

# THE DEMOCRATIC ECONOMY

الاقتصاد الديمقراطي

03 / 04 / REPORT 2021

THEME 03

TOWARDS A  
DEMOCRATIC ECONOMY

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# Reimagining MSMEs

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## Report

### Theme Three

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# About

## The Democratic Economy

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The Democratic Economy Initiative is a year-long conversation that tackles different key components needed to pave the way for a democratic economy in Lebanon.

Under the umbrella of the initiative, four thematic conferences are taking place covering the different components including: Solidarity Economic Enterprises; Digital Currencies, Technology, and Innovation; Reimagining MSMEs; Alternative Syndicates and Social Solidarity Structures.

The aim of the initiative is to bring together an eclectic audience including academics, activists, NGOs, international donors, community members, technologists, practitioners and researchers, located both locally and globally, to engage in meaningful dialogue around the existing socio-economic realities in Lebanon, to collectively ideate and recommend contextual and practical solutions, pathways and options.

This report discusses the third thematic conference around MSMEs, which was held over three consecutive days: September 14, 15, and 16, 2021. It conveys the main findings of the conference and reflects on possible solutions and recommendations.

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## Acknowledgements:

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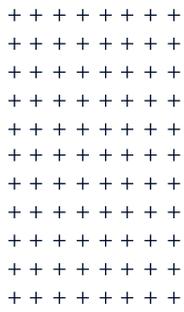
**The views, thoughts, and opinions expressed by the speakers during the conference belong solely to the speakers themselves and do not necessarily reflect those of the Democratic Economy initiative (TDE) and its members. TDE also assumes no responsibility for speakers invited to participate in the conferences. Moreover, reference by the speaker to any specific product, process, service, or organization does not constitute or imply endorsement, recommendation, or favoring by the TDE initiative.**

## Summary:

The Micro, Small, and Medium Enterprises (MSMEs) sector is built on competitiveness, competition, wealth accumulation, and profit maximization. Despite that they are amongst the strongest drivers of economic and equitable development, innovation, and employment, the MSMEs compete with each other instead of working cooperatively based on ethical values such as social responsibility and caring for others.

This sector has been identified to have a promising role in developing countries and is of absolute necessity and deserves prioritization in order to pave the way towards a productive and sustainable economic development. This report demonstrates the relevance, role and contributions of MSMEs within a democratic economy in Lebanon and provides recommendations and reflects on how the MSME sector can operate during these times. The MSME sector has emerged as a very important pillar of the Lebanese economy but is being strongly affected by the ongoing crises affecting Lebanon and was left to fight for its survival in the face of these extremely difficult and uncertain times, where thousands of small businesses were forced to shut down and many others were destroyed by the Beirut Port explosion.

The challenges vary between rising political instability, severe economic and financial crises, weak infrastructure, and deteriorating institutions and governance among many more. Moreover, our economy is dominated by small businesses mostly operating in the non-productive sectors which constitutes one of the reasons for the severe economic fallout we are experiencing today. Therefore, emphasizing the importance of a bottom-up approach in the initiation of MSMEs, through encouraging community-based entrepreneurship initiatives is one of many recommendations towards building an inclusive, democratic, and productive economy. Finally, the economy must be built on a solid basis of MSMEs where the focus is placed on people's empowerment and involvement in decision making, supported by several policies and practices that foster and promote its operation, success, and sustainability.



# List of speakers



## Alain Daou

is an Associate Professor of entrepreneurship at the Olayan School of Business (OSB), Director of the Nature Conservation Center at the American University of Beirut and co-chair of the SME impact initiative at Khaddit Beirut. His research focuses on alternative business models such as social entrepreneurship, circular economy and business in times of crisis. In 2020, he was chosen as part of the #thinklist of racialized thinkers in responsible business, by the University of Bath's Centre for Business, Organization and Society (CBOS). In 2021 the SME impact initiative at Khaddit Beirut was recognized as an AACSB International Innovation That Inspires.

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## Asmahan Zein

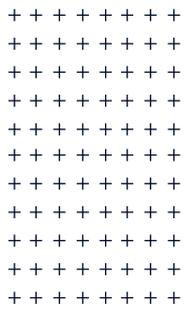
serves on numerous boards and non-profit organizations. She was the President of Lebanese League for Women in Business (LLWB), and is currently the advisor to the Board of LLWB. Also, she is currently the Vice Chair of Ruwwad Al Tanmiya Lebanon, Board member of Rural Entrepreneurs, Board member of Alfanar Advisory Board Lebanon, member on the steering committee of the United Nations Global Compact Lebanon, member of NCC/AUB (Nature Conservation Center) advisory board, in addition to being the Chair-person of Seeders/LWAF, a group of angel investors in Lebanon.

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## Christian Kamel

has over 20 years of leadership in project management, project evaluation and private and public sector economic development initiatives. Christian has field experience in private and public sector development in MENA countries. He performed numerous strategic, market, financial and technical feasibility studies as well as business strategy mandates for a range of local and international organizations. As Director of projects for Fair Trade Lebanon, Christian leads a team of 30 people and is overseeing the implementation of several projects in the fields of livelihood, sustainable development, vulnerability reduction programs, and an innovative community agricultural project which aims at ensuring food security and job creation for different regions in Lebanon. Christian is also the Director of the BIEEL initiative, which stands for Business Innovation and Enhancing Export for Lebanon. As such, he is actively building a network of 100 SMEs and cooperatives, divided up into several clusters within the agri/agro food sector, with an aim to increase their export levels. Various trade facilitation activities are being put in place to enhance export levels for members of the clusters. Numerous events and collaborations have been carried through in different target markets (EU, USA, UK, GCC), and where important Lebanese diaspora communities can play an active an essential role in establishing long term business relationships between local Lebanese SMEs and these target markets.



# List of speakers



## Clara Crivellaro

is a senior research fellow in digital local democracy at Newcastle University's Open Lab. Her research explores technologies' role in democratic practices and social activism. She is currently leading the EPSRC funded Not-Equal Network+, which fosters collaborations between academic and organizations from the third sector, public sector and industry exploring pathways to advance social justice in the Digital Economy.

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## Dom Hunt

has been a humanitarian and development worker all of his career, in multiple countries in Asia and Africa, working on natural resource management, sustainable agriculture, and disaster management. He has lived in Beirut for the last 4 years, and is currently working for Concern Worldwide as the Beirut Program Coordinator. Part of this job is seeking innovative approaches to addressing the economic crisis through a combination of MSME support to prevent unemployment, with community-owned social protection for those already unemployed.

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## Hassan Shaaban Saleh

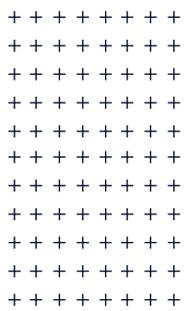
is the founder of Roof and Roots. He is a Civil engineer and junior business expert, and has worked to develop different business social ideas and to find creative engineering solutions.

