

## Advocacy for a Small Business Act

The policy for spurring small enterprises comprises a number of financial and fiscal measures, in addition to training programs in various fields. It aims to support the creation and development of micro - enterprises (employing fewer than ten people, including the employer and his family) and small enterprises (less than 50 people).

Small enterprises, namely of the micro type, have occupied a prominent place in economic life, and they increased in importance after the outbreak of the 2008 global financial crisis. For the prosperity of these institutions has proven to be one of the most important means of combating endemic unemployment in the Western world, which had not seen such jobless figures for decades. The unemployment rate exceeded 10% in several countries of the European Union— particularly in France and Italy, rose to 15% in Portugal, and even to 25% in Greece and Spain, where youth unemployment stood at 40%. As for the Southern and Eastern Mediterranean countries, the average unemployment rate stood at more than 14% before the global crisis, so it obviously went up on account of that crisis and the 'Arab Spring'. But more seriously, the reality of employment in those countries is not structurally viable owing to the fact that the manpower ratio does not exceed 45% of the working-age population (between 15 and 64 years), which experts say is not enough, as the percentage in the European Union rises to 65% in comparison.

The European Union (EU) decided in 2010 to help the Southern Mediterranean countries in developing and implementing the 'promotion of small enterprises policy' - "Small Business Act" - as it was applied in Europe, and tasked the European Training Foundation (ETF) based in Turin with the preparation and implementation of programs aimed at rehabilitating education and improving vocational training, especially at the level of the owners of micro and small enterprises, and notably the newly emerging ones.

The Lebanese State responded positively to this project, and so did the rest of the nine beneficiary countries in the Southern and Eastern Mediterranean. Accordingly, Lebanon signed a cooperation agreement aimed at eventually ratifying and implementing a framework law aimed at developing the micro and small enterprises, namely the emerging ones which are in need of special care in order to continue and grow.

### **Good governance in the field of investment in the Southern Mediterranean**

ETF embarked on preparing a draft for Lebanon, as for the other recipient countries, and set up a joint committee grouping representatives of relevant Ministries, civil society and economic bodies. This gave rise to a first project aimed at training those young people wishing to set up an individual enterprise and assume the role of “businessman”, through experiences at a smaller scale than what they will find in the real business world.

The first project was chosen by consensus out of three projects which would successively come. In addition, six institutes were selected to implement this program, with the Dekwaneh vocational school topping the list.

### **The European experience**

The adoption of the European Union in 2008 of the ‘promotion of small enterprises policy’ - “Small Business Act” - indicated a consensus among the EU countries on the importance of small enterprises and their distinct role from the general economic activity, and on the necessity of putting their activities within an appropriate framework for both their establishment and development. The global crisis became one of the reasons that prompted the implementation of this policy, as those countries had anticipated a rise in unemployment and needed to find ways to keep it within limits. It is worth mentioning that the European policy encompassed medium-sized enterprises (employing under 250 people), thus making that policy of support to small enterprises cover 99% of those establishments and about 70% of GDP.

The European ‘promotion of small enterprises policy’ – “Small Business Act” – is distinguished by the following three factors which the investor considers essential for the prosperity of the enterprise, and for encouraging employment:

- First: Reducing bureaucracy and facilitating all administrative procedures (paperwork, formalities, transactions);
- Second: Facilitating the access to funding;
- Third: Helping in the globalization of small and medium enterprises, by thrusting them open the doors to global markets.

#### **Facilitating administrative procedures**

With the economic openness at the global level, it became difficult to give incentives for investment which the State does not pay for. The exemptions and

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guarantees to transfer profits and capital which the States granted to encourage investment have become normal and regular practices that benefit everyone in the light of the economic openness which is of a comprehensive feature in the European countries, and of the growing type in the Southern and Eastern Mediterranean countries. This became all the more true after the signing of the Euro-Mediterranean partnership agreement and the agreement on the Grand Free Trade Area, as well as the Agadir Convention and others; in addition to entering and / or seeking to enter the World Trade Organization (WTO).

Evaluations now center on the benefits of investment with regard to employment and income, in comparison to the cost of tax waivers and / or granting soft loans and / or selling land at reduced prices for setting up projects. Note that the investor does not consider those benefits unless they ensure the project's profitability, which is not certain, and the opposite is true. For if the investment climate is not favorable, whatever the State does to promote investment goes in vain. But if the climate is healthy and supports expectations of profitability, investment comes even in the absence of all artificial incentives.

The truth is that the problem is not in incentives, but in obstacles, the most important being administrative red tape. The setting up of a company in some countries is made in less than an hour and costs a few Euros; certainly less than the charge paid by the applicant for parking his or her car. In Lebanon the process takes weeks, sometimes months. Moreover, what is more difficult than the establishment of companies is their closure and liquidation, for it takes years. It is natural that the investor abstains from investing in business in Lebanon and similar bureaucracy-laden countries (which reflects negatively on GDP), unless they set incentives that offset the cost and hassles of bureaucracy.

The International Finance Corporation (IFC) which relates to the World Bank (WB), is entrusted with the task of classifying countries in terms of the ease of doing business therein. It issues every year a list of all countries that it examines, based on both precise and flexible standards/criteria. For example, the 'Doing Business in Lebanon' report ranked the Lebanese administration 105 among 218 countries in terms of business climate. Every State which is conscious of its interests seeks to be classified among the top-tier countries which are characterized by a strong appeal, in contrast to those which give costly incentives that sometimes outweigh the benefits of investment.

