically import from? (Location)	String
	I.25.2-->If the business imports - Why did you decide to import as opposed to buy locally?	MCQ (Select one response only)
	I.26 Who are your buyers/customers/clients? (Terms used interchangeably)	Checkboxes (Select all that apply)
	I.27 What is the geographic scope of your business?	MCQ (Select one response only)
	I.28 Who is your principal client? (‘Principal’ being defined by frequency of business interactions, NOT contract amount)	String
	I.28.1-->Is this client foreign or domestic?	MCQ (Select one response only)
	I.28.2-->Type of client	MCQ (Select one response only)
	I.28.3-->What goods or services were provided to this client?	String
	I.28.4-->What is/was the duration of the contract for this client?=in months	String
	I.28.5-->What is/was the value of this contract (US \$)?	Numeric
2. Organization: Labor & Hiring	2.1 How many people does your company employ full-time as of the end of the last month? (Full-time is defined as 40 or more hours a week)	Numeric

		The following questions are related to the composition of the business' workforce:	
		2.1.1-->How many of your full time employees are classified as management? (Management: anyone who plans, directs and coordinates the policies and activities of a business or other organization)	Numeric
		2.1.2-->How many of your full time employees are classified as professional? (Professional: have advanced training in their field and usually a degree from a university. Includes engineers, lawyers, economists, IT professionals, teachers and health professionals)	Numeric
		2.1.3-->How many of your full time employees are classified as skilled? (Skilled: require technical knowledge or abilities to perform their jobs, often gained through formal training, at upper secondary or tertiary education. It may also include skilled craftsman who have learned their trade through years of specialized employment, such as bricklayers, plumbers, or mechanics, crop growers, gardeners and dairy and livestock producers)	Numeric
		2.1.4-->How many of your full time employees are classified as unskilled? (Unskilled: require no special skills and can be taught to perform their jobs in a short amount of time. This group consists of simple and routine tasks that mainly require the use of hand tools plus physical effort. Most occupations in this group, such as cleaners, building caretakers, doorkeepers or laborers do not require formal education qualification)	Numeric
		2.1.5-->How many of your full time employees are classified as another type of worker? (i.e. non of the above)	Numeric
		2.1.6-->How many of your FULL-time employees are women?	Numeric
	2.2	How many people did your company employ part-time as of the end of the last month? (Part-time is defined as less than 40 hours per week)	Numeric
		2.2.1-->How many of your PART-time employees are women?	Numeric
	2.3	Does your business employ non-Lebanese citizens?	MCQ (Select one response only)
		2.3.1-->If YES - What % of your workforce is Lebanese?	Numeric (Percentage)
		2.3.2-->If YES - What % of your workforce is Syrian?	Numeric (Percentage)
		2.3.3-->If YES - What % of your workforce is Palestinian?	Numeric (Percentage)
		2.3.4-->If YES - What % of your workforce is neither Lebanese, Syrian, or Palestinian?	Numeric (Percentage)
		2.3.4a-->If the business hires Syrians - What issues have you experienced with hiring Syrian workers?	Checkboxes (Select all that apply)
	2.4	Have you had any employee turnover within the last 12 months?	MCQ (Select one response only)

	2.5	What were the main reasons for turnover?	Checkboxes (Select all that apply)	
	2.6	Does your business have a Admin/ HR Department?= at least one full-time person whose primary job is admin/HR	MCQ (Select one response only)	
	2.7	Does your business use employment contracts?	MCQ (Select one response only)	
3. Organization: Finance	3.1	Did your business ever take a loan?	MCQ (Select one response only)	
		3.1.1-->If No - Would you consider taking a loan in the future?	MCQ (Select one response only)	
		3.1.2-->If YES - From whom did you obtain a loan?	MCQ (Select one response only)	
		3.1.3-->If YES - What factors influenced your decision to apply for a loan from the entity listed above?	String	
		3.1.4-->If YES - How much was the loan for? (US \$) (The following questions relate to the most recent loan)	Numeric	
		3.1.5-->If YES - What was the loan used for?	Checkboxes (Select all that apply)	
		3.1.6-->If YES - Have you paid off this loan?	MCQ (Select one response only)	
		3.1.7-->If YES - Would you consider taking another loan in the future?	MCQ (Select one response only)	
		3.1.7a-->-->If YES - What would you use it for?	Checkboxes (Select all that apply)	
		3.2	Have you considered other financing mechanisms for your business?	MCQ (Select one response only)
			3.2.1-->If YES - What types of other financing have you considered?	MCQ (Select one response only)
		3.3	Does your business have a Finance Department? (Defined as at least one full-time employee who's primary job is finance)	MCQ (Select one response only)
		3.4	Do you keep regular financial records?	MCQ (Select one response only)
		3.5	Do you have a business plan? (Defined as a formal statement of business goals, reasons they are attainable, and plans for reaching them)	MCQ (Select one response only)
	3.6	What are your annual net profits (US \$)? (If the business is comfortable sharing this information)	Numeric	