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## Issam Raidan

is an employee at the National Fund of Social Security for 30 years. He held several union positions, one of which was the coordinator of the training of members of the general trade union. Now, he is the secretary of Labor Watch for workers and employees in Lebanon, as well as the local training coordinator of public services international in Lebanon (PSI). Additionally, he has experience in union training as he tries to help make a change towards a secular society that believes in human rights.



# List of speakers



## Jihan Zahawi

is a Recycling Up cycling Designer. She believes in promoting Hand/Homemade products in Lebanon especially after all the unfortunate events that Lebanon has gone through. She started Garage Souk as a normal flea market business that rapidly changed into a personal initiative to empower women, students and the frail community of Mar Mikheal and Beirut, and currently expanded to host people from all over Lebanon.

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## Karen Takkoush

is an AUB graduate with a focus on educational policy and child rights. She is a social entrepreneur as well. Her social entrepreneurial journey began when she enrolled in the youth leadership program 6th cohort UNDP-Lebanon. KOKO BAG was born as a result of the program. It works on women's economic empowerment and the creation of an environmentally friendly Koko bag brand.

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## Maher Abou Chakra

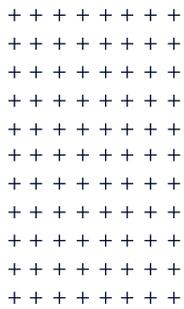
is a social and political activist. He is a Consultant in social and political research design and founding member of Daleel Tadamon, an organization that supports, organizes and develops solidarity structures and institutions of a democratic economy. He has more than 15 years of experience designing research and studies, research methodologies and tools, and experience in structuring and organizing socio-political and community driven initiatives and economic projects. Maher holds degrees in Management Informatics and Psychology. He published his book -The Mind: A Travel in an Abstract World- published by Al-Farabi House in 2013, and he has a number of articles in the social and political fields.

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## Nur Turkmani

is a Lebanese-Syrian researcher and writer based in Beirut. Her work focuses on economic development and social movements in the Middle East.



# List of speakers



## Marwa Abou Dayya

is a partner and Consultant at Beyond Group. She catalyzes initiatives for public management and policy research in sectors related to women and youth empowerment, social entrepreneurship and innovation, education, and local governance at both local and national levels. She has over a decade of experience in designing strategic plans and leading organizational development and change management processes for public institutions, local government bodies, and international organizations. She also has experience working with donors and international organizations as an advocacy expert to build the capacities of civil society organizations and local communities to develop activities advocating for meaningful change.

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## Nancy Ezzeddine

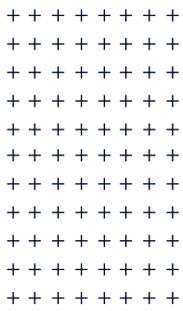
is a research fellow at the Clingendael Institute. Her work primarily focuses on post-conflict recovery with particular attention to private sector development in Iraq. Nancy previously worked as a policy researcher at the Lebanese Center for Policy Studies (LCPS) leading work on the industrial sector. She also gained professional experience at the United Nations Economic and Social Commission for Western Asia (UN-ESCWA) where she coordinated the implementation of the Sustainable Development Agenda across the Arab region. Nancy holds an MSc in Development Studies from the School of Oriental and African Studies (SOAS) and is currently pursuing a Master's degree at the Massachusetts Institute of Technology (MIT) Department of Economics.

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## Ola Sidani

is a development economist and public policy expert. She worked for more than 10 years with UNDP at the Office of the Prime Minister, leading on various reform projects. She also led Lebanon's national SDGs portfolio, VNR reporting, and represented the Government at international conventions. She recently joined the Lebanon Crisis Observatory at AUB as Programs Coordinator.



# List of speakers



## Rosalie Berthier

currently leads Synaps' research on Lebanese macroeconomics. Born and raised in France, she holds a BA from Sciences-Po and an MSc in Sociology from the London School of Economics. She has lived in Egypt, Turkey, and Lebanon, where she worked in both analysis and project incubation & management. She has advised or engineered crowd-funding campaigns and the development of business plans—an entrepreneurial bent she is keen to harness to Synaps.

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## Dr. Ziad Elsahn

is a Senior Lecturer in International Business and the Director of Education at the Entrepreneurship, innovation, and Strategy department at Northumbria University, Newcastle Business School. His research focuses on internationalization, knowledge coordination within and between organizations, organizing for institutional change and sustainable development, and strategy making processes and practices. He explores these issues in the context of cooperatives, professional service firms, SMEs and multinational enterprises.

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# Introduction

Micro, Small, and Medium Enterprises (MSMEs) are amongst the strongest drivers of economic and equitable development, innovation, and employment. The MSME sector has been identified to have a promising role in developing countries, specifically linked to its contribution towards fulfilling the seventeen Sustainable Development Goals (SDGs). In fact, the MSME sector contributes significantly to the inclusive growth of the economy, employment generation, innovation, poverty and inequality alleviation, and export revenues [20, 33]. According to the World Bank’s most recent estimations, this sector represents about 90% of businesses and more than 50% of employment worldwide [39], which indicates that achieving sustainable socio-economic development is not feasible without acknowledging the importance and contribution of the MSME sector.

The intrinsic characteristics and potential of MSMEs constitute the basic vital elements of an economic system that can actually promote people’s welfare [17]. The needed pathway towards achieving a democratic economy depends on the revitalization and empowerment of the people’s economy, specifically prioritizing and acknowledging economic activities carried out by the people, and for the people who prioritize the prosperity of the community, and not only that of individuals [17].

The whole paradigm of creating and adapting new alternative business models, bringing in innovation and new technologies and doing business differently, in a more sustainable and more ethical manner, is what provides new business opportunities for the private sector in general and MSMEs in particular [33].

Accordingly, today more than ever in Lebanon, strengthening the MSME sector and supporting it morally, politically, and practically, is of absolute necessity and deserves prioritization in order to pave the way towards a more democratic, inclusive, and sustainable socioeconomic development.





This report aims to demonstrate the relevance, role and contributions of MSMEs within a democratic economy in Lebanon, in what relates to boosting the economic activity, creating employment opportunities and incomes, achieving equitable development and promoting socio-economic empowerment, particularly for the marginalized groups, while taking into consideration the multiple crises that the country is facing. It will also provide recommendations and reflect on how the MSME sector can operate within this democratic economy.

Throughout the conference, speakers discussed and examined the current situation of MSMEs in Lebanon and reflected on future pathways and recommendations for MSMEs, including labor rights and reforms from the lens of MSMEs, organization of MSMEs, and creation of alliances, and the roles of diaspora and international organizations for MSMEs.