### **Facilitating access to funding**

Banks are naturally attracted to large companies with known values as determined by their share trading on the stock exchange, and which are able to invest large sums of money while having a credible track record in honoring their loan repayment obligations. Those companies often do not require guarantees or collaterals that limit their borrowing capacity. This is known as 'the mechanism of financing large companies' ("Corporate Finance"). Banks are quite content with this credit market, let alone if it's accompanied by a more significant local market for Treasury Bonds. In contrast, the medium and small enterprises seeking credit find themselves putting up collateral that often exceeds the loan amount, which leads to the limiting of their capacity for borrowing, and of their production ability by extension.

Here comes the role of the State together with the financial authorities, the international institutions, and the economic bodies. The oldest and most important example comes from the US where the institution called 'Small Business Administration' was created in the early 1950s, tasked with financing and / or providing the necessary guarantees to small and medium enterprises. Further, the World Bank and the European Investment Bank (EIB) fund small and medium-sized enterprises through local banks, and on easy terms according to predefined criteria. There are also several funds with a global or regional call that seek to meet the needs of small private institutions by funding innovative projects that contribute to the development of production and consumption.

At the local level, the 'loan guarantee funds' ("Credit Guarantee Funds") played the biggest role in the globalization of companies, as they stemmed from the professional sectors and have had an intimate knowledge of the economic activities which they ensure, and they often exercise the role of advisor in the employment and credit areas. In Lebanon, the Central Bank (BDL) played a major role in the financing of small enterprises through the funds it allocated at soft interest rates, for the purpose of allowing them to make up for a part of their weak productivity, and to enter the competition arena on more favorable terms.

Facilitating enterprise funding is not, however, confined to granting the establishments easy borrowing terms, but it also deals with training them, namely the micro and emerging ones, on the preparation of financial statements and the proper presentation of their business project, in addition to laying down a proper Business Plan that clearly illustrates the project's viability and endows the company with that level of credibility which the banks need for lending out their depositors' money. This work is

provided almost for free in the countries of the South by such international agencies as the United Nations Industrial Development Organization (UNIDO) and the United Nations Development Program (UNDP), as well as AFD of France, GIZ of Germany, and others, in addition to several US and European programs. This work is also at the core of the tasks of the chambers of commerce, industry and agriculture in the countries of the South.

### **Helping to globalize the enterprise**

What is the difference between the globalization of the enterprise and export? Since the opening up of world markets, it can be said that all that is sold in foreign markets will rather be up for sale in the local market, and all that is sold in the local market will find channels into foreign markets. This is because the opening of markets to each other lends itself to improving the conditions of consumption, and thus enables both the consumer and the manufacturer to use the most suitable resources wherever they exist.

On the other hand, the production of a local firm got broader prospects, as it could contemplate selling into many other markets which consume vast quantities not previously experienced in the local market, thus benefiting from economies of scale to improve its productivity and its capacity to compete. This brought about enhanced standards of living in all parts of the free world and contributed to the elimination of the command economy.

### **Sources of the 'promotion of small enterprises policy'**

It would be useful to know the sources and origins of the 'promotion of small enterprises policy' in order to understand its dimensions and the application of its objectives, so as to benefit from it fully. The idea is attributed to the initiative taken by the President of the United States in 1932 to counter the economic collapse caused by the financial crisis known as "The Great Depression", whereby he established the "Reconstruction Finance Corporation" to finance companies, large or small, that have suffered from the economic crisis. Later, President Franklin D. Roosevelt used that institution as an effective tool in his plan to revive the economy labeled "The New Deal" by expanding its powers and equipping it with competent staff. This institution played its role to the fullest until World War II which constituted by itself a production project of gargantuan proportions that supported all American corporations, along the Keynesian model. More and more, this institution directed itself toward the medium and small enterprises and continued into being until 1952 when it was replaced by an institution more suited for this purpose.

At that time, President Eisenhower chose to establish an entity with specific targets and resources for helping small businesses, instead of that giant institution. On July 30, 1953 the US Congress passed a law for the establishment of the “Small Business Administration” governmental agency aimed at “helping, guiding, protecting, and preserving the interests of small enterprises.” The legislation stipulated that the agency will seek to ensure that small enterprises obtain their fair share of government tenders.

In early 1954, the Small Business Administration agency began to grant loans directly to small enterprises, as well as give them guarantees with respect to the banks, and to provide them with technical assistance and training in various areas of business as well; it also took care of the victims of natural disasters.

And then the US administration created “the agency for encouraging investment in small enterprises” in 1958. That agency also initiated work on fighting poverty as well, through its “Equal Opportunity Loan” program.

### **The principles that underpin the policy of encouraging small enterprises**

In this endeavor, the European Union and the other participating countries rely on ten principles. It’s natural that they would be applied in the beneficiary countries, including Lebanon. Our duty lies in assessing them in the light of our economic/social reality, even if within the context of our existing political and security conditions, in order to determine their possibility of success and therefore the wisdom of adopting them. These principles are:

#### **1. To encourage individual initiative**

The Lebanese citizen does not need a lot of inciting to venture and establish his own business. The love of initiative is in his nature. It’s cultivated by his free economy environment, the absence of large industrial enterprises capable of providing loads of employment opportunities, the absence of an all-attentive State, as well as by the prevalence of family life characterized by support—which easily provides a small amount of capital for launching a private initiative, and a strong desire to acquire knowledge.