4. Bidding Process	4.1	Do you know what a Tender is?	MCQ (Select one response only)
	4.2	Do you look for procurement/tender opportunities?	MCQ (Select one response only)
		4.2.1-->If NO - Are you planning to bid on tender opportunities in the future?	MCQ (Select one response only)
		4.2.2-->If YES - How do you look for opportunities?	Checkboxes (Select all that apply)
		4.2.3-->If YES - How frequently do you look for procurement/tender opportunities?	MCQ (Select one response only)
		4.2.4-->If YES - How many tenders has your company bid on in the last 12 months?	Numeric
		4.2.5-->If the company has bid on tenders in the last 12 months - How much time elapsed between submitting your bid, and getting a response from the buyer?	String
		4.2.6-->If the company has bid on tenders in the last 12 months - Have you won any tenders in the past 12 months?	MCQ (Select one response only)
		4.2.6a-->-->If YES - In your opinion - What is the primary reason you believe your bid was successful?	MCQ (Select one response only)
		4.2.6b-->-->If YES - What was the total value of the contract (US \$)?	Numeric
		4.2.6c-->-->If YES - What was the duration of the contract?	String
		4.2.6d-->-->If NO - In your opinion - What is the primary reason you believe your bid was unsuccessful?	MCQ (Select one response only)
		4.2.6e-->-->If NO - What is the biggest obstacle preventing your business from winning more procurement/tender opportunities?	String
		4.2.6f-->-->If NO - Did the buyer provide feedback on why your bid was unsuccessful?	MCQ (Select one response only)
4.2.6f.1-->-->If YES - What feedback did you receive?	String		
5. Training	5.1	Have you, or anyone from your business received training/ mentoring/ other capacity building and business support in the past? (In addition to training providers, this would include Accelerators/ Incubators/ Not-for-profit/ Business Support/ Govt. Support etc.)	MCQ (Select one response only)
		5.1.1-->If YES - What training/ mentoring/ other capacity building and business support have you received?	Checkboxes (Select all that apply, or write in)
		5.1.2-->If YES - What was the duration of this training/ mentoring/ other capacity building and business support?	MCQ (Select one response only)
		5.1.3-->If YES - Was the duration of time sufficient?	MCQ (Select one response only)
		5.1.4-->If YES - Was this training useful?	MCQ (Select one response only)
		5.1.4a-->-->If NO - How could the training have been improved?	String

	5.2	Are you or anyone from your business interested in receiving additional training/ mentoring/ other capacity building and business support?	MCQ (Select one response only)
		5.2.1-->If YES - Would you be interested in attending training during official working hours?	MCQ (Select one response only)
		5.2.2-->If YES - Would you be willing to pay for training?	MCQ (Select one response only)
	5.3	Please prioritize three areas where you feel training or assistance would be beneficial to your business:	
		5.3.1-->Training Area 1	String (To be coded, as appropriate)
		5.3.2-->Training Area 2	String (To be coded, as appropriate)
		5.3.3-->Training Area 3	String (To be coded, as appropriate)
		5.3.4 Please expand on relevant areas for each training area mentioned.	String
6. Perceptions: Impact of External Factors		For each of the following external factors, indicate the level of impact ON your business. Please use the scale: 1=No impact, 2=Minor impact, 3=Moderate impact, 4=Major, 5=Severe	
-->Competition	6.1	Increased competition from local businesses/ SMEs	MCQ (Select one response only)
-->Competition	6.2	Increased competition from international businesses	MCQ (Select one response only)
-->Market	6.3	Fluctuations in demand of goods and services provided	MCQ (Select one response only)
-->Market	6.4	Fluctuations in cost of goods and services provided	MCQ (Select one response only)
-->Market	6.5	Quality of goods available in the local market	MCQ (Select one response only)
-->Market	6.6	Availability of market information/ research	MCQ (Select one response only)
-->Context	6.7	Corruption	MCQ (Select one response only)
-->Context	6.8	Security situation	MCQ (Select one response only)
-->Labor Supply	6.9	Availability of skilled labor	MCQ (Select one response only)
-->Labor Supply	6.10	Availability of unskilled labor	MCQ (Select one response only)