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# The International Context: Overview of MSMEs

The enterprise sector in global market economies is primarily private and extends across the wide spectrum of economic activity and across diverse sectors, including agriculture, industry, trade, infrastructure, and social services. A diverse variety of market players interplay within the private sector, including the self-employed, micro, small, medium and large enterprises, in addition to multinational companies [29].

MSMEs constitute the vast majority of total enterprises in most of the economies and have been globally considered as key elements of economic growth, equitable development and socio-economic empowerment. In fact, the MSME sector is attributed to the generation of the highest rates of employment growth, providing opportunities and support to the vulnerable populations of the community, including women, youth and poor people [1, 14, 30, 32]. This is crucial as it ensures a more equitable distribution of national income and wealth, thus reducing regional imbalances in countries [1, 30].

According to the World Bank, MSMEs are defined as follows: (1) micro enterprises constitute around 1–9 employees; (2) small enterprises constitute around 10–49 employees; and (3) medium enterprises constitute around 50–249 employees [18]. Nevertheless, global trends in classifying MSMEs show that definitions can widely vary across jurisdictions and can depend on the government’s legal framework and policies of each country, and are not only based on the number of employees. Additionally, the definition of MSMEs might depend on other variables such as turnaround, assets and the size of investments [4].

Start-ups and young firms, which are mainly small or micro firms, are the main source of net job creation in many countries and are seen as the driving force of social innovation and sustainability in the private sector. According to the World Bank, there are about “365-445 million MSMEs in emerging markets: 25-30 million are formal SMEs, 55-70 million are formal micro, and 285-345 million are informal enterprises” [39]. This points out to the idea that the MSME sector is built on the basis that growth and local productivity can still be achieved when innovative ideas are developed locally [34]. However, the challenges facing this sector are multi-dimensional and mainly include limited access to finance, complex bureaucratic procedures in starting



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up, operating and growing a business, taking into consideration the increased market competitiveness, weak infrastructure, lack of effective institutional structures, and the outbreak of the COVID-19 pandemic, among others. In general, a holistic approach is needed to address these constraints, which requires creating an enabling environment in which MSMEs can operate and function in creative and innovative ways [8, 29, 32].

Accordingly, and irrespective of how MSMEs are defined, many countries have developed systems or processes and created institutions which might provide opportunities for learning, and which in turn informs policy making and research, especially in times of crises. Considering the context of Lebanon, the best cases which can be referred to include the cases of **Argentina** and **Greece**, as the nature of the crisis faced by each of these countries is similar to the one that Lebanon currently faces.

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**Argentina's** crisis represents a typical multi-layered example of the interplay between several variables, including exchange rate and fiscal policies and banking and external finance. More specifically, the crisis involved major key elements, including public debt dynamics, monetary policy constraints, and structural weaknesses. This has led to the collapse of the banking system which was followed by social and political unrest. By then, stagnation, instability, high unemployment of the labor force, and rising inequality became the main features of Argentina's society. MSMEs played a pivotal role in responding to the crisis by employing coping strategies including cash management, cost-cutting through focusing on renewable energy, and investing in human skills to foster innovation, adaptability, and knowledge sharing and development [9, 27, 36 37, 40].

As for the case of **Greece**, the crisis of the European financial system had a profound impact on the Greek economy which was also a result of the recession due to the global financial crisis. This had subsequently led to general social and political unrest in the country [16, 28]. More importantly, the social impact of the crisis was reflected through the decrease in wage levels, an increase in unemployment and poverty rates, the closure of businesses and institutions, along an increased social exclusion highlighted by wage inequalities among the citizens [7, 22, 24]. It is worth noting that MSMEs constitute the backbone of Greece's economy, with the vast majority of them being micro enterprises struggling to stay within the competitive market, and serving mainly local markets [3]. Several approaches were employed by MSMEs in order to respond to the crisis and improve competitiveness and survival. Those included changing production processes and products in order to adjust to the new conditions, improving product quality and skills, utilization of new technologies, using marketing strategies, and creating domestic networks that facilitated informal cooperation with other enterprises, as a way to reduce costs and promote the exchange and supply goods and services to address the issue of limited resources and urgent demand [6, 24, 25].

Lessons learnt from the above-mentioned countries represent a great opportunity for learning and replication; however, during economic recoveries, each country may deal with diverse levels of policy support

and economic reforms. Accordingly, adapting the lessons learnt to the context of Lebanon is of vital importance. In fact, MSMEs can play an important role in responding to the crisis; however, they can adapt according to the resources available in the country and according to the diverse factors in the existing environment. Through the examples mentioned in this report, the MSME sector proved that being proactive in addressing the crisis and using innovative coping mechanisms can somehow secure survival in the short term; yet, what is needed to ensure sustainability are reforms on different levels, including macro-economic reforms and interventions promoting social justice and inclusion, all of which requires the interplay of several factors and diverse stakeholders.

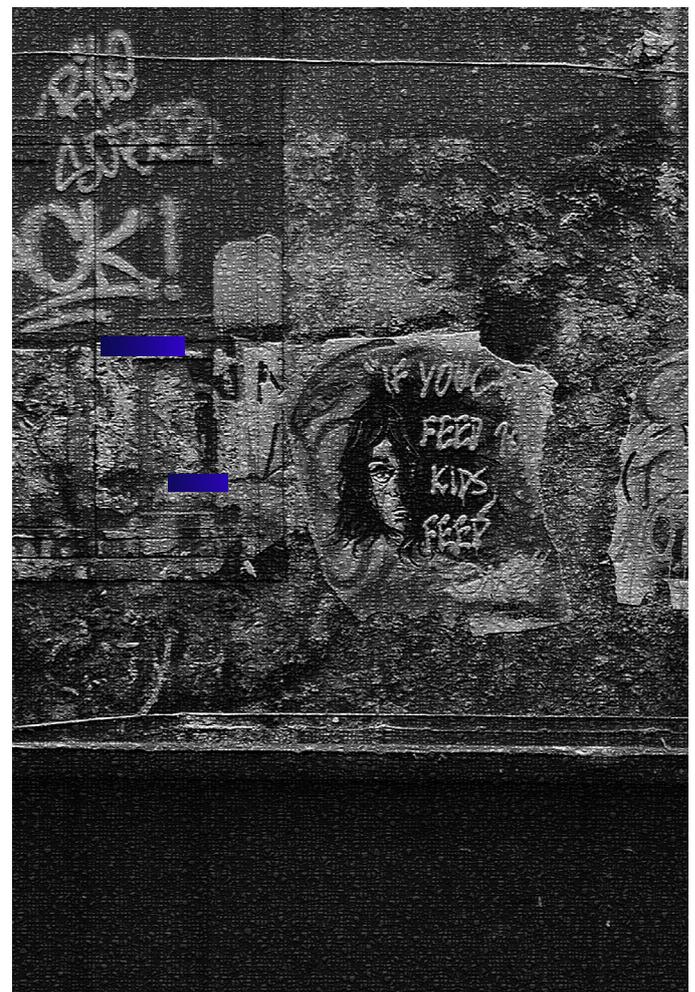


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# The Lebanese Context: Current Situation of MSMEs