In recent years, unemployment has doubled the need for individual enterprises to compensate for diminished employment opportunities, hence the emergence of startups, a phenomenon which has now become the sole alternative formula for the country’s rampant emigration and its resulting loss of young human talents capable with their energy and efficiency to contribute to the nation’s development and growth.

Here comes the importance of having an investment climate which provides equal opportunities for all sectors and activities, with both the needed productivity for playing on the world markets scene and the required defense of the domestic market in view of the global economic openness coming along. This is said in the full knowledge that small organizations are short of the productivity levels that large corporations enjoy by virtue of economies of scale, and their ownership/control of the means of production and modern distribution, in addition to their ability to procure their production components at the best prices, and to get adequate funding at the most favorable terms. This clearly indicates the measures that must be taken by the economy at this stage to shore up and maintain the small enterprises, especially the modern and recent ones, in order to take advantage of their contribution to GDP, and to the reduction of the country's unemployment rate as well.

## **2. Bankruptcy Law and alternative opportunity**

IFC proposed to the Lebanese government a number of guidelines meant to update the Bankruptcy Law for making it adequate to economic development. The State encourages the establishment of small businesses and sees in it the best solution to combat unemployment, but it turned out that the lifetime of these enterprises is very limited, as only one out of five newly created institutions remains in existence five years later. The other four either go through voluntary liquidation or through bankruptcy. Now-a-days, any institution which finds itself unable to meet its payables is subject to bankruptcy, whether it's suffering from a deficit in assets or liquidity. It is very hard for a party that went bankrupt to rejoin the business world. This means that a wise bankruptcy law is a prerequisite for maintaining production enterprises, their human resources, and their managerial talents.

It is worth mentioning that there are many reasons for bankruptcy, but it can be said that most of them are ascribed to fixed or circumstantial economic situations. A useful analysis goes as follows:

- The economic development of a country makes some activities no more viable in spite of having been very successful at a certain time. This is a known phenomenon which has been analyzed at length by a number of economists, including Paul Romer (Crazy Explanation of the Production Slowdown) and Robert Mundell (Mundell Fleming Model), and in the 1960s the Boston Consulting Group, as well as William Petty (Petty's Law) at the beginning of organized economic thought, which raises three questions:

Is it possible to develop production to comply with the changing markets?

Is the management of the organization capable of undertaking this development, noting that most of the time the owner of a small enterprise actually masters a certain profession and cannot do something productive with another?

Does the State have a role in developing the enterprise through providing an investment climate which is conducive to the development of production and/or the sale of the establishment and/or merging it with another?

In times of economic crisis, a significant number of solvent institutions regress, owing to losing liquidity due to tightened credit policies and the difficulty in collecting receivables. If and when the State does not fully appreciate the particularity of such circumstances and helps these organizations to navigate through that critical stage, it effectively ends up losing a significant part of GDP.

As some economic activities depend on foreign factors in view of the economic openness which widens day after day, the domestic political and security situations affect them seriously. In recent years we have seen the collapse of many Lebanese tourism enterprises by the boycott of Arab tourists of the country. It is not long ago that we used to say, "Tourism is Lebanon's oil wealth." Is it not worthwhile maintaining and preserving?

In both the macro and micro views, the most important assets are intangible, e.g. brand name, reputation, experience in production and marketing, benchmarks and differentiation points, suppliers, customers, human resources, organization and administrative structure. Bankruptcy sends all that into oblivion. Of course, an arbitration law exists to reconcile between parties, but resorting to it has become only theoretical in recent years.

The Presidency of the Council of Ministers has set up a working group to develop a Bankruptcy Law that includes added phases, and modifies the existing regulations for achieving the desired objective of an enterprise not to get taken out by bankruptcy if there is an alternative solution. This solution comes through "restructuring measures" and "rescue measures" before resorting to "liquidation proceedings". We are, though, afraid that this project doesn't emerge more complicated than the current bankruptcy law if a majority of economists and businessmen do not participate in it. That's because the solution is not only procedural; it rather lies in the investment climate and in the ease of development of the enterprise's legal form, sale or merger, therefore the



evaluation of its intangible assets—all that being an impossible task within the current commercial law and the tax system in effect.

### **3. Public Administration: Focus on limited actions first**

It's a priority to raise the level of the Eastern and Southern Mediterranean countries in relation to the European Union. The latter considers them an integral part of the economic environment which it leads and views as a joint bloc capable of competing with the US and Asian economic giants, and of taking advantage of the benefits of global openness. The EU's philosophy in this regard is, rightly, that support does not help unless it generates sustainability in the beneficiary countries.

It is worth mentioning that most of those countries were among many emerging countries in the world, had the economic crisis, especially the Arab revolutions, not affected their economic activity. By definition, it is the nature of emerging countries to be able to develop and grow on their own.

All of the above calls for achieving quick results on the programs in store, whether they are supported by the EU or directly by the Lebanese government. In order for this to materialize, priorities must be considered and verifications made on the impact of the measures to be taken; and this, of course, reduces the number and size of the projects, depending on their effectiveness. The administration's drawers are full of projects that did not see the light of implementation for many years.