-->Infrastructure	6.11	Infrastructure (Technology/Equipment, Land/Office Space, Energy, Water, Communication)	MCQ (Select one response only)
-->Regulatory Environment	6.12	Government Laws & Regulations/ Bureaucracy/ Red tape (Getting permits)	MCQ (Select one response only)
-->Financial	6.13	Taxes	MCQ (Select one response only)
-->Financial	6.14	Interest rates	MCQ (Select one response only)
-->Financial	6.15	Access to credit/finance and capital	MCQ (Select one response only)
-->Financial	6.16	Cost of transportation/ access to markets	MCQ (Select one response only)
7. Perceptions/ Constraints	7.1	What is the single greatest challenge that your business faces operating in Lebanon? (Not procurement specific)	MCQ (Select one response only)
	7.2	What other challenges does your business face operating in Lebanon?	Checkboxes (Select all that apply)
	7.3	For each of the challenges described above - Please indicate what kinds of changes would improve your ability to do business in Lebanon?	String
	7.4	What challenges (if any) does your business face when dealing with buyers/ customers?	Checkboxes (Select all that apply)
	7.5	How many competitors do you have?	Numeric
	7.6	What kinds of market research information would help your business perform better?	String
	7.7	What kinds of government policies or programs, or infrastructural improvements, could strengthen your business?	String
8. Outlook	8.1	How would you describe the current status of your business?	MCQ (Select one response only)
	8.2	How would you describe your current business performance compared to last year?	MCQ (Select one response only)
	8.3	How has the conflict in Syria impacted your business activities in Lebanon?	String
	8.4	How will the conflict continue to impact your business over the next 12 months?	String
	8.5	Based on your experience, which sectors or goods and services are going to experience the most economic growth within the next 12 months?	List C (See Lists tab)

ANNEX III: LIST OF STAKEHOLDERS

Type of Interview	Name of Organization	Description
Buyers (INGOs, International Organizations, Large businesses)	5) United Nations Development Programme (UNDP)	<p>UNDP helps the Lebanese government to deliver its mandate, with support services strengthening the judiciary, Parliament, and the Prime Minister's office. The organization assists in the development of policy and focuses closely on ways to improve public and civic administration. Working with the Parliamentary Committee on Human Rights, UNDP is a lead partner in the development of the Human Rights National Action Plan. This will enshrine rights for minorities – especially women, children, and people with disabilities and refugees – as well as the right to access public services and institutions for all.</p> <p>Category: Buyer, International Organization</p>
	6) The World Bank	<p>The World Bank two-pronged strategy to support Lebanon focuses on responding quickly to help the government cope with the impact of the influx of refugees, while at the same time keeping a sustained focus on the investments and reforms needed for medium- and long-term development.</p> <p>As of September 2015, the World Bank portfolio consisted of 17 projects (investment lending and grants), focusing on education, social protection, health, urban and municipal development, transport, water, environment, finance and private sector, and social services for a total commitment of close to US\$1.1 billion.</p> <p>Category: Buyer, International Organization</p>
	7) International Finance Cooperation	<p>In Lebanon, the IFC works with local banks and financial institutions, as well as other sectors, to help the private sector find sustainable solutions to the challenges facing Lebanon, create jobs and grow the economy.</p> <p>Category: International Organization</p>