## A. SNAPSHOT OF MSMEs IN LEBANON

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Lebanon is currently affected by **multiple ongoing crises** and is facing major **economic, public health, humanitarian, and political challenges**, which label the situation on the ground as critical. Specifically, the ongoing severe **economic and financial crisis**, accompanied by the increasing rates of **poverty and unemployment**, the informal adoption of **strict capital controls** by the banking sector, the **Lebanese pound depreciation**, as well as the **heightening prices** of services and products, all have aggravated the needs among the local Lebanese and non-Lebanese communities. Moreover, the **COVID-19 pandemic** and the **Beirut Port explosion**, exerted huge additional pressure on the country's diverse services and sectors in general, and on MSMEs in particular, creating yet another large-scale crisis amid all the aforementioned situation [10, 38].

The MSME sector has emerged as a very important pillar of the Lebanese economy, but is being strongly affected by the ongoing crises affecting Lebanon. MSMEs serve as the economic drivers in Lebanon and constitute more than 90% of total enterprises in the private sector while employing over 50% of the total workforce [5, 13]. After the Lebanese civil war, considerable efforts were devoted to recovering the national economy through the support of the private sector as the main engine of growth. The 1990s were dedicated to strengthening the enabling environment for the success of private enterprises [41]. From 2005 onwards, the focus of this support shifted towards MSMEs and entrepreneurship, and was followed by the creation of numerous initiatives to boost this sector, such as the UK Lebanon Tech Hub, Daleel Tadamon, Berytech, Bader Youth Entrepreneurs Program, Start-up ESA, the diaspora network LebNet, Kafalat credit guarantee company and the Economic and Social Fund for Development, among others [5]. Moreover, the Lebanese government, international donors, and civil society organizations (CSOs) have also provided support through diverse assistance programs for MSMEs. The growth of a vibrant MSME sector in Lebanon has a fundamental role in stimulating economic growth and providing job opportunities for both the vulnerable Lebanese host and refugee communities [31]. While efforts have been focusing on increasing the number of MSMEs and encouraging young entrepreneurs, little to no importance was given to the social aspects of these businesses. However, MSMEs should serve the common good and engage in the development of societies.



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Despite the significant attention given to this sector over the past few years, “leveraging this economic engine has been a series of independent efforts that have led to mixed results” [23]. Unfortunately, MSMEs are left to fight for their survival in the face of these extremely difficult and uncertain times, where thousands of them were forced to shut down in the past couple of years, while many others were destroyed by the Beirut Port explosion. Accordingly, giving the MSME sector the acknowledgment and prioritization that it deserves will undoubtedly serve as one of the strongest drivers that can lead to a potential recovery in Lebanon.



“I think MSMEs have a lot to teach us about human nature and persistence”.  
[Nur Turkmani](#)



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## B. CURRENT OPPORTUNITIES AND STRENGTHS

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It is known that MSMEs can play a fundamental role during and after a crisis. In general, MSMEs have been somehow filling the gaps left unaddressed by the failing government, providing various job opportunities and offering basic incomes, along with several goods and services. As mentioned by Dr. Alain Daou, an associate professor of entrepreneurship, MSMEs in Lebanon are more agile, lenient and capable of adjusting and responding in innovative ways. They possess the features of social cohesion and peace-building and are usually more inclusive and diverse in the way they function. In other words, MSMEs tend to have different practices, benefits, and approaches and are heterogeneous amongst themselves. This should always be taken into consideration when designing and developing interventions and suggesting recommendations targeting this sector.

Also, it was highlighted that MSMEs foster economic interdependence and joint supply chains and usually have a sense of **ownership, responsibility, and strong personal relationships** with their clients in a way that pushes forward their motivation for healthy competition and survival. Moreover, MSMEs can also operate in specific geographic areas where it might not be profitable for larger organizations to operate, and accordingly they play different roles such as offering opportunities to marginalized groups or minorities, among others. All of these characteristics have been reducing the impact of the crises to some extent.

The MSME sector has great potential to be developed and contribute to a democratic economy. Some of the promising opportunities of the MSME sector include, but are not limited to the following [17, 19, 31]:

- ▶ Ability to innovate and create new products and services more rapidly and creatively than larger companies that experience delays related to bureaucratic procedures;
- ▶ Having great opportunities for the development and adaptation of new and innovative technologies;
- ▶ Involvement of the people in the process which increases the motivation to succeed, i.e. the entrepreneur, any partners, employees, clients, and even family members;
- ▶ Inflow of remittances from the large diaspora;
- ▶ Strong support from the international community in critical times;
- ▶ Presence of a young workforce across sectors; and
- ▶ Presence of initiatives promoting solidarity



MSMEs have a localized supply chain and customers, they operate in a tribal manner which enables them to have strong personal relationships with their employees, suppliers and other people involved in the process. This relationship creates a sense of solidarity with their partners. This also makes their relationships relational rather than transactional”.

Dr. Ziad El Sahn

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### C. CURRENT CHALLENGES AND GAPS

Despite the significant contributions of the MSME sector in Lebanon, the sector continues to face major challenges and gaps. In order to provide the needed support and adequate interventions, it is crucial to understand the diverse, multi-layered constraints facing MSMEs within the general Lebanese context and the Lebanese business ecosystem. These overarching challenges include the following:

**Rising Political Instability.** According to the World Bank, political instability is reported as one of the main factors hindering MSMEs growth and operation. In fact, socio-political instability affects the economic environment, which affects the chances of economic growth by decreasing investment opportunities and increasing risks [21, 38]. Moreover, the general context is characterized by fragility, conflict and violence in which Lebanon experiences recurrent episodes of instability and uncertainty stemming from the ongoing broader dynamics of conflict in the region [19].