### **4. The administration's response to the needs of small and medium enterprises**

The desire to respond to the needs of small and medium enterprises has been taken for granted in most countries of the world after the outbreak of the 2008 economic crisis and the ensuing rise in unemployment to unprecedented levels. Defined as 'small' are those enterprises whose workforce does not exceed 49 salaried employees, in addition to smaller establishments, including very small (micro) enterprises with a maximum of nine people that comprise the employer and his family. Medium enterprises are those which employ between 50 and 249 salaried people. Small and medium enterprises make up more than 99% of private businesses, contribute about 70% of GDP, and employ nearly 80% of the workforce.

With the technical development and the spread of information technology (IT) that reached most economic activities, especially in the industrialized nations, the optimum output resulting from economies of scale is found in medium-sized enterprises, thus

making them no longer in need of the same care that small enterprises do. That's why they are cited so little in economic policies aimed at supporting small institutions. Some approaches suggest that 60% of small businesses in Lebanon arise and thrive in the undeclared (grey) economy. This phenomenon constitutes unfair competition with regular establishments and deprives the State of significant revenue.

Studies on the competitiveness of very small enterprises presented by the "Economic Research Forum" in Cairo in 2007 showed that they are absolutely unable to survive if subjected to the same social and tax obligations that regular establishments abide by. For example, it was shown that productivity in the top 500 companies in Turkey is three times the average productivity in very small enterprises; and as it turned out, a similar situation exists in Morocco, Egypt and Lebanon.

To maintain the micro enterprises and integrate them into the declared economy is very necessary. It presumes:

a) The State taking it upon itself the social obligations of micro institutions, thus effectively playing a simple role in insuring against unemployment;

b) Subjecting them to direct taxes, namely on real or estimated profit, but exempting them from indirect taxes that raise their costs;

c) Assisting them in the process of marketing and export through specialized and effective agencies, such as those in place in European and Asian countries;

d) Securing them funding on acceptable terms equivalent to those that big competing enterprises benefit from. It is to be noted that under the global economic openness, financing terms have a major burden on foreign trade, and what ought to be done is seeking to finance all productive institutions at the real interest rates prevailing internationally;

e) Encouraging training centers in various technical and managerial fields, and establishing a closer relationship between those training institutes and the private sector's establishments.

Note that all this does not make the Treasury incur cost, but the opposite is true, as the transfer of a large number of enterprises from the undeclared economy to the regular economy ensures that partial tax revenues get into the State's coffers rather than nothing at all; and that compensation for social obligations does not exceed a fraction of the compensation for unemployment. It may be imperative to apply this system sooner or later in order to preserve the country's human potential.

### **5. Enabling medium and small enterprises to participate in public tenders**

All data indicate that small businesses are unable to compete with the big establishments, whether national or foreign, for several reasons, including:

- The weakness of productivity in small and very small enterprises;
- The dual difficulty of finance and compliance with the terms of tender documents, namely in what regards deadlines and delayed payments;
- Delivery deadlines that require a large production capacity.

Nevertheless, the American Small Business Administration insisted since the 1960s on securing a share of the public tenders to small enterprises. This assumes the assignment of a quota or a percentage of goods and services for competition among small enterprises alone. In principle, this is incompatible with the World Trade Organization's rules.

The Lebanese State committed to give an advantage of 10% in public tenders to local production which gets a Lebanese certificate of origin which states that the inherent added value is more than 40% of the total cost delivered to the factory. But the Lebanese administration does not differentiate between large and small plants, as the advantage is given to national production in general. This is also inconsistent with WTO's rules.

Of course, in the global openness environment, it is difficult to adopt such measures that give advantage to a class of enterprises, especially to domestic production, as they jeopardize the many benefits that accrue to the economy from global trading. However, one should firstly be aware that refraining from granting such an advantage has a tremendous cost on GDP and employment; and secondly, that there is a need to find an alternative solution acceptable to WTO. Maurice Allais engaged in a debate about importing uniforms and luggage for the French army from abroad. He said at the time, "There is no interest in import as long as the price difference does not exceed the value added in the importing country"; and when he was told that imports from developing countries constitute an indirect assistance to these countries, he expressed a strong objection by saying, "For industrialized countries to help developing countries in this way is effectively extending help from the poor of the industrialized countries to the wealthy of the developing countries."

### **6. For small enterprises to obtain fruitful finance**

Small enterprises face numerous obstacles when they need to finance their activities:

- Advances are not granted to small enterprises but in exchange for collateral, which reduces their borrowing capacity;

- Advances to small enterprises are granted at a margin that exceeds three hundred basis points with respect to local competition, and more as regards competing abroad;

In Europe, the financial institutions that facilitate the financing of the production of small enterprises are 'credit guarantee funds'. They operate along the same model as the Lebanese institution Kafalat which has so far performed significant benefits to small businesses in Lebanon, but its capacity is limited as it serves all sectors, is in need of collateral, and depends totally on the Central Bank of Lebanon (BDL) to compensate for the difference on its soft interest.

In Italy, for example, 'credit guarantee funds' grew up in the same production sectors within the professional associations and trade unions, and became by virtue of specialization quite versed in the activity of the member enterprises. This enables those funds to provide proper guidance and advice to the concerned enterprises, as well as guarantee their debts. Analysts consider that the 'credit guarantee funds' played the bigger role in globalizing the small and medium enterprises in the 1960s. Their number today exceeds 800 firms, of which 50 percent are capitalized at over a million Euros, and the central bank considers them as financial institutions subject to the banking oversight commission.