	8) Save the Children	<p>Save the Children's network of partners in Lebanon implement approaches developed during past emergencies to create effective safe spaces for children, adolescents, youth and families in need.</p> <p>Category: INGO</p>
	9) Spinneys	<p>Spinney's is a large grocery store that sells high quality fresh produce, groceries, and baked goods across the country. They are a large employer with several branches in the MENA region.</p> <p>Category: Buyer</p>
Stakeholders (Banks, Microfinance Institutions, LNGOS, Business Support Providers)	Al Majmoua	<p>Al Majmoua is a Lebanese non-profit microfinance institution that focuses on supporting micro-entrepreneurs, particularly women, in developing sustainable businesses all over Lebanon.</p> <p>Category: Microfinance Institution</p>
	René Mouwad Foundation	<p>RMF's economy and development services aim at guaranteeing access to basic services and self-improvement skills for groups of society. Special projects target the empowerment of rural women. They fund BIAT in Tripoli</p> <p>Category: LNGO</p>
	BLC Bank	<p>In addition to providing financial services to businesses, BLC provide non-financial business support services through their SME Toolkit. The SME Toolkit is funded by the IFC, and consists of a platform to guide SMEs from establishment to fruition. To make this program available in Lebanon IFC partnered with BLC Bank as a local partner.</p> <p>Category: Bank, Business Support Provider</p>
	Credit Bank	<p>Credit bank provide several financial and advisory services to businesses. This includes subsidized loans and Kafalat loans.</p>

		Category: Bank
	The Economic and Social Fund for Development	ESFD provides Business Advisory Services, in addition to a wide network of branches available at partner banks, though advisors who are located throughout Lebanon. These advisors seek potential borrowers and assist them in completing a comprehensive loan application which is then submitted to one of the ESFD partner banks for processing. Category: Business Support Provider
	SPEED Lebanon	Speed is a Beirut-based startup accelerator that invests in startups at the idea and early stage, particularly in the software, digital, and Web/mobile industries. Category: Business Support Provider
	UK Tech Hub	The UK-Lebanon Tech Hub is an International initiative jointly kick-started by Banque Du Liban and the UK Government through the British Embassy in Beirut. The initiative is privately run and managed by UK-based PA Consulting. The UK Lebanon Tech Hub is a two year programme comprising of several activities to support the entrepreneurship and SME landscape in Lebanon with a view to increase GDP and create jobs in the country. Category: Business Support Provider
	WAMDA	Wamda is a platform of programs and networks that aims to accelerate entrepreneurship ecosystems across MENA. Their core competencies are in community development, media, research, and advisory services - Each of which is a core pillar to supporting entrepreneurship in the region. Category: Business Support Provider, Access to Finance
Stakeholders (Public/ Semi-Public)	Ministry of Economy and Trade, SME Unit	The Lebanese Ministry of Economy & Trade (MoET) established a SME Unit, which is focused on research and policy/advocacy activities within MoET. The SME unit developed the "SME Strategy of Lebanon, Roadmap towards 2020", for which the SME Unit is seeking funding to launch its first wave of initiatives. MoET also runs an Internationalization Support

initiative, which subsidizes the participation of Lebanese businesses in international affairs. They also received funding from the EU to run the Qualeb project, to improve quality standards through trainings and workshops - Both were mentioned in the SME Strategy document.

Category: Government (Public)

Chamber of Commerce, Industry & Agriculture of Beirut & Mount Lebanon (CCIABML)

CCIABML is a semi-public organization. The Chamber represents the interests of the private sector, and contributes to the formulation of economic policies and to the elaboration of legislation that impacts business activity, develops partnerships and dialogue between the business sector and the government, and provides a broad array of services to enterprises.

Category: Semi-Public, Business Support Provider

Kafalat

Kafalat is a Lebanese financial company with a public concern that assists SMEs to access commercial bank funding. Kafalat helps SMEs by providing loan guarantees based on business plans/feasibility studies that show the viability of the proposed business activity.

Category: Business Support Provider, Access to Finance

Institut des Finances Basil Fuleihan

The Institut des Finances Basil Fuleihan is a civil service learning center specialized in Public Financial Management and Customs. The Lebanese Ministry of Finance provided the Institute with the necessary resources to become a sustainable source of high quality, specialized training, human resource management, communication and documentation services. Capacity building are a central piece of its comprehensive reform program.

Category: Government (Public), Business Support Provider

ANNEX IV: REFERENCES

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