**Severe Economic and Financial Crisis.** The ongoing economic crisis has had by far the largest, most persistent negative impact on the Lebanese community, accompanied by the failure of the Lebanese political system to address it with proper policies and interventions. This has had major implications, including a local currency crash, increased public debt, major increase in prices of goods and services, and a significant rise in unemployment and poverty rates. Moreover, the informal adoption of strict capital controls imposed by the banking sector resulted in the elimination of the purchasing power and a decrease in net demand across most sectors. Additionally, the subsequent depletion of the foreign exchange reserves accompanied by the high cost of the foreign exchange import subsidies on basic goods and services such as fuel, food and medication, had major consequences on all sectors, and the MSME sector in particular. For instance, the shortages of fuel have led to severe electricity blackouts across the country, which in turn affected the operation of businesses across different sectors [13, 35, 38]. Finally, it is worth noting that the major root causes of this economic collapse and recurrent problems in the country reside in the nature of the economy, which is characterized by economic dependency and economic and sectarian polarization, promoting inequality. In addition, Lebanon lacks the

needed long-term vision and adequate economic and social planning in what relates to economic development and reform. This has major profound effects mainly on the primary productive sectors in the economy, specifically agriculture and industry [31].

**Outbreak of the COVID-19 Pandemic.** The pandemic had a substantial impact on the Lebanese economy, and affected key sectors such as retail, restaurants, construction, real estate and banking. The lockdown measures exerted to mitigate the impact of the virus both on people and the already weak health system, had profound impacts on all sectors in general, and on MSMEs in particular, and mainly included sale reduction and loss in revenues [35].

**Beirut Port Explosion.** The Beirut Port Explosion has created a major human tragedy and had its implications at the national level, regardless of its geographical concentration. In addition to the aforementioned struggles that the community was dealing with, the explosion consequences accounted for further costs on all levels. Its impact affected residents, physical assets, infrastructure, and service delivery. Many properties were damaged and destroyed and several MSMEs had to shut down their operations [35, 38]. As mentioned during the conference, the priorities of MSMEs were and are still changing with the dynamic context. For instance, after the explosion, rebuilding the properties was the major priority. With the deteriorating social and economic situation, priorities changed to create ways to keep employees and to secure the basic necessities for operation such as electricity, fuel and products.



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### **Weak and Deteriorating Institutions and Governance.**

Inefficiency and corruption are some main features of the Lebanese Institutions. Governance is used as a trap to maintain political stability through consensus among sectarian interests at the cost of strong establishments focused on the public good [19, 31]. Other gaps include lack of trust in politicians, payment of bribes, favoritism in decision making, unclear economic and financial policies, and lack of transparency of government policymaking, among others [19]. In a democratic economy, MSMEs face this as a major constraint while operating on different levels to serve the public good and promote equality.

**Presence of a Weak Infrastructure.** Lebanon's weak infrastructure hinders economic development and lowers the population's well-being. Infrastructure gaps in Lebanon, especially in electricity, water, transport, sanitation, and telecommunications are major barriers hindering the efficient operation and increasing production costs in all sectors in general [19, 31]. This affects competitiveness and ease of doing business and promotes inequality among the different regions.

**Informality of Enterprises and Labor.** Workers in the informal economy are among the most vulnerable groups and are more affected by the crises, as they are often not subject to the labor law, do not receive social benefits, such as social security, paid annual and sick leaves, and are not represented or supported by any form of support structures. Moreover, one of the consequences of the informality of such businesses is the lack of control over the quality of working conditions, thus subjecting employees to additional disadvantages. In addition to this, the high costs involved in the commercial registration of enterprises are among the main reasons for the spread of informal enterprises and labor in the country. Other reasons include the state's failure to deliver basic services, and the high number of refugees and foreign workers who lack residency or work permits [31]. In general, the majority of MSMEs are family owned and are reluctant to register and formalize their activities, largely because they perceive registration as having few benefits [19]. Moreover, the National Social Security Fund (NSSF) tax level and regulations are also one of the leading causes for the spread of informal labor in Lebanon. In fact, a high level of taxes is associated with a high cost of labor, thus reducing the incentive to create formal jobs [31]. Accordingly, MSME owners choose freelance contracts, underreporting of employees, or other means to lower their costs [23].

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**Lack of an effective National Policy Framework.** The Lebanese government established in 2005 a support unit for MSMEs as a department within the Ministry of Economy and Trade, which was targeted at providing adequate technical support and adequate information for policy formulation. However, the absence of a national policy framework, with clear policies and clear goals and objectives, along with the fragmentation of the services provided to MSMEs, constituted a major barrier. Moreover, the lack of a clear official definition of MSMEs in Lebanon is another gap which affects the implementation of a clear national policy [21, 23].

**Scarcity of Official Statistics on Informal MSMEs.** There is a lack of reliable data and information on the number of registered MSMEs in Lebanon because official statistics on informal enterprises are not available. Moreover, the fact that the MSME sector is spread across different sectors and the sizes of enterprises makes it more difficult to measure [31]. This hinders the ability to formulate effective policies targeted towards MSMEs.

**Presence of a Conservative Lending Culture & other Financial Challenges.** Access to credit and cash flow is limited by the country’s conservative lending culture. In general, Lebanese firms depend significantly on the banking sector for their financing [19]. Accordingly, the collapse of the banking sector and the illegal controls it imposed in collaboration with the government constituted a major barrier to the operation of the MSME sector. Moreover, the “size” of the enterprise has major financial consequences, including “the credit rationing or the difficulty related to the credit access at the same cost (interest) granted to large firms” [26]. This is mainly due to the inability of bankers to assess and evaluate the risks incurred by smaller firms [26].

**Human Capital Skills.** Challenges related to human capital skills faced by MSMEs include, but are not limited to: lack of experience, inability to keep qualified employees, shortage of skilled labor mainly due to relocation, lack of adequate internal employee training, and lack of information technology [31].

**Low levels of Maturity in terms of Innovation.** Lebanon’s Economic Complexity Index (ECI) that measures the productive capacity of a country has become less complex. This index shows that products made in Lebanon have a low production capacity and poor use of knowledge. Lebanon occupies 57th place on the list of 133 countries [2].

**Other** challenges include the lack of clear **communication networks** among MSMEs and between MSMEs and other stakeholders, and the lack of **effective laws** that promote labor rights and social justice [21].