### **7. Opportunities available for small enterprises in the EU market**

The European Union is seeking to raise the level of production of the Southern Mediterranean countries in an orderly fashion since the signing of the Barcelona agreement in 1995. It also considers them part of the Euro-Mediterranean economic bloc which it would rely on over the long run to face the giant blocs that are sharing globe economic dominance. This European desire to help was manifested even before the Euro-Mediterranean vision came into being, at the hands of the late Lebanese Ambassador Kesrouan Labaki who managed in the 1970s to get a full exemption for the most part of the Lebanese industrial production. When desire converges with interest, everything becomes possible thanks to correct steering. But that did not happen in actual practice, as Lebanon is struggling with a large deficit in foreign trade, especially with the European Union which ranks first with respect to Lebanese imports.

Despite the large aid obtained by Lebanon and the rest of the Southern Mediterranean countries from the EU in order to reduce the economic and social disparities between the two shores of the Mediterranean, the gap has widened regardless. It is more likely that the main reason is the growing trade deficit between the

two groups. This deficit causes many negative results on the economy, including the weakness of investment in the sectors of production, high unemployment and emigration, the decline of the GDP, and the increase in the cost of living whenever domestic production disappears from the markets for lack of economies of scale. The World Bank has sought for several years to persuade the countries with trade surplus, including a large number of industrialized nations, to work toward balancing the trade balance. In the US economic literature, the trade balance includes the exchange of goods and services. But far as we know, many countries did not comply with the new directives aimed at economic stability and growth; and on the contrary, in the northern Mediterranean countries, technical barriers to imports abounded, and in the Southern countries openness regressed.

With respect to the European market in particular, the most important obstacle that the countries of the South suffer from is the non consideration of services as being within the partnership agreement, these having become almost of the same importance as the exchange of materials and goods. If implementation of the agreement on services takes effect, the region would make a big step toward balance and economic recovery in all countries; with both the North and the South reaping benefits. That will go according to the recognized modern theory supported by the World Bank which says, "Balance is the most effective economic factor; every effective system yearns for balance" (Kenneth Arrow). Endowing services with exemptions, as is the case with goods, mainly benefits small enterprises as they are more present in number and activities in this sector.

### **8. Technical competence and creativity**

Technologies are evolving in two directions; first in the direction of cost reduction through more efficient production means, and the second in the direction of quality. The former develops competitiveness directly, and ensures the product a bigger share of the available markets; and the second anticipates changes in the demand that was induced by richer societies in most parts of the world after World War II.

This development automatically takes place at large companies, with their ability to set aside a portion of their profits for "research and development" (R&D). This matter is extremely important, but the number of large companies is very limited, and when R&D becomes within the grasp of small and medium enterprises, their chances of success multiply exponentially. That's why countries seek to rehabilitate small enterprises, increase their technical efficiency, and encourage their creativity.

Lebanon exerts a special effort in this regard, exemplified by BDL having devoted 600 billion Lebanese liras (Lebanese Pounds) for loans through commercial banks to small creative enterprises at a symbolic interest rate. Kafalat institution also put in place a special program that supports innovative enterprises. Further, a number of public administrations were embraced by the Chamber of Commerce for the implementation of a French program, which is candidate to become Euro-Mediterranean, to fund R&D in small establishments. The basic program awards a 50,000 Euros grant to the enterprise that achieves innovation along European standards, and implements it in partnership with two associate establishments from two countries, one of them at least from the Southern shore of the Mediterranean Sea, and the other from the Northern side. On the application level in Lebanon, the Board of Trustees which administers the fund ruled that cooperation with one country on the Mediterranean was enough at this stage, because the immediate goal is to support intra-regional trade, especially among the countries of the South. Also, each significant update in production and / or management is deemed "innovative", in terms of the need to develop the enterprises and improve their productivity.

### **9. Encourage the type of growth which protects the environment**

No one disagrees on the need for using alternative energy, reducing greenhouse gas emissions, and protecting the environment in general. But in the short term, it is not easy to implement a policy useful to the environment when we know that the intensity of energy use is the economic growth indicator. The United States has refused to sign the Kyoto agreement for limiting gas emission gas, since its industries could not resort to alternative energy use in a way that would provide stability in production and prices. The difficulty increases in such times of crisis as we're experiencing today; therefore any suggestion should better take into account the immediate economic needs as well as the need to preserve the environment for the foreseeable future. In this regard:

Firstly, if it's not possible to stop carbon emissions, it is necessary to reduce them to what is a vital and irreplaceable level that would meet the needs of consumption and intermediate production. And when one does not find anything more appropriate than money to determine the priorities of consumption, we see it useful to levy onto gas-emitting industries a tax that progresses with time on a "Pay as you pollute" basis, which would then be used either to incentivize alternative energy use and / or orient consumption toward goods which are "friendly" to the environment.

Secondly, it's strange that the cost of oil, which needs tens of millions of years to form, is less than hydropower, solar power and wind energy, all of which are renewed and limited in cost to their usage technical means. Moreover, the deterioration of the ozone layer is considered to have more dangerous effects on man than nuclear power. It is worth mentioning that the formula that was consistently applied by countries and oil extraction companies consisted of the discovery of a new reserve equivalent to the annual consumption. This equation is no more valid since many years, as oil consumption grew to become many fold the size of yearly emerging reserves. This leads to one conclusion: The need for doubling the effort in the search for alternative energy.

### **10. The growth of small and medium enterprises**

The small enterprises which employ less than 50 salaried, and the very small businesses with fewer than 10 including the project's owner and members of his family, lack productivity in general and ensure their competitiveness in the market only through tax evasion and refraining from their social obligations. This is unfortunate, and it generates unfair competition, and deprives the State of part of its revenues.