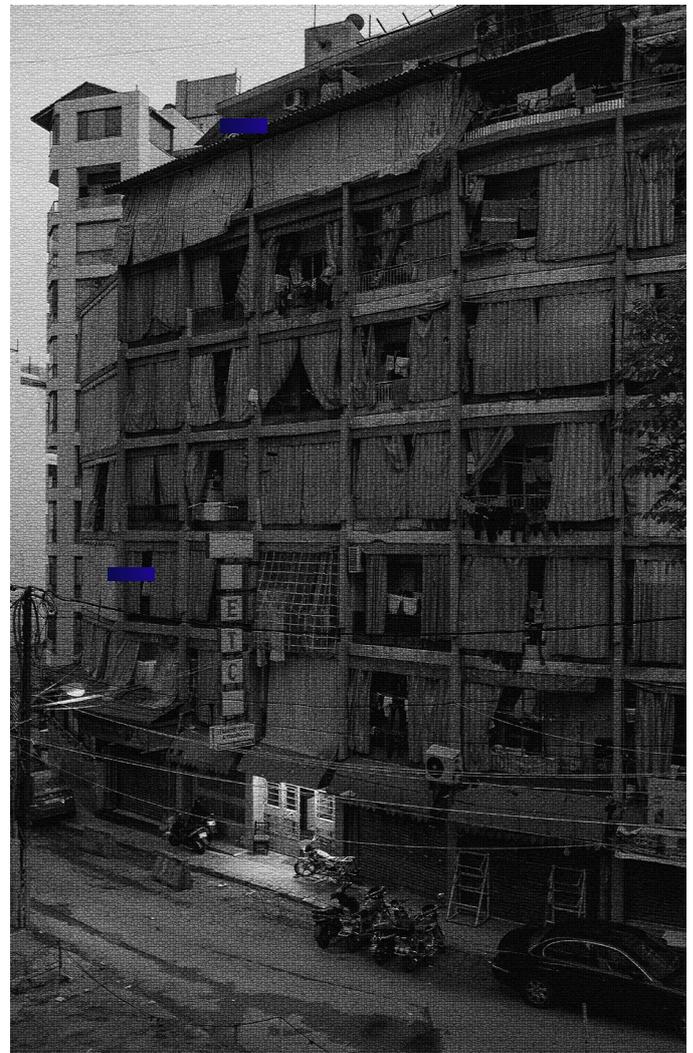
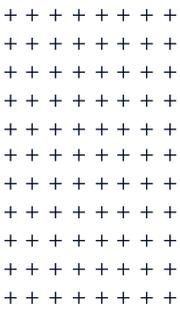


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# Future Pathways towards a Democratic Economy: Exploring Contributions of the MSME Sector

## A. LABOR RIGHTS AND REFORMS FROM THE LENS OF MSMEs

Since the onset of the crisis, self-employment emerged as the most feasible way for income generation to account for the decreasing availability of wage employment, mainly for the vulnerable population. In a country where the needed services are mainly provided through the private sector, where a social security safety net is largely absent for most of the community, and where labor rights are barely taken into consideration, it is crucial to consider reforms that facilitate the creation of new business models, that maintain and sustain jobs for the vulnerable population, and that focus on the social aspects which includes promoting labor rights, social justice and equity, and providing equal opportunities to all citizens.

MSMEs obviously play a significant role in creating jobs and promoting social innovation and justice. However, the issue of the informality of the MSME sector might also mean that there is room for exploitation and inconsistency among MSMEs in terms of dealing with the workforce. For instance, a major part of small enterprises is the most exploitative when it comes to wages, informal employment, absence of social protection and child labor. Also, the power dynamics between the employer and employee and the unclear relationship can sometimes lead to unfair practices. Therefore, addressing those issues mainly depends on the institutional framework and the environment in which they operate.



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Additionally, the National Social Security Fund (NSSF), which is Lebanon’s main social insurance mechanism, excludes several sectors from its benefits, including the informal workforce. According to Issam Raidan, an NSSF employee, several gaps still prevail in what relates to labor rights within the MSME sector and those include the reduction of production costs at the expense of wages and social benefits, lack of compliance with the provisions of the Lebanese Labor Law in terms of fair wages, lack or minimal control by labor inspectors in the Ministry of Labor to enforce implementation of the law, weak role of syndicates, the presence of an ineffective labor judiciary system, and resistance of some employers to certain legislations such as raising their contributions to NSSF because they see that their independence, autonomy or profitability is threatened in a way. As such, there is a need to reformulate the relationship of social security with institutions, reinforce its role, and remove the interference of the state from it, because it is independent financially and administratively from the political authority according to article 3 of the Social Security Law.

It is also crucial to find a balance between developing the needed reforms that allow MSMEs to preserve their flexibility and agility while at the same time protecting the rights of the workforce and promoting participatory internal processes.

Dr. Ziad El Sahn, who is the Director of Education at the Entrepreneurship, innovation, and Strategy department at Northumbria University, discussed the idea of reforms which extend beyond the legal reforms and which include initiating a sort of social dialogue among MSMEs who share similar characteristics and face similar challenges, under the umbrella of collective organizations. This would require MSMEs to follow certain practices and standards, and have certain internal processes that protect the rights of employees, where participatory approaches can be promoted between the involved parties. Using this approach through collective and collaborative action can improve the trust relationship and working conditions for employees, and promote the sense of ownership towards the institution. Moreover, shifting the mindset among MSMEs towards “coopetition”, which includes cooperating and competing at the same time, can promote a cooperative relationship among MSMEs based on knowledge and resource sharing and participatory decision making.



“From the perspective of a current employer in Lebanon, the problem is that the legal framework is very threatening to both the employer and the employee”.

[Rosalie Berthier](#)

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“I lived in Lebanon for four years and sensed that a lot of Lebanese people don’t trust Lebanese products. They would rather buy imported products because they think Lebanese products are not of good quality. This definitely needs to change!”  
[Dom Hunt](#)

## B. ORGANIZING MSMEs AND CREATING ALLIANCES

In critical times, the MSME sector is usually more vulnerable compared to other sectors due to several reasons already discussed in this report. Organizing the work of this sector through the creation of organized alliances and networks across and between MSMEs can enhance the establishment of a democratic economy and promote social justice.

The organization process entails not only the economic level, but also other levels such as the social and political levels. The focus should be placed on local producers that are part of the micro and small enterprises involved in the production of the basic needs of the society. This approach, accompanied by the development of an adequate economic strategy, can guide Lebanon towards the transformation from a rentier economy towards a democratic productive one.

The organization process should be detail oriented through classifying the enterprises according to their diverse types, shared personal benefits, specific needs, and other factors related to geographical location, type of businesses, etc. Participatory approaches can help in the organization process and in clearly defining work processes, in order to promote the production of quality products, cost reduction, and innovation, etc. This can happen through mobilization of the community followed by brainstorming and working/ideation sessions and the creation of communication networks to provide the needed guidance for enterprises depending on their type of business and their goals. Also, potential needs, challenges, expertise and best practices can be shared among enterprises from similar categories. This can enhance cooperation, communication, and exposure among the enterprises and promote a more equitable distribution of resources. In addition, in the process of MSME categorization, the focus should also be targeted on the productive enterprises which produce the basic necessities for the society, which has reasonable profits and which doesn’t include a huge number of workforce. Moreover, this organization among the informal sector workforce can help in addressing issues related to their working conditions.

Technology can also play a significant role in the organization process and in facilitating communication exposure, and visibility among MSMEs. In fact, digital platforms can be used to share ideas, challenges, and possible solutions. This can highlight the diversity in expertise and skills that revolve around common challenges, interests, and domains, and foster new innovative ideas and practical solutions. However, the fact that not everyone has access to technology or has the needed digital literacy, is one of the main concerns that should always be considered throughout the organization process.