Medium-sized enterprises are divided in two categories. There are those traditional establishments which lack productivity and cannot effectively compete as they stand, and we see them always seeking protection, easy credit and technical assistance; and there are those other medium enterprises that have reached their "optimum capacity", thanks to the information and communication technology revolution, and have achieved full production capacity which may benefit them from economies of scale. The latter are prone to self-development and do not need more than an investment climate free of administrative obstacles. Their situation resembles that of large companies altogether.

The medium enterprises which lack sufficient production capacity are de facto similar to small and very small enterprises, as nothing could benefit them over the long run if their production capacity would not improve. Thus we regretfully see that under the circumstances, the costs of training, funding, and marketing go in vain. The only solution open for small businesses and some medium enterprises in this regard is to merge them and help them to reach the size that ensures them optimum capacity.

### **The manpower working in the production sector**

More than 70% of paid employment in the private sector is provided by small and medium-sized enterprises. This phenomenon is known in all countries that rely on a

market economy, where a proportion of 70% to 80% of the total work force is in the production sector.

### **The distribution of the workforce, according to the size of the institution**

The category or class which an enterprise belongs to is determined by different factors which interact with each other in terms of the organic linkages that exist among them. It has been the practice to formulate it through the theoretical number of employees which is commensurate with the available data. The most important of these factors are:

- The actual number of employees;
- Total salaries and wages that reflect the efficiency of the employed;
- The actual capital of the enterprise;
- The sales turnover and / or the resulting net profit;
- The value added.

The number of employees in economic entities in both the declared (regular) economy and the undeclared economy constitute about 60% of the total workforce. The balance is repartitioned between the public sector and the liberal professions.

### **Distribution of workforce in private sector establishments**

Category of enterprises	Estimated number of enterprises	Percent	Number of workers	Percent
Excellent	1,031	0.62%	77,3	13%
1 <sup>st</sup> – Large enterprises	2,859	1.72%	85,763	15%
2 <sup>nd</sup> – Medium	6,341	3.83%	57,069	10%
3 <sup>d</sup> – Small	40,847	24.64%	122,541	21%
4 <sup>th</sup> – Micro	55,112	33.25%	110,225	19%
Informal sector	60,601	36.56%	121,203	21%
<b>Total</b>	165,761	100.00%	574,101	100%

Approach of the labor market as per enterprises registered at the chambers of commerce.



### **The distribution of the workforce in productive sectors**

The National Social Security Fund (NSSF) is the main reference for determining employment. The number of registered workforce in the fund amounted to 593,805 at the end of 2012. Its breakdown is: 560,239 Lebanese and 33,070 non-Lebanese. Of the total number, 462,529 belong to an establishment that has an owner, and the rest were admitted under a special law.

This does not, of course, mean that all registered workers pay their contributions and benefit from social security. There is no doubt that a large number of them have quit work or emigrated and did not declare this change of status for some reason. Also, the proportion of undeclared enterprises is more than 20% of the establishments which operate in the Lebanese market, and they employ a parallel proportion of the labor force.

It is worth mentioning that the micro establishments, declared and undeclared, employ more than 40% of the workforce; they are born immediately when an opportunity is spotted, and they contribute to the reduction of unemployment and emigration. But it is known that their ability to survive is limited, and they need a special policy to support their activities and ensure their sustainability, which is very essential in crisis conditions.

### **The number of registered workers at NSSF as per job category until 31-12-2012**

<b>Type of work</b>	<b>Males</b>	<b>Females</b>	<b>Total</b>
Regular worker	302,660	137,087	439,747
Temporary worker	11,171	1,611	12,782
Bakeries	708	373	1,081
Newspaper salesman	46	0	46
Hired driver	4,443	10	4,453
Driver owner of vehicle	36,141	85	36,226
Student	23,127	33,665	56,792
Doctor	5,708	1,308	7,016
Maritime sector	91	0	91
Moukhtar	2,064	30	2,094
Teacher	6,061	27,416	33,477
<b>Total</b>	<b>392,220</b>	<b>201,585</b>	<b>593,805</b>

Source: NSSF

### The distribution of the workforce over the various sectors

The official statistics still declare low unemployment rates (between 8.5% and 11.0%) and ignore the youth, especially those who are holders of academic degrees or professional diplomas who do not yet enter the labor market despite how long their unemployment has been; and they ignore as well those who have migrated due to lack of job opportunities. The figures do not correspond to the reality of unemployment, which is considered by responsible public opinion sources to be at around 20%.

And what is more dangerous is the weakness of the proportion of the labor force to the working-age population, with it being about 45%, at a time when it's at an average of 65% in Europe and targeted to reach 70% according to the "Lisbon Strategy 2001".

#### The distribution of the workforce in all job categories

Salaried registered with NSSF paying subscription	330,000
Salaried registered with NSSF not paying subscription	90,000
Registered with NSSF according to a special law	150,000
Liberal professions not subject to NSSF and undeclared	190,000
Public Sector	235,000
<b>Total</b>	<b>995,000</b>

Source: Approach to jobs and activities according to available statistics from NSSF

The size of the public sector appears to be high in proportion to the total human resources already working in the country. Without touching on its productivity, its number stands to be equivalent to 23% of the total workforce.

It is worth mentioning that the main problem is in the weakness of the labor force. This comes from different factors, the most important of which are:

- High unemployment in the country, which does not encourage some categories of citizens to search for work;
- Low percentage of women entering the labor market;
- Dense emigration in search of more suitable conditions;
- The absence of an unemployment security scheme, which otherwise helps people to wait for job opportunities;
- The proportion of salaries and wages to the cost of living. The average wage at the end of 2013 reached 1,700,000 Lebanese liras.

### The workforce

Population	4,160,000
Working age (14-64)	2,720,000
Workforce number	1,245,000
Effective workforce	996,000

Compiled from the population census, CAS 2013

The population figure mentioned as relative to Lebanon includes foreigners other than both the Palestinians residing in refugee camps and the displaced Syrians.

In the interim targets to be specified within “The policy for spurring small enterprises” feature the raising the manpower ratio to a minimum of 60% of the population of working age, and actually controlling unemployment in the range of 8%, which translates into making the labor force amount to about 1.5 million people, i.e. at a 50% increase from the current reality.

### Comprehensive Development Strategy

The policy for spurring small and medium-sized enterprises dictates directing it to all sectors in all regions of the country, improving the investment climate, let the market forces select the activities which are most effective in the market, supporting the activities endangered with collapse at this juncture, and finding solutions that serve the national economy and the rights owners. This is done through a series of measures which interact with each other to achieve the desired goal.

#### Maintaining the quality, and fostering innovation

Lebanon is characterized by a high level of education, and by a skilled technical labor force. It attracts students from around the Arab world, and the Lebanese participate in the most important construction works in the Gulf, as well as occupy high positions in commercial enterprises there. It is very necessary to maintain this level of attainments for Lebanon, in order to safeguard its foreign markets and the standards of living of its resident people. In confirmation, the recent years have witnessed a steady growth of the certification industry, which specialists estimate at 20%, at a time when most of the economic activities are on the decline.

Innovation occupies a special place, as on the one hand it improves productivity by finding more efficient production means, and on the other hand it attracts demand by offering goods and services that stand out from competition's and lead to the success

of the enterprise. In this context, it is worth mentioning again that BDL has established a special fund to support innovation whereby small and medium-sized enterprises are granted credit at a symbolic interest rate to finance innovative projects, and Kafalat institution has developed a special program to finance innovative enterprises.

This is undoubtedly well and good, but not enough, because innovation in most cases results from research and development, where success is not guaranteed. That's why establishments abstain from borrowing for this purpose, albeit at a symbolic interest rate. For this reason, the French administration created a fund to finance innovation known by the acronym "FARO"<sup>1</sup> which awards enterprises presenting innovative projects a grant of 50,000 Euros to research and develop the idea upon which the project is based. Further, FARO is liable to become a Mediterranean program with presence in all the member countries of the Union for the Mediterranean. In Lebanon, a similar body was created grouping several public institutions and the board of the Chamber of Commerce of Beirut and Mount-Lebanon, but it did not get a commitment to renew its funds periodically, which forced it to dispense soft loans rather than outright grants.

The role of innovation in economic growth and progress is seldom unknown, but it is mostly done by companies which are able to set aside a portion of their sales or profits for research and development, which makes the endeavor limited to large companies that dispose of big potentials. But if small and medium enterprises manage to get funds to spend in this arena, the country would see a multi-fold multiplication of its capacities to create, innovate, advance technically, exploit patents, and to effectively access the realm of the knowledge economy.

### **Incubation policies**

The Lebanese economy has transcended the level of competition on price in all areas. It got elevated to this status by the rise in standards of successful sectors, namely the financial and tourism sectors (with the exception of the current situation), the services sector, and some industrial activities as the excellence certifications attest to. However, the operating capacity of those sectors, especially in an economy at the level of the Lebanese economy, is much less than the capacities acceptable for the industry and agriculture sectors. This is particularly true of the agro-industries sector which has become of low productivity because it is labor-intensive and faces relatively high costs,

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(1) Fonds d'Amorçage de Réalisation et d'Orientation.

namely in energy and in operational money cost being at levels actually higher than what's incurred by international competition.

This reality calls for correcting whatever possible of the existing economic policies, joining technical progress, and supporting those small and medium enterprises that have sufficient flexibility to be part of the world of technology if given the potential for research and development. The easy credit programs by BDL, Kafalat, and project FARO are in context, but are not enough, at a time when soft financing for housing and durable consumer goods actually meets aggregate demand.

Thus we see that good measures have been taken, and they seem necessary on their own, but their impact on the general economic situation varies according to their impact on each other and the degree this affects the markets. Some of those initiatives have a multiplier effect on the others; so if they were given priority, meaningful results would be achieved quickly enough to counter the negative repercussions on the economic cycle, especially under crisis conditions. This did not happen any time on the part of the Lebanese administration; it didn't since the relationship with the European Union started in 1995, and it persisted so even after the signing of the partnership agreement in what regards the programs purposed for the development of Lebanon's business environment. Assessing the usefulness and importance of initiatives, namely setting them on a priority scale is a body of knowledge on its own called Regulatory Impact Assessment; alas it has never been taken seriously in Lebanon!

### **Strategic goals**

The three goals that were adopted in the European experience<sup>2</sup> for supporting small enterprises, namely "Reducing bureaucracy and facilitating all administrative procedures; Facilitating the access to funding; and Helping in the globalization of small and medium enterprises" point to the necessity of adapting them to the reality of Lebanon.