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### C. ROLES OF DIASPORA AND INTERNATIONAL ORGANIZATIONS FOR MSMES

In times of crisis, one of the main sources of support includes the contributions of the diaspora and the international organizations. Countless examples can be discussed about the contribution of these communities and institutions in the context of Lebanon amid the multiple crises that the country faced and is still facing. However, there is a need to organize those efforts and adapt them to new business models in favor of the people’s economy, in order to ensure fair and equitable distribution of resources and avoid duplication of work and waste of resources.

Lebanon has a larger inflow of relatively frequent and stable remittances than any other country of similar size [19], which acts as the main source of support for local development, especially during a crisis. This stems from the presence of deep and strong ties of the diaspora with their country and their motivation and willingness to support and improve local initiatives and production [11, 19]. Moreover, the large pool of diaspora abroad presents a great opportunity to form a network of skilled and connected circle of people. This can enhance collective efforts such as connecting, investing, mentoring, and knowledge sharing, which can be essential in particular sectors and development projects in remote and rural areas. In light of this, Christian Kamel, who is the director of projects for Fair Trade Lebanon, mentioned that the Lebanese diaspora can have a great role in helping MSMEs identify business opportunities in the international market and consider outsourcing for foreign companies.

Moreover, given the vulnerabilities and shocks that Lebanon has experienced throughout the years, the country would have been in a dire situation had it not received international support, which mainly relies on the diverse agendas and strategies of international organizations. International organizations are more market-oriented and more intelligent in market design and can support MSMEs in different ways, such as enhancing the skills of entrepreneurs and the workforce, identifying new opportunities, and providing guidance on the development of strategies for sustainability.

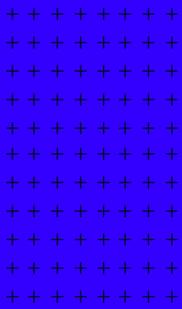
However, it is worth noting that the focus should always be placed on promoting and creating new business models which are directed towards building a productive economy within a democratic economy, and not relying entirely on international aid without ensuring sustainability and self-sufficiency.

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#### **D. DEGENERATION TO A CAPITALIST NON-PRODUCTIVE FORM**

Among the critiques to MSMEs is the exploitation of workers by business owners. Even though the number of employees in such enterprises is relatively low, their working conditions are not necessarily better than in big corporations. We have been witnessing in recent years, particularly in Lebanon, the encouragement and promotion of MSMEs and entrepreneurship as the main drivers for the creation of economic value and employment [41]. Unlike other types of firms – cooperatives and labor-owned firms- some MSMEs pursue the objective of increasing their profits at the expense of stable employment and adequate income for their workers. Moreover, the owner of the business who holds the capital needed for the production process and owns the means of production, can exercise power and authority over employees and the decisions are imposed top-bottom. These are a few of many practices that are not being considered when approaching the work of MSMEs. Unsurprisingly, democratic and just practices, workers’ rights to participate in the decisions and earn a fair salary if not receiving their share of the profits, are not given importance under this harmful economic system. For instance, when listing the problems and challenges that MSMEs face, attention is given to access to finance, interest rates for investment, the importance of capacity building, etc.

Furthermore, the main flaw of such enterprises remains the lack of a value system and willingness to meet the basic needs of their communities. They compete against each other only to succeed in their participation in the so-called free market. In fact, most MSMEs in Lebanon are service providers that do not contribute to the productive economy or economic self-sufficiency and sustainability. These businesses are built on a list of core values such as competitiveness, competition, wealth accumulation, and profit maximization instead of working cooperatively based on ethical values such as social responsibility and caring for others. Yet, more research is required to compare between these types of businesses. Finally, Lebanon’s economy that is dominated by small businesses mostly operating in the non-productive sectors, is one of the reasons for the severe economic fallout we are experiencing today.



# Reimagining MSMEs: Recommendations and Implications

Efforts to promote and direct socio-economic development in favor of the people's economy is a challenging task to accomplish in Lebanon, considering the aforementioned major constraints faced by the MSME sector and the presence of the political elite, accompanied by the dominance of neoliberal thinking structures and their narrow perceptions of the concepts of growth and equity. Moreover, the current prevailing Lebanese economic model is not tailored to meet the interests of the people, in which they lack their economic liberty. The current model is designed to sustain the power of the political players and serve their interests; thus, it is characterized by being hierarchical, very centralized, and with minimal levels of production. The current political system can be transformed when economic democracy and political democracy are achieved; however, this needs several efforts to be done in parallel targeting different levels. These efforts include political and economic efforts, as well as efforts targeting the creation of organized networks made of categorized enterprises.

The MSME sector in Lebanon has made good progress in the last few years; however, creating an alternative system built on modern decentralization structures which

can prepare this sector for the next stage of its growth, prosperity and contribution to a democratic economy, is a task yet to be accomplished. Accordingly, there is a vital need to undertake a comprehensive review of the sector and to identify causes and propose long-term solutions, for its economic and financial sustainability. The need for immediate action also stems from the rising poverty and unemployment rates in the country and is based on the fact that the MSME sector includes a major proportion of the vulnerable community which relies on daily incomes to support their dependents and themselves.

It is important that all stakeholders sense the urgency to support the process of building a democratic economy that is structured on a solid basis of MSMEs where the focus is placed on people's empowerment and involvement in decision making, and where this economy is supported by several policies and practices that foster and promote its operation, success and sustainability. It is also crucial to approach MSMEs differently when designing and developing interventions and policies due to their highly heterogeneous nature, with different sectors having different possibilities for growth and contribution.

**Based on a synthesis of what was previously mentioned in this report and discussed at the conference, the following are the main recommendations that can be suggested:**

- Creating and strengthening **organized alliances and networks** for micro and small enterprises, which include **local producers** that are involved in the production of the essential and basic needs/necessities of the society. Enterprises can be organized and classified according to their diverse types, shared personal benefits, specific needs, etc. The focus should be placed on enterprises that are productive, generate reasonable profits and operate with a small number of employees. The mindset for operation should be tailored towards addressing the social aspects and should be focused on meeting the interests and needs of the society through a collective and cooperative approach.

- Designing and developing **communication networks** among the organized alliances which promotes cooperation among local producers, facilitates the exchange of local resources, products, services, information and expertise, and enhances the harmonization of concepts, strategies and methodologies, and coordinating activities. This would address the supply gap, boost local economic production, increase revenues and exposure, promote innovation, and decrease costs, all of which feed into the establishment of a democratic economy.

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- Promoting the decentralization of authority through urgent reforms targeted towards the empowerment of the local community. In other words, engaging several stakeholders in decision-making including the people, the MSME sector, and the professional and voluntary organizations, among others. This could help address inequity issues in public spending and service delivery, and enhance the trust and accountability between the government and the community.