Europe's policy for supporting small enterprises addresses also medium-sized enterprises, i.e. all establishments which employ less than 250 wage earners. This denies micro establishments any priority, a matter which should be reservedly dealt with in Lebanon, where the low proportion of "manpower" to the working-age population is the main problem leading to GDP decline, and to the expansion of the poverty belt around the cities.

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(2) Refer to the passage on "The European Experience".

For example, facilitating the funding of micro enterprises will only help if they could first self-expand and/or seek to grow through mergers, in order to reach the size of establishments that are able to produce at optimum capacity.

Having said that, we see the adoption of the following objectives as the criteria for determining the right measures to be taken in the context of the policy to spur small enterprises:

### **Facilitating administrative procedures**

This objective is an essential part of improving the investment environment; it is all the more necessary in the case of small businesses, as they cannot cope with the complex bureaucracy that characterizes the Lebanese administration. It is worth reiterating that out of five newly created establishments, only one remains in existence after five years. Opening and/or closing a business, as well as doing import and export and social security paperwork, and other formalities, could be made easier, as in other countries that have achieved progress in the public administration area.

### **Streamlining external costs**

Small enterprises suffer from a low output level by default, as a result of the lack of economies of scale. This requires streamlining their expenses before extending them soft credit, which would otherwise be liable to dissipate by virtue of financial losses, thus wasting the guarantees which were put up. That's why the continuity of small enterprises is a function of them controlling their expenses. This particular task is at the core of sound management in launching an enterprise and in ensuring its operational stability until it becomes on safe mode through organic growth and / or merger with similar and / or complementary establishments.

### **Assisting the enterprise in marketing and export**

With the global openness of the markets, the enterprise has become vulnerable to global competition. Farmers and industrialists call for protectionist policies, let alone small and emerging enterprises! So in order to preserve the openness and its benefits, and avoid serious damage that could befall the productive sectors, especially small enterprises, countries resort to support measures. For example, the European countries set up specialized export institutions; as well as export guarantee institutions.

The sublime objective in this regard is in balancing the balance of trade and services, which would make a statement that the country is able to grow and create jobs. This goes as per the long-standing recommendation of the World Bank.

### **The program for implementing the policy of support to small enterprises**

To a far extent, we see the system applied in the European Union wise in terms of its encompassing the areas that an enterprise needs to cover, namely in what concerns the prioritization of the initiatives to be undertaken, whereby the procedures that carry more influence on each other take up a more advanced rank. So:

1. In setting up establishments: Assigning a single counter for the registration of sole proprietorships and companies, a role that could be played by the Chambers of Commerce, Industry and Agriculture in Beirut and other areas;

2. In closing establishments: Exempting the organization from the tax levied on the appreciation of its intangible assets upon its sale, and / or its merger with one and / or several other organizations, whether its management stayed on or not;

3. In reducing administrative red tape: Such a reduction is needed in all areas, by cancelling redundant or unnecessary procedures, and assigning a single counter for all types of paperwork formalities;

In addition: Generalizing the use of the Internet to process all kinds of administrative formalities (e-government), and legitimizing electronic signature;

4. Alleviating the burdens set on micro enterprises as a compensation for their low output level, with the State subsidizing part or all of the social obligations which they are subject to, in exchange for entry into public tenders;

5. Public Tenders: Setting in public tenders a quota for products that can be made in Lebanon, as the Ministry of Industry would attest to if necessary, for the enterprises that employ less than 50 salaried, whether they commit the supply out of their own plants or through sub-contracts with local third parties liable to benefit as well. This regulation is very important, and is implemented in the United States since 1954;

6. Enterprise funding: What is needed is to assist the enterprise in getting trade finance at the interest rate prevailing in the countries which trade with Lebanon the most. This initiative was the first action taken by the United States upon setting the Small Business Act in 1953.

The encouragement by the State of the setting up of Credit Guarantee Funds, and inducing real competition among them, ultimately relieves the State from the burden

of intervening in this regard, let alone saving the Treasury financial burdens which the market thus rather assumes;

7. Focus on European markets: This stems from the project in place with the EU, which involves its pledge to encourage imports from the Southern Mediterranean countries. The underlying premise is the alleviation of the Technical Barriers to Trade and / or facilitating credit conditions and quality certification by a sufficient number of local laboratories. To achieve this, a permanent body should be tasked with follow-up and results monitoring;

Moreover, services, including art and technical works, information technology, and all intellectual works should be exempt of duties. The partnership agreement exempted goods from fees but left services out, as these did not have a significant size at the time; they have now become as important as physical products, provided they are given the opportunity. Eventually, this will play out well to reduce the trade deficit with the European Union;

8. Encouraging technical competence and creativity: The distinct feature of the aforementioned French fund, FARO, is that it controls the foundations of R&D to achieve the globalization of enterprises through technological progress and innovation. This fund's financing multiplies the potential of small enterprises in the field of R&D.

In conclusion, we see how the formula for spurring small enterprises works, based on logical and cumulative actions:

- First: In facilitating the establishment and development of the enterprise, and reducing the administrative hurdles that it faces;

- Second: In streamlining its expenses, identifying markets for it to take-off to, and reducing unfair competition that may come in its way;

- Third: After achieving feasibility, resorting to/accessing soft financing and reaching globalization stage;

- Fourth: In adopting a technical development mechanism which compensates for high operational costs;

- Fifth: In the enterprise evolving in a natural way to reach optimum production capacity through organic growth and / or merger.