- Fostering **decentralized finance** in order to generate more accessible financing resources to MSMEs. Thus, democratizing access to financial instruments while reducing costs and enabling users to be in control of their money without third parties.

- Developing an updated **national policy framework** for the MSME sector which clearly defines MSMEs and sets out clear policies and practices for their operation, which are mainly directed towards consolidating the position and strengthening the role of the people's economy within the framework of the national economy. Moreover, the framework should ensure that legislations are focused more on market facilitation, promoting ease of doing business for MSMEs, enhancing fair competitiveness of the MSME enterprises, and guaranteeing the flow of credit to the sector. Also, policies should be fostered within an appropriate regulatory framework which: (1) focuses on the social aspects of MSMEs promoting labor rights and equity and adopting adequate forms of social protection and regulations; (2) enhances the productive potential of the informal sector; (3) improves the welfare of the most vulnerable groups; (4) improves the organization of small producers and workers in the informal sector; and (5) promotes local manufacturing, innovation and exports.

- Developing **practical guidelines** and **innovative measures** to improve the working and employment conditions of the MSME workforce which target enhanced occupational safety and health and social security coverage including the creation of innovative social security schemes.

- Creating a **task force** for the MSME sector which includes representatives of the diverse stakeholders involved in the MSME sector, including employers and employees, among others. The task force would be mainly responsible for advocacy, technical support provision and promotion of social dialogue and constructive communication and consultation with the government. It should be taken into consideration that the taskforce is only present to provide the needed support, however, the management of the sector remains under the leadership and supervision of members of the community themselves.

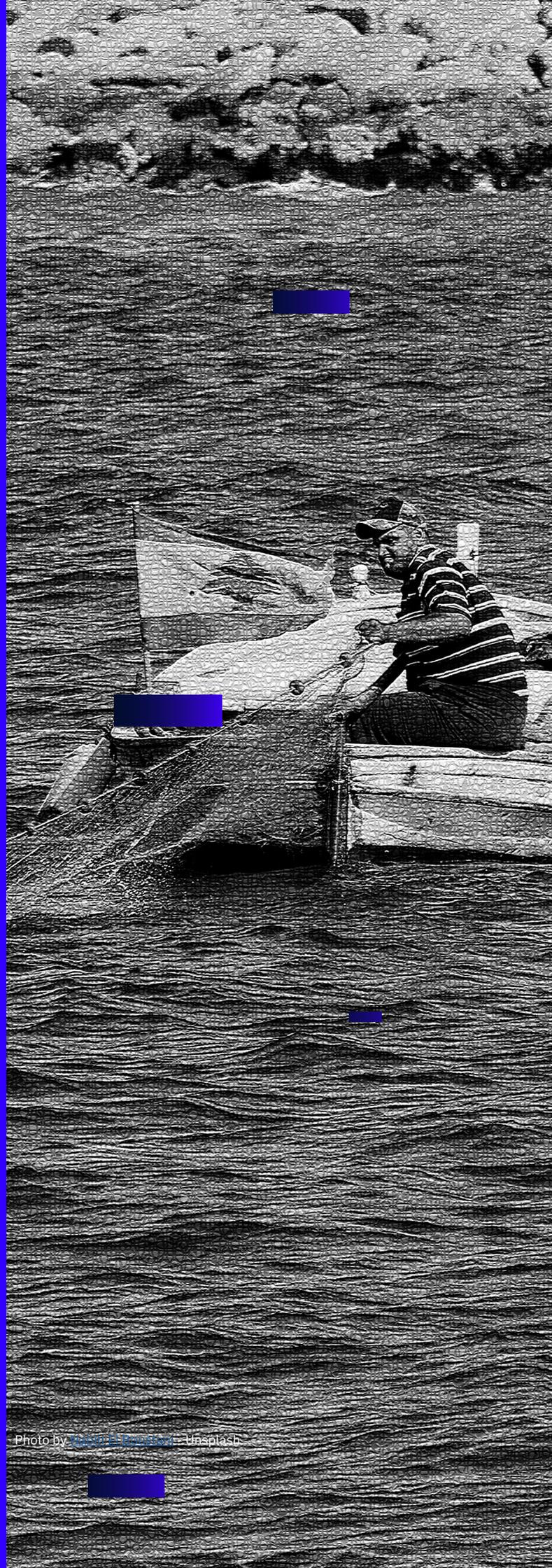
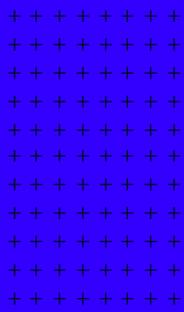


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- Designing **programs to enhance formalization** of the MSME sector, which would be more reasonable and have more impact if those programs were accompanied by the needed reform in the policy framework and the development of policies to improve access to credit, reduce governmental taxes, and simplify the overwhelming tax procedures. This will, in turn, promote and feed into labor rights.

- Developing a **crisis management strategy** for the MSME sector which clearly identifies stabilization and recovery measures spanning across an array of dimensions, including external factors, internal factors, social safety nets, and a growth framework, among others.

- Establishing a **directory** for the MSME sector which consolidates and organizes information related to the sector, which would in turn facilitate the formation of needed policies, identify the needs of the sector and the available resources and services.

- Creating and implementing **value chain approaches** within the MSME sector. Value chain development is an economic development concept that promotes the development of the system around a certain product or service. It aims at strengthening the functioning of markets and improving access to employment opportunities [12].

- Designing interventions to enhance the **skills** among the MSME sector, which in turn promotes fair competitiveness and the production of quality products and services.

- Developing initiatives and interventions that acknowledge the added value of the **natural resources and national production** present in the country by reducing the dependence on imported goods and their dominance in the Lebanese market.

- Emphasizing the importance of a **bottom-up approach** in the initiation of MSMEs, through encouraging community-based entrepreneurship initiatives to reduce poverty among the most vulnerable populations, including disadvantaged families, people with disabilities, youth, and women.

- Promoting MSME **inclusion** in new trade regulations which can minimize potential challenges of the new rules and requirements by allowing them to comment and/or adapt to the new regulatory framework.

- Initiation of **collaboration programs** between universities and MSMEs from different sectors to benefit from workshops and training in new technologies.

- Laying the groundwork for the recovery after the crisis by encouraging investors to provide capital and decreasing barriers for new MSMEs. [42]

- Encouraging **Research and development** (R&D), **innovation**, and **creativity** to diversify products and services, thus enhancing productive and export capacities.





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Over the course of a year, ongoing conversations and engagements between social innovators, technologists, grassroots, community actors, researchers, activists, and designers will be channeled towards defining socio-economic issues and exploring potential solutions and options.